

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

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Report on the Financial Statements 1

We have audited the accompanying financial statements

MURRAY STATE UNIVERSITY
A Component Unit of the Commonwealth of Kentucky

Management's Discussion and Analysis

June 30, 2017

Introduction 1

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The following Management's Discussion and Analysis (MD&A) provides an overview of the financial position and activities of Murray State University (University) for the year ended June 30, 2017. This discussion has been prepared by management and should be read in conjunction with the

MURRAY STATE UNIVERSITY
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Management's Discussion and Analysis, continued

June 30, 2017

Financial Highlights 1

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¾ The University's financial net position dramatically changed in 2015 with the implementation of GASB Statement No. 68 Accounting and Financial Reporting for Pensions—an amendment of GASB Statement No. 27. The effects of implementing GASB Statement No. 68 are summarized in the following table. It is important to note that the implementation of this standard has no effect on past or current cash or cash equivalents.

	2017	2016	2015
Beginning net position, no pension adjustment	\$ 300,800,699	\$ 257,415,254	\$ 240,612,199
Change in net position, no pension adjustment	31,451,310	43,385,445	16,803,055
Ending net position before pension adjustment	332,252,009	300,800,699	257,415,254
Pension beginning adjustment	(244,041,269)	(233,568,557)	(230,675,047)
Pension revenue/expense adjustment	(21,989,968)		

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Management's Discussion and Analysis, continued

June 30, 2017

- ¾ The University invests approximately 96% of its endowment funds with the Murray State University Foundation, Inc. (Foundation). The value of these funds is as

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Management's Discussion and Analysis, continued

June 30, 2017

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Management's Discussion and Analysis, continued

June 30, 2017

\$2.9 million T Increase in cash and cash equivalents. This increase was the result of a \$9.8 million increase in operating cash explained by increases in Education & General (E&G) net position prior to the pension expense (non cash) adjustment, and an

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Management's Discussion and Analysis, continued

June 30, 2017

Deferred Outflows of Resources

A new section of the Statement of Net Position added in 2014 in compliance with GASB Statement No. 65 ^{Items} Previously Reported as Assets and Liabilities. This statement required that the deferred bond refunding loss, previously reported as

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Management's Discussion and Analysis, continued

June 30, 2017

- x \$5.5 million Increase in accounts payable. This increase is attributed to the net \$6.3 million increase in plant accounts payable related to the new Breathitt Veterinary Center, Franklin Hall and Engineering and Physics building. Offset by a (\$0.8 million) decrease in unrestricted accounts payable attributable to timing differences in routine payables.

(\$5.3) million Decrease in long term debt. This decrease is primarily the result of the 2016 principal payments on bonds and masterleases.

Deferred Inflows of Resources

A new section of the Statement of Net Position added in 2014 in compliance with GASB Statement No. 65 – Items Previously Reported as Assets and Liabilities. This statement requires that certain items are no longer to be reported as a liability. This consisted of \$7 million in fiscal year 2017, \$6.2 million in 2016, and \$10 million in 2015 for deferred inflows of resources related to pensions as specified in GASB Statement No. 68. Also in fiscal year 2015 was \$2 million from State capital 2014 2016 appropriations related to the new Breathitt Veterinary Center (BVC) project which was received and recorded as revenue in fiscal year 2016.

Net Position

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

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Management's Discussion and Analysis, continued

June 30, 2017

Statements of Revenues, Expenses and Changes in Net Position 1

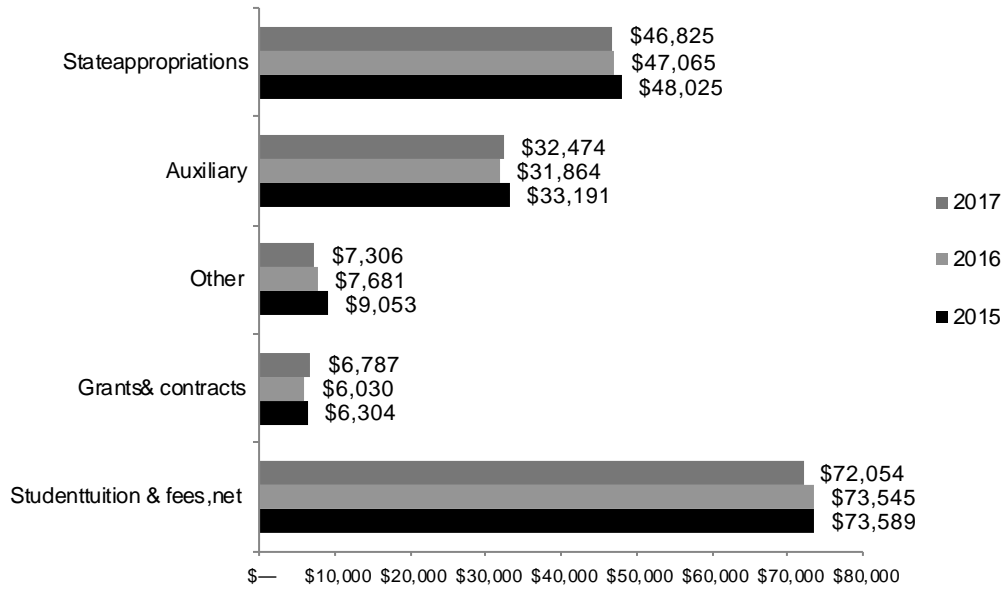
The Statements of Revenues, Expenses and Changes in Net Position, which are generally referred to as the activities statement or income statement, present the revenues earned and expenses incurred and income or loss from operations for the current and prior fiscal years. Activities are reported as either 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 1 Position.

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The comparative sources of total operating revenues and nonoperating state appropriation revenues are reflected in the following chart: 1 1

Operating Revenues and State Appropriations 1
 (In Thousands) 1



Expenses 1

Total operating expenses for fiscal year 2017 were \$201.91

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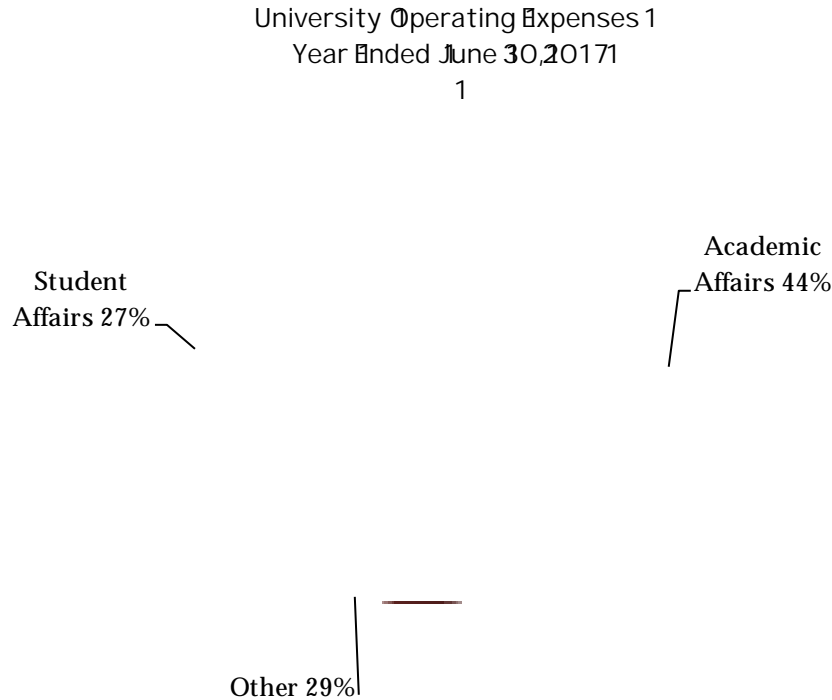
Management's Discussion and Analysis, continued

June 30, 2017

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

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

Operating expenses by type are reflected in the following chart:



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

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Management's Discussion and Analysis, continued

June 30, 2017

Statements of Cash Flows 1

The Statements of Cash Flows provide a summary of the sources and uses of cash by defined categories. The principal

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Management's Discussion and Analysis, continued

June 30, 2017

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

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Management's Discussion and Analysis, continued

June 30, 2017

Capital Assets and Debt Administration 1 1 1

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

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Management's Discussion and Analysis, continued

June 30, 2017

Infrastructure Assets 1

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 1

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¾ In fiscal year 2017, Kentucky's General Fund receipts rose

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Statements of Net Position

June 30, 2017 and 2016

	2017	2016
Assets		
Current Assets		
Cash and cash equivalents	\$ 89,167,632	\$ 78,458,889

See accompanying notes.

MURRAY STATE UNIVERSITY
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MURRAY STATE UNIVERSITY FOUNDATION, INC.

Statements of Financial Position

June 30, 2017 and 2016

	2017	2016
Cash and cash equivalents	\$ 2,772,417	\$ 2,271,009
Accounts receivable	64,049	59,232
Note receivable from land sale	—	241,202
Investments	111,563,622	98,862,084
Real estate	241,202	

See accompanying notes.

MURRAY STATE UNIVERSITY
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Statements of

MURRAY STATE UNIVERSITY
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Statements of Revenues, Expenses, and Changes in Net Position, continued

Years ended June 30, 2017 and 2016

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

See accompanying notes.

MURRAY STATE UNIVERSITY FOUNDATION, INC.

Statements of Activities

Year ended June 30, 2017

	Unrestricted	Temporarily Restricted	Permanently Restricted	Totals
Revenues, Gains/(Losses) And Other Support				
Contributions	\$ 302,225	\$ 3,957,271	\$ 1,545,339	\$ 5,804,835
Revenues from operations of the Frances E. Miller Memorial Golf Course	455,471	—	—	455,471
Fees and rental income	449,284	45,192	—	494,476
Investment return, net	3,991,631	6,987,314	29,564	11,008,509
Other	8,757	11,634	10,814	31,205
Change in value of annuities payable	—	—	(131,757)	(131,757)
Net assets released from restrictions	2,922,732	(2,922,732)	—	—
Total Revenues, Gains/(Losses) And Other Support	8,130,100	8,078,679	1,453,960	17,662,739

Expenses And 76 e]F(x)2.9e4,91 O TD O TD O Tc <0231>Tj /2 O TD .0377I(7.1(r1-19.4(s)-m e]4(r)2724re)90.3()18.53(e)-2.

See accompanying notes.

MURRAY STATE UNIVERSITY FOUNDATION, INC.

Statements of Activities

Year ended June 30, 2016

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

See accompanying notes.

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A Component Unit of the Commonwealth of Kentucky

Notes to the Financial Statements

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1. 1 Summary of 1

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Notes to the Financial Statements, continued 1
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Investments 1

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. 1

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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. 1 1 1

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Accounts Receivable 1

Accounts receivable consists of tuition and fee charges, other operational activities and auxiliary enterprise services and amounts due from component units. Accounts receivable from component units 1.3832 0 TD 0 Tc <023

MURRAY STATE UNIVERSITY
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Notes to the Financial Statements, continued

The University capitalizes interest costs as a component of construction in progress, based on interest costs of borrowing specifically for the project, net of interest earned on investments acquired with the proceeds of borrowing. Total interest capitalized was \$1,051,729 and \$1,084,807 for the years ended June 30, 2017 and 2016, respectively.

The University owns historical collections housed throughout the campus that it does not capitalize, including artifacts in Wrather Museum. These collections adhere to the University's policy to (a) maintain them for public exhibition, education or research; (b) protect, keep unencumbered, care for and preserve them and (c) require proceeds from their sale to be used to 0#require.v:000Btc(ended)Tj/TT11Tf2.76050TD0Tc0231F

MURRAY STATE UNIVERSITY
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Notes to the Financial Statements, continued

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

Net Position

The University's net position is classified as follows:

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

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

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

~~Unrestricted net position:~~Unrestricted net position represents resources derived from student tuition and fees, state appropriations, sales and services of educational departments, loans to

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MURRAY STATE UNIVERSITY
A Component Unit of the Commonwealth of Kentucky

Notes to the Financial Statements, continued

Classification of Revenues

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

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

Nonoperating revenues: Nonoperating revenues include activities that have the characteristics of nonexchange transactions. In a nonexchange transaction, the University receives value without directly giving equal value back, such as a gift or grant for which there is no return requirement. Additionally, certain significant revenues relied upon for operations, such as state appropriations, Pell and similarly funded 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 Discussion and Analysis for Public Colleges and Universities: an Amendment to GASB Statement 34

Tuition Discounts and Allowances

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

Income Taxes

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

Pensions

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

MURRAY STATE UNIVERSITY
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Notes to the Financial Statements, continued

Use of Estimates

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

2.1 Accounts Receivable 1

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Accounts receivable as of June 30 consisted of:

	2017	2016
Current accounts receivable:		
Student		

MURRAY STATE UNIVERSITY
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Notes to the Financial Statements, continued

Investments

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

	2017	2016
Money market		

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Notes to the Financial Statements, continued

CreditRisk Credit risk is the risk that the issuer or other counterparty to an investment will not fulfill its

MURRAY STATE UNIVERSITY
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Notes to the Financial Statements, continued

7.1 Capital Assets¹

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

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

MURRAY STATE UNIVERSITY
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Notes to the Financial Statements, continued

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9.1 University Health Self Insurance Program 1

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The University maintains a self insurance program for employees' health insurance. For the fiscal year ended June 30, 2017, the University paid approximately 78% of total plan expenses for permanent full time employees and their families. The University's contribution to cover claims paid under the plan for years ended June 30, 2017 and 2016, total \$11,042,009 and 10,042,009, respectively. The contribution for 2017 is \$11,042,009 (2016, \$10,042,009).

MURRAY STATE UNIVERSITY
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Notes to the Financial Statements, continued

11.1 Revenue Bonds, Notes Payable and Capital Leases 1

The following is a summary of long term obligation transactions for the University for the year ended June 30, 2017:

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

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

	Beginning	Ending	Amounts 1 Due Within	Long
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MURRAY STATE UNIVERSITY
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Notes to the Financial Statements, continued

Maturity Information 1

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

Years Ending 1

June 30	Bonds	Notes	Total Principal	Interest	Total Payments
2018	\$ 3,800,000	\$ 721,620	\$ 4,521,620	\$ 2,712,387	\$ 7,234,007
2019	3,950,000	395,000	4,345,000	2,586,138	6,931,138
2020	4,130,000	415,000	4,545,000	2,464,706	7,009,706
2021	3,905,000	435,000	4,340,000	2,338,784	6,678,784
2022	4,105,000	440,000	4,545,000	2,206,984	6,751,984
2023 2027	22,875,000	2,375,000	25,250,000	8,630,700	33,880,700
2028 2032	19,345,000	2,725,000	22,070,000	4,243,644	26,313,644
2033 2035	10,040,000	604,999	10,644,999	716,400	11,361,399
Total	\$ 72,150,000	\$ 8,111,619	\$ 80,261,619	\$ 25,899,743	\$ 106,161,362

MURRAY STATE UNIVERSITY
A Component Unit of the Commonwealth of Kentucky

Notes to the Financial Statements, continued

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

	Interest	Bonds/Notes
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MURRAY STATE UNIVERSITY
A Component Unit of the Commonwealth of Kentucky

Notes to the Financial Statements, continued

	Original Issue	Balance Due June 30, 2017	Interest Expense, Current Year	Bonds/Notes Leases Maturing 2017-2018
City of Murray Payable Agreement dated April 17, 2012, with interest of 1.00% to 3.50%; final principal payment due June 1, 2033; Wellness Center refunding of the December 30, 2002 issue.	9,250,000	7,764,999	217,888	375,000
Total City of Murray payable	\$ 9,250,000	\$ 7,764,999	\$ 217,888	\$ 375,000
Masterlease Payable Campus energy performance upgrade Master lease date				

MURRAY STATE UNIVERSITY
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Notes to the Financial Statements, continued

12.1 Deposits 1

The deposits held as of June 30 consisted of:

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

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

13.1 Unrestricted Net Position 1

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

	2017	2016
Unrestricted net position		
Apo 1		

MURRAY STATE UNIVERSITY
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Notes to the Financial

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Notes to the Financial Statements, continued

The annual retirement allowance is equal to the average of the last complete five years of service multiplied by an increasing percent based on service at retirement plus 2.00% of

MURRAY STATE UNIVERSITY
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Notes to the Financial Statements, continued

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

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A Component Unit of the Commonwealth of Kentucky

Notes to the Financial Statements, continued

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

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

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

MURRAY STATE UNIVERSITY
A Component Unit of the Commonwealth of Kentucky

Notes to the Financial Statements, continued

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

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

A surviving spouse of an active member with less than 10 years of service may elect to receive an annual allowance of \$2,880 except that if income from other sources exceeds \$6,600 per year the annual allowance will be \$2,160. A surviving spouse of an active member with 10 or more years of service may elect to receive an allowance which is the actuarial equivalent of the allowance the deceased member would have received upon retirement. The allowance will commence on the date of death.

MURRAY STATE UNIVERSITY
A Component Unit of the Commonwealth of Kentucky

Notes to the Financial Statements, continued

KERS h. Per KRS 61.565 and KRS 61.752, contribution requirements of the active employees and the participating employers are established and may be amended by the KRS Board. Employees are required to contribute 8% of their annual pay. The participating employers' contractually required contribution rate for the year ended June 30, 2017, was 23.82% of annual payroll, actuarially determined as an amount that, when combined with employee contributions, is expected to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. Contributions to the pension plan from the University were \$166,621 and \$135,295 for the years ended June 30, 2017 and 2016, respectively.

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

TRS. Per KRS 161.250, contribution requirements of the active employees and the participating employers are established and may be amended by the TRS Board. Employees are required to contribute 8.185% of their annual pay. The participating employers' contractually required contribution rate for the year ended June 30, 2017, was 15.865% of annual payroll, actuarially determined as an amount that, when combined with employee contributions, is expected to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. Contributions to the pension plan from the University were \$166,621 and \$135,295 for the years ended June 30, 2017 and 2016, respectively.

MURRAY STATE UNIVERSITY
A Component Unit of the Commonwealth of Kentucky

Notes to the Financial Statements, continued

	<u>June 30, 2017</u>		<u>June 30, 2016</u>	
	Deferred Outflows of Resources	Deferred Inflows of Resources	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience		139,116		

MURRAY STATE UNIVERSITY
A Component Unit of the Commonwealth of Kentucky

Notes to the Financial Statements, continued

As of June 30, 2016 and 2015, mortality rates for TRS were based on the RP 2000 Combined Mortality Table for Males or Females, as appropriate, with adjustments for mortality improvements based on a projection of Scale AA to 2020 with a setback of 1 year for females.

The actuarial assumptions used in the June 30, 2016 and 2015 valuations were based on the results of actuarial experience study for the period July 1, 2008 – June 30, 2013 for KERS and July 1, 2005 – June 30, 2010 for TRS. As a result of the actuarial experience studies, the expectation of life after disability was adjusted in the July 30, 2015 actuarial valuations to more closely reflect actual experience.

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

KERS:	June 30, 2016	
Asset Class	Target Allocation	Long Term Expected Real Rate of Return
Combined Equity	50%	5.30%
Intermediate Duration Fixed Income	11%	1.00%
Custom KRS Fixed Income	11%	3.33%
Real Return	23%	1.23%

MURRAY STATE UNIVERSITY
A Component Unit of the Commonwealth of Kentucky

Notes to the Financial Statements, continued

KERS:

June 30, 2015

1

MURRAY STATE UNIVERSITY
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Notes to the Financial Statements, continued

For TRS the discount rates used to measure the TPL as of the Measurement Date and Prior Measurement Date were 4.20% and 4.88%, respectively. The projection of cash flows used to determine the discount rate was performed in accordance with GASB 67. It was assumed that Plan member contributions will be made at the current contribution rates and that Employer contributions will be made at statutorily required rates. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members until the 2040 plan year and, as a result, the Municipal Bond Index Rate was used in the determination of the SEIR. There was a change in the Municipal Bond Index Rate from the Prior Measurement Date to the Measurement Date, so as required under GASB 68, the SEIR at the Measurement Date of 4.20% was calculated using the Municipal Bond Index Rate as of the Measurement Date (3.01%). This change in the discount rate is considered a change in actuarial assumptions or other inputs under GASB 68.

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

		June 30, 2016		
		1% Decrease	Discount Rate	1% Increase
University's proportionate share	KERS	\$ 107,389,598	\$ 95,321,852	\$ 85,179,607
		5.75%	6.75%	7.75%
			↓	
University's proportionate share	KERS	1,953,070	1,554,497	85,179,607
			1% Decrease	Discount Rate
				1% Increase
				↓
				1% Increase

MURRAY STATE UNIVERSITY
A Component Unit of the Commonwealth of Kentucky

Notes to the Financial Statements, continued

15.1 Component Units 1

State University Foundation, Inc. 1

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

MURRAY STATE UNIVERSITY
A Component Unit of the Commonwealth of Kentucky

Notes to the Financial Statements, continued

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MURRAY STATE UNIVERSITY
A Component Unit of the

MURRAY STATE UNIVERSITY
A Component Unit of the Commonwealth of Kentucky

Notes to the Financial Statements, continued

Claims and Litigation

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

Commitments

The University has outstanding commitments under construction contracts of \$7,362,457 and \$24,866,260 as of June 30, 2017 and 2016, respectively.

Government Grants

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

17.1 Fair Value Measurement

The University categorizes its fair value measurements within the fair value hierarchy.

MURRAY STATE UNIVERSITY
A Component Unit of the Commonwealth of Kentucky

Notes to the Financial Statements, continued

18.1 Natural Expense Classifications With Functional Classifications 1

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

Fund 1 1 Classification	Compensation and Benefits	Operations	Utilities	Noncapitalized Equipment	Scholarships	Total
Instruction	\$ 66,782,489	\$ 6,725,589	\$ 138,249	\$ 768,653	\$ —	\$ 74,414,980
Research	1,385,385	853,239	215	49,577	—	2,288,416
Public service	6,599,667	1,645,162	265,899	90,685	—	8,601,413
Libraries	2,252,368	1,464,767	84	26,556	—	3,743,775
Academic support	5,463,499	2,040,426	56,139	114,249	—	7,674,313
Student services	11,032,332	5,487,991	83,827	203,863	810	16,808,823
Institutional support	22,759,705	(583,893)	84,112	80,380	—	22,340,304
Operations and maintenance	8,061,523	4,694,004	6,041,511	51,173	—	18,848,211
Financial aid	—	—	—	—	12,080,749	12,080,749
Depreciation	—	8,585,227	—	—	—	8,585,227
Auxiliary	8,716,325	11,687,613	2,957,361	102,927	137,958	23,602,184
Auxiliary depreciation	—	2,872,348	—	—	—	2,872,348
Total ex137,958						

MURRAY STATE UNIVERSITY
A Component Unit of the Commonwealth of Kentucky

Notes to the Financial Statements, continued

Fund 1 1 Classification	Compensation and Benefits	Operations	Utilities	Noncapitalized Equipment	Scholarships	Total
Instruction	\$ 61,659,974	\$ 6,311,850	\$ 155,044	\$ 561,952	\$ —	\$ 68,688,820
Research	1,437,294	530,488	170	27,170	—	1,995,122
Public service	5,994,141	1,514,258	164,233	65,343	—	7,737,975
Libraries	2,196,276	1,583,093	79	54,011	—	3,833,459
Academic support	4,893,172	2,330,370	74,375	76,057	—	7,373,974
Student services	10,852,144	5,519,273	79,887			

MURRAY STATE UNIVERSITY
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Notes to the Financial Statements, continued

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:

Center 1 Condensed Statements of Net Position 1

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

MURRAY STATE UNIVERSITY
A Component Unit of the Commonwealth of Kentucky

Notes to the Financial Statements, continued

Wellness Center 1 Condensed Statements of Revenues, Expenses
and Changes in Net Position 1

	2017	2016
Operating revenues	\$ 100,865	\$ 102,814
Operating		

MURRAY STATE UNIVERSITY
A Component Unit of the Commonwealth of Kentucky

Notes to the Financial Statements, continued

22.1 Current Economic Conditions (unaudited) 1

The current economic environment presents the University with unprecedented circumstances and challenges which, in some cases, ~~some~~ 1

MURRAY STATE UNIVERSITY
A Component Unit of the Commonwealth of Kentucky

Schedules of Required Supplementary Information

Years ended June 30, 2017, 2016, and 2015

1

Proportionate Share Of The Net Pension Liability 1

1

KERS Non Hazardous Non

MURRAY STATE UNIVERSITY
A Component Unit of the Commonwealth of Kentucky

Schedules of Required Supplementary Information

Years ended June 30, 2017, 2016, and 2015

Schedules of Murray State University Contributions (Continued)¹

KERS Hazardous Pension Plan

	2017	2016	2015
Contractually required contribution	\$ 94,306	\$ 115,000	\$ 183,317
Contributions in relation to the contractually required contribution	(94,306)	(115,000)	(183,317)
Contribution deficiency	\$ —	\$ —	\$ —

University's covered employee payroll

	\$ 585,712	\$ 492,259	\$ 523,146
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Contributions as a percentage of covered employee payroll

	16.10%	23.36%	35.04% ¹
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1

1

TRS Pension Plan

	2017	2016	2015
Contractually required contribution	\$ 5,555,229	\$ 5,684,344	\$ 5,519,075
Contributions in relation to the contractually required contribution	(5,555,229)	(5,684,344)	(5,519,075)
Contribution deficiency	\$ —	\$ —	\$ —

University's covered employee payroll

	\$ 23,671,557	\$ 24,966,648	\$ 24,460,052
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Contributions as a percentage of

deficiency

contribution

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

1

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

Board of Regents 1
Murray State University 1
Report of Independent Auditors, continued 1

Compliance and Other Matters 1

As part of obtaining reasonable assurance about whether the University's financial statements are free of material misstatement,