



Financial Statements

for

**MURRAY STATE UNIVERSITY
A COMPONENT UNIT OF THE
COMMONWEALTH OF KENTUCKY**

For the Year Ended June 30, 2020
with Report of Independent Auditors



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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, 2020 and 2019, 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.

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, 2020 and 2019, 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 - 23 and the pension and OPEB information on pages 78 - 85 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 2, 2020 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 Dotson Allen Ford, PLLC

Lexington, Kentucky
October 2, 2020

MURRAY STATE UNIVERSITY
A Component Unit of the Commonwealth of Kentucky

Management's Discussion and Analysis

June 30, 2020

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, 2020. 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 9,500 students. For the 2020-21 academic year, tuition and fees did not increase 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 30 consecutive years with the release of the 2021 *U.S. News Best Colleges* list. Murray State was ranked 26th in the "Best Regional Universities in the South" category and is the highest-ranked regional public university in Kentucky. Murray State also ranked 11th among peer institutions in the "Top Public Regional Universities in the South" category.

In addition to the *U.S. News & World Report's* rankings, the University is ranked a "Military Friendly School" by *Victory Media* and the 2019 *Washington Monthly* college guide and rankings listed Murray State as a best value for students seeking a college degree, and the top-ranked public university in Kentucky. *Forbes* magazine named the University as one of America's Top Colleges in 2019. This marks the 12th straight year in which Murray State has garnered this accolade. The University has also been named to *Money's* 2020 *Best Colleges* list and was recognized by *Niche* in its 2021 *Best Colleges in America* rankings.

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Management's Discussion and Analysis, continued

June 30, 2020

Financial Highlights

- The University implemented GASB Statement No. 68 - *Accounting and Financial Reporting for Pensions — an amendment of GASB Statement No. 27* in 2015 and GASB Statement No. 75 – *Accounting and Financial Reporting for Postemployment Benefits other than Pensions (OPEB)* in 2018. 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.

	2020	2019	2018
Beginning net position, no pension/OPEB adjustment	\$ 342,200,196	\$ 336,973,098	\$ 332,252,009
Change in net position, no pension/OPEB adjustment	651,497	5,227,098	4,721,089
Ending net position before pension/OPEB adjustment	342,851,693	342,200,196	336,973,098
 Pension beginning adjustment	 (277,924,133)	 (290,776,657)	 (266,031,237)
Pension revenue/(expense) adjustment	21,186,735	13,691,790	8,816,578
OPEB prior period balance adjustment	—	—	(32,141,103)
OPEB revenue/(expense) adjustment	(150,983)	(839,266)	(1,420,895)
Total pension/OPEB adjustments	(256,888,381)	(277,924,133)	(290,776,657)
 Net position after pension/OPEB adjustments	 \$ 85,963,312	 \$ 64,276,063	 \$ 46,196,441

- In fiscal year 2020 the University had assets of \$435 million, deferred outflows of \$28 million, liabilities of \$289.6 million and deferred inflows of \$87.5 million. Net position, which represents the University's residual interest in assets and deferred outflows after liabilities and deferred inflows are deducted, was \$86 million or 19% of total assets and deferred outflows. Net position increased by \$21.7 million from fiscal year 2019 to 2020. This increase in net position was the result of a (\$21 million) net decrease in pension/OPEB related activity. Additionally, there is a (\$5.1 million) decrease in liabilities other than pension/OPEB primarily due to decreases in accounts payable of (\$3.4 million) and a decrease in long-term debt of (\$4.3 million) offset by a \$3.1 million increase in unearned revenue. 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. Deferred inflows decreased (\$0.9 million) to reflect future receipts related to a new dining operations arrangement in December 2018.
- Fiscal operations were in accordance with the annual operating budget of approximately \$159.1 million. The University continued to be a strong employer for the region and employed 3,151 individuals, including 569 faculty and 826 staff members and 1,756 students. These totals include 1,252 regular and full-time faculty and staff.
- Total originally enacted operating state appropriations for fiscal year 2020 decreased by the performance funding 1% stop loss amount of \$443,100, decreasing the appropriation to \$44.6 million.

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Management's Discussion and Analysis, continued

June 30, 2020

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

Historical Value	\$18.3 million
Market Value	\$21.9 million

These funds experienced an unrealized gain of \$63,646 in fiscal year 2020. This allowed for most program spending to remain constant during the year. The Foundation operated with a 4.0% cap on endowment spending for the fiscal year 2020.

- J. H. Richmond Residence Hall was completed and reopened for occupancy in August 2019 with 279 beds.
- The University invested in a significant number of asset preservation campus enhancement projects in 2020. Total expenditures for these projects were \$9.2 million.
- In July 2015, significant moisture issues, air pressurization issues, and the discovery of hidden water damages were identified in the Biology Building. During fiscal year 2019, the University engaged an architect and engineering firm to recommend appropriate repairs and prepare bid documents. Final bid documents for repairs were issued in Fall 2019 and the project is currently 75% complete. Final completion date has been set for January 2021.
- The University experienced additional changes in the pension liability in fiscal year 2020, overall adjustments related to pensions/OPEB were a (\$18.9 million) reduction to liabilities and a (\$8.2 million) reduction to operating expenses.

The University's portion of the reduced liability reported by the Teachers' Retirement System (TRS) resulted in a (\$10.1 million) reduction in pension liability and (\$2.6 million) reduction in operating expenses. The University's portion of the reduced liability reported by the Kentucky Employee Retirement System (KERS) resulted in a (\$3.5 million) reduction in pension liability and (\$4.5 million) reduction in operating expenses. Additionally, the University's liabilities were further reduced by the adjustments related to OPEB which resulted in a (\$5.3 million) reduction in liability and (\$1.1 million) decrease in operating expenses.

- The University's dining services were outsourced to Sodexo Operations, LLC effective December 2018. The agreement is through June 2029 and encompasses all campus dining services as well as significant capital investments made by Sodexo. The Sodexo capital investments will support the franchise venues Chick-Fil-A, Steak 'n Shake, and Einstein Bagels all of which will enhance the student experience.
- The University entered into a Service Agreement with Southeast Service Corporation (SSC) for custodial and grounds services effective April 2020. The agreement is through June 2025.

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Management's Discussion and Analysis, continued

June 30, 2020

- The University experienced a 4.5% and 7.7% increase in First Time Freshman in fiscal years 2020 and 2021, respectively, and an increase in other first time transfer and graduate students for both years. The University has experienced a 1% decline and a 1.8% increase in overall enrollment in Fall 2020 and 2019, respectively. The Fall 2020 decline is primarily attributed to a decline of part-time dual-credit high school students associated with the effects of the global pandemic.
- The University issued general receipts bonds in July 2019 totaling \$4.3 million for the refunding of 2009 Series A general receipts bonds originally obtained for the completion of J.H. Richmond Residence Hall and various other projects under \$600,000. Savings were estimated at over \$380,000 for the University.
- The COVID-19 pandemic created a financial strain on the University for fiscal year 2020 and will continue to do so in future periods. The initial signs of this stress started to occur March 22, at which time the residence halls were officially closed and student "move-out" was completed shortly thereafter. On March 23 all classes were transitioned to an online/alternate format. Several actions were implemented to minimize the fiscal year 2020 financial impact of approximately \$7 million in increased cost due to instructional changes, supplies, housing and dining credits, and other expenditures and lost revenue. This loss was partially offset by \$3.2 million of federal stimulus funds, which became available to the institution in May.

The University was awarded a total of \$3.2 million from federal stimulus funds to provide emergency financial aid grants to students. All students were able to apply for funds and as of June 30, 2020, \$1.3 million had been distributed to eligible students, with remaining funds expected to be distributed in Fall 2020.

- In September 2019 the Board of Regents approved the razing of Old Richmond Residence Hall. This decision was based on the estimated cost to renovate compared to a full replacement of a similar facility as prepared by Lockett and Farley, an architectural and engineering firm engaged to review select residence halls for renovation, razing and/or replacement. Old Richmond Residence Hall was razed in December 2019.
- The University contracted with a third party online program manager to market and provide coaching and mentoring assistance. The partnership will take an integrated, comprehensive approach in all aspects of the University's graduate online program management. The marketing initiative is designed to be a pilot program starting in May 2020. This initial pilot included five graduate programs.

Performance Funding

The enacted 2017-18 Commonwealth of Kentucky budget included the implementation of the performance funding model. The 2020 fiscal year performance funding pool included a one percent contribution from the Universities' state appropriated funds after mandated programs were removed. The performance funding pool

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Management's Discussion and Analysis, continued

June 30, 2020

of \$30.1 million for the four-year institutions included the one percent stop-loss contribution, which totaled \$433,100 from Murray State University. Murray State University did not obtain any funds from the performance funding model and thus, lost, the \$433,100 contributed.

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 2020 and 2019 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.

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Management's Discussion and Analysis, continued

June 30, 2020

Assets

Total assets at the end of the fiscal year 2020 were \$435.1 million, of which capital assets, net of depreciation, represented the largest portion. Capital assets totaled approximately \$236.1 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 \$156.6 million or 36% of total assets. Total assets decreased by (\$5.2 million) during the 2020 fiscal year. This decrease in gross total assets is due primarily to the following items:

- (\$3.5 million) - Decrease in net capital assets. Primarily due to \$7 million in new additions to construction-in-progress (CIP), largely related to renovation and repairs to J. H. Richmond Residence Hall and Sodexo dining additions offset by \$10.5 million in current year depreciation.
- (\$0.9 million) - Decrease in net accounts receivable. Primarily due to a (\$0.8 million) decrease in grants and contracts receivables, \$0.3 million increase in student tuition and fees, and (\$0.4 million) decrease in revenues from the third-party dining services contract.
- (\$0.6 million) - Decrease in prepaid expenses. This change is the result of a decrease in insurance related prepaid expenses due to a change in workers' compensation insurance vendors.

Total assets increased by \$9.9 million during the 2019 fiscal year due to the following:

- \$6 million - Increase in net capital assets. Primarily due to \$12.7 million in new additions to construction-in-progress (CIP), largely related to renovation and repairs to J. H. Richmond Residence Hall combined with a \$1.6 million increase in non-building improvements offset by \$9.1 million in current year depreciation.
- \$13.2 million - Increase in cash and cash equivalents. This increase was the result of a \$2.3 million increase in operating cash explained by timing of transactions as well as an additional \$3.1 million in project funding related to the outsourcing of dining services. Investment income increased by \$2.9 million due to improved market conditions and unspent insurance proceeds increased by \$1.5 million related to the J. H. Richmond Residence Hall incident. Increases in Education & General (E&G) net position prior to the pension expense (non-cash) adjustment totaled \$1 million, and an increase in restricted net position of \$2.5 million.
- (\$9 million) - Decrease in net accounts receivable. This decrease is the result of a (\$10 million) decrease in an insurance receivable related to the J. H. Richmond Residence Hall incident offset by a \$1 million increase related to the effects of outsourcing dining services.

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Management's Discussion and Analysis, continued

June 30, 2020

Deferred Outflows of Resources

Deferred outflows consisted of the amortization of bond refunding loss from the 2011 refunding of housing and dining bond Series M, N, O, P, and Q which totaled \$1.3 million for fiscal year 2020, \$1.6 million for fiscal year 2019, and \$1.7 million for 2018. 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 2020, \$0.7 million and \$0.7 million for fiscal years 2019 and 2018 respectively. Deferred outflows also consisted of \$25.9 million for fiscal year 2020, \$40.1 and \$51.3 million for fiscal years 2019 and 2018 respectively, 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 fiscal year 2020 were \$289.6 million, a decrease of (\$24 million). This change was due to the following:

- (\$18.9 million) – Decrease in net pension/OPEB liability. 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 (\$13.6 million) and the liability related to OPEB decreased by (\$5.3 million).
- (\$3.4 million) – Decrease in accounts payable. This decrease is due to accounts payables related to the 2019 renovation and construction projects including J. H. Richmond Residence Hall and Chick-fil-A.
- \$3.1 million – Increase in unearned revenue. This increase is primarily due \$1.8 million received from federal stimulus funds under the CARES Act for institutional expenses in which eligibility requirements have not yet been satisfied in addition to \$1 million related to the custodial and grounds services contract.
- (\$4.3 million) – Decrease in long-term debt. This decrease is the result of the 2020 principal payments on bonds and notes payable.

Total liabilities at the end of the fiscal year 2019 were \$313.6 million, a decrease of (\$51.2 million). This change was due to the following:

- (\$51.2 million) – Decrease in net pension/OPEB liability. 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 (\$49.1 million), while the liability related to OPEB decreased by (\$2.1 million).
- \$4.8 million – Increase in accounts payable. This increase is due to accounts payables related to renovation and construction projects including J. H. Richmond Residence Hall, Chick-fil-A, and Einstein Bros. Bagels.

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Management's Discussion and Analysis, continued

June 30, 2020

- (\$4.6 million) – Decrease in long-term debt. This decrease is the result of the 2019 principal payments on bonds and master leases.

Deferred Inflows of Resources

Deferred inflows of resources related to pensions/OPEB as specified in GASB Statement Nos. 68 and 75 consisted of \$84 million in fiscal year 2020, \$100.4 million and \$73.2 million in fiscal years 2019 and 2018, respectively. An additional \$3.5 million was recorded in fiscal year 2020 related to the outsourcing of dining services.

Net Position

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

- Invested in capital assets, net of related debt - This category represents the institution's equity in property, buildings, equipment, library holdings and other plant assets owned by the University, less related depreciation and outstanding balances of borrowings used to finance the purchase or construction of those assets.
- Restricted - This category represents those assets which are subject to externally imposed restrictions governing their use and includes classifications of nonexpendable and expendable.
 - Restricted nonexpendable net position - Restricted nonexpendable net position consist solely of permanent endowments owned by the University. The corpus, as specified by the donor, is invested in perpetuity and may not be expended.
 - Restricted expendable net position - Restricted expendable net position consist of those assets that may be expended by the University, but must be spent for purposes as defined by the donors and/or external entities that have placed time or purpose restrictions on the use of the assets.
- Unrestricted - This category represents the net position held by the University that has no formal restrictions. Although unrestricted net position is not subject to externally imposed stipulations, substantially all of the unrestricted net position has been designated for various programs and initiatives, capital projects and working capital requirements.

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Management's Discussion and Analysis, continued

June 30, 2020

Condensed Statements of Net Position

	<u>June 30, 2020</u>	<u>June 30, 2019</u>	<u>June 30, 2018</u>
Assets			
Current assets	\$ 111,465,152	\$ 108,932,836	\$ 116,557,371
Noncurrent assets	87,461,028	91,658,940	80,169,828
Capital assets	<u>236,141,853</u>	<u>239,660,043</u>	<u>233,647,333</u>
Total assets	<u>435,068,033</u>	<u>440,251,819</u>	<u>430,374,532</u>
Deferred Outflows	<u>28,005,023</u>	<u>42,402,028</u>	<u>53,839,367</u>
Liabilities			
Current liabilities	26,231,492	27,086,955	22,447,918
Noncurrent liabilities	<u>263,357,628</u>	<u>286,518,165</u>	<u>342,364,235</u>
Total liabilities	<u>289,589,120</u>	<u>313,605,120</u>	<u>364,812,153</u>
Deferred Inflows	<u>87,520,624</u>	<u>104,772,664</u>	<u>73,205,305</u>
Net Position			
Invested in capital assets, net of related debt	171,536,241	170,681,775	159,215,284
Restricted for			
Nonexpendable	22,741,965	22,517,317	22,285,087
Expendable			
Scholarships, research, instruction and other	5,166,678	7,183,574	6,979,462
Loans	2,959,167	3,646,465	3,469,792
Capital	15,424,874	14,567,160	17,812,615
Debt service	526,963	365,424	287,315
Unrestricted	<u>(132,392,576)</u>	<u>(154,685,652)</u>	<u>(163,853,114)</u>
Total net position	<u><u>\$ 85,963,312</u></u>	<u><u>\$ 64,276,063</u></u>	<u><u>\$ 46,196,441</u></u>

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Management's Discussion and Analysis, continued

June 30, 2020

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

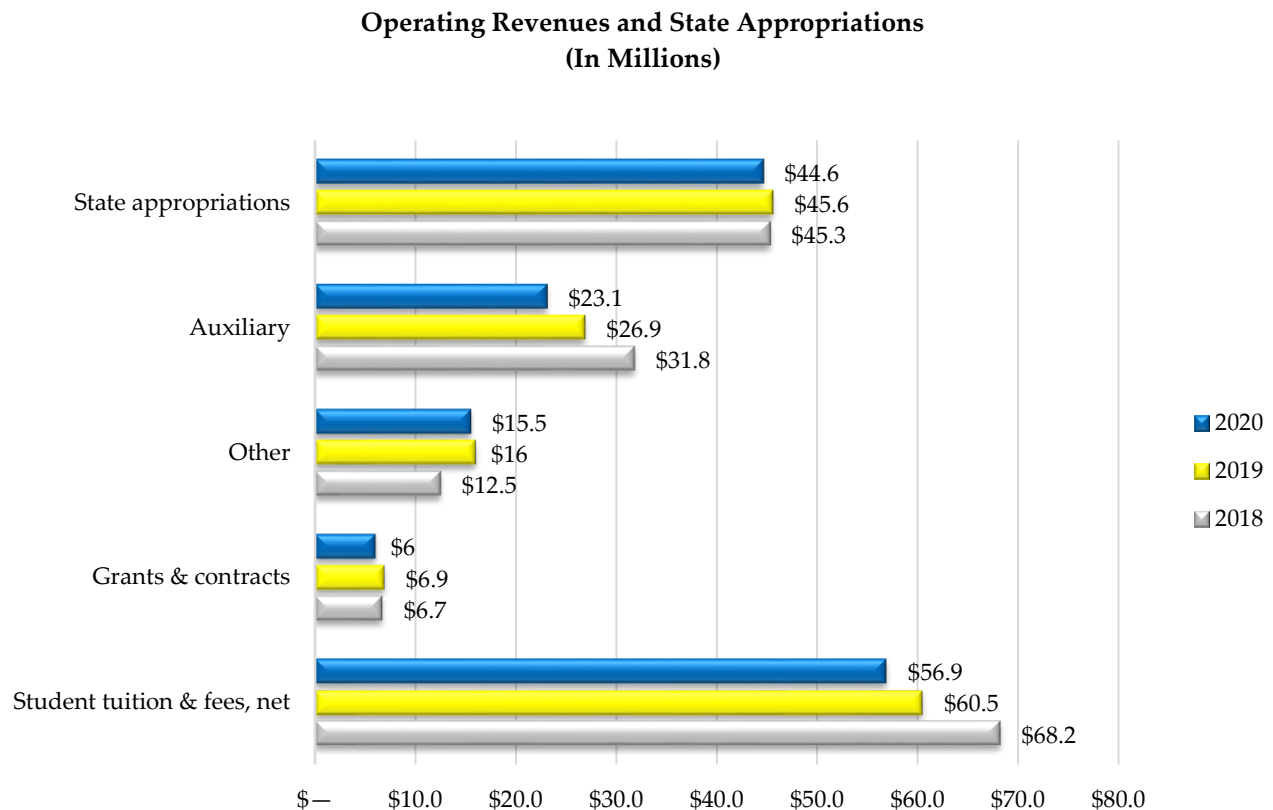
- Total operating revenues, which exclude state appropriations, for fiscal year 2020 were \$101.6 million, including student tuition and fees, net of related discounts and allowances, of \$56.9 million, operating restricted grants and contracts revenues of \$6 million, sales, services and other revenues of \$15.5 million, and auxiliary services net revenues of \$23.2 million.
- During fiscal year 2020, operating revenues decreased by (\$8.7 million). This decrease from the prior year is comprised primarily of (\$3.6 million) in actual net tuition, in addition to decreases of (\$0.9 million) in grants and contracts revenue, (\$0.4 million) in sales, services, and other revenues and (\$3.8 million) decrease in auxiliary services, specifically housing, dining and bookstore, due to the outsourcing of dining in December 2018 and the effects of the COVID-19 pandemic.
- The University received \$44.6 million in state appropriations for operations for fiscal year 2020, and \$45.6 million for fiscal year 2019.

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Management's Discussion and Analysis, continued

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



Expenses

Total operating expenses for fiscal year 2020 were \$157.4 million. Academic Affairs, which include instruction, research, libraries and academic support, represent the largest portion of the operating expenses totaling \$70.3 million or 45%. Student Services, which include student services, financial aid and auxiliary services, was \$50.9 million or 32% and other expenses which include public service, institutional support, depreciation and operation and maintenance and state pension expense amounted to \$36.2 million or 23%. Depreciation and pension expense for all areas of the University, are reported as an operating expense and not allocated to each program group, except for auxiliary enterprises.

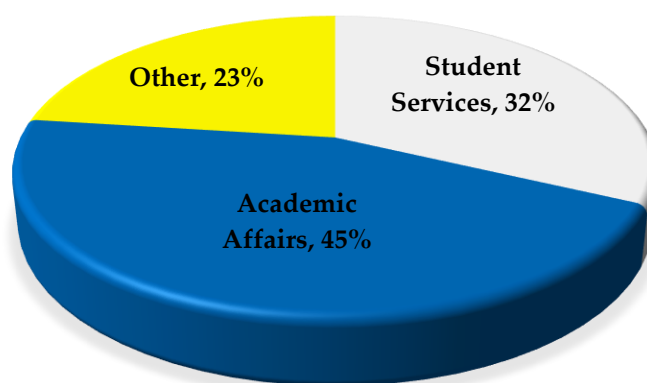
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Management's Discussion and Analysis, continued

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Operating expenses by type are reflected in the following chart:

**University Operating Expenses
Year Ended June 30, 2020
(In Millions)**



Operating expenses decreased for the year ended June 30, 2020, by (\$11.5 million). The primary reasons for the decrease in operating expenses are as follows:

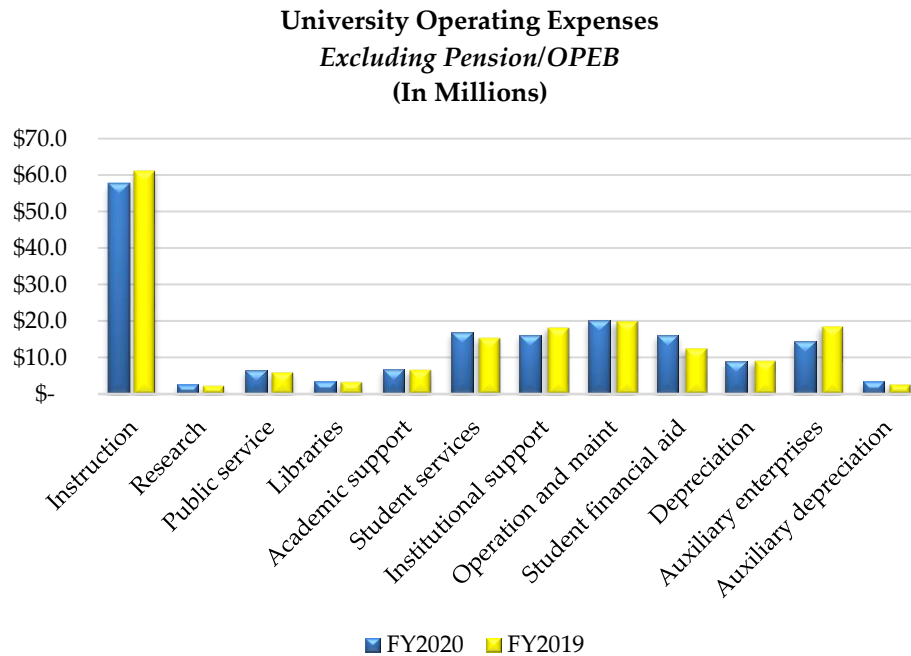
- (\$7.1 million) - Decrease in overall operating expenses as the result of the University's proportionate share of expenses related to Kentucky state pension plans. The University's proportionate expenses were \$8.1 million in 2020, \$12.6 million in 2019, and \$10.2 million in 2018 for the KERS and a (\$23.8 million) decrease to expense in 2020, (\$21.2 million) decrease to expense in 2019, and (\$13.2 million) decrease to expense in 2018 for the TRS.
- (\$1.1 million) - Decrease in overall operating expenses as the result of the University's proportionate share of expenses related to Kentucky state OPEB plans. The University's proportionate expenses were \$0.4 million in 2020 and \$1 million in 2019 for the KERS and (\$0.2 million) in 2020 and \$0.3 million in 2019 for the TRS.
- (\$3.3 million) - Decrease in auxiliary enterprises including auxiliary depreciation primarily due to the outsourcing of dining services.

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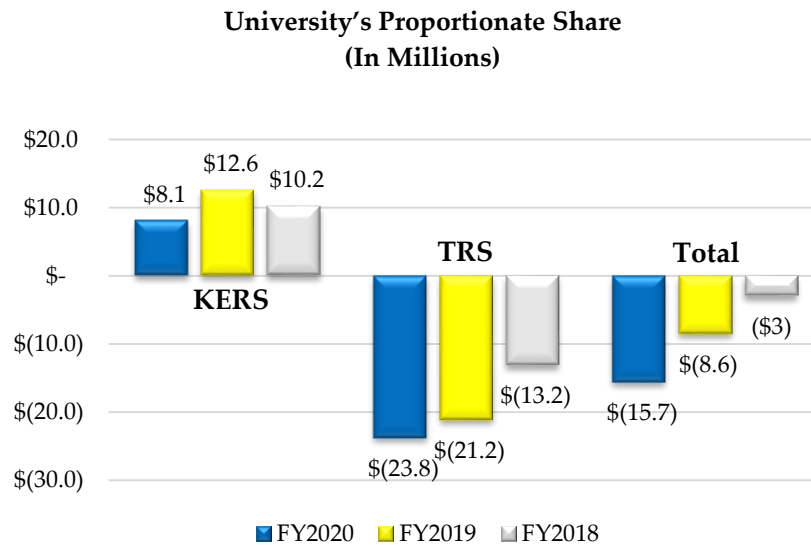
Management's Discussion and Analysis, continued

June 30, 2020

Operating expenses by program, excluding Pension/OPEB, are reflected in the following chart:



University's proportionate share of expenses related to Kentucky state pension plans:



MURRAY STATE UNIVERSITY
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Management's Discussion and Analysis, continued

June 30, 2020

The net loss from operations for the year ended June 30, 2020, was (\$55.9 million) including pension/OPEB adjustments. Nonoperating revenues, net of expenses, of \$77.6 million, state capital appropriations of \$1 million, and other insurance proceeds of \$0.6 million resulted in an increase in net position of \$23.5 million for the year ended June 30, 2020. This increase in net position is primarily the result of \$21 million related to pension/OPEB adjustments. Additional contributing factors were an (\$8.7 million) decrease in overall operating revenue, offset by a (\$3.2 million) decrease in operation spending, \$4.2 million increase in nonoperating federal grants and contracts revenue, and \$1 million increase in restricted student fee income.

The net loss from operations for the year ended June 30, 2019, was (\$58.7 million) including pension/OPEB adjustments. Nonoperating revenues, net of expenses, of \$73.1 million, insurance reimbursements of \$3.4 million, and capital gifts of \$0.1 million resulted in an increase in net position of \$18.1 million for the year ended June 30, 2019. This increase in net position is primarily the result of \$6 million related to pension/OPEB, \$4 million related to the outsourcing of dining services, \$3.8 million related to a decrease in operation and maintenance of plant expenses related and (\$3.7 million) decrease in overall operation spending combined with an increase in investment income.

MURRAY STATE UNIVERSITY
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Management's Discussion and Analysis, continued

June 30, 2020

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

	<u>2020</u>	<u>2019</u>	<u>2018</u>
Operating revenues			
Student tuition and fees, net	\$ 56,894,223	\$ 60,456,045	\$ 68,175,108
Grants and contracts	5,979,202	6,886,581	6,650,616
Other	15,533,405	16,015,020	12,453,726
Auxiliary, net	23,148,502	26,928,253	31,779,351
Total operating revenues	<u>101,555,332</u>	<u>110,285,899</u>	<u>119,058,801</u>
Operating expenses			
Instruction	57,728,949	61,064,980	62,572,485
Other educational and general	72,887,245	77,435,333	89,344,602
Depreciation	8,858,236	9,154,634	9,330,382
Auxiliary enterprises	14,521,531	18,599,020	22,608,719
Auxiliary depreciation	3,501,019	2,693,821	2,757,883
Total operating expenses	<u>157,496,980</u>	<u>168,947,788</u>	<u>186,614,071</u>
Operating loss	<u>(55,941,648)</u>	<u>(58,661,889)</u>	<u>(67,555,270)</u>
Nonoperating revenues			
State appropriations	44,581,400	45,572,300	45,344,100
Other nonoperating revenues	31,127,146	27,485,929	25,496,375
Total nonoperating revenues	<u>75,708,546</u>	<u>73,058,229</u>	<u>70,840,475</u>
Other revenues			
State capital appropriations and other	<u>1,920,351</u>	<u>3,683,282</u>	<u>8,831,567</u>
Increase in net assets	21,687,249	18,079,622	12,116,772
Net position, beginning of year	64,276,063	46,196,441	66,220,772
Restatement of 2018 beginning net position for OPEB liability	—	—	(32,141,103)
Net position, beginning of year	<u>64,276,063</u>	<u>46,196,441</u>	<u>34,079,669</u>
Net position, end of year	<u>\$ 85,963,312</u>	<u>\$ 64,276,063</u>	<u>\$ 46,196,441</u>

MURRAY STATE UNIVERSITY
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Management's Discussion and Analysis, continued

June 30, 2020

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.

For the year ended June 30, 2020:

The net cash used in operating activities reflects the net cash used for general operations of the University, which increased by \$10.1 million during fiscal year 2020. This increase in cash used was largely due to a decrease in cash provided by sales and services of education activities of \$11.3 million. Decreases in cash used for payments for salaries, wages and fringes of (\$4.6 million) in addition to an increase in payments for student financial aid of \$3.5 million also contributed to this change.

The cash flows from noncapital financing activities increased by \$0.4 million during fiscal year 2020. This change was due to an increase of \$4.6 million in grants and contracts, a (\$3 million) decrease in deferred revenues related to capital projects funded by third party contractor for dining services, a (\$1 million) decrease in state appropriations, and (\$0.2 million) decrease in gifts and endowment income.

The net cash flows used in capital and related financing activities represent cash used for the acquisition, construction and renovation of capital assets, changed by \$3 million. The primary change in net cash used was a \$3.1 million decrease in insurance proceeds for J.H. Richmond Residence Hall, as the final payment was received in fiscal year 2019.

The cash flows provided by investing activities represent the cash activities of investments, which decreased by (\$0.3 million) for fiscal year 2020. This decrease was primarily the result of a (\$0.3 million) decrease in investment earnings on cash accounts held by the Treasurer of the Commonwealth.

For the year ended June 30, 2019:

The net cash used in operating activities reflects the net cash used for general operations of the University, which increased by \$11.3 million during fiscal year 2019. This increase in cash was primarily due to increases in cash provided by sales and services of education and other revenues activities by \$13.4 million which includes state pension support and decreases in cash used by payments to suppliers totaling \$3 million combined with a (\$3.5 million) decrease in cash used by auxiliaries for payments for salaries, wages and fringes as well as (\$1.6 million) decrease payments to suppliers, primarily resulting from the outsourcing of dining services during fiscal year 2019.

The cash flows from noncapital financing activities increased by \$5 million during fiscal year 2019. This change was primarily due to an increase of \$3.9 million for deferred revenues related to the outsourcing of dining services and \$1.1 million increase in grants and contracts.

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Management's Discussion and Analysis, continued

June 30, 2020

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 (\$6.1 million) used during fiscal year 2018 to (\$17.3 million) used during fiscal year 2019, a \$11.2 million change. Part of this decrease is due to \$5.8 million more cash used in the construction costs attributable to J.H. Richmond Hall. Additionally, the Breathitt Veterinary Center, and Engineering and Physics building were completed or nearing completion in fiscal year 2018 therefore, reduced spending on these facilities occurred during fiscal year 2019. Also contributing to the decrease was a \$3 million receipt of insurance proceeds for J. H. Richmond Residence Hall received in fiscal year 2018.

The cash flows provided by investing activities represent the cash activities of investments, which increased by \$2.9 million for 2019. This increase was primarily the result of an increase in investment earnings, \$2.9 which is attributed to an increase in interest earned on cash accounts held by the Treasurer of the Commonwealth and was due to favorable market performance.

Condensed Statements of Cash Flows

	<u>2020</u>	<u>2019</u>	<u>2018</u>
Cash provided/(used) by:			
Operating activities	\$ (60,340,383)	\$ (50,285,029)	\$ (61,621,713)
Noncapital financing activities	74,511,545	74,117,599	69,112,066
Capital and related financing activities	(18,587,314)	(15,574,361)	(6,105,745)
Investing activities	4,608,660	4,961,649	2,052,005
Net increase/(decrease) in cash	<u>192,508</u>	<u>13,219,858</u>	<u>3,436,613</u>
Cash and cash equivalents, beginning of year	<u>156,412,383</u>	<u>143,192,525</u>	<u>139,755,912</u>
Cash and cash equivalents, end of year	<u><u>\$ 156,604,891</u></u>	<u><u>\$ 156,412,383</u></u>	<u><u>\$ 143,192,525</u></u>

MURRAY STATE UNIVERSITY
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Management's Discussion and Analysis, continued

June 30, 2020

Capital Assets and Debt Administration

The University had a \$6.9 million increase in capital assets, before accumulated depreciation, during the fiscal year ended June 30, 2020. This change is primarily due to the full capitalization of the J.H. Richmond Residence Hall renovations.

Capital assets as of June 30, 2020, and changes during the year are as follows:

	Balance June 30, 2020	Balance June 30, 2019	Net Change 2019-20
Land	\$ 10,886,463	\$ 10,442,742	\$ 443,721
Construction in progress	2,361,005	18,831,090	(16,470,085)
Museum and collectibles	699,737	694,737	5,000
Buildings	394,753,349	372,556,320	22,197,029
Non-building improvements	18,507,858	18,507,858	—
Equipment	36,864,981	35,864,174	1,000,807
Software	1,932,019	1,932,019	—
Library holdings	10,462,789	10,681,965	(219,176)
Livestock	137,749	137,749	—
Accumulated depreciation	<u>(240,464,097)</u>	<u>(229,988,611)</u>	<u>(10,475,486)</u>
Total	<u><u>\$ 236,141,853</u></u>	<u><u>\$ 239,660,043</u></u>	<u><u>\$ (3,518,190)</u></u>

Debt as of June 30, 2020, and changes during the year are as follows:

	Balance June 30, 2020	Balance June 30, 2019	Net Change 2019-20
General receipts bonds	\$ 60,065,000	\$ 64,400,000	\$ (4,335,000)
Bond discount	—	(46,219)	46,219
Bond premium	2,016,102	1,826,529	189,573
City of Murray	<u>6,580,000</u>	<u>6,995,000</u>	<u>(415,000)</u>
Total	<u><u>\$ 68,661,102</u></u>	<u><u>\$ 73,175,310</u></u>	<u><u>\$ (4,514,208)</u></u>

MURRAY STATE UNIVERSITY
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Management's Discussion and Analysis, continued

June 30, 2020

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 2020, Kentucky's General Fund receipts rose for the tenth consecutive year. Final 2020 General Fund revenues were \$11,566.6 million, or 1.5%, more than 2019 collections. Receipts came in stronger than anticipated in the fourth quarter of fiscal year 2020, partially due to federal fiscal policy measures that helped stabilize disposable income. The higher disposable income resulted in increased spending on taxable goods in Kentucky. As a result, fiscal year 2020 tax receipts were bolstered.

The revenue outlook has changed dramatically due to the COVID-19 pandemic. The projected decline in General Fund revenues for fiscal year 2021 would be the first annual decline since fiscal year 2010. Fiscal year 2020 receipts contained a fourth quarter decline, which would have been more profound without the significant federal relief to individuals and business.

The fiscal year 2020 year-end General Fund surplus was \$177.5 million: \$105.8 million from higher resources than estimated and \$71.7 million due to the actions of state agencies in limiting their spending in the last two months of the fiscal year. From the surplus, \$162.5 million was deposited to the Budget Reserve Trust Fund, the state's rainy day fund. That deposit raised its balance to \$465.7 million, which will provide helpful assistance in contending with the upcoming impacts of the recession.

The outlook for the national economy was quite bleak in the third quarter of fiscal year 2020. Profound contractions in output, employment, and personal income, occurred at breakneck speed, which left the US economy reeling. The National Bureau of Economic Research officially declared the current recession just four months after it began, making it the fastest-identified recession on record.

The above was reported in the 2020 annual edition of Commonwealth of Kentucky Quarterly Economic & Revenue Report.

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Management's Discussion and Analysis, continued

June 30, 2020

- The University continues to manage ongoing asset preservation issues. These are being addressed through a combination of an annual budget allocation of university funds designated for deferred maintenance projects and one-time funding. With aging buildings and infrastructure, asset preservation will continue to be a funding priority for the University.

The University will be requesting bond financing authorization for up to \$11 million from the General Assembly in their 2021 session as part of the 2021-22 Budget of the Commonwealth to be funded from designated asset preservation fee revenues.

- 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. Due to the self-funded nature of the program, excess claims risks are born by the University. The Segal Company (Sibson Consulting) provides guidance for all health and wellness programs.
- Early headcount enrollments for Fall 2020 during the pandemic are encouraging, with first-time freshmen enrollments up 4.5%, first-time transfer enrollments up 23%, and first-time graduate enrollment up 10.4%. Total graduate student enrollment increased by 11.1%. Total enrollment is projected to be down 1.6%. However, total enrollment less dual credit high school students show a 1% increase. The first-to-second year retention rate for baccalaureate-degree seeking students is 80%.
- The sizable state pension liability continues to be a primary risk element for the University. Due to the COVID-19 pandemic the employer contribution rate freeze of 49.47% has been extended through June 30, 2021. The state legislation has provided options for universities to remain in the plan or buy out of participation in the Kentucky Employee Retirement System. Murray State University is in the process of analyzing which option is most sustainable for the long-term operations of the University.
- The Universities state performance funding model caps the maximum exposure of loss at 1% of appropriations for fiscal year 2020. This cap is a maximum of 2% for fiscal year 2021 and a no stop-loss cap in fiscal year 2022 and subsequent years. The University is actively working with the Performance Model Workgroup to reinstate the legislatively 2% stop loss for fiscal years 2022 and after. This will provide a more stable allocation from the performance funding pool and allow all universities the ability to develop long-range financial plans. The University has recommended to the Performance Funding Workgroup, a pause in the state's performance funding model for fiscal year 2021-22 in order to prevent any potential additional loss of funds, due to the lack of new state funding from this model. Other recommendations are expected to be made to the legislation regarding other modifications to the model.

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Management's Discussion and Analysis, continued

June 30, 2020

- The University developed a Racer Restart plan to move forward with a phased process for a safe and effective restart of the Fall 2020 semester. The Fall 2020 Racer Restart Committee, as well as seven subcommittees comprised of various areas of the institution, used a shared-governance approach to address all areas in adherence to state and federal guidelines, including the development of a set of guiding principles to assist the University. As the COVID-19 situation continues to evolve with new information and data, Murray State's Racer Restart initiative is an evolving plan that can be altered at any time with updated information from state, local, and federal authorities. The University will develop contingency plans for potential COVID-19 scenarios as new data and information becomes available.

MURRAY STATE UNIVERSITY
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Statements of Net Position

June 30, 2020 and 2019

	2020	2019
Assets		
Current Assets		
Cash and cash equivalents	\$ 97,925,392	\$ 93,721,297
Accounts receivable, net	8,844,982	9,775,707
Inventories	2,662,989	2,742,521
Loans to students, net	425,287	490,043
Prepaid expenses	1,606,502	2,203,268
Total Current Assets	111,465,152	108,932,836
Noncurrent Assets		
Restricted cash and cash equivalents	58,679,499	62,691,086
Restricted investments	26,882,734	26,723,042
Loans to students, net	1,898,795	2,244,812
Capital assets	476,605,950	469,648,654
Accumulated depreciation	(240,464,097)	(229,988,611)
Total Noncurrent Assets	323,602,881	331,318,983
Total Assets	435,068,033	440,251,819
Deferred Outflows of Resources		
Bond refunding loss	2,062,307	2,256,251
Deferred outflows related to pension/OPEB contributions	25,942,716	40,145,777
Total Deferred Outflows of Resources	\$ 28,005,023	\$ 42,402,028

See accompanying notes.

MURRAY STATE UNIVERSITY
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Statements of Net Position

June 30, 2020 and 2019

	2020	2019
Liabilities		
Current Liabilities		
Accounts payable	\$ 8,077,055	\$ 11,431,746
Accrued payroll	6,007,415	6,277,097
Self-insured health liability	615,499	716,162
Interest payable	735,987	777,860
Unearned revenue	6,011,887	2,920,163
Deposits - current portion	318,405	302,787
Long-term debt - current portion	4,465,244	4,661,140
Total Current Liabilities	26,231,492	27,086,955
Noncurrent Liabilities		
Deposits	361,953	329,700
Long-term debt	64,195,858	68,514,170
Net pension/OPEB liability, state pension plans	198,799,817	217,674,295
Total Noncurrent Liabilities	263,357,628	286,518,165
Total Liabilities	289,589,120	313,605,120
Deferred Inflows of Resources		
Deferred inflows related to dining contract	3,489,344	4,377,049
Deferred inflows related to net pension/OPEB liability	84,031,280	100,395,615
Total Deferred Inflows of Resources	87,520,624	104,772,664
Net Position		
Net investment in capital assets	171,536,241	170,681,775
Restricted for:		
Nonexpendable:		
Endowment	22,741,965	22,517,317
Expendable:		
Scholarships, research, instruction and other	5,166,678	7,183,574
Loans	2,959,167	3,646,465
Capital projects	15,424,874	14,567,160
Debt service	526,963	365,424
Unrestricted	(132,392,576)	(154,685,652)
Total Net Position	\$ 85,963,312	\$ 64,276,063

See accompanying notes.

MURRAY STATE UNIVERSITY FOUNDATION, INC.

Statements of Financial Position

June 30, 2020 and 2019

Assets

	2020	2019
Cash and cash equivalents	\$ 3,307,625	\$ 3,091,087
Accounts receivable	61,699	176,764
Investments	128,308,162	124,657,562
Real estate held for investment	2,552,957	2,552,957
Prepaid and other assets	39,093	59,350
Contributions receivable, net	979,628	1,075,782
Property and equipment, net	6,328,593	6,440,741
Total Assets	\$ 141,577,757	\$ 138,054,243

Liabilities And Net Assets

	2020	2019
Liabilities		
Accounts payable	\$ 107,820	\$ 128,367
Due to Murray State University (MSU)	257,746	319,944
Accrued expenses	56,743	59,122
Deferred revenue	54,008	57,438
Assets held for others	27,822,164	27,628,298
Capital lease obligation	50,202	74,283
Annuities and trusts payable	5,466,737	5,208,773
Other liabilities	323,819	328,203
Total Liabilities	34,139,239	33,804,428
Net Assets		
Without donor restrictions	22,207,010	21,400,371
With donor restrictions	85,231,508	82,849,444
Total Net Assets	107,438,518	104,249,815
Total Liabilities and Net Assets	\$ 141,577,757	\$ 138,054,243

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, 2020 and 2019

	Ended June 30,	
	2020	2019
Operating Revenues		
Tuition and fees	\$ 101,798,652	\$ 101,710,114
Less: Discounts and allowances	(44,904,429)	(41,254,069)
Net tuition and fees	56,894,223	60,456,045
Federal grants and contracts	4,815,317	5,857,082
State grants and contracts	820,584	640,649
Private grants and contracts	343,301	388,850
Total grants and contracts	5,979,202	6,886,581
Sales and services of educational activities	6,954,451	6,793,655
Other operating revenues	8,578,954	9,221,365
Total sales, services, and other revenues	15,533,405	16,015,020
Auxiliary enterprises	23,573,778	27,384,197
Less: Discounts and allowances	(425,276)	(455,944)
Net auxiliary revenue	23,148,502	26,928,253
Total Operating Revenues	101,555,332	110,285,899
Operating Expenses		
Instruction	57,728,949	61,064,980
Research	2,481,833	2,258,101
Public service	6,601,952	5,977,242
Libraries	3,439,148	3,391,475
Academic support	6,699,227	6,699,859
Student services	16,779,482	15,537,491
Institutional support	16,224,880	18,292,223
Operation and maintenance of plant	20,088,608	19,956,224
Student financial aid	16,119,747	12,649,543
Depreciation	8,858,236	9,154,634
State pension expense GASB 68	(15,698,615)	(8,595,091)
State pension expense-OPEB GASB 75	150,983	1,268,266
Auxiliary enterprises	14,521,531	18,599,020
Auxiliary depreciation	3,501,019	2,693,821
Total Operating Expenses	157,496,980	168,947,788
Operating Loss	\$ (55,941,648)	\$ (58,661,889)

See accompanying notes.

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, 2020 and 2019

	Ended June 30,	
	2020	2019
Nonoperating Revenues (Expenses)		
State appropriations	\$ 44,581,400	\$ 45,572,300
Restricted student fees	1,600,701	595,887
Federal grants and contracts	16,053,394	13,719,413
State grants and contracts	9,441,939	8,958,465
Local and private grants and contracts	569,002	634,072
Gifts	1,336,768	1,382,794
Investment income	5,045,773	5,363,133
Interest on capital asset-related debt	(2,432,380)	(2,540,805)
Loss on deletion and disposal of capital assets	(309,552)	(507,629)
Bond amortization	(178,499)	(119,401)
Nonoperating Revenues (Expenses), Net	75,708,546	73,058,229
Income Before Other Revenues, Expenses		
Gains and Losses	19,766,898	14,396,340
State Capital Appropriations	1,020,213	131,988
Gain on the Insurance Proceeds from the Impairment		
of J.H. Richmond Residence Hall	—	3,057,744
Other Insurance Proceeds	561,909	359,653
Capital Gifts	259,005	127,916
Additions to Permanent Endowments	79,224	5,981
Change in Net Position	21,687,249	18,079,622
Net Position - Beginning of Year	64,276,063	46,196,441
Net Position - End of Year	\$ 85,963,312	\$ 64,276,063

See accompanying notes.

MURRAY STATE UNIVERSITY FOUNDATION, INC.

Statements of Activities

Year ended June 30, 2020

	Without Donor Restrictions	With Donor Restrictions	Totals
Revenues, Gains/(Losses) And Other Support			
Contributions	\$ 25	\$ 2,964,849	\$ 2,964,874
Revenues from operations of the Frances E. Miller Memorial Golf Course	405,901	—	405,901
Fees and rental income	45,601	31,330	76,931
Investment return, net	1,711,419	2,951,548	4,662,967
Other	—	20,325	20,325
Change in value of annuities payable	—	(338,263)	(338,263)
Net assets released from restrictions	3,431,851	(3,431,851)	—
Total Revenues, Gains/(Losses) And Other Support	5,594,797	2,197,938	7,792,735
Expenses:			
Program services expenses:			
Support provided to MSU, including scholarships	3,601,553	—	3,601,553
Frances E. Miller Memorial Golf Course	550,531	—	550,531
Total Program Services Expense	4,152,084	—	4,152,084
Supporting services expenses:			
Management and general	409,228	—	409,228
Fundraising	42,720	—	42,720
Total Supporting Services Expense	451,948	—	451,948
Total Expenses	4,604,032	—	4,604,032
Transfers between Foundation fund groups	(184,126)	184,126	—
Change in Net Assets	806,639	2,382,064	3,188,703
Net Assets - Beginning of Year	21,400,371	82,849,444	104,249,815
Net Assets - End of Year	\$ 22,207,010	\$ 85,231,508	\$ 107,438,518

See accompanying notes.

MURRAY STATE UNIVERSITY FOUNDATION, INC.

Statements of Activities

Year ended June 30, 2019

	Without Donor Restrictions	With Donor Restrictions	Totals
Revenues, Gains/(Losses) And Other Support			
Contributions	\$ 3,500	\$ 3,722,551	\$ 3,726,051
Revenues from operations of the Frances E. Miller Memorial Golf Course	414,298	—	414,298
Fees and rental income	45,605	37,920	83,525
Investment return, net	1,588,327	3,502,129	5,090,456
Other	(31,692)	22,987	(8,705)
Change in value of annuities payable	—	31,829	31,829
Net assets released from restrictions	3,174,935	(3,174,935)	—
Total Revenues, Gains/(Losses) And Other Support	5,194,973	4,142,481	9,337,454
Expenses:			
Program services expenses:			
Support provided to MSU, including scholarships	3,191,890	—	3,191,890
Frances E. Miller Memorial Golf Course	605,142	—	605,142
Total Program Services Expense	3,797,032	—	3,797,032
Supporting services expenses:			
Management and general	466,387	—	466,387
Fundraising	36,087	—	36,087
Total Supporting Services Expense	502,474	—	502,474
Total Expenses	4,299,506	—	4,299,506
Transfers between Foundation fund groups	(133,141)	133,141	—
Change in Net Assets	762,326	4,275,622	5,037,948
Net Assets - Beginning of Year	20,638,045	78,573,822	99,211,867
Net Assets - End of Year	\$ 21,400,371	\$ 82,849,444	\$ 104,249,815

See accompanying notes.

MURRAY STATE UNIVERSITY
A Component Unit of the Commonwealth of Kentucky

Statements of Cash Flows

Years ended June 30, 2020 and 2019

	2020	2019
Cash Flows From Operating Activities		
Tuition and fees	\$ 56,753,608	\$ 59,213,135
Grants and contracts	6,931,830	6,400,296
Payments for salaries, wages and fringes	(97,740,351)	(102,330,390)
Payments to suppliers	(30,631,012)	(32,048,633)
Payments for student financial aid	(16,119,747)	(12,649,543)
Loans issued to employees	(238)	(10,600)
Collections of loans to employees	—	23,205
Loans issued to students	(105,838)	(63,378)
Collections of loans to students	516,611	562,742
Sales and services of educational activities	6,972,250	18,288,760
Other operating revenues	4,059,648	3,694,436
Auxiliary revenues:		
Dining services	(256)	5,881,056
Housing	14,271,959	14,493,491
Bookstore	4,544,049	4,775,953
Contracted dining services	4,459,794	761,618
Other	206,429	185,699
Auxiliary payments:		
Payments for salaries, wages and fringes	(3,123,267)	(4,132,449)
Payments to suppliers	(11,335,852)	(13,330,427)
Net Cash Used in Operating Activities	(60,340,383)	(50,285,029)
Cash Flows From Noncapital Financing Activities		
State appropriations	44,581,400	45,572,300
Endowment proceeds forwarded to MSU Foundation for investment	(33,530)	(9,137)
Grants and contracts	27,916,938	23,311,950
Endowment income	390,175	446,681
Gifts for other than capital purposes	777,596	889,356
Agency transactions	(8,739)	13,400
Deferred inflows contracted dining services	887,705	3,893,049
Net Cash Provided by Noncapital Financing Activities	74,511,545	74,117,599
Cash Flows From Capital and Related Financing Activities		
Proceeds from capital debt, net of discount	3,858,762	—
Restricted student fees pledged for debt service	1,600,701	595,887
Insurance proceeds - J.H. Richmond Residence Hall	—	3,057,744
Insurance proceeds - other	561,909	359,653
State capital appropriations	1,021,421	132,852
Purchases of capital assets	(14,528,954)	(13,014,563)
Capital gifts	233,100	109,090
Principal paid on capital debt	(8,860,000)	(4,285,000)
Interest paid on capital debt	(2,474,253)	(2,530,024)
Net Cash Used in Capital and Related Financing Activities	\$ (18,587,314)	\$ (15,574,361)

See accompanying notes.

MURRAY STATE UNIVERSITY
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Statements of Cash Flows, continued

Years ended June 30, 2020 and 2019

	2020	2019
Cash Flows From Investing Activities		
Proceeds from sales and maturities of investments	\$ 30,264	\$ (4,850)
Purchases of investments	(11,779)	(9,395)
Investment receipts	4,590,175	4,975,894
Net Cash Provided by Investing Activities	4,608,660	4,961,649
Net Increase in Cash and Cash Equivalents	192,508	13,219,858
Cash and Cash Equivalents - Beginning of Year	156,412,383	143,192,525
Cash and Cash Equivalents - End of Year	156,604,891	156,412,383
Reconciliation of Cash and Cash Equivalents to the Statement of Net Position		
Cash and cash equivalents	97,925,392	93,721,297
Restricted cash and cash equivalents	58,679,499	62,691,086
Total Cash and Cash Equivalents	156,604,891	156,412,383
Reconciliation of Operating Loss to Net Cash Used in Operating Activities		
Operating loss	\$ (55,941,648)	\$ (58,661,889)
Adjustments to reconcile operating loss to net cash used in operating activities:		
Depreciation expense	12,359,255	11,848,455
Bad debt (recovery) expense	(109,817)	377,840
Net pension gain, proportionate share	(21,035,752)	(12,852,524)
Net in-kind expenses	130,742	217,628
Changes in assets and liabilities:		
Accounts and loans receivable, net	1,341,498	9,450,897
Inventories	79,532	399,388
Prepaid expenses	596,766	(525,083)
Accounts payable	1,314,863	(215,291)
Self-insured health liability	(100,663)	91,871
Accrued payroll	(269,682)	(498,671)
Deposits	56,610	13,492
Unearned revenue	1,237,913	68,858
Net Cash Used in Operating Activities	\$ (60,340,383)	\$ (50,285,029)
Supplemental Disclosure of Cash Flow Information		
Gifts of capital assets	\$ 25,905	\$ 18,826
Accounts payable incurred for capital asset purchases	4,669,554	5,966,334
Changes in fair value of investments	65,424	138,412

See accompanying notes.

MURRAY STATE UNIVERSITY
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Notes to the Financial Statements

1. Summary of Significant Accounting Policies

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 9,500. 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.

MURRAY STATE UNIVERSITY
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Notes to the Financial Statements

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

Inventory values are determined by an average cost method except in the case of Art supplies which are stated at the lower of cost (first-in, first-out method) or market value.

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.

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

MURRAY STATE UNIVERSITY
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Notes to the Financial Statements

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 \$0 and \$243 for the years ended June 30, 2020 and 2019, 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

Vacation pay is accrued at year-end for financial statement purposes. The liability and expense incurred are included 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 for employees in the Kentucky Employee Retirement System (KERS). These are recognized as an expense when the time off occurs or when service credit payments are incurred. No liability is accrued for such benefits for employees participating in the Teachers' Retirement System (TRS) and optional retirement plans (ORP).

Unearned Revenue

Unearned revenue includes amounts for tuition and fees, certain auxiliary activities, and contracted custodial and grounds services, 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, grant and contract sponsors, and HEERF grants provided by the CARES Act 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 dates, which was the end of fiscal year 2019 and the end of fiscal year 2020.

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Notes to the Financial Statements

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 as well as amounts related to outsourcing campus dining operations.

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:

MURRAY STATE UNIVERSITY
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Notes to the Financial Statements

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 Teachers' Retirement System (TRS) plans and additions to/deductions from the plans' fiduciary net position have been determined on the same basis as they are reported by KERS and TRS. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

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Notes to the Financial Statements

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.

Subsequent Events

Subsequent events have been evaluated through October 2, 2020, the date the financial statements were available to be issued.

2. Accounts Receivable

Accounts receivable as of June 30 consisted of:

	<u>2020</u>	<u>2019</u>
Current accounts receivable:		
Student tuition and fees	\$ 8,297,652	\$ 8,026,149
Grants and contracts	1,306,533	2,123,574
Auxiliary fees	2,887,009	2,921,353
Auxiliary-contracted dining services	116,029	484,000
MSU Foundation	257,746	319,944
Employee computer loans	—	977
Outside sales	414,454	702,954
Allowance for doubtful accounts	<u>(4,434,441)</u>	<u>(4,803,244)</u>
Total current accounts receivable	<u>\$ 8,844,982</u>	<u>\$ 9,775,707</u>

3. Inventories

Inventories as of June 30 consisted of:

	<u>2020</u>	<u>2019</u>
University bookstore - resale	\$ 1,333,811	\$ 1,306,380
Physical plant - supplies	1,278,191	1,387,211
Art supplies	<u>50,987</u>	<u>48,930</u>
Total inventories	<u>\$ 2,662,989</u>	<u>\$ 2,742,521</u>

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Notes to the Financial Statements

4. Loans Receivable

Student loans made through the Federal Perkins Loan Program (Program) comprise substantially all of the loans receivable at June 30, 2020 and 2019. 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. Effective September 30, 2017, universities were no longer permitted to issue new loans under the Perkins program and the balances noted below are loans issued prior to this date.

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, 2020 and 2019 was \$234,899 and \$263,810, respectively.

Loans receivable as of June 30 consisted of:

	2020	2019
Current loans receivable:		
University loan programs	\$ 25,863	\$ 26,093
Federal nursing program	86,058	87,580
Federal Perkins program	313,366	376,370
Total current loans receivable, net	<u>425,287</u>	<u>490,043</u>
Noncurrent loans receivable:		
University loan programs	11,858	10,845
Federal nursing program	376,904	383,042
Federal Perkins program	1,510,033	1,850,925
Total noncurrent loans receivable, net	<u>1,898,795</u>	<u>2,244,812</u>
Total loans receivable, net	<u><u>\$ 2,324,082</u></u>	<u><u>\$ 2,734,855</u></u>

5. Deposits, Investments and Investment Income

Deposits

At June 30, 2020 and 2019, the carrying amounts of the University's bank balances and deposits were \$156,604,891 and \$156,412,383, 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.

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Notes to the Financial Statements

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:

	<u>2020</u>	<u>2019</u>
Depository accounts:		
Local bank deposits, letter of credit in the University's name	\$ 18,901,207	\$ 11,459,865
Cash on hand	15,168	80,912
State Investment Pool - collateral required by KRS 41.240	<u>137,688,516</u>	<u>144,871,606</u>
Total deposits	<u>\$ 156,604,891</u>	<u>\$ 156,412,383</u>

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

	<u>2020</u>	<u>2019</u>
Cash and cash equivalents, current	\$ 97,925,392	\$ 93,721,297
Restricted cash and cash equivalents	<u>58,679,499</u>	<u>62,691,086</u>
Total deposits	<u>\$ 156,604,891</u>	<u>\$ 156,412,383</u>

MURRAY STATE UNIVERSITY
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Notes to the Financial Statements

Investments

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

	<u>2020</u>	<u>2019</u>
Money market funds restricted for debt service purposes	\$ 300,830	\$ 319,317
Restricted assets held by the Foundation	<u>26,581,904</u>	<u>26,403,725</u>
Total investments	<u>\$ 26,882,734</u>	<u>\$ 26,723,042</u>

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

University investments held by the 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:

	<u>2020</u>	<u>2019</u>
Percentage of pool invested in:		
Certificates of deposit and money market mutual funds	2%	1%
Mutual funds	63%	65%
Fixed income securities	<u>35%</u>	<u>34%</u>
Total investments	<u>100%</u>	<u>100%</u>

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

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

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

Investment Income

Investment income for the years ended June 30 consisted of:

	<u>2020</u>	<u>2019</u>
Assets held by the University:		
Interest income	\$ 4,136,006	\$ 4,539,706
Assets held by MSU Foundation:		
Investment income endowment funds	846,121	688,822
Net increase in fair value of endowment investments	63,646	134,605
Total investment income	<u>\$ 5,045,773</u>	<u>\$ 5,363,133</u>

6. Endowments

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

	<u>2020</u>	<u>2019</u>
Endowment assets, beginning of year	\$ 22,517,317	\$ 22,285,087
Investment return		
Net appreciation	65,424	138,412
Contributions increase	159,224	93,818
Endowment assets, end of year	<u>\$ 22,741,965</u>	<u>\$ 22,517,317</u>

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Notes to the Financial Statements

7. Capital Assets

Capital asset activity for the year ended June 30, 2020 was as follows:

	Balance June 30, 2019	Additions	Transfers	Deletions/ Retirements	Balance June 30, 2020
Land	\$ 10,442,742	\$ 443,721	\$ —	\$ —	\$ 10,886,463
Construction in progress	18,831,090	10,593,540	(23,508,045)	(3,555,580)	2,361,005
Museum and collectibles	694,737	5,000	—	—	699,737
Total capital assets not being depreciated	29,968,569	11,042,261	(23,508,045)	(3,555,580)	13,947,205
Buildings	372,556,320	—	23,508,045	(1,311,016)	394,753,349
Nonbuilding improvements	18,507,858	—	—	—	18,507,858
Equipment	35,864,174	1,674,538	—	(673,731)	36,864,981
Library holdings	10,681,965	25,327	—	(244,503)	10,462,789
Livestock	137,749	—	—	—	137,749
Software	1,932,019	—	—	—	1,932,019
Total other capital assets	439,680,085	1,699,865	23,508,045	(2,229,250)	462,658,745
Total capital assets before depreciation	469,648,654	12,742,126	—	(5,784,830)	476,605,950
Less accumulated depreciation:					
Buildings	180,881,584	9,689,114	—	(1,024,045)	189,546,653
Improvements other than buildings	12,329,614	542,542	—	—	12,872,156
Equipment	26,516,849	1,851,216	—	(627,447)	27,740,618
Library holdings	8,235,088	267,758	—	(232,277)	8,270,569
Livestock	93,458	8,625	—	—	102,083
Software	1,932,018	—	—	—	1,932,018
Total accumulated depreciation	229,988,611	12,359,255	—	(1,883,769)	240,464,097
Capital assets, net	\$ 239,660,043				\$ 236,141,853

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Notes to the Financial Statements

Capital asset activity for the year ended June 30, 2019 was as follows:

	Balance June 30, 2018	Additions	Transfers	Deletions/ Retirements	Balance June 30, 2019
Land	\$ 10,176,698	\$ 266,044	\$ —	\$ —	\$ 10,442,742
Construction in progress	6,264,350	17,024,208	(4,077,985)	(379,483)	18,831,090
Museum and collectibles	694,737	—	—	—	694,737
Total capital assets not being depreciated	17,135,785	17,290,252	(4,077,985)	(379,483)	29,968,569
Buildings	372,149,804	—	2,742,190	(2,335,674)	372,556,320
Nonbuilding improvements	17,172,063	—	1,335,795	—	18,507,858
Equipment	35,280,560	2,079,499	—	(1,495,885)	35,864,174
Library holdings	10,744,204	47,171	—	(109,410)	10,681,965
Livestock	151,749	10,000	—	(24,000)	137,749
Software	1,932,019	—	—	—	1,932,019
Total other capital assets	437,430,399	2,136,670	4,077,985	(3,964,969)	439,680,085
Total capital assets before depreciation	454,566,184	19,426,922	—	(4,344,452)	469,648,654
Less accumulated depreciation:					
Buildings	173,787,964	9,027,513	—	(1,933,893)	180,881,584
Improvements other than buildings	11,780,123	549,491	—	—	12,329,614
Equipment	25,318,351	1,927,361	—	(728,863)	26,516,849
Library holdings	8,005,229	333,798	—	(103,939)	8,235,088
Livestock	95,166	10,292	—	(12,000)	93,458
Software	1,932,018	—	—	—	1,932,018
Total accumulated depreciation	220,918,851	11,848,455	—	(2,778,695)	229,988,611
Capital assets, net	\$ 233,647,333				\$ 239,660,043

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Notes to the Financial Statements

8. Accounts Payable

Accounts payable at June 30 consisted of:

	2020	2019
Current accounts payable:		
Vendors	\$ 5,989,551	\$ 8,883,532
Payroll benefits and withholdings	1,993,849	2,478,824
MSU Foundation	61,699	43,396
Loans	31,956	25,994
Total current accounts payable	<u>\$ 8,077,055</u>	<u>\$ 11,431,746</u>

9. University Health Self-Insurance Program

The University maintains a self-insurance program for employees' health insurance. For the fiscal year ended June 30, 2020, the University paid approximately 88% 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, 2020 and 2019 totaled \$10,556,911 and \$10,334,544, 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:

	2020	2019
Liability, beginning of year	\$ 716,162	\$ 624,291
Accruals for current year claims and changes in estimate (includes employee and employer contributions)	12,000,892	13,741,202
Administrative and stop-loss fees	(845,897)	(989,641)
Claims paid	<u>(11,255,658)</u>	<u>(12,659,690)</u>
Liability, end of year	<u>\$ 615,499</u>	<u>\$ 716,162</u>

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10. Unearned Revenue

Unearned revenue as of June 30 consisted of:

	<u>2020</u>	<u>2019</u>
Current unearned revenue:		
Prepaid tuition and fees	\$ 2,713,870	\$ 2,594,061
CARES institutional funds	1,852,603	—
Custodial and grounds contract	967,742	—
Grants and contracts	458,000	321,920
Auxiliary enterprises	19,672	4,182
Total current unearned revenue	<u>\$ 6,011,887</u>	<u>\$ 2,920,163</u>

11. Revenue Bonds and Notes Payable

The following is a summary of long-term obligation transactions for the University for the year ended June 30, 2020:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Deductions</u>	<u>Ending Balance</u>	<u>Amounts Due Within One Year</u>	<u>Long-Term Portion</u>
Bonds payable	\$ 64,400,000	\$ 4,110,000	\$ (8,445,000)	\$ 60,065,000	\$ 3,875,000	\$ 56,190,000
Less bond discounts	(46,219)	—	46,219	—	—	—
Plus bond premiums	1,826,529	344,816	(155,243)	2,016,102	155,244	1,860,858
Bonds payable, net of discounts premiums	66,180,310	4,454,816	(8,554,024)	62,081,102	4,030,244	58,050,858
City of Murray payable	6,995,000	—	(415,000)	6,580,000	435,000	6,145,000
Total bonds and notes payable	<u>\$ 73,175,310</u>	<u>\$ 4,454,816</u>	<u>\$ (8,969,024)</u>	<u>\$ 68,661,102</u>	<u>\$ 4,465,244</u>	<u>\$ 64,195,858</u>

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The following is a summary of long-term obligation transactions for the University for the year ended June 30, 2019:

	Beginning Balance	Additions	Deductions	Ending Balance	Amounts Due Within One Year	Long-Term Portion
Bonds payable	\$ 68,290,000	\$ —	\$ (3,890,000)	\$ 64,400,000	\$ 4,130,000	\$ 60,270,000
Less bond discounts	(50,841)	—	4,622	(46,219)	(4,622)	(41,597)
Plus bond premiums	1,947,291	—	(120,762)	1,826,529	120,762	1,705,767
Bonds payable, net of discounts premiums	70,186,450	—	(4,006,140)	66,180,310	4,246,140	61,934,170
City of Murray payable	7,390,000	—	(395,000)	6,995,000	415,000	6,580,000
Total bonds and notes payable	<u>\$ 77,576,450</u>	<u>\$ —</u>	<u>\$ (4,401,140)</u>	<u>\$ 73,175,310</u>	<u>\$ 4,661,140</u>	<u>\$ 68,514,170</u>

Maturity Information

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

Years Ending June 30	Bonds	Notes	Total Principal	Interest	Total Payments
2021	3,875,000	435,000	4,310,000	2,332,139	6,642,139
2022	4,075,000	440,000	4,515,000	2,196,564	6,711,564
2023	4,185,000	450,000	4,635,000	2,049,026	6,684,026
2024-2028	23,890,000	2,445,000	26,335,000	7,609,440	33,944,440
2029-2033	17,440,000	2,810,000	20,250,000	3,476,484	23,726,484
2034-2036	6,600,000	—	6,600,000	330,400	6,930,400
Total	<u>\$ 60,065,000</u>	<u>\$ 6,580,000</u>	<u>\$ 66,645,000</u>	<u>\$ 17,994,053</u>	<u>\$ 84,639,053</u>

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Long-term liability activity for the year ended June 30, 2020 was as follows:

	Original Issue	Balance Due June 30, 2020	Interest Expense, Current Year	Bonds and Notes Maturing 2020-2021
General Receipts Bonds Payable				
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	\$ —	\$ 31,863	\$ —
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	5,190,000	215,359	345,000
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	210,000	10,629	100,000
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	7,920,000	309,869	950,000
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	11,740,000	363,816	695,000
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; Construct H. C. Franklin Hall	26,000,000	24,280,000	1,001,916	640,000
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	6,655,000	153,402	770,000

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	Original Issue	Balance Due June 30, 2020	Interest Expense, Current Year	Bonds and Notes Maturing 2020-2021
Series A 2019 bonds dated July 23, 2019, with an interest rate of 2.00% to 5.00%; final principal payment date September 1, 2028; Refunding of Series A 2009 bonds	4,110,000	4,070,000	150,978	375,000
Total general receipts bonds payable	89,655,000	60,065,000	2,237,832	3,875,000
Bonds payable before discount	89,655,000	60,065,000	2,237,832	3,875,000
Plus bond premium	—	2,016,102	—	155,244
Total bonds payable	89,655,000	62,081,102	2,237,832	4,030,244
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	6,580,000	194,548	435,000
Total All Bond Issues and Notes Payable	\$ 98,905,000	\$ 68,661,102	\$ 2,432,380	\$ 4,465,244

The revenue bond indentures require the University to maintain a reserve balance as a percentage of outstanding balances. As of June 30, 2020 and 2019, the sinking fund and reserve fund requirements have been funded as required.

12. Deposits

The deposits held as of June 30 consisted of:

	2020	2019
Current:		
Horse stall rentals	\$ 13,035	\$ 13,969
Housing rental/pet deposits	300	—
Racer card declining balances	2,601	13,244
Housing deposits	171,507	167,909
Sodexo meal plans	32,036	—
Agency account balances	98,926	107,665
Total current deposits	318,405	302,787
Noncurrent:		
Housing deposits	361,953	329,700
Total deposits	<u>\$ 680,358</u>	<u>\$ 632,487</u>

Noncurrent housing deposit additions were \$144,607 and \$113,400 for the years ended June 30, 2020 and 2019, respectively. Noncurrent housing deposit deductions were \$112,354 and \$113,700 for the years ended June 30, 2020 and 2019, respectively.

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13. Service Concession Arrangement

The University contracted with a third-party to manage campus dining services starting in fiscal year 2019. This is currently the only service concession arrangement the University has. The term of the arrangement is ten years and five and a half months, commencing on December 15, 2018, and continuing through June 30, 2029. The arrangement provides the third-party the exclusive right to manage and operate dining services for the University's students, faculty, staff, employees, visitors and guests. The University receives 20% of total meal plan sales, 10% of retail, catering and camp sales and 40% of concession sales. The contract also includes Investment 1 - \$3 million in fiscal year 2019, Investment 2 - \$3.5 million in fiscal year 2021 and Investment 3 - \$1 million in fiscal year 2022. These investments are to be used for dining venue service renovations and will be amortized over the life of the contract. As of June 30, 2020, the University has received \$3 million for Investment 1. The contract includes a \$1.5 million unrestricted fund contribution as well which was received in fiscal year ending June 30, 2020. Deferred Inflows, revenues which will be recognized in a future period, related to the contract are \$3.5 million and \$4.4 million as of June 30, 2020 and 2019, respectively.

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14. Unrestricted Net Position

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

	2020	2019
Unrestricted net position		
Allocated for:		
Departmental operations	\$ 29,261,658	\$ 25,372,859
Encumbrances	220,946	183,737
Board designated projects	5,251,774	6,721,402
Capital projects	3,323,000	5,288,590
Renovation and maintenance	13,159,816	12,043,080
Plant reserves	11,697,208	10,493,001
Working capital	11,249,428	12,668,811
Revenue contingency	2,229,070	2,278,615
General contingency	47,487,407	47,472,224
Self-insurance	615,499	716,162
Total unrestricted net position before pension/OPEB adjustments	124,495,806	123,238,481
Pension/OPEB current year adjustments, KERS non-hazardous	(134,635,875)	(126,400,049)
Pension/OPEB current year adjustments, KERS hazardous	(1,050,426)	(1,312,963)
Pension/OPEB current year adjustments, TRS	(121,202,081)	(150,211,121)
Total unrestricted net position	<u>\$ (132,392,576)</u>	<u>\$ (154,685,652)</u>

15. 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/Pages/index.aspx>

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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 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 2.0% 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 2.2% 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.

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 2.0% 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, 1.3% for 10 to 20 years of service, 1.5% for 20 to 26 years of service, and 1.75% for 26 to 30 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.

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 5.0% and 4.0% 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.

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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.

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: 1.3% for 10 years or less, 1.5% for 10 to 20 years, 2.25% for 20 to 25 years, and 2.5% for 25 years or more.

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.

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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 8.0% and 7.5% 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 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 \$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. 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%, for employees hired on or after September 1, 2008, 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%.

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.

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% 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% 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.

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The annual retirement allowance for university members is equal to 2% 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% 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% 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% 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 and 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.

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

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

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, 2020, 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 \$3,755,337 and \$5,175,756 for the years ended June 30, 2020 and 2019, 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, 2020, was 36.85% 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 \$282,173 and \$278,279 for the years ended June 30, 2020 and 2019, respectively.

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The University's overall contributions, which include pension, medical, and life insurance contributions, to KERS for the years ended June 30, 2020 and 2019 were \$4,826,873 and \$6,534,025, respectively, and were equal to the required contributions. Contributions to KERS-nh for the years ended June 30, 2020 and 2019, respectively were \$4,524,514 and \$6,235,865. Contributions to KERS-h for the years ended June 30, 2020 and 2019, respectively were \$302,359 and \$298,160.

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, 2020, 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 \$4,100,253 and \$4,040,039 for the years ended June 30, 2020 and 2019, respectively.

The University's overall contributions, which include pension, medical, and life insurance contributions, to TRS for the fiscal years ended June 30, 2020 and 2019 were \$4,786,801 and \$4,748,102, 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 \$168,362,848 and \$181,969,231 for the years ended June 30, 2020 and 2019, 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, 2019 and June 30, 2018 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, 2019, the University's proportion was 0.341570% for TRS, 0.830936% for KERS-nh, and 0.399507% for KERS-h, and at June 30, 2018, the University's proportion was 0.42899966% for TRS, 0.889474% for KERS-nh, and 0.411530% for KERS-h.

For the years ended June 30, 2020 and 2019, the University recognized the pension benefit of \$15,698,615 and \$8,595,091, respectively. At June 30, 2020 and 2019, the University reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

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	<u>June 30, 2020</u>		<u>June 30, 2019</u>	
	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual experience	\$ 881,168	\$ 3,115,037	\$ 1,446,165	\$ 6,272,837
Change in assumptions	7,864,244	25,999,918	15,512,893	46,989,857
Net difference between projected and actual earnings on investments	350,416	1,036,658	1,004,497	2,370,667
Change in proportionate share	3,642,858	44,922,123	7,675,911	41,054,088
Contributions subsequent to the measurement date	8,137,763	—	9,494,344	—
Total	<u>\$ 20,876,449</u>	<u>\$ 75,073,736</u>	<u>\$ 35,133,810</u>	<u>\$ 96,687,449</u>

In the years ended June 30, 2020 and 2019 deferred outflows of resources of \$8,137,763 and \$9,494,344, 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, 2020 and 2019, respectively. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions at June 30, 2020 will be recognized in pension expense as follows:

<u>Year ended June 30:</u>	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
2021	\$ 7,879,321	\$ 46,383,351
2022	4,952,703	24,482,073
2023	(224,214)	4,367,648
2024	130,876	(159,336)
	<u>\$ 12,738,686</u>	<u>\$ 75,073,736</u>

Actuarial assumptions. The total pension liability in the June 30, 2019 and 2018 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

	<u>June 30, 2019</u>		<u>June 30, 2018</u>	
	<u>KERS</u>	<u>TRS</u>	<u>KERS</u>	<u>TRS</u>
Inflation	2.30%	3.0%	2.30%	3.0%
Salary increases	3.55%	3.5% to 7.3%, including inflation	3.05%	3.5% to 7.3%, including inflation
Investment rate of return	5.25% - nh 6.25% - h	7.50%	5.25% - nh 6.25% - h	7.50%

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As of June 30, 2019, and 2018, 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 with a setback of 1 year for females.

As of June 30, 2019, and 2018, 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, set forward two years for males and one year for females.

The actuarial assumptions used in the June 30, 2019 valuations were based on a new study for the period ending June 30, 2018 for KERS. Updated assumptions include change in rates of salary increases, new post-retirement mortality assumption, updated mortality assumptions for members during employment and disabled retirees, rates or retirement changes, change in rates in which active members are assumed inactive, and updated rates of disability incidence. The assumed increase in future health care costs was increased since the June 30, 2018 valuation to better reflect expectations related to anticipated medical costs for post-age 65 retirees. The actuarial assumptions used in the June 30, 2018 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 2014 through 2018, is outlined in a report dated April 12, 2019. 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:

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KERS-nh			KERS-h		
	June 30, 2019			June 30, 2019	
		Long-Term Expected			Long-Term Expected
Asset Class	Target Allocation	Real Rate of Return	Asset Class	Target Allocation	Real Rate of Return
Growth	53.50%		Growth	62.50%	
U.S Equity	15.75%	4.30%	U.S Equity	18.75%	4.30%
International Equity	15.75%	4.98%	International Equity	18.75%	4.98%
Private Equity	7.00%	6.65%	Private Equity	10.00%	6.65%
Specialty Credit/High Yield	15.00%	2.60%	Specialty Credit/High Yield	15.00%	2.60%
Liquidity	23.50%		Liquidity	14.50%	
Core Bonds	20.50%	1.35%	Core Bonds	13.50%	1.35%
Cash	3.00%	0.20%	Cash	1.00%	0.20%
Diversifying Strategies	23.00%		Diversifying Strategies	23.00%	
Real Estate	5.00%	4.85%	Real Estate	5.00%	4.85%
Opportunistic	3.00%	2.97%	Opportunistic	3.00%	2.97%
Real Return	15.00%	4.10%	Real Return	15.00%	4.10%
	<u>100%</u>			<u>100%</u>	

KERS-nh			KERS-h		
	June 30, 2018			June 30, 2018	
		Long-Term Expected			Long-Term Expected
Asset Class	Target Allocation	Real Rate of Return	Asset Class	Target Allocation	Real Rate of Return
U.S. Equity	17.5%		U.S. Equity	17.5%	
U.S. Large Cap	8.5%	4.50%	U.S. Large Cap	5.0%	4.50%
U.S. Mid Cap	5.0%	4.50%	U.S. Mid Cap	6.0%	4.50%
U.S. Small Cap	4.0%	5.50%	U.S. Small Cap	6.5%	5.50%
International Equity	17.5%		International Equity	17.5%	
International Developed	12.5%	6.50%	International Developed	12.5%	6.50%
Emerging Markets	5.0%	7.25%	Emerging Markets	5.0%	7.25%
Global Bonds	10.0%	3.00%	Global Bonds	4.0%	3.00%
Global Credit	17.0%		Global Credit	24.0%	
Global IG Credit	10.0%	3.75%	Global IG Credit	2.0%	3.75%
High Yield	3.0%	5.50%	High Yield	7.0%	5.50%
EMD	4.0%	6.00%	EMD	5.0%	6.00%
Real Estate	5.0%	7.00%	Illiquid Private	10.0%	8.50%
Absolute Return	10.0%	5.00%	Real Estate	5.0%	9.00%
Real Return	10.0%	5.00%	Absolute Return	10.0%	5.00%
Private Equity	10.0%	6.50%	Real Return	10.0%	7.00%
Cash Equivalent	3.0%	1.50%	Private Equity	10.0%	6.50%
Total	<u>100%</u>		Cash Equivalent	2.0%	1.50%
			Total	<u>100%</u>	

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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			TRS		
June 30, 2019			June 30, 2018		
Long-Term Expected			Long-Term Expected		
Asset Class	Target Allocation	Real Rate of Return	Asset Class	Target Allocation	Real Rate of Return
U.S. Equity	40%	4.20%	U.S. Equity	40%	4.20%
Non U.S. Equity	22%	5.20%	Non U.S. Equity	22%	5.20%
Fixed Income	15%	1.20%	Fixed Income	15%	1.20%
Additional Categories	7%	3.30%	Additional Categories	8%	3.30%
Real Estate	7%	3.80%	Real Estate	6%	3.80%
Private Equity	7%	6.30%	Private Equity	7%	6.30%
Cash	2%	0.90%	Cash	2%	0.90%
Total	100%		Total	100%	

Discount rate. For KERS the discount rates used to measure the total pension liability as of the Measurement Date (June 30, 2019) and Prior Measurement Date (June 30, 2018) were 5.25% for nonhazardous and 6.25% 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 3.52% for KERS-nh and 3.89% for KERS-h for the year ending June 30, 2019 and 5.13% for KERS-nh and 6.09% for KERS-h for the year ending June 30, 2018. 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 7.5% and 7.5%, 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.

There were no changes to benefit terms for the plans' year ended June 30, 2018 for TRS. HB185 increased pension and insurance benefits for the beneficiaries of an active KRS member who dies in the line of duty. Changes in assumptions did occur for the KERS and TRS plans as a result of a change in the discount rates, which changed from 5.25% and 4.49%, respectively, in plan year 2017 to 5.25% and 7.5% respectively, in plan year 2018.

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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, 2019		
	1% Decrease	Discount Rate	1% Increase
University's proportionate share - KERS-nh	\$ 134,533,603 4.25%	\$ 117,353,108 5.25%	\$ 103,153,382 6.25%
University's proportionate share - KERS-h	2,814,094 5.25%	2,182,483 6.25%	1,663,489 7.25%
University's proportionate share - TRS	62,298,697 6.50%	48,827,257 7.50%	37,426,092 8.50%

	June 30, 2018		
	1% Decrease	Discount Rate	1% Increase
University's proportionate share - KERS-nh	\$ 137,845,527 4.25%	\$ 121,002,043 5.25%	\$ 106,965,806 6.25%
University's proportionate share - KERS-h	2,659,747 5.25%	2,078,739 6.25%	1,596,264 7.25%
University's proportionate share - TRS	75,483,214 6.50%	58,888,449 7.50%	44,925,998 8.50%

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 \$30,436,969 and \$35,705,064 years ended June 30, 2020 and 2019, respectively, 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, 2019 and June 30, 2018 and 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, 2019, the University's proportion was 0.402899% for TRS-medical, 0.904351% for TRS-life, 0.8390936% for KERS-nh, and 0.399241% for KERS-h.

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For the years ended June 30, 2020 and 2019, the University recognized OPEB expense of \$150,983 and \$1,268,266, respectively. At June 30, 2020 and 2019, the University reported deferred outflows of resources and deferred inflows of resources related to OPEBs from the following sources:

	<u>June 30, 2020</u>		<u>June 30, 2019</u>	
	Deferred Outflows of Resources	Deferred Inflows of Resources	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ —	\$ 5,997,597	\$ —	\$ 2,236,244
Change in assumptions	2,765,347	57,146	2,665,320	81,661
Net difference between projected and actual earnings on investments	461,889	273,131	73,000	476,478
Change in proportionate share	363,122	2,629,670	485,839	913,783
Contributions subsequent to the measurement date	1,475,909	—	1,787,808	—
Total	<u>\$ 5,066,267</u>	<u>\$ 8,957,544</u>	<u>\$ 5,011,967</u>	<u>\$ 3,708,166</u>

In the year ended June 30, 2020 deferred outflows of resources of \$1,475,909 related to OPEBs resulting from the University contributions subsequent to the measurement date were recognized as a reduction of the net OPEB liability. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB at June 30, 2020 will be recognized in OPEB expense as follows:

<u>Year ended June 30:</u>	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
2021	\$ 1,315,714	\$ 2,190,158
2022	1,315,714	2,190,158
2023	591,799	2,011,246
2024	382,624	1,631,032
Thereafter	(15,493)	934,950
	<u>\$ 3,590,358</u>	<u>\$ 8,957,544</u>

Actuarial assumptions. The total OPEB liability in the June 30, 2019 and 2018 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

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	June 30, 2019		June 30, 2018	
	KERS	TRS	KERS	TRS
Inflation	2.30%	3.0%	3.25%	3.0%
Salary increases	3.55% to 15.55%-nh 3.55% to 19.55%-h	3.5% to 7.2%, including inflation	4.00%	3.5% to 7.2%, including inflation
Investment rate of return	6.25%	8.00%(Med) 7.50%(Life)	7.50%	8.00%(Med) 7.50%(Life)

As of June 30, 2018, mortality rates for KERS were based on the RP-2000 Combined Mortality Table projected to 2013 with scale BB with a one year set-back for females. 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, 2018, mortality rates for TRS for death after service retirement and beneficiaries were based on the RP-2000 Combined Mortality Table projected to 2025 using scale BB (set forward two years for males and one year for females) and rates for death after disability retirement were based on the RP-2000 Disabled Mortality Table (set forward two years for males and seven years for females). 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, 2019 valuations were based on a new study for the period ending June 30, 2018 for KERS. The assumed increase in future health care costs was increased since the June 30, 2018 valuation to better reflect expectations related to anticipated medical costs for post-age 65 retirees. Health care trend rates pre-65 have an initial trend starting at 7.25% on January 1, 2019 and gradually decreasing to an ultimate trend rate of 4.05% over a period of 13 years. Health care trend rates post-65 have an initial trend starting at 5.10% on January 1, 2019 and gradually decreasing to an ultimate trend rate of 4.05% over a period of 11 years. The rates of retirement, disability, mortality, termination, salary increase, and rates of future benefit participation used by TRS in their actuarial assumptions were based on the study prepared as of June 30, 2015. Health care cost trends and expected plan costs were based on recent experience as determined by the actuary. 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.

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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 2014 through 2018, is outlined in a report dated April 12, 2019. 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-nh and h		June 30, 2019
Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Growth	62.50%	
U.S Equity	18.75%	4.30%
International Equity	18.75%	4.80%
Private Equity	10.00%	6.65%
Specialty Credit/High Yield	15.00%	2.60%
Liquidity	14.50%	
Core Bonds	13.50%	1.35%
Cash	1.00%	0.20%
Diversifying Strategies	23.00%	
Real Estate	5.00%	4.85%
Opportunistic	3.00%	2.97%
Real Return	15.00%	4.10%
	<u>100%</u>	

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.

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TRS-Med		June 30, 2019
Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Global Equity	58.0%	5.10%
Fixed Income	9.0%	1.20%
Real Estate	6.5%	3.80%
Private Equity	8.5%	6.30%
Other Additional Categories	17.0%	3.20%
Cash (LIBOR)	1.0%	0.90%
Total	100%	

TRS-Life		June 30, 2019
Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
U.S. Equity	40.0%	4.30%
International Equity	23.0%	5.20%
Fixed Income	18.0%	1.20%
Real Estate	6.0%	3.80%
Private Equity	5.0%	6.30%
Other Additional Categories	6.0%	3.20%
Cash (LIBOR)	2.0%	0.90%
Total	100%	

Discount rate. For KERS the discount rates used to measure the total OPEB liability as of the Measurement Date (June 30, 2019) was 5.73% for nonhazardous and 5.66% 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 (June 30, 2019) was 8.0% for medical and 7.5% 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:

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	June 30, 2019		
	<u>1% Decrease</u>	<u>Discount Rate</u>	<u>1% Increase</u>
University's proportionate share - KERS-nh	\$ 21,993,233 4.73%	\$ 18,470,843 5.73%	\$ 15,570,921 6.73%
University's proportionate share - KERS-h	180,072 4.66%	(107,192) 5.66%	(339,606) 6.66%
University's proportionate share - TRS-medical	13,969,387 7.00%	11,792,493 8.00%	9,969,374 9.00%
University's proportionate share - TRS-life	414,835 6.50%	280,825 7.50%	170,966 8.50%

	June 30, 2018		
	<u>1% Decrease</u>	<u>Discount Rate</u>	<u>1% Increase</u>
University's proportionate share - KERS-nh	\$ 24,726,227 4.86%	\$ 21,074,088 5.86%	\$ 18,035,205 6.86%
University's proportionate share - KERS-h	137,404 4.88%	(136,530) 5.88%	(356,166) 6.88%
University's proportionate share - TRS-medical	17,002,709 7.00%	14,500,008 8.00%	12,414,907 9.00%
University's proportionate share - TRS-life	407,239 6.50%	267,498 7.50%	152,875 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.

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16. 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, 2020 and 2019, the Foundation made payments of \$3,431,851 and \$3,174,935, respectively, on behalf of the University from restricted sources. Accounts receivable at June 30, 2020 and 2019, from the Foundation were \$257,746 and \$319,944, respectively. Accounts payable to the Foundation as of June 30, 2020 and 2019 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:

	2020	2019
Money market mutual funds	\$ 2,435,439	\$ 1,693,111
Equity securities	744,000	818,400
Cash value of life insurance policies	214,965	266,987
Mutual funds	79,836,690	75,470,251
Asset-backed bonds	4,689,323	1,343,314
U.S. treasuries	21,893,340	—
Mortgage-backed bonds	—	1,566,292
Government bonds	810,709	27,858,234
Municipal bonds	145,000	369,691
Corporate bonds	10,510,276	7,270,684
Other	—	255,203
Beneficial interests in trusts	7,028,420	7,745,395
	<u>\$ 128,308,162</u>	<u>\$ 124,657,562</u>

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Total investment return is comprised of the following:

	<u>2020</u>	<u>2019</u>
Interest and dividend income	\$ 1,544,619	\$ 1,532,760
Realized gains on investments	2,350,261	1,728,547
Unrealized losses on investments	188,173	1,278,222
Management fees	579,914	550,927
	<u>\$ 4,662,967</u>	<u>\$ 5,090,456</u>

b) *Assets Held for Others*

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

	<u>2020</u>	<u>2019</u>
Murray State University	\$ 26,581,904	\$ 26,403,726
Murray State University Alumni Association	1,240,260	1,180,268
Others	—	44,304
	<u>\$ 27,822,164</u>	<u>\$ 27,628,298</u>

c) *Annuities and Trusts Payable*

The Foundation has been the recipient of several gift annuities which require future payments to the donor or their named beneficiaries. The assets received from donors are recorded at fair value on the date of the gift. The Foundation has recorded a liability as of June 30, 2020 and 2019, \$1,152,516 and \$1,207,309, 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, 2020, and 2019, cash, cash equivalents, and investments relative to split interest agreements and other liabilities discussed in the Foundation's Note 11 total \$8,201,192 and \$8,689,131, 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 contributions with donor restriction 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.

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The present value of the estimated future payments is \$4,314,221 and \$4,001,464 as of June 30, 2020 and 2019, respectively, which was calculated using discount rates ranging from 1.8% to 8.0%, and applicable mortality tables.

d) Net Assets with Donor Restrictions

Net assets with donor restrictions as of June 30, 2020 and 2019 are restricted for the following purposes:

	2020	2019
Subject to expenditure for specified purpose:		
Scholarships	\$ 6,087,769	\$ 5,130,197
Instruction and institutional support	9,154,419	8,739,118
Chairs, professorships, academic stipends and seminars	701,732	604,192
Operations of the golf course	131,691	83,932
Promise to give, the proceeds from which have been restricted by donors for:		
Scholarships	342,313	511,313
Institutional support	278,381	245,139
	<u>16,696,305</u>	<u>15,313,891</u>
Subject to passage of time:		
Assets held under split-interest agreements	226,373	763,186
Subject to appropriation and expenditure when a specific event occurs:		
Scholarships	994,304	1,175,090
Instruction and institutional support	1,486,124	1,633,630
Promise to give, the proceeds from which have been restricted by donors for:		
Scholarships	123,114	258,943
Institutional support	235,820	60,387
	<u>2,839,362</u>	<u>3,128,050</u>
Subject to endowment spending policy and appropriation:		
Scholarships	45,577,065	44,058,146
Instruction and institutional support	14,424,686	14,158,481
Chairs, professorships, academic stipends and seminars	3,352,746	3,344,347
Operations of the golf course	1,609,459	1,595,771
Any activity of the Foundation	505,512	487,572
	<u>65,469,468</u>	<u>63,644,317</u>
Total net assets with donor restrictions	<u><u>\$ 85,231,508</u></u>	<u><u>\$ 82,849,444</u></u>

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Notes to the Financial Statements

Net Assets Released from Restriction

	<u>2020</u>	<u>2019</u>
Satisfaction of purpose restrictions:		
Scholarships	\$ 1,899,420	\$ 1,765,478
Instruction and institutional support	1,101,692	1,026,674
Chairs, professorships, academic stipends and seminars	30,533	175,308
Change in realizable value of prior year receivable	—	100,000
Distributions (proceeds are not restricted by donors):		
Net changes in annuities and split-interest agreements:	400,206	107,475
	<u>\$ 3,431,851</u>	<u>\$ 3,174,935</u>

17. 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 for the period July 1, 2018 through June 30, 2020. Effective July 1, 2020 the University entered into a new insurance contract with Liberty Mutual Insurance Company. The size of the company and scope of resources and support continue to improve the University's risk management in the Workers' Compensation program.

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 is not expected to have a material effect on the future operations or financial position of the University.

Commitments

The University has outstanding commitments under construction contracts of \$5,390,623 and \$8,809,347 as of June 30, 2020 and 2019, respectively.

Government Grants

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

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Notes to the Financial Statements

18. 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, 2020:

- Cash equivalents with a value of \$137,688,516 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 \$300,831 held by US Bank in money market accounts; fair value hierarchy level 1.
- Restricted quasi-endowment and endowment investments with a value of \$26,581,903 held by the MSU Foundation in an investment pool; fair value hierarchy levels 1, 2, or 3.

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Notes to the Financial Statements

19. Natural Expense Classifications with Functional Classifications

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

Fund Classification	Year Ended June 30, 2020					
	Natural Classification					
	Compensation and Benefits	Operations	Utilities	Noncapitalized Equipment	Scholarships	Total
Instruction	\$ 51,361,241	\$ 5,889,415	\$ 1,329	\$ 476,964	\$ —	\$ 57,728,949
Research	1,425,041	1,023,514	130	33,148	—	2,481,833
Public service	4,408,432	1,771,134	343,061	79,325	—	6,601,952
Libraries	1,828,323	1,572,442	—	38,383	—	3,439,148
Academic support	4,395,413	2,133,428	32,288	138,098	—	6,699,227
Student services	10,335,362	6,260,200	11,031	172,808	81	16,779,482
Institutional support	17,168,832	(1,096,702)	87,553	65,197	—	16,224,880
Operations and maintenance	5,899,974	8,651,422	5,523,535	13,677	—	20,088,608
Student financial aid	—	—	—	—	16,119,747	16,119,747
Depreciation	—	8,858,236	—	—	—	8,858,236
State pension expense GASB 68	(15,698,615)	—	—	—	—	(15,698,615)
State OPEB expense GASB 75	150,983	—	—	—	—	150,983
Auxiliary enterprises	3,185,679	8,381,166	2,803,736	41,408	109,542	14,521,531
Auxiliary depreciation	—	3,501,019	—	—	—	3,501,019
Total expenses	<u>\$ 84,460,665</u>	<u>\$ 46,945,274</u>	<u>\$ 8,802,663</u>	<u>\$ 1,059,008</u>	<u>\$ 16,229,370</u>	<u>\$ 157,496,980</u>

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Fund Classification	Year Ended June 30, 2019					
	Natural Classification					
	Compensation and Benefits	Operations	Utilities	Noncapitalized Equipment	Scholarships	Total
Instruction	\$ 53,346,041	\$ 7,310,718	\$ 268	\$ 407,953	\$ —	\$ 61,064,980
Research	1,386,830	793,881	243	77,147	—	2,258,101
Public service	4,185,736	1,358,514	358,049	74,943	—	5,977,242
Libraries	1,766,640	1,610,502	—	14,333	—	3,391,475
Academic support	4,187,473	2,220,942	76,221	215,223	—	6,699,859
Student services	9,761,944	5,711,500	10,114	146,208	(92,275)	15,537,491
Institutional support	18,618,324	(506,834)	89,529	91,204	—	18,292,223
Operations and maintenance	7,416,132	6,322,728	6,210,115	7,249	—	19,956,224
Financial aid	—	—	—	—	12,649,543	12,649,543
Depreciation	—	9,154,634	—	—	—	9,154,634
State pension expense GASB 68	(8,595,091)	—	—	—	—	(8,595,091)
State OPEB expense GASB 75	1,268,266	—	—	—	—	1,268,266
Auxiliary enterprises	5,268,592	10,309,669	2,844,822	68,352	107,585	18,599,020
Auxiliary depreciation	—	2,693,821	—	—	—	2,693,821
Total expenses	<u>\$ 98,610,887</u>	<u>\$ 46,980,075</u>	<u>\$ 9,589,361</u>	<u>\$ 1,102,612</u>	<u>\$ 12,664,853</u>	<u>\$ 168,947,788</u>

20. 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.

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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

	2020	<i>restated*</i> 2019
Assets		
Current assets	\$ 932,845	\$ 901,156
Noncurrent assets	1,620,228	1,709,881
Capital assets, net of accumulated depreciation	6,437,791	6,706,507
Total assets	8,990,864	9,317,544
Deferred outflows of resources		
Bond refunding loss	246,696	265,982
Total deferred outflows of resources	246,696	265,982
Liabilities		
Current liabilities	30,055	29,587
Noncurrent liabilities	6,579,999	6,994,999
Total liabilities	6,610,054	7,024,586
Net position		
Invested in capital assets, net of related debt and accumulated depreciation	104,487	(22,511)
Restricted		
Expendable capital	780,535	893,048
Expendable debt service	809,637	787,247
Unrestricted	932,847	901,156
Total net position	\$ 2,627,506	\$ 2,558,940

*Deferred outflows of resources was restated for fiscal year 2019, it was previously reported as \$235,541.

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

	2020	<i>restated*</i> 2019
Operating revenues	\$ 73,470	\$ 93,813
Operating expenses	(630,250)	(556,216)
Depreciation expense	(268,715)	(268,715)
Operating loss	(825,495)	(731,118)
Nonoperating revenues	894,061	762,395
Change in net position	68,566	31,277
Net position, beginning of year	2,558,940	2,527,663
Net position, end of year	\$ 2,627,506	\$ 2,558,940

*Nonoperating revenues was restated for fiscal year 2019, it was previously reported as \$731,954.

Wellness Center - Condensed Statements of Cash Flows

	2020	2019
Cash flows from		
Operating activities	\$ (656,780)	\$ (562,853)
Noncapital financing activities	507,959	461,271
Capital and related financing activities	68,439	2,466
Investing activities	22,418	24,783
Net increase in cash	(57,964)	(74,333)
Cash, beginning of year	2,611,037	2,685,370
Cash, end of year	\$ 2,553,073	\$ 2,611,037

21. 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.

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22. Contingency

The University has a number of claims pending that have been filed with the Kentucky claims Commission, each with a cap of \$250,000 per claim. In addition, the University has pending litigation in regards to the August 2019 J.H. Richmond Residence Hall event. The outcome of all claims is unknown at this time.

23. 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. This is heightened by the COVID-19 pandemic and the uncertainties surrounding the long-term impact and duration. The financial statements have been prepared using values and information currently available to the University.

24. Coronavirus Aid, Relief, and Economic Security (CARES) Act

In March 2020, the *Coronavirus Aid, Relief, and Economic Security (CARES) Act* was passed by Congress to assist businesses as a result of the economic impact caused by COVID-19. The CARES Act allocated aid to be provided to institutions of Higher Education to defray expenses directly caused by coronavirus and the disruption of university operations. The University was awarded \$6,270,768 in aid from the CARES Act. The University was required to use at least half of the funds for student related grants and relief and the remaining funds were to be used for institutional purposes. As of June 30, 2020, the University has spent \$4,418,165 in total and the related revenue of \$2,565,562 is included with Federal grants and contracts within nonoperating revenues in the statements of revenues, expenses, and changes in net position and \$1,852,603 is included with unearned revenue in the statements of net position.

25. Subsequent Events

As a result of the COVID-19 pandemic, the Ohio Valley Conference, in which all of the University's athletic teams participate, decided to postpone all fall athletics' seasons until the spring of 2021. This postponement includes the 2020 football season and all other fall sports which are expected to have revenue losses of approximately \$1 million. As of October 2, 2020, no decision has been made by the Ohio Valley Conference regarding potential postponement or cancellation of any additional winter and spring sports.

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Schedules of Required Supplementary Information

Years ended June 30, 2019, 2018, 2017, 2016, 2015, and 2014

Proportionate Share of the Net Pension and OPEB Liabilities

KERS-Non-Hazardous Pension Plan

	2019	2018	2017	2016	2015	2014
University's proportion of the net pension liability	0.830936%	0.889474%	0.858544%	0.836194%	0.854037%	0.882259%
University's proportionate share of the net pension liability	\$ 117,353,108	\$ 121,002,044	\$ 114,944,760	\$ 95,321,852	\$ 85,676,061	\$ 79,154,689
University's covered-employee payroll	\$ 12,346,496	\$ 13,430,657	\$ 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	950.50%	900.94%	835.52%	745.43%	649.64%	568.74%
Plan fiduciary net position as a percentage of the total pension liability	13.66%	12.84%	13.00%	14.80%	18.83%	22.32%

KERS-Hazardous Pension Plan

	2019	2018	2017	2016	2015	2014
University's proportion of the net pension liability	0.399507%	0.411530%	0.389490%	0.396922%	0.388584%	0.405301%
University's proportionate share of the net pension liability	\$ 2,182,483	\$ 2,078,740	\$ 1,936,158	\$ 1,554,497	\$ 1,332,707	\$ 1,035,001
University's covered-employee payroll	\$ 641,608	\$ 629,378	\$ 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	340.16%	330.28%	278.47%	265.40%	270.73%	197.84%
Plan fiduciary net position as a percentage of the total pension liability	55.49%	56.10%	55.00%	57.41%	61.70%	68.74%

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

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Schedules of Required Supplementary Information

Years ended June 30, 2019, 2018, 2017, 2016, 2015, and 2014

Proportionate Share of the Net Pension and OPEB Liabilities (Continued)

KERS-Non-Hazardous OPEB Plan

	2019	2018	2017
University's proportion of the net OPEB liability	0.830936%	0.888860%	0.858544%
University's proportionate share of the net OPEB liability	\$ 18,470,843	\$ 21,074,087	\$ 21,772,351
University's covered-employee payroll	\$ 12,596,599	\$ 13,989,750	\$ 13,677,439
University's proportionate share of the net OPEB liability as a percentage of its covered-employee payroll	146.63%	150.64%	159.18%
Plan fiduciary net position as a percentage of the total OPEB liability	30.92%	27.32%	24.40%

KERS-Hazardous OPEB Plan

	2019	2018	2017
University's proportion of the net OPEB liability	0.399241%	0.411632%	0.389490%
University's proportionate share of the net OPEB liability	\$ (107,192)	\$ (136,532)	\$ 23,490
University's covered-employee payroll	\$ 604,643	\$ 783,406	\$ 666,367
University's proportionate share of the net OPEB liability as a percentage of its covered-employee payroll	-17.73%	-17.43%	3.53%
Plan fiduciary net position as a percentage of the total OPEB liability	105.29%	106.83%	98.80%

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

See Report of Independent Auditors

MURRAY STATE UNIVERSITY
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Schedules of Required Supplementary Information

Years ended June 30, 2019, 2018, 2017, 2016, 2015, and 2014

Proportionate Share of the Net Pension and OPEB Liabilities (*Continued*)

TRS Pension Plan						
	2019	2018	2017	2016	2015	2014
University's proportion of the net pension liability	0.341570%	0.429000%	0.404176%	0.698165%	0.722622%	0.710400%
University's proportionate share of the net pension liability	\$ 48,827,257	\$ 58,888,449	\$ 114,216,721	\$ 215,900,958	\$ 176,518,973	\$ 153,391,029
University's covered-employee payroll	\$ 11,945,441	\$ 14,824,781	\$ 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	408.75%	397.23%	827.40%	912.07%	707.02%	627.11%
Plan fiduciary net position as a percentage of the total pension liability	58.80%	59.28%	39.83%	35.22%	42.49%	45.59%

TRS OPEB - Medical			
	2019	2018	2017
University's proportion of the net OPEB liability	0.402916%	0.417902%	0.443448%
University's proportionate share of the net OPEB liability	\$ 11,792,493	\$ 14,500,008	\$ 15,812,389
University's covered-employee payroll	\$ 14,090,843	\$ 14,441,272	\$ 15,145,665
University's proportionate share of the net OPEB liability as a percentage of its covered-employee payroll	83.69%	100.41%	104.40%
Plan fiduciary net position as a percentage of the total OPEB liability	32.60%	25.54%	21.18%

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

See Report of Independent Auditors

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Schedules of Required Supplementary Information

Years ended June 30, 2019, 2018, 2017, 2016, 2015, and 2014

Proportionate Share of the Net Pension and OPEB Liabilities (*Continued*)

TRS OPEB - Life				2019	2018	2017
University's proportion of the net OPEB liability				0.903787%	0.948638%	0.970240%
University's proportionate share of the net OPEB liability	\$	280,825	\$	267,497	\$	213,055
University's covered-employee payroll	\$	31,607,384	\$	32,781,704	\$	33,137,887
University's proportionate share of the net OPEB liability as a percentage of its covered-employee payroll				0.89%	0.82%	0.64%
Plan fiduciary net position as a percentage of the total OPEB liability				73.40%	74.97%	79.99%

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

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Schedules of Required Supplementary Information

Years ended June 30, 2019, 2018, 2017, 2016, 2015, and 2014

Schedules of Murray State University Contributions

KERS-Non-Hazardous Pension Plan

	2019	2018	2017	2016	2015	2014
Contractually required contribution	\$ 4,990,354	\$ 5,577,805	\$ 5,341,635	\$ 4,290,378	\$ 4,420,027	\$ 3,912,372
Contributions in relation to the contractually required contribution	(4,990,354)	(5,577,805)	(5,341,635)	(4,290,378)	(4,420,027)	(3,912,372)
Contribution deficiency	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
University's covered-employee payroll	\$ 12,346,496	\$ 13,430,657	\$ 13,757,275	\$ 12,787,487	\$ 13,188,333	\$ 13,917,604
Contributions as a percentage of covered-employee payroll	40.42%	41.53%	38.83%	33.55%	33.51%	28.11%

KERS-Hazardous Pension Plan

	2019	2018	2017	2016	2015	2014
Contractually required contribution	\$ 217,297	\$ 146,694	\$ 136,435	\$ 94,306	\$ 115,000	\$ 183,317
Contributions in relation to the contractually required contribution	(217,297)	(146,694)	(136,435)	(94,306)	(115,000)	(183,317)
Contribution deficiency	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
University's covered-employee payroll	\$ 641,608	\$ 629,378	\$ 695,282	\$ 585,712	\$ 492,259	\$ 523,146
Contributions as a percentage of covered-employee payroll	33.87%	23.31%	19.62%	16.10%	23.36%	35.04%

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

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Schedules of Required Supplementary Information

Years ended June 30, 2019, 2018, 2017, 2016, 2015, and 2014

Schedules of Murray State University Contributions (Continued)

KERS-Non-Hazardous OPEB Plan					
	2019		2018		2017
Contractually required contribution	\$	1,022,149	\$	1,142,681	\$ 1,108,416
Contributions in relation to the contractually required contribution		(1,022,149)		(1,142,681)	(1,108,416)
Contribution deficiency	\$	-	\$	-	\$ -
University's covered-employee payroll					
	\$	12,596,599	\$	13,989,750	\$ 13,677,439
Contributions as a percentage of covered-employee payroll		8.11%		8.17%	8.10%
KERS-Hazardous OPEB Plan					
	2019		2018		2017
Contractually required contribution	\$	15,566	\$	15,463	\$ 17,734
Contributions in relation to the contractually required contribution		(15,566)		(15,463)	(17,734)
Contribution deficiency	\$	-	\$	-	\$ -
University's covered-employee payroll					
	\$	604,643	\$	783,406	\$ 666,367
Contributions as a percentage of covered-employee payroll		2.57%		1.97%	2.66%

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

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Schedules of Required Supplementary Information

Years ended June 30, 2019, 2018, 2017, 2016, 2015, and 2014

Schedules of Murray State University Contributions (Continued)

TRS Pension Plan						
	2019	2018	2017	2016	2015	2014
Contractually required contribution	\$ 3,996,612	\$ 5,349,835	\$ 5,326,832	\$ 5,555,229	\$ 5,684,344	\$ 5,519,075
Contributions in relation to the contractually required contribution	(3,996,612)	(5,349,835)	(5,326,832)	(5,555,229)	(5,684,344)	(5,519,075)
Contribution deficiency	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
University's covered-employee payroll	\$ 11,945,441	\$ 14,824,781	\$ 13,804,356	\$ 23,671,557	\$ 24,966,648	\$ 24,460,052
Contributions as a percentage of covered-employee payroll	33.46%	36.09%	38.59%	23.47%	22.77%	22.56%

TRS-Medical OPEB Plan			
	2019	2018	2017
Contractually required contribution	\$ 701,586	\$ 744,415	\$ 759,751
Contributions in relation to the contractually required contribution	(701,586)	(744,415)	(759,751)
Contribution deficiency	\$ -	\$ -	\$ -
University's covered-employee payroll	\$ 14,090,248	\$ 14,441,272	\$ 15,145,665
Contributions as a percentage of covered-employee payroll	4.98%	5.15%	5.02%

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, 2019, 2018, 2017, 2016, 2015, and 2014

Schedules of Murray State University Contributions *(Continued)*

TRS-Life OPEB Plan						
	2019		2018		2017	
Contractually required contribution	\$	11,874	\$	9,288	\$	9,362
Contributions in relation to the contractually required contribution		(11,874)		(9,288)		(9,362)
Contribution deficiency	\$	-	\$	-	\$	-
University's covered-employee payroll	\$	31,627,108	\$	32,781,704	\$	33,137,887
Contributions as a percentage of covered-employee payroll		0.04%		0.03%		0.03%

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

**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, 2020 and 2019, and the related notes to the financial statements which collectively comprise the University's basic financial statements, and have issued our report thereon dated October 2, 2020.

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 Dotson Allen Ford, PLLC

Lexington, Kentucky
October 2, 2020