

**MOREHEAD STATE UNIVERSITY**

**Single Audit Reports Under Uniform Guidance**

*As of and for the Years Ended June 30, 2018 and 2017  
with Report of Independent Auditors*

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# MOREHEAD STATE UNIVERSITY

## Management's Discussion and Analysis



### MANAGEMENT'S DISCUSSION AND ANALYSIS

Morehead State University's (the University) Management's Discussion and Analysis (MD&A) of its financial condition provides an overview of the financial performance of the University for the year ended June 30, 2018. Management has prepared this discussion, along with the financial statements and related footnotes, to provide summary financial information. MD&A should be read in conjunction with the accompanying financial statements and footnotes.

#### **Financial Highlights**

- Financial operations were conducted in accordance with the approved budget plan, which continues to demonstrate the University's commitment to advance the University's mission by focusing on the goals and objectives as defined in the *SOAR 2018-2022 Vision & Strategic Plan*.
- Total assets and deferred outflows of resources were \$366 million versus \$373 million at June 30, 2017. The decrease is primarily related to a decrease in cash and cash equivalents of \$7 million and a decrease in deferred outflows of \$15 million. This was offset by an increase in capital assets of \$15 million.
- Total liabilities and deferred inflows of resources were \$398 million versus \$401 million at June 30, 2017. The decrease is primarily related to decreases in Morehead State University's proportionate share of the Commonwealth of Kentucky's net pension liability of \$81 million and a decrease in bond and capital lease obligations of \$7.7 million. This was offset by an increase in deferred inflows of resources of \$57

## MOREHEAD STATE UNIVERSITY

### Management's Discussion and Analysis, continued

million and increases in net other post-employment benefits (OPEB) liability in the amount of \$31.6 million due to the implementation of GASB Statement No. 75 "Accounting and Financial Reporting for Postemployment Benefits Other than Pensions".

- Total net position was (\$32) million at June 30, 2018 and (\$27) million at June 30, 2017.

#### Using the Annual Report

This annual report consists of a series of financial statements, prepared in accordance with Governmental Accounting Standards Board (GASB) Statement No. 35, *Basic Financial Statements – and Management's Discussion and Analysis – for Public Colleges and Universities*. These financial statements focus on the financial condition of the University, the results of operations, and cash flows of the University as a whole.

One of the most important questions asked about University finances is whether the University is better off as a result of the year's activities. The information needed to answer this question can be found in:

- Statement of Net Position,
- the Statement of Revenues, Expenses and Changes in Net Position and
- the Statement of Cash Flows.

These statements present financial information of the University in a format similar to that used by corporations and present a long-term view of the University's finances. To get a full understanding of the



University's financial condition these statements should be reviewed as a whole and not individually. Further important information can be found in the Notes to the Financial Statements, beginning on page 22 of the Financial Statements. The Notes to the Financial Statements contain policies, explanations and schedules that should be reviewed before, during and after reviewing the Financial Statements in order to get a complete understanding.

# MOREHEAD STATE UNIVERSITY

## Management's Discussion and Analysis, continued

### **The Statement of Net Position**

This statement includes all assets, deferred outflows, deferred inflows and liabilities. It is prepared under 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. The University's net position (the difference between assets and liabilities) is one indicator of the University's financial health. Over time, increases or decreases in net position can indicate improvement or erosion of the University's financial health. Changes in net position should be considered in conjunction with non-financial factors such as enrollment levels and conditions of facilities.

### **The Statement of Revenues, Expenses and Changes in Net Position**

This statement presents the revenues earned and expenses incurred during the year. Activities are reported as either operating or non-operating. GASB 35 requires state appropriations and gifts to be classified as non-operating revenues. Accordingly, the University will generate a net operating loss prior to the addition of non-operating revenues. The utilization of long-lived assets, referred to as capital assets, is reflected in the financial statements as depreciation, which amortizes the cost of an asset over its expected useful life.

### **The Statement of Cash Flows**

This statement presents information related to cash inflows and outflows, summarized by operating, non-capital financing, capital financing and investing activities. An important factor to consider when evaluating financial viability is the University's ability to meet financial obligations as they mature.

### **Reporting Entity**

Morehead State University is a component unit of the Commonwealth of Kentucky.



**MOREHEAD STATE UNIVERSITY**

Management's Discussion and Analysis, continued

**Condensed Financial Information  
Statements of Net Position (in thousands)**

	<u>2018</u>	<u>2017</u>
<b><u>Assets</u></b>		
Current assets	\$ 36,467	\$ 44,226
Capital assets	268,126	253,595
Other noncurrent assets	<u>19,348</u>	<u>19,094</u>
Total assets	<u>323,941</u>	<u>316,915</u>
Deferred outflows of resources	<u>42,004</u>	<u>56,508</u>
Total assets and deferred outflows of resources	<u>365,945</u>	<u>373,423</u>
<b><u>Liabilities</u></b>		
Current liabilities	20,123	23,130
Net pension liability	183,737	264,430
Net OPEB Liability	31,623	-
Other noncurrent liabilities	<u>93,640</u>	<u>100,743</u>
Total liabilities	<u>329,123</u>	<u>388,303</u>
Deferred inflows of resources	<u>69,117</u>	<u>12,246</u>
Total liabilities and deferred inflows of resources	<u>398,240</u>	<u>400,549</u>
<b><u>Net Position</u></b>		
Net investment in capital assets	171,463	149,065
Restricted, expendable	5,273	12,250
Restricted, nonexpendable	11,507	11,481
Unrestricted	<u>(220,538)</u>	<u>(199,922)</u>
Total net position	<u>\$ (32,295)</u>	<u>\$ (27,126)</u>

**Assets and deferred outflows of resources**

As of June 30, 2018, the University's total assets and deferred outflows of resources were approximately \$366 million versus \$373 million at June 30, 2017. Investment in capital assets, net of depreciation, represented the University's largest asset, totaling \$268 million compared to \$253 million at June 30, 2017. Cash and investments, totaling \$38 million at June 30, 2018 and \$45 million at June 30, 2017, were the University's next largest asset. Total assets and deferred outflows of resources decreased by \$7 million during the year ended June 30, 2018. The principal areas of change were:

## MOREHEAD STATE UNIVERSITY

### Management's Discussion and Analysis, continued

- Cash and cash equivalents decreased approximately \$7 million, due to the expenditure of the 2016 Series B bond proceeds. These funds were used to construct and equip a new dining facility, which was part of the Food Service/Parking project.
- Capital assets, net of accumulated depreciation, increased approximately \$15 million due to the completion of the new dining facility and due to expenditures related to the renovation of the student services facility.
- Deferred outflows of resources pensions decreased \$18 million, due to decreases in Morehead State University's proportionate share of the Commonwealth of Kentucky's net pension liability. This decrease resulted from changes in funding levels provided by the Commonwealth of Kentucky.
- Deferred outflows of resources OPEB increased \$3.7 million due to the implementation of GASB Statement No. 75 "Accounting and Financial Reporting for Postemployment Benefits Other than Pensions".

#### Liabilities and deferred inflows of resources

At June 30, 2018, the University's total liabilities and deferred inflows of resources were approximately \$398 million versus \$401 million in the previous year. Net pension liability represented \$184 million and Net OPEB Liability represented \$32 million of this amount at June 30, 2018. Bonds and capital lease obligations for capital assets represented \$95 million at June 30, 2018 and \$102 million at June 30, 2017. Total liabilities and deferred inflows of resources decreased by \$2 million during the year ended June 30, 2018. This decrease was primarily due to the following:

- Net pension liability decreased \$81 million due to decreases in Morehead State University's proportionate share of the Commonwealth of Kentucky's net pension liability.
- Net OPEB liability increased \$31.6 million due to the implementation of GASB Statement No. 75 "Accounting and Financial Reporting for Postemployment Benefits Other than Pensions".
- Bonds, notes and capital lease obligations decreased \$7.7 million, due to debt payments and bond premium amortization.
- Deferred inflows of resources pensions increased \$56 million, due to decreases in Morehead State University's proportionate share of the Commonwealth of Kentucky's net pension liability. This decrease resulted from changes in funding levels provided by the Commonwealth of Kentucky.

## MOREHEAD STATE UNIVERSITY

### Management's Discussion and Analysis, continued

#### Net Position

Net position at June 30, 2018 totaled approximately (\$32) million compared to (\$27) million at June 30, 2017. Net investment in capital assets, totaled \$171 million versus \$149 million at June 30, 2017. Restricted net position totaled \$17 million compared to \$24 million at June 30, 2017. Unrestricted net position totaled (\$221) million versus (\$200) million at June 30, 2017. Total net position decreased by approximately \$5 million during the year ended June 30, 2018.

#### Net Investment in Capital Assets

Net investment in capital assets includes capital assets, net of accumulated depreciation and outstanding principal balances of debt attributable to the acquisition, construction or improvement of those assets. Net investment in capital assets increased by \$22 million. This increase is primarily related to increases for the new student residential facilities, parking garage/dining commons, renovation/expansion of the student services facility and IT infrastructure projects.

#### Restricted Net Position

Restricted net position is subject to stipulations made by entities external to the University that govern the use of these funds. Restricted net position decreased by \$7 million. This decrease was primarily due to expenditures used to construct and equip a new dining facility, which was part of the Food Service/Parking project.

#### Unrestricted Net Position

Unrestricted net position decreased by \$20 million from the previous year to (\$221) million. This decrease is primarily related to the cumulative effect of the implementation of GASB 75 for the University's proportionate share of the Commonwealth of Kentucky's net OPEB liability. Unrestricted net position is not subject to externally imposed restrictions. However, substantially all of the unrestricted net position is used for the support of academic programs and other initiatives, the completion of capital projects, or working capital requirements.



**MOREHEAD STATE UNIVERSITY**

Management's Discussion and Analysis, continued

**Statements of Revenues, Expenses and Changes in Net Position (in thousands)**

	<u>2018</u>	<u>2017</u>
<b><u>Operating Revenues</u></b>		
Student tuition and fees, net	\$ 36,717	\$ 37,619
Federal grants and contracts	11,300	12,236
State and local grants and contracts	857	1,240
Nongovernmental grants and contracts	864	582
Sales and services of educational activities	2,525	2,370
Auxiliary enterprises	19,322	18,912
Other operating revenues	<u>5,590</u>	<u>5,083</u>
Total operating revenues	<u>77,175</u>	<u>78,042</u>
<b><u>Operating Expenses</u></b>		
Educational and general	119,231	123,718
Auxiliary enterprises	12,739	14,445
Depreciation	11,700	10,578
GASB 68 pension (benefit) expense	(5,974)	14,949
GASB 75 OPEB expense	1,127	-
Other operating loss	<u>398</u>	<u>45</u>
Total operating expenses	<u>139,221</u>	<u>163,735</u>
<b>Operating loss</b>	<u>(62,046)</u>	<u>(85,693)</u>
<b><u>Non-operating Revenues (Expenses)</u></b>		
Grants and contracts	25,032	24,666
State appropriations	41,226	42,036
Private construction appropriations	550	-
Investment income, net	188	190
Interest on capital assets – debt related	<u>(3,296)</u>	<u>(3,368)</u>
Net non-operating revenues	<u>63,700</u>	<u>63,524</u>
<b>Income (loss) before capital appropriations</b>	1,654	(22,169)
Capital appropriations	<u>20,517</u>	<u>19,106</u>
<b>Increase (decrease) in net position</b>	22,171	(3,063)
Net position, beginning of year	(27,126)	(24,063)
Restatement of beginning net position for OPEB liability	<u>(27,340)</u>	<u>-</u>
Net position, beginning of year (adjusted)	<u>(54,466)</u>	<u>(24,063)</u>
<b>Net position, end of year</b>	<u>\$ (32,295)</u>	<u>\$ (27,126)</u>

## MOREHEAD STATE UNIVERSITY

### Management's Discussion and Analysis, continued

#### Revenues

Total operating revenues were approximately \$77 million for the year ended June 30, 2018 and \$78 million for the year ended June 30, 2017. The most significant sources of operating revenues for the University are net student tuition and fees \$36.7 million, federal grants and contracts \$11 million, and auxiliary enterprises revenue \$19 million.

- Net student tuition and fees revenue decreased approximately \$900 thousand. There was an increase in gross tuition and fees revenue due to a 4.92% increase in undergraduate tuition rates. The University's continued commitment to affordability through increased scholarship budgets resulted in a \$1.4 million increase in the financial aid scholarship allowance for tuition, which reduces student tuition and fees revenue. Scholarship allowances were \$34.8 million at June 30, 2018 as compared to \$33.4 million for the year ended June 30, 2017.

#### Expenses

Operating expenses totaled approximately \$139 million compared to \$164 million at June 30, 2017. Approximately \$119 million of this amount was used for educational and general expenses related to functions such as instruction, research, public service, academic support, student services and operation and maintenance of plant. The \$25 million decrease in operating expenses was primarily related to a decrease in the University's proportionate share of the Commonwealth of Kentucky's net pension expense for the Kentucky Teachers Retirement System (TRS). These decreases were offset by increases in scholarship awards, depreciation, Kentucky Retirement System (KRS) pension expense and increases to OPEB expense due to the implementation of GASB Statement No. 75 "Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions (OPEB)" for both TRS and KRS retirement systems.

- OPEB expense increased \$1.1 million due to the implementation of GASB Statement No. 75 to record the University's proportionate share of the Commonwealth of Kentucky's net OPEB expense.
- Pension expense decreased \$21 million primarily due to decreases in the University's proportionate share of the Commonwealth of Kentucky's net pension expense.
- Institutionally funded construction/renovation projects and equipment purchases decreased \$1.8 million.
- Institutional financial aid increased \$791 thousand as part of the University's commitment to student success. This was offset by a \$1.7 million increase in total scholarship allowance which decreases student aid.

# MOREHEAD STATE UNIVERSITY

## Management's Discussion and Analysis, continued

### Cash Flows

Another way to assess the financial health of an institution is to look at the Statement of Cash Flows. The primary purpose of the Statement of Cash Flows is to provide information about the cash receipts and cash payments made by the University during the period. The Statement of Cash Flows also helps financial statement readers assess:

- the University's ability to generate future net cash flows,
- the University's ability to meet obligations as they become due, and
- the University's need for external financing.

### Statements of Cash Flows (In Thousands) Years ended June 30, 2018 and 2017

	<u>2018</u>	<u>2017</u>
<b>Cash Provided By (Used In):</b>		
Operating activities	\$ (56,955)	\$ (59,341)
Noncapital financing activities	66,258	66,702
Capital and related financing activities	(16,473)	(19,911)
Investing activities	<u>(109)</u>	<u>1,947</u>
Net decrease in cash	(7,279)	(10,603)
Cash, beginning of the year	<u>33,186</u>	<u>43,789</u>
<b>Cash, end of the year</b>	<u>\$ 25,907</u>	<u>\$ 33,186</u>

Major sources of funds included in operating activities are student tuition and fees, \$37 million in both years and grants and contracts, \$13 million versus \$15 million in the previous year. The largest cash payments for operating activities were made to suppliers \$74 million versus \$78 million in the previous year and to employees in the amount of \$60 million in both years.

The largest cash receipt in noncapital financing activities was the operating appropriation from the Commonwealth of Kentucky of \$41 million compared to \$42 million in the previous year. Cash receipts from non-operating grants and contracts were \$25 million for both years. Cash used in capital and related financing activities was due to the expenditure of bond proceeds for the construction of capital assets.

# MOREHEAD STATE UNIVERSITY

## Management's Discussion and Analysis, continued

### Capital Asset and Debt Administration

#### Capital Assets

Capital assets, net of accumulated depreciation (but not of related debt), totaled approximately \$268 million at June 30, 2018 versus \$253 million at June 30, 2017. This represents a net increase of \$15 million from June 30, 2017. Significant changes to capital assets during fiscal 2017 - 2018 included:

Buildings and land improvements	\$ 5.6	million
Equipment	8.2	million
Net change in construction in progress	10.1	million
Increase in accumulated depreciation, net	(9.6)	million

#### Debt

At year-end, the University had \$95 million in outstanding debt versus \$102 million in the previous year. This includes \$79 million in bonds payable and premium amortization compared to \$83 million at June 30, 2017. In addition, the University had capital lease obligations of \$15.4 million compared to \$18.9 million in the previous year.

The University's debt is summarized by type of debt instrument as follows (in thousands):

	<b>June 30,</b>	
	<b><u>2018</u></b>	<b><u>2017</u></b>
General Receipts bonds	\$ 76,890	\$ 80,860
Premium Amortization	2,480	2,625
Capital lease obligations	<u>15,409</u>	<u>18,990</u>
	<b><u>\$ 94,779</u></b>	<b><u>\$ 102,475</u></b>

The University made debt service payments and recorded bond premium amortization in the amount of \$7.7 million.

## MOREHEAD STATE UNIVERSITY

### Management's Discussion and Analysis, continued

#### FACTORS IMPACTING FUTURE PERIODS

The following are known facts and circumstances that could affect future financial results:

- The University's Board of Regents has approved an operating budget for the fiscal year ending June 30, 2019 totaling \$147.3 million.
- State Appropriations for the 2018-19 fiscal year will decrease to \$38.9 million from \$41.2 million in the previous fiscal year. The decrease is a result of a 6.25 percent reduction of State Appropriations for general operating purposes. Additionally, the decrease relates to the reduction of the State Appropriation allocation for the Kentucky Folk Art Center.
- For the fiscal year 2018-19 the employer paid dental insurance program was discontinued.
- On September 1, 2018 the University amended the current lease with Kentucky Bank to extend the final maturity date of the lease to September 1, 2033.



DEAN DORTON ALLEN FORD, PLLC

## Report of Independent Auditors

Members of the Board of Regents and  
Dr. Joseph A. Morgan, President  
Morehead State University  
Morehead, 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 discretely presented component unit of Morehead State University (the University) as of and for the years ended June 30, 2018 and 2017, and the related notes to the financial statements, which collectively comprise the University's basic financial statements 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 respective financial position of the business-type activities and the discretely presented component unit of Morehead State University as of June 30, 2018 and 2017, and the changes in its financial position and its cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

**Other Matters**

*Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 1-11 and the pension and other post-employment benefits (OPEB) supplementary information on pages 79 - 88 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 Information*

Our audit was conducted for the purpose of forming an opinion on the financial statements of Morehead State University. The supplemental information contained on pages 77-78 and the Schedule of Expenditures of Federal Awards, on pages 89-95 as required by Title 2 U.S. Code of Federal Regulations (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance), is presented for the purpose of additional analysis and is not a required part of the financial statements.

The supplemental information contained on pages 77-78 and the Schedule of Expenditures of Federal Awards, on pages 89-95 is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the supplemental information is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

**Other Reporting Required by Government Auditing Standards**

In accordance with *Government Auditing Standards*, we have also issued our report dated October 1, 2018 on our consideration of Morehead State University's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the University's internal control over financial reporting and compliance.



October 1, 2018  
except for supplementary information on pages 89-95 and 98-104, which is as of October 10, 2018  
Lexington, Kentucky

**MOREHEAD STATE UNIVERSITY**

Statements of Net Position

June 30, 2018 and 2017

<b>Assets and Deferred Outflows</b>	<u><b>2018</b></u>	<u><b>2017</b></u>
Current assets:		
Cash and cash equivalents	\$ 25,907,022	\$ 33,185,882
Accounts, grants and loans receivable, net	8,214,182	9,246,954
Prepaid interest	16,083	16,083
Inventories	2,094,648	1,564,787
Other current assets	<u>235,187</u>	<u>212,438</u>
Total current assets	<b>36,467,122</b>	<b>44,226,144</b>
Noncurrent assets:		
Accounts, grants and loans receivable, net	4,036,757	3,933,670
Prepaid interest	144,745	160,828
Prepaid lease	3,370,709	3,501,000
Investments	11,795,479	11,498,410
Capital assets, net	<u>268,126,255</u>	<u>253,594,518</u>
Total noncurrent assets	<u>287,473,945</u>	<u>272,688,426</u>
Total assets	<u><b>323,941,067</b></u>	<u><b>316,914,570</b></u>
Deferred outflows of resources:		
Pensions	38,283,821	56,508,243
OPEB	<u>3,720,183</u>	<u>-</u>
Total deferred outflows of resources	<u>42,004,004</u>	<u>56,508,243</u>
Total assets and deferred outflows of resources	<u><b>365,945,071</b></u>	<u><b>373,422,813</b></u>
 <b>Liabilities, Deferred Inflows and Net Position</b>		
Current liabilities:		
Accounts payable and accrued liabilities	7,721,752	9,466,215
Unearned revenue	4,873,795	5,811,646
Other current liabilities	1,333,835	1,002,234
Bonds and capital lease obligations, current portion	<u>6,193,331</u>	<u>6,850,148</u>
Total current liabilities	<b>20,122,713</b>	<b>23,130,243</b>
Long-term liabilities:		
Bonds and capital lease obligations, noncurrent portion	88,585,769	95,625,163
Advances from federal government for student loans	3,405,264	3,397,754
Unearned revenue	290,235	290,235
Deferred gain on disposal	1,358,352	1,429,844
Net pension liability	183,736,890	264,430,175
Net OPEB liability	<u>31,623,052</u>	<u>-</u>
Total long-term liabilities	<u>308,999,562</u>	<u>365,173,171</u>
Total liabilities	<u><b>329,122,275</b></u>	<u><b>388,303,414</b></u>
Deferred inflows of resources:		
Deferred bond reoffering premium	2,044,806	2,231,679
Pensions	66,508,954	10,013,990
OPEB	<u>563,591</u>	<u>-</u>
Total deferred inflows of resources	<u>69,117,351</u>	<u>12,245,669</u>
Net position:		
Net investment in capital assets	171,463,177	149,064,439
Restricted:		
Expendable	5,272,577	12,250,131
Nonexpendable	11,507,295	11,481,276
Unrestricted	<u>(220,537,604)</u>	<u>(199,922,116)</u>
Total net position	<u><b>\$ (32,294,555)</b></u>	<u><b>\$ (27,126,270)</b></u>

See accompanying notes.



**MOREHEAD STATE UNIVERSITY FOUNDATION, INC.**

Statements of Financial Position

June 30, 2018 and 2017

	<u>2018</u>	<u>2017</u>
<b>Assets</b>		
Current assets:		
Cash	\$ 308,762	\$ 82,661
Accrued interest receivable	-	120
Accounts receivable	-	8,000
Current portion of pledges receivable	1,618,914	1,728,947
Current portion of net investment in capital leases	<u>-</u>	<u>17,822</u>
Total current assets	<u>1,927,676</u>	<u>1,837,550</u>
Noncurrent assets:		
Investments, at fair value	49,571,101	47,402,641
Cash surrender value – life insurance	126,897	121,277
Property and equipment, net	208,144	232,601
Pledges receivable, net of current portion	2,898,989	3,783,194
Net investment in capital leases, net of current portion	<u>-</u>	<u>12,386</u>
Total noncurrent assets	<u>52,805,131</u>	<u>51,552,099</u>
Total assets	<u>\$ 54,732,807</u>	<u>\$ 53,389,649</u>
<b>Liabilities and Net Assets</b>		
Current liabilities:		
Current portion of annuities payable	\$ 228,901	\$ 229,355
Accrued liabilities	-	32,740
Due to Morehead State University	<u>235,187</u>	<u>212,438</u>
Total current liabilities	464,088	474,533
Long-term liabilities:		
Funds held in trust for Morehead State University	10,427,195	10,427,195
Annuities payable, net of current portion	<u>740,842</u>	<u>903,061</u>
Total long-term liabilities	<u>11,168,037</u>	<u>11,330,256</u>
Total liabilities	<u>11,632,125</u>	<u>11,804,789</u>
Net assets:		
Unrestricted	(1,674,141)	(1,849,189)
Temporarily restricted	21,659,202	21,775,538
Permanently restricted	<u>23,115,621</u>	<u>21,658,511</u>
Total net assets	<u>43,100,682</u>	<u>41,584,860</u>
Total liabilities and net assets	<u>\$ 54,732,807</u>	<u>\$ 53,389,649</u>

See accompanying notes

**MOREHEAD STATE UNIVERSITY**

Statements of Revenues, Expenses and Changes in Net Position

Years ended June 30, 2018 and 2017

	<u>2018</u>	<u>2017</u>
Operating revenues:		
Student tuition and fees (net of scholarship allowances of \$34,848,357 and \$33,392,647)	\$ 36,716,745	\$ 37,618,769
Federal grants and contracts	11,300,391	12,236,212
State and local grants and contracts	856,922	1,240,187
Nongovernmental grants and contracts	863,672	582,178
Sales and services of educational activities	2,525,299	2,370,472
Auxiliary enterprises:		
Residence halls (net of scholarship allowances of \$1,281,846 and \$1,011,496)	13,584,196	12,824,256
Bookstore	3,925,263	4,295,329
Other auxiliaries	1,813,012	1,792,115
Other operating revenues	<u>5,589,466</u>	<u>5,083,047</u>
Total operating revenues	77,174,966	78,042,565
Operating expenses:		
Education and general:		
Instruction	42,673,285	42,074,221
Research	1,989,530	3,386,243
Public service	6,156,073	7,120,892
Library	3,238,101	3,297,099
Academic support	8,127,439	9,000,503
Student services	17,237,164	17,192,961
Institutional support	14,832,176	16,221,375
Operation and maintenance of plant	12,325,305	12,171,454
Depreciation	11,699,550	10,578,038
Student aid	12,652,181	13,253,622
Auxiliary enterprises:		
Residence halls	7,305,519	8,441,209
Bookstore	3,705,141	4,242,554
Other auxiliaries	1,727,655	1,761,133
GASB 68 pension (benefit) expense	(5,973,899)	14,948,997
GASB 75 OPEB expense	1,127,407	-
Other operating loss	<u>398,228</u>	<u>45,175</u>
Total operating expenses	<u>139,220,855</u>	<u>163,735,476</u>
Operating loss	(62,045,889)	(85,692,911)

**MOREHEAD STATE UNIVERSITY**

Statements of Revenues, Expenses and Changes in Net Position

Years ended June 30, 2018 and 2017

	<u>2018</u>	<u>2017</u>
Nonoperating revenues (expenses):		
Grants and contracts	25,031,413	24,666,445
State appropriations	41,226,200	42,035,591
Private construction appropriations	550,000	-
Investment income, net	188,308	190,117
Interest on capital asset-related debt	<u>(3,296,201)</u>	<u>(3,367,977)</u>
Net nonoperating revenues	<u>63,699,720</u>	<u>63,524,176</u>
Income (loss) before capital appropriations	1,653,831	(22,168,735)
Capital appropriations	<u>20,516,936</u>	<u>19,105,563</u>
Increase (decrease) in net position	22,170,767	(3,063,172)
Net position, beginning of year	(27,126,270)	(24,063,098)
Restatement of beginning net position for OPEB liability	<u>(27,339,052)</u>	<u>-</u>
Net position, beginning of year (adjusted)	<u>(54,465,322)</u>	<u>(24,063,098)</u>
Net position, end of year	<u>\$ (32,294,555)</u>	<u>\$ (27,126,270)</u>

*See accompanying notes.*

**MOREHEAD STATE UNIVERSITY FOUNDATION, INC.**

Statements of Activities

Year ended June 30, 2018

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Revenues and other support:				
Contributions	\$ 154,172	\$ 1,920,683	\$ 347,320	\$ 2,422,175
Other revenue and gains:				
Investment income:				
Interest and dividend income, net	55,400	1,004,145	-	1,059,545
Realized and unrealized gains (losses)	(91,819)	1,973,363	-	1,881,544
In-kind contributed services	142,525	-	-	142,525
Development activities	503,339	276,433	-	779,772
Annuities payable adjustment	(66,126)	-	-	(66,126)
Net assets released from restrictions:				
Restrictions satisfied by payments	<u>4,046,870</u>	<u>(4,046,870)</u>	-	-
Total revenues and other support	4,744,361	1,127,754	347,320	6,219,435
Expenses:				
Program expenses:				
Contributions to Morehead State				
University for:				
Academic programs	1,948,131	-	-	1,948,131
Athletics	279,668	-	-	279,668
University support:				
Operations and materials	1,099,175	-	-	1,099,175
Student financial aid	902,760	-	-	902,760
Athletics	<u>163,855</u>	-	-	<u>163,855</u>
Total program expenses	4,393,589	-	-	4,393,589
General and administrative	112,154	-	-	112,154
Bad debt expense	9,675	123,315	10,985	143,975
Fundraising	<u>53,895</u>	-	-	<u>53,895</u>
Total Expenses	<u>4,569,313</u>	<u>123,315</u>	<u>10,985</u>	<u>4,703,613</u>
Change in net assets	175,048	1,004,439	336,335	1,515,822
Net assets, beginning of year	(1,849,189)	21,775,538	21,658,511	41,584,860
Reclassification of net assets	-	<u>(1,120,775)</u>	<u>1,120,775</u>	-
Net assets, end of year	<u>\$ (1,674,141)</u>	<u>\$ 21,659,202</u>	<u>\$ 23,115,621</u>	<u>\$ 43,100,682</u>

*See accompanying notes.*

**MOREHEAD STATE UNIVERSITY FOUNDATION, INC.**

Statements of Activities

Year ended June 30, 2017

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Revenues and other support:				
Contributions	\$ 152,561	\$ 5,910,008	\$ 743,272	\$ 6,805,841
Other revenue and gains:				
Investment income:				
Interest and dividend income, net	36,783	1,142,896	-	1,179,679
Realized and unrealized (losses) gains	(12,300)	2,830,394	-	2,818,094
In-kind contributed services	140,444	-	-	140,444
Development activities	357,622	550,101	-	907,723
Other income	48,767	75,014	-	123,781
Annuities payable adjustment	(254,433)	-	-	(254,433)
Net assets released from restrictions:				
Restrictions satisfied by payments	<u>3,858,278</u>	<u>(3,858,278)</u>	<u>-</u>	<u>-</u>
Total revenues and other support	4,327,722	6,650,135	743,272	11,721,129
 Expenses:				
Program expenses:				
Contributions to Morehead State				
University for:				
Academic programs	1,880,686	-	-	1,880,686
Athletics	338,733	-	-	338,733
University support:				
Operations and materials	877,928	-	-	877,928
Student financial aid	771,651	-	-	771,651
Athletics	<u>88,901</u>	<u>-</u>	<u>-</u>	<u>88,901</u>
Total program expenses	3,957,899	-	-	3,957,899
General and administrative	303,542	-	-	303,542
Bad debt expense	14,237	19,765	1,275	35,277
Fundraising	<u>54,378</u>	<u>-</u>	<u>-</u>	<u>54,378</u>
Total expenses	<u>4,330,056</u>	<u>19,765</u>	<u>1,275</u>	<u>4,351,096</u>
Change in net assets	(2,334)	6,630,370	741,997	7,370,033
Net assets, beginning of year	<u>(1,846,855)</u>	<u>15,145,168</u>	<u>20,916,514</u>	<u>34,214,827</u>
Net assets, end of year	<u>\$ (1,849,189)</u>	<u>\$ 21,775,538</u>	<u>\$ 21,658,511</u>	<u>\$ 41,584,860</u>

See accompanying notes.

**MOREHEAD STATE UNIVERSITY**

Statements of Cash Flows

Years ended June 30, 2018 and 2017

	<u>2018</u>	<u>2017</u>
<b>Cash flows from operating activities:</b>		
Tuition and fees	\$ 36,926,912	\$ 36,339,645
Grants and contracts	12,498,347	15,018,212
Payments to suppliers	(74,280,270)	(78,085,301)
Payments to employees	(60,178,253)	(59,509,955)
Loans issued to students	(633,359)	(781,772)
Collection of loans issued to students	588,007	607,303
Auxiliary enterprises:		
Residence halls	13,584,196	12,824,256
Bookstore	4,433,049	3,986,149
Other auxiliaries	1,720,390	1,964,801
Sales and services of educational activities	2,481,695	2,624,322
Other receipts	<u>5,904,173</u>	<u>5,671,610</u>
Net cash used in operating activities	(56,955,113)	(59,340,730)
 <b>Cash flows from noncapital financing activities:</b>		
Nonoperating grants and contracts	25,031,413	24,666,445
State appropriations	<u>41,226,200</u>	<u>42,035,591</u>
Net cash provided by noncapital financing activities	66,257,613	66,702,036
 <b>Cash flows from capital and related financing activities:</b>		
Capital appropriations	20,516,936	19,105,563
Private construction appropriations	550,000	-
Purchase of capital assets	(26,570,716)	(39,799,932)
Increase (decrease) in advances from federal government for student loans	7,510	(25,948)
Issuance of new bonds	-	6,560,000
Issuance of new debt	-	2,995,250
Bond refunding premium	-	77,189
Principal paid on capital debt and leases	(7,550,560)	(5,139,451)
Interest paid on capital debt and leases	<u>(3,425,769)</u>	<u>(3,684,417)</u>
Net cash used in capital and related financing activities	(16,472,599)	(19,911,746)
 <b>Cash flows from investing activities:</b>		
Proceeds from building sale	-	1,894,000
Interest received on investments, net	188,308	190,117
Changes in investments, net	<u>(297,069)</u>	<u>(136,869)</u>
Net cash (used in) provided by investing activities	<u>(108,761)</u>	<u>1,947,248</u>
 Net decrease in cash and cash equivalents	(7,278,860)	(10,603,192)
Cash and cash equivalents, beginning of year	<u>33,185,882</u>	<u>43,789,074</u>
Cash and cash equivalents, end of year	<u>\$ 25,907,022</u>	<u>\$ 33,185,882</u>

**MOREHEAD STATE UNIVERSITY**

Statements of Cash Flows

Years ended June 30, 2018 and 2017

	<u>2018</u>	<u>2017</u>
<b>Reconciliation of operating loss to net cash used in operating activities:</b>		
Operating loss	\$ (62,045,889)	\$ (85,692,911)
Adjustments to reconcile operating loss to net cash used in operating activities:		
Depreciation	11,699,550	10,578,038
Loss on disposal of capital assets	339,429	45,175
Bad debt expense	926,855	894,205
Changes in assets and liabilities:		
Receivables, net	2,830	(1,589,572)
Inventories	(529,861)	(119,531)
Other current assets	(22,749)	5,952
Prepaid lease	130,291	-
Accounts payable and accrued liabilities	(1,744,463)	651,768
Unearned revenue	(937,851)	926,626
Deferred gain on disposal	(71,492)	-
Deferred outflows/inflows	71,375,921	(30,011,729)
Net pension liability	(80,693,285)	44,960,730
Net OPEB liability	4,284,000	-
Other liabilities	<u>331,601</u>	<u>10,519</u>
Net cash used in operating activities	<u>\$ (56,955,113)</u>	<u>\$ (59,340,730)</u>
<b>Supplemental disclosures of cash flow information:</b>		
Capital and related financing transactions:		
Capital lease principal reduction	\$ -	\$ 254,371
Investing transactions:		
Prepaid lease obtained from sale of property	\$ -	\$ 3,501,000
Deferred inflow related to gain from sale of property	-	1,429,844

See accompanying notes.

# MOREHEAD STATE UNIVERSITY

## Notes to the Financial Statements

### 1. Organization and Summary of Significant Accounting Policies

#### Organization

Morehead State University (the University) is a comprehensive public university with robust undergraduate and graduate programs, emerging doctoral programs, and an emphasis on community engagement. MSU aspires to be the best public regional university in the South through prioritizing and focusing on the goals of student success; outcomes (performance based funding); academic excellence; and rankings, reputation, and regional responsiveness. Located in Morehead, Kentucky, the University has provided educational service to the Commonwealth of Kentucky since 1887.

#### Reporting Entity

The University is a component unit of the Commonwealth of Kentucky and is included in the general-purpose financial statements of the Commonwealth. The Morehead State University Foundation, Inc. (the Foundation) is a legally separate, tax-exempt organization supporting the University. The Foundation acts primarily as a fund-raising organization to supplement the resources that are available to the University in support of its programs. The Foundation's Board of Trustees is self-perpetuating and consists of graduates and friends of the University. Although the University does not control the timing or amount of receipts from the Foundation, the majority of the resources the Foundation holds and invests are restricted by the donors to the activities of the University. 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 statements.

#### Basis of Presentation

The accompanying financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America as prescribed by the Governmental Accounting Standards Board (GASB). The financial statements have been prepared on the accrual basis of accounting. Under the accrual basis of accounting, revenues are recognized when earned and expenses are recorded when an obligation has been incurred. In accordance with GASB Statement No. 35, *Basic Financial Statements – and Management's Discussion and Analysis – for Public Colleges and Universities* (GASB No. 35) and subsequent standards issued by GASB, the University reports as a Business Type Activity (BTA). BTAs are those activities that are financed in whole or in part by fees charged to external parties for goods and services.

GASB No. 35 establishes standards for external financial reporting for public colleges and universities and requires that resources be classified for accounting and reporting purposes into the following net position categories:

- **Net Investment in Capital Assets:** Capital assets, net of accumulated depreciation and outstanding principal balances of debt attributable to the acquisition, construction or improvement of those assets.



# MOREHEAD STATE UNIVERSITY

## Notes to the Financial Statements, continued

### 1. Organization and Summary of Significant Accounting Policies, continued

#### Basis of Presentation, continued

- **Restricted:**

*Expendable*– Net position whose use by the University is subject to externally imposed stipulations that can be fulfilled by actions of the University pursuant to those stipulations or that expire by the passage of time.

*Nonexpendable*– Net position subject to externally imposed stipulations that they be maintained permanently by the University. Such assets include the University's permanent endowment funds.

- **Unrestricted:** Net position whose use by the University is not subject to externally imposed stipulations. Unrestricted net assets may be designated for specific purposes by action of management or the Board of Regents or may otherwise be limited by contractual agreements with outside parties.

The financial statement presentation required by GASB No. 35 is intended to provide a comprehensive, entity-wide perspective of the University's assets, deferred outflows, deferred inflows, liabilities, net position, revenues, expenses, changes in net position and cash flows.

Pursuant to GASB Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*, the University has elected to apply the provisions of all relevant pronouncements of the Financial Accounting Standards Board (FASB) that do not conflict with or contradict GASB pronouncements.

#### Allowance for Doubtful Accounts

The allowance for doubtful accounts is established through a provision for doubtful accounts charged to expense. The allowance represents an amount which, in management's judgment, will be adequate to absorb probable losses on existing accounts that may become uncollectible.

#### Inventories

University store inventories representing approximately 67% and 55% of total inventories at June 30, 2018 and 2017, respectively, are stated at the lower of cost (retail inventory method) or market. The remainder of the inventories is stated at the lower of moving-average-cost or market.

#### Investments

The University values investments at fair value based on quoted market prices. Investment income consists of interest and dividend income and the net change for the year in the fair value of investments carried at fair value.

# MOREHEAD STATE UNIVERSITY

## Notes to the Financial Statements, continued

### 1. Organization and Summary of Significant Accounting Policies, continued

#### Capital Assets

Capital assets are stated at cost for purchased assets and at fair value at date of donation in the case of gifts. Expenditures which increase values or extend useful lives of the respective assets are capitalized. Expenditures for maintenance and repairs are charged to expense as incurred. Depreciation of assets is computed using the straight-line method over the assets' estimated useful lives. The University capitalizes, but does not depreciate, works of art and historical treasures that are held for exhibition, education, research and public service. Estimated lives used for depreciation purposes are as follows:

<u>Classification</u>	<u>Estimated Life</u>
Land improvements	20 years
Buildings	50 years
Building improvements	20 years
Vehicles	5-9 years
Equipment	5-15 years
Library books	10 years

#### Accrued Vacation Pay

Accrued vacation pay is included in accounts payable and accrued liabilities in the statement of net position and represents earned vacation available to employees at current compensation rates.

#### Unearned Revenue

Unearned revenue includes amounts received from grant and contract sponsors that have not yet been earned. Unearned revenue also includes tuition billed on or before June 30th for future terms.

#### Advances from Federal Government for Student Loans

Funds provided by the United States Government under the Federal Perkins Loan program are loaned to qualified students and may be re-loaned after collections. These funds are ultimately refundable to the United States Government and, therefore, are recorded as a liability in the accompanying financial statements. Federally funded financial aid programs are subject to special audits. Such audits could result in claims against the resources of the University.

#### Pensions and OPEB

It is the University's policy to present total pension and other post-employment benefits (OPEB) expense related to the implementation of Governmental Accounting Standards Board (GASB) Statements No. 68 and 75 discretely on the Statements of Revenues, Expenses, and Changes in Net Position.

The University participates in the Kentucky Teachers Retirement System and the Kentucky Employee Retirement System. These are cost sharing, multiple employer defined benefit pension and OPEB plans, which cover all eligible full-time employees and provide for retirement, disability, death and survivor benefits and medical insurance.

## MOREHEAD STATE UNIVERSITY

### Notes to the Financial Statements, continued

#### 1. Organization and Summary of Significant Accounting Policies, continued

##### Pensions and OPEB, continued

Effective July 1, 2017, the University adopted GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions (OPEB)* (Statement 75). Statement 75 replaces the requirements of Statements No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, as amended, and No. 57, *OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans*, for OPEB. GASB 75 is applicable for government agencies that provide defined benefit OPEB and requires these agencies to recognize their long-term obligation for OPEB as a liability to more comprehensively and comparably measure the annual cost. The University participates in the Kentucky Teachers Retirement System (TRS) and the Kentucky Employee Retirement System (KRS) OPEB plans, which are each administered by their Board of Trustees. These are cost sharing, multiple employer defined benefit OPEB plans, which cover all eligible full-time employees and provide health insurance benefits. Cost-sharing governmental employers, such as the University, are required to report a net OPEB liability, OPEB expense and OPEB-related assets and liabilities based on their proportionate share of the collective amounts for all government agencies in the plan. For these purposes amounts have been determined on the same basis as they are reported by TRS and KRS. The TRS and KRS financial statements are prepared using the accrual basis of accounting with benefits being recognized when due and payable in accordance with terms of the plan. Investments are reported at fair value. All governments participating in the defined benefit OPEB plan are also required to disclose various information in the footnotes to the combined financial statements – see Note 7.

The University has elected to utilize the cumulative effect of a change in accounting principle option permitted by Statement 75 as the University has determined that restatement of all prior periods presented is not practical.

Effective July 1, 2014, the University adopted GASB No. 68, *Accounting and Financial Reporting for Pensions (GASB No. 68)*. In accordance with GASB No. 68, cost-sharing governmental employers, such as the University, are required to report a net pension liability, pension expense and pension-related assets and liabilities based on their proportionate share of the collective amounts for all governments in the plan. 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 plans and additions to or deductions from the plans' fiduciary net position have been determined on the same basis as they are reported by the plans. 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.

All governments participating in the defined benefit pension plan are also required to disclose various information in the footnotes to the financial statements – see Note 7.

# MOREHEAD STATE UNIVERSITY

## Notes to the Financial Statements, continued

### 1. Organization and Summary of Significant Accounting Policies, continued

#### Restricted Asset Spending Policy

The University's policy is that restrictions on assets cannot be fulfilled by the expenditure of unrestricted funds for similar purposes. The determination on whether restricted or unrestricted funds are expended for a particular purpose is made on a case-by-case basis. Restricted funds remain restricted until spent for the intended purpose.

#### Operating Activities

The University defines operating activities, as reported on the statement of revenues, expenses and changes in net position, as those that generally result from exchange transactions, such as payments received for providing goods and services and payments made for services and goods received. Nearly all of the University's expenses are from exchange transactions. Certain significant revenues relied upon for operations, such as certain grants, state appropriations, gifts and investment income, are recorded as non-operating revenues, in accordance with GASB No. 35.

#### Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported revenues and expenditures during the reporting period. Actual results could differ from the estimated amounts.

#### Income Taxes

As a state institution of higher education, the income of the University is generally exempt from federal and state income taxes under Section 115(1) of the Internal Revenue Code, as amended and a similar provision of state law. However, the University is subject to federal income tax on any unrelated business taxable income.

#### Subsequent Events

Management evaluated the period from June 30, 2018 to October 1, 2018 (the date the financial statements were ready to be issued) for items requiring recognition or disclosure in the financial statements.

#### Reclassifications

Certain amounts in the 2017 financial statements have been reclassified to conform to the 2018 presentation with no impact on total assets, liabilities, stockholders' equity or net income.

# MOREHEAD STATE UNIVERSITY

## Notes to the Financial Statements, continued

### 2. Cash, Cash Equivalents and Investments

The statement of net position classification "cash and cash equivalents" includes all readily available sources of cash such as petty cash, demand deposits, deposits with the Commonwealth of Kentucky, certificates of deposit and temporary investments in marketable securities with original maturities less than three months.

The state treasurer requires that all state funds be insured by Federal Deposit Insurance Corporation (FDIC), collateralized by securities held by the cognizant Federal Reserve Bank or invested in U.S. Government obligations. The University's deposits with the state treasurer are pooled with funds of other state agencies and then, in accordance with statutory limitations, placed in financial institutions or invested as the state treasurer may determine, in the state's name.

The University requires that balances on deposit with financial institutions be insured by FDIC or collateralized in the University's name.

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. As a means of limiting its exposure to losses from custodial credit risk, the University's deposits and investments are held by the state treasurer, collateralized by securities in the University's name, insured by the FDIC or in the University's name.

At June 30, 2018 and 2017, the University had petty cash funds totaling \$16,665 and \$18,448, respectively, and deposits as reflected by bank balances as follows:

	<u>2018</u>	<u>2017</u>
Insured, commercial banks	\$ 250,000	\$ 250,000
Uninsured, commercial banks; collateral held by pledging institution's agent in the University's name	16,329,456	13,596,107
Maintained by Commonwealth of Kentucky	<u>9,310,901</u>	<u>19,321,327</u>
	<u>\$ 25,890,357</u>	<u>\$ 33,167,434</u>

**MOREHEAD STATE UNIVERSITY**

Notes to the Financial Statements, continued

**2. Cash, Cash Equivalents and Investments, continued**

As of June 30, 2018 and 2017, investments consisted of:

	<u>2018</u>	<u>2017</u>
Insured and registered, with securities held by the counterparty or by its trust department or agent, in the University's name:		
Money market funds – restricted for capital purposes	\$ 288,184	\$ 17,135
Equity mutual funds	<u>966,382</u>	<u>940,873</u>
	<b>1,254,566</b>	958,008
Certificate of deposit	113,718	113,207
Restricted assets held by the Morehead State University Foundation, Inc.	<u>10,427,195</u>	<u>10,427,195</u>
	<b><u>\$ 11,795,479</u></b>	<b><u>\$ 11,498,410</u></b>

Restricted investments for capital purposes are comprised of amounts invested for cost of issuance fees and debt service reserves. The University may legally invest in direct obligations of and other obligations guaranteed as to principal by the U.S. Treasury and U.S. agencies and instrumentalities and in bank repurchase agreements. It may also invest to a limited extent in equity securities.

University investments held by the Foundation are comprised of the Regional University Excellence Trust Fund endowment and other similar endowments (see Note 14). Assets held by the Foundation are invested primarily in an investment pool managed by the Foundation and are carried at fair value.

The assets in the Foundation investment pool at June 30, 2018 and 2017, are invested as follows:

	<u>2018</u>	<u>2017</u>
Percentage of pool invested in:		
Registered investment companies fixed income funds	26%	25%
Registered investment companies equity fund	30%	49%
Registered investment companies alternative investments	<u>44%</u>	<u>26%</u>
	<b><u>100%</u></b>	<b><u>100%</u></b>

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 have a formal policy to specifically limit investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

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 issuer. The University does not have a formal policy for concentration of credit risk.

**MOREHEAD STATE UNIVERSITY**

Notes to the Financial Statements, continued

**2. Cash, Cash Equivalents and Investments, continued**

Custodial Credit Risk

For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the University will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The University does not have a formal policy for custodial credit risk.

**3. Accounts, Grants and Loans Receivable**

Accounts, grants and loans receivable consist of the following as of June 30:

	<u>2018</u>	<u>2017</u>
Student tuition and fees	\$ 4,615,156	\$ 4,893,888
Financing and interest	305,652	288,755
Scholarship receivable	329,254	368,751
Student loans	4,117,462	4,015,383
Grants and contracts	2,587,926	2,563,937
Auxiliary enterprises	514,676	984,002
Other	<u>1,401,115</u>	<u>1,796,607</u>
	13,871,241	14,911,323
Allowance for doubtful accounts	<u>(1,620,302)</u>	<u>(1,730,699)</u>
	12,250,939	13,180,624
Current portion	<u>(8,214,182)</u>	<u>(9,246,954)</u>
Noncurrent portion	<u>\$ 4,036,757</u>	<u>\$ 3,933,670</u>

**MOREHEAD STATE UNIVERSITY**

Notes to the Financial Statements, continued

**4. Capital Assets, Net**

Capital assets as of June 30, 2018, are summarized as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>
Land and improvements	\$ 23,668,388	\$ -	\$ -	\$ 23,668,388
Buildings	322,348,773	6,533,005	952,466	327,929,312
Library books	27,445,876	273,086	-	27,718,962
Vehicles	1,916,333	-	101,902	1,814,431
Equipment and livestock	24,854,831	9,593,672	1,381,346	33,067,157
Colleague	4,202,200	-	-	4,202,200
Art collection	1,048,555	58,050	-	1,106,605
Construction in progress	<u>32,295,756</u>	<u>25,520,634</u>	<u>15,407,731</u>	<u>42,408,659</u>
	437,780,712	41,978,447	17,843,445	461,915,714
<u>Accumulated Depreciation</u>				
Land improvements	9,892,778	565,932	-	10,458,710
Buildings	124,388,506	8,680,493	635,664	132,433,335
Library books	24,389,158	714,460	-	25,103,618
Vehicles	1,737,535	81,391	101,902	1,717,024
Equipment and livestock	19,576,017	1,657,274	1,358,719	19,874,572
Colleague	<u>4,202,200</u>	<u>-</u>	<u>-</u>	<u>4,202,200</u>
	<u>184,186,194</u>	<u>11,699,550</u>	<u>2,096,285</u>	<u>193,789,459</u>
Capital assets, net	<u>\$ 253,594,518</u>	<u>\$ 30,278,897</u>	<u>\$ 15,747,160</u>	<u>\$ 268,126,255</u>



**MOREHEAD STATE UNIVERSITY**

Notes to the Financial Statements, continued

**4. Capital Assets, Net, continued**

Capital assets as of June 30, 2017, are summarized as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>
Land and improvements	\$ 23,417,793	\$ 250,595	\$ -	\$ 23,668,388
Buildings	280,759,550	47,714,676	6,125,453	322,348,773
Library books	27,175,125	270,751	-	27,445,876
Vehicles	2,096,778	-	180,445	1,916,333
Equipment and livestock	24,485,184	611,309	241,662	24,854,831
Colleague	4,202,200	-	-	4,202,200
Art collection	1,019,235	45,750	16,430	1,048,555
Construction in progress	<u>41,388,905</u>	<u>37,886,260</u>	<u>46,979,409</u>	<u>32,295,756</u>
	404,544,770	86,779,341	53,543,399	437,780,712
<u>Accumulated Depreciation</u>				
Land improvements	9,342,202	550,576	-	9,892,778
Buildings	118,435,641	7,857,913	1,905,048	124,388,506
Library books	23,590,858	798,300	-	24,389,158
Vehicles	1,824,382	93,598	180,445	1,737,535
Equipment and livestock	18,512,159	1,277,651	213,795	19,576,015
Colleague	<u>4,202,202</u>	<u>-</u>	<u>-</u>	<u>4,202,202</u>
	<u>175,907,444</u>	<u>10,578,038</u>	<u>2,299,288</u>	<u>184,186,194</u>
Capital assets, net	<u>\$ 228,637,326</u>	<u>\$ 76,201,303</u>	<u>\$ 51,244,111</u>	<u>\$ 253,594,518</u>

**MOREHEAD STATE UNIVERSITY**

Notes to the Financial Statements, continued

**5. Accounts Payable and Accrued Liabilities**

Accounts payable and accrued liabilities as of June 30, are as follows:

	<u>2018</u>	<u>2017</u>
Payable to vendors and contractors	\$ 375,726	\$ 564,161
Accrued vacation	2,069,734	2,225,684
Accrued sick leave liability	803,029	824,583
Accrued salaries and other liabilities	<u>4,473,263</u>	<u>5,851,787</u>
	<u>\$ 7,721,752</u>	<u>\$ 9,466,215</u>

**6. Long-Term Liabilities**

Long-term liabilities at June 30, 2018, are summarized as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Current Portion</u>	<u>Long-term Portion</u>
General Receipts Bonds	\$ 80,860,000	\$ -	\$ 3,970,000	\$ 76,890,000	\$ 4,125,000	\$ 72,765,000
Premium amortization	2,625,576	-	145,651	2,479,925	145,651	2,334,274
Capital lease obligations	11,988,660	-	2,784,159	9,204,501	1,104,964	8,099,537
Energy Savings Capital Lease	<u>7,001,075</u>	<u>-</u>	<u>796,401</u>	<u>6,204,674</u>	<u>817,716</u>	<u>5,386,958</u>
Total bonds and capital lease obligations	102,475,311	-	7,696,211	94,779,100	6,193,331	88,585,769
Federal refundable grants	<u>3,397,754</u>	<u>7,510</u>	<u>-</u>	<u>3,405,264</u>	<u>-</u>	<u>3,405,264</u>
Total long-term liabilities	<u>\$ 105,873,065</u>	<u>\$ 7,510</u>	<u>\$ 7,696,211</u>	<u>\$ 98,184,364</u>	<u>\$ 6,193,331</u>	<u>\$ 91,991,033</u>

Long-term liabilities at June 30, 2017, are summarized as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Current Portion</u>	<u>Long-term Portion</u>
General Receipts Bonds	\$ 77,895,000	\$ 6,560,000	\$ 3,595,000	\$ 80,860,000	\$ 3,970,000	\$ 76,890,000
Premium amortization	2,694,038	77,189	145,651	2,625,576	145,651	2,479,925
Capital lease obligations	10,016,590	2,995,250	1,023,180	11,988,660	1,938,096	10,050,564
Energy Savings Capital Lease	<u>7,776,717</u>	<u>-</u>	<u>775,642</u>	<u>7,001,075</u>	<u>796,401</u>	<u>6,204,674</u>
Total bonds and capital lease obligations	98,382,345	9,632,439	5,539,473	102,475,311	6,850,148	95,625,163
Federal refundable grants	<u>3,423,702</u>	<u>-</u>	<u>25,948</u>	<u>3,397,754</u>	<u>-</u>	<u>3,397,754</u>
Total long-term liabilities	<u>\$ 101,806,047</u>	<u>\$ 9,632,439</u>	<u>\$ 5,565,421</u>	<u>\$ 105,873,065</u>	<u>\$ 6,850,148</u>	<u>\$ 99,022,917</u>

**MOREHEAD STATE UNIVERSITY**

Notes to the Financial Statements, continued

**6. Long-Term Liabilities, continued**

The following is a summary of bonds and capital lease obligations at June 30:

	<u>2018</u>	<u>2017</u>
4.00% General Receipts Bonds, 2007 Series A, partially advance refunded with issuance of 2016 Series A Bonds, remaining principle is repayable in semi-annual installments with the final installment due November, 2018	\$ 275,000	\$ 540,000
3.00-3.80% General Receipts Bonds, 2008 Series A, repayable in semi-annual installments with the final installment due November, 2022	2,895,000	3,700,000
2.00-4.125% General Receipts Bonds, 2011 Series A Improvement Bonds, repayable in semi-annual installments with the final installment due November, 2030	3,765,000	3,990,000
2.00-3.625% General Receipts Bonds, 2012 Series A Tax Exempt Bonds, repayable in semi-annual installments with the final installment due November, 2031	3,960,000	4,190,000
1.00-4.375% General Receipts Bonds, 2013 Series A Tax Exempt Bonds, repayable in semi-annual installments with the final installment due April, 2033	7,580,000	7,990,000
2.00-5.00% General Receipts Refunding Bonds, 2014 Series A, repayable in semi-annual installments with the final installment due October, 2028	17,670,000	18,890,000
1.00-5.00% General Receipts Refunding Bonds, 2014 Series B, repayable in semi-annual installments with the final installment due October, 2029	3,860,000	4,105,000
3.00-5.00% General Receipts Bonds, 2015 Series A, repayable in semi-annual installments with the final installment due April, 2035	27,405,000	27,690,000
1.00-3.00% General Receipts Refunding Bonds, 2016 Series A, repayable in semi-annual installments with the final installment due November, 2027	3,170,000	3,205,000
2.00-3.75% General Receipts Bonds, 2016 Series B, repayable in semi-annual installments with the final installment due November, 2036	6,310,000	6,560,000
General Receipts Bonds, 2015 Series A Reoffering Premium, amortized over semi-annual installments with the final installment amortized April 2035	2,479,925	2,625,576
5.00% Capital lease obligation with the Foundation, repayable in monthly installments, paid in full during the year ended June 30, 2018	-	30,208
4.19% Capital lease obligation with a finance corporation, repayable in semi-annual installments, paid in full during the year ended June 30, 2018	-	387,833
2.65% Capital lease obligation with JP Morgan/Chase, repayable in quarterly installments with the final installment due June, 2025	6,204,674	7,001,075
4.50% Capital lease obligation for land acquisition, repayable in monthly installments with the final installment due December, 2020	344,493	471,818
6.139% Capital lease obligation for land acquisition, repayable in annual installments with the final installment due November, 2020	180,881	234,338
2.92% Capital lease obligation with Kentucky Bank, repayable in monthly installments with the final installment due December, 2027	8,679,127	9,564,463
0.00% Capital lease obligation with Rowan Co. Board of Education, paid in full during the year ended June 30, 2018	<u>-</u>	<u>1,300,000</u>
	<u>\$ 94,779,100</u>	<u>\$ 102,475,311</u>

**MOREHEAD STATE UNIVERSITY**

Notes to the Financial Statements, continued

**6. Long-Term Liabilities, continued**

Capital Leases

The capital leases consist of leases of real estate and equipment. The leased equipment includes items related to an energy savings project and information technology (IT) infrastructure upgrade.

The following equipment is held under capital lease obligations at June 30:

	<u>2018</u>	<u>2017</u>
Real estate and equipment	\$ 20,218,729	\$ 15,010,127
Construction in progress	-	9,125,430
Less: accumulated depreciation	<u>(2,793,514)</u>	<u>(1,966,603)</u>
	<u>\$ 17,425,215</u>	<u>\$ 22,168,954</u>

The following is a schedule by years of future minimum payments required for the capital lease obligations as of June 30, 2018:

Year ending June 30,		
2019		\$ 2,344,464
2020		2,344,464
2021		2,271,488
2022		2,130,669
2023		2,130,669
Thereafter		<u>5,976,417</u>
Total minimum lease payments		17,198,171
Less: amounts representing interest		<u>(1,788,996)</u>
Present value of minimum lease payments		<u>\$ 15,409,175</u>

The principal and interest repayment requirements relating to the outstanding bonds at June 30, 2018, are as follows:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
Year ending June 30,			
2019	\$ 4,125,000	\$ 2,954,774	\$ 7,079,774
2020	4,370,000	2,799,781	7,169,781
2021	4,695,000	2,631,003	7,326,003
2022	4,945,000	2,455,346	7,400,346
2023	5,180,000	2,242,598	7,422,598
2024-2037	<u>53,575,000</u>	<u>11,456,983</u>	<u>65,031,983</u>
	<u>\$ 76,890,000</u>	<u>\$ 24,540,485</u>	<u>\$ 101,430,485</u>

**MOREHEAD STATE UNIVERSITY**

Notes to the Financial Statements, continued

**7. Pension & OPEB Plans**

Kentucky Teachers Retirement System - Pension

All faculty and exempt employees required to hold a degree and occupying full-time positions, defined as seven-tenths (7/10) of normal full-time service on a daily or weekly basis, are required by state law to participate in the Kentucky Teachers Retirement System (TRS). TRS, a cost sharing, multiple-employer defined benefit pension and OPEB plan with a special funding situation, provides retirement and OPEB benefits based on an employee's final average salary and number of years of service. Benefits are subject to certain reductions if the employee retires before reaching age sixty, unless the employee has twenty-seven or more years of participation in the plan. The plan also provides for disability retirement, death and survivor benefits and medical insurance. TRS was created by the 1938 General Assembly and is governed by Chapter 161 Section 220 through Chapter 161 Section 990 of the Kentucky Revised Statutes (KRS). TRS is a blended component unit of the Commonwealth of Kentucky and therefore is included in the Commonwealth's financial statements. TRS issues a publicly available financial report that can be obtained at <https://trs.ky.gov/financial-reports-information>.

Funding for the plan for the year ended June 30, 2017 was provided from eligible employees who contributed 8.185% of their salary through payroll deductions and the Commonwealth of Kentucky, which also indirectly contributed 15.865% of currently eligible employees' salaries to the TRS through appropriations to the University. Contribution requirements of the plan members and the University are established by Kentucky Revised Statute and the TRS Board of Trustees.

The University's contributions to TRS for the years ended June 30, 2017 and 2016 were \$4,826,174 and \$4,957,288, respectively.

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

At June 30, 2018 and 2017, the University reported a liability for its proportionate share of the net pension liability. The amount recognized by the University as its proportionate share of the net pension liability, the related State support, and the total portion of the net pension liability that was associated with the University is as follows as of June 30:

	<u>2018</u>	<u>2017</u>
University's proportionate share of the net pension liability	\$103,481,662	\$192,661,717
Commonwealth of Kentucky's proportionate share of the net pension liability associated with the University	<u>82,472,921</u>	<u>18,157,966</u>
Total	<u>\$185,954,583</u>	\$210,819,683

The net pension liability was measured as of June 30, 2017 and 2016 (Measurement Date), and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The University's proportion of the net pension liability was based on a projection of the University's long-term share of contributions to the pension plan relative to the projected contributions of all participating University's and the State, actuarially determined. At June 30, 2017 and 2016, the University's proportion was 0.366 and 0.623 percent, respectively.

**MOREHEAD STATE UNIVERSITY**

Notes to the Financial Statements, continued

**7. Pension & OPEB Plans, continued**

Kentucky Teachers Retirement System - Pension, continued

For the years ended June 30, 2018 and 2017, the valuation of the University's net pension liability resulted in the recognition of pension (benefit) expense of (\$6,993,727) and \$16,873,289, respectively.

At June 30, 2018, the University reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual experience	\$ 596,649	\$ 2,188,564
Changes of assumptions	12,812,158	7,183,864
Net difference between projected and actual earnings on pension plan investments	-	800,659
Changes in proportion and differences between University contributions and proportionate share of contributions	5,154,845	50,543,620
University contributions subsequent to the measurement date	<u>4,778,253</u>	<u>-</u>
Total	<u>\$ 23,341,905</u>	<u>\$ 60,716,707</u>

\$4,778,253 reported as deferred outflows of resources related to pensions resulting from University contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2019. Other amounts reported as deferred outflows of resources and deferred (inflows) of resources related to pensions will be recognized in pension expense as follows:

Years ended June 30:	
2019	(\$ 12,906,490)
2020	(11,584,382)
2021	(13,192,602)
2022	<u>(4,469,581)</u>
	<u>(\$ 42,153,055)</u>

**MOREHEAD STATE UNIVERSITY**

Notes to the Financial Statements, continued

**7. Pension & OPEB Plans, continued**

Kentucky Teachers Retirement System - Pension, continued

At June 30, 2017, the University reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual experience	\$ -	\$ 4,847,060
Changes of assumptions	28,340,349	1,113,789
Net difference between projected and actual earnings on pension plan investments	5,952,812	-
Changes in proportion and differences between University contributions and proportionate share of contributions	6,874,786	-
University contributions subsequent to the measurement date	<u>4,827,767</u>	<u>-</u>
<b>Total</b>	<b><u>\$ 45,995,714</u></b>	<b><u>\$ 5,960,849</u></b>

\$4,827,767 reported as deferred outflows of resources related to pensions resulting from University contributions subsequent to the measurement date was recognized as a reduction of the net pension liability in the year ended June 30, 2018.

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

Inflation	3.0%
Salary increases	3.50-7.30%, including inflation
Investment rate of return	7.50%, net of pension plan investment expense, including inflation
Municipal Bond Index Rate	
Prior Measurement Date	3.01%
Measurement Date	3.56%
Year fiduciary net position (FNP)	
is projected to be depleted	2038
Single Equivalent Interest rate, net of pension plan investment expense, including inflation	
Prior Measurement Date	4.20%
Measurement Date	4.49%
Post-Retirement Benefit Increases	1.50% annually

**MOREHEAD STATE UNIVERSITY**

Notes to the Financial Statements, continued

**7. Pension & OPEB Plans, continued**

Kentucky Teachers Retirement System - Pension, continued

Mortality rates 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 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.

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
U.S. Equity	42.0%	4.4%
International Equity	20.0%	5.3%
Fixed Income	16.0%	1.5%
Additional Categories*	9.0%	3.6%
Real Estate	5.0%	4.4%
Private Equity	6.0%	6.7%
Cash	2.0%	0.8%

\*Includes Hedge Funds, High Yield and Non-US Developed Bonds

*Discount rate.* The discount rate used to measure the Total Pension Liability (TPL) as of the Measurement Date was 4.49%. The projection of cash flows used to determine the discount rate was performed in accordance with GASB 67. The projection assumes that Plan member contributions will be made at the current contribution rates and that the 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 2038 plan year and, as a result, the Municipal Bond Index Rate was used in the determination of the Single Equivalent Interest Rate (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 4.49% was calculated using the Municipal Bond Index Rate as of the Measurement Date (3.56%). This change in the discount rate is considered a change in actuarial assumptions or other inputs under GASB 68.

*Sensitivity of the 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 rate of 4.49 percent, as well as what the University's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (3.49 percent) or 1-percentage-point higher (5.49 percent) than the current rate:



**MOREHEAD STATE UNIVERSITY**

Notes to the Financial Statements, continued

**7. Pension & OPEB Plans, continued**

Kentucky Teachers Retirement System - Pension, continued

	<b>1% Decrease (3.49%)</b>	<b>Current Discount Rate (4.49%)</b>	<b>1% Increase (5.49%)</b>
Morehead State University's proportionate share of the Collective Net Pension Liability	\$ 128,274,195	\$ 103,481,662	\$ 83,133,629

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

Kentucky Teachers Retirement System – Medical Insurance

In addition to the pension benefits, Kentucky Revised Statute 161.675 requires TRS to provide post-employment healthcare benefits to eligible members and dependents. The TRS Medical Insurance benefit is a cost-sharing multiple employer defined benefit plan with a special funding situation. Changes made to the medical plan may be made by the TRS Board of Trustees, the Kentucky Department of Employee Insurance and the General Assembly.

To be eligible for medical benefits, the member must have retired either for service or disability. The TRS Medical Insurance Fund offers coverage to members under the age of 65 through the Kentucky Employees Health Plan 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. Once retired members and eligible spouses attain age 65 and are Medicare eligible, coverage is obtained through the TRS Medicare Eligible Health Plan.

In order to fund the post-retirement healthcare benefit, seven and one-half percent (7.50%) of the gross annual payroll of members is contributed. Three and three quarters percent (3.75%) is paid by member contributions, three quarters percent (.75%) from state appropriations and three percent (3.00%) from the employer. The state contributes the net cost of health insurance premiums for members who retired on or after July 1, 2010 who are in the non-Medicare eligible group. Also, the premiums collected from retirees as described in the plan description and investment interest help meet the medical expenses of the plan.

*TRS OPEB Liabilities, OPEB Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB -* At June 30, 2018, the University reported a liability for its proportionate share of the net OPEB liability. The amount recognized by the University as its proportionate share of the net OPEB liability, the related State support, and the total portion of the net OPEB liability that was associated with the University is as follows:

**MOREHEAD STATE UNIVERSITY**

Notes to the Financial Statements, continued

**7. Pension & OPEB Plans, continued**

Kentucky Teachers Retirement System – Medical Insurance, continued

University's proportionate share of the net OPEB liability	\$ 16,482,000
Commonwealth of Kentucky's proportionate share of the	
Net OPEB liability associated with the University	<u>7,474,000</u>
Total	<u>\$ 23,956,000</u>

The net OPEB liability was measured as of June 30, 2017, and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation as of that date. The University's proportion of the net OPEB liability was based on a projection of the University's long-term share of contributions to the OPEB plan relative to the projected contributions of all participating organizations, actuarially determined. At June 30, 2017, the University's proportion was 0.462 percent. The complete actuarial valuation report including all actuarial assumptions and methods is publicly available on the website at <https://trs.ky.gov/financial-reports-information>.

For the year ended June 30, 2018, the University recognized OPEB expense of \$1,072,000. At June 30, 2018, the University reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Net difference between projected and actual earnings on OPEB plan investments	\$ -	\$ 170,000
University contributions subsequent to the measurement date	<u>778,250</u>	<u>-</u>
Total	<u>\$ 778,250</u>	<u>\$ 170,000</u>

\$778,250 reported as deferred outflows of resources related to the University's contributions to the TRS OPEB plan subsequent to the measurement date will be recognized as a reduction of the net OPEB liability in the year ending June 30, 2019. Other amounts reported as deferred outflows of resources and deferred (inflows) of resources will be recognized in OPEB expense as follows:

Year ending June 30:	
2019	(\$ 42,000)
2020	(42,000)
2021	(43,000)
2022	<u>(43,000)</u>
Total	<u>(\$ 170,000)</u>

## MOREHEAD STATE UNIVERSITY

### Notes to the Financial Statements, continued

#### 7. Pension & OPEB Plans, continued

##### Kentucky Teachers Retirement System – Medical Insurance, continued

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

Investment rate of return	8.00%, net of OPEB plan investment expense, including inflation.
Projected salary increases	3.50 – 7.20%, including inflation
Inflation rate	3.00%
Real Wage Growth	0.50%
Wage Inflation	3.50%
Healthcare cost trend rates	
Under 65	7.75% for FY 2017 decreasing to an ultimate rate of 5.00% by FY 2023
Ages 65 and Older	5.75% for FY 2017 decreasing to an ultimate rate of 5.00% by FY 2020
Medicare Part B Premiums	1.02% for FY 2017 with an ultimate rate of 5.00% by 2029
Municipal Bond Index Rate	3.56%
Discount Rate	8.00%
Single Equivalent Interest Rate	8.00%, net of OPEB plan investment expense, including inflation.

Mortality rates were based on the RP-2000 Combined Mortality Table projected to 2025 with projection scale BB and set forward two years for males and one year for females is used for the period after service retirement and for dependent beneficiaries. The RP-2000 Disabled Mortality Table set forward two years for males and seven years for females is used for the period after disability retirement.

The remaining actuarial assumptions (e.g. initial per capita costs, health care cost trends, rate of plan participation, rates of plan election, etc.) used in the June 30, 2017 valuation were based on a review of recent plan experience done concurrently with the June 30, 2017 valuation.

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 OPEB 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.

**MOREHEAD STATE UNIVERSITY**

Notes to the Financial Statements, continued

**7. Pension & OPEB Plans, continued**

Kentucky Teachers Retirement System – Medical Insurance, continued

The target allocation and best estimates of arithmetic real rates of return for each major asset class, as provided by TRS's investment consultant, are summarized in the following table:

Asset Class	Target Allocation	30 Year Expected Geometric Real Rate of Return
Global Equity	60.0%	5.1%
Fixed Income	9.0%	1.2%
Real Estate	4.5%	4.0%
Private Equity	5.5%	6.6%
High Yield	10.0%	4.3%
Other Additional Categories*	10.0%	3.3%
Cash (LIBOR)	1.0%	0.5%
Total	100.0%	

\*Modeled as 50% High Yield and 50% Bank Loans.

*Discount rate* - The discount rate used to measure the total OPEB liability was 8.00%. The projection of cash flows used to determine the discount rate assumed that plan member contributions will be made at the current contribution rates and the employer contributions will be made at statutorily required rates. Based on those assumptions, the OPEB plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on OPEB plan investments was applied to all periods of projected benefit payments to determine the total OPEB liability.

*Sensitivity of the 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 rate of 8.00% as well as what the University's proportionate share of the net OPEB liability would be if it were calculated using a discount rate that is 1-percentage-point lower or 1-percentage-point higher than the current discount rate:

	1% Decrease ( 7.00% )	Current Discount Rate ( 8.00% )	1% Increase ( 9.00% )
University's share of net OPEB liability	\$ 19,193,000	\$ 16,482,000	\$ 14,225,000

**MOREHEAD STATE UNIVERSITY**

Notes to the Financial Statements, continued

**7. Pension & OPEB Plans, continued**

Kentucky Teachers Retirement System – Medical Insurance, continued

*Sensitivity of the University's proportionate share of the net OPEB liability to changes in the healthcare cost trend rates* - The following presents the University's proportionate share of the net OPEB liability, as well as what the University's proportionate share of the net OPEB liability would be if it were calculated using healthcare cost trend rates that are 1-percentage-point lower or 1-percentage-point higher than the current healthcare cost trend rates:

	<b>Current Healthcare</b>		
	<b>1% Decrease</b>	<b>Trend Rates</b>	<b>1% Increase</b>
University's share of net OPEB liability	\$ 13,803,000	\$ 16,482,000	\$ 19,789,000

*OPEB plan fiduciary net position* – Detailed information about the OPEB plan's fiduciary net position is available in the separately issued TRS financial report.

Kentucky Teachers Retirement System – Life Insurance

TRS administers the life insurance plan as provided by Kentucky Revised Statute 161.655 to eligible active and retired members. The TRS Life Insurance benefit is a cost-sharing multiple employer defined benefit plan with a special funding situation. Changes made to the life insurance plan may be made by the TRS Board of Trustees and the General Assembly.

TRS provides a life insurance benefit of five thousand dollars payable for members who retire based on service or disability. TRS provides a life insurance benefit of two thousand dollars payable for its active contributing members. The life insurance benefit is payable upon the death of the member to the member's estate or to a party designated by the member.

In order to fund the post-retirement life insurance benefit, three hundredths of one percent (.03%) of the gross annual payroll of members is contributed by the state.

*TRS OPEB Liabilities, OPEB Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB* - At June 30, 2018, the University reported a liability of \$214,000 for its proportionate share of the net OPEB liability. The net OPEB liability was measured as of June 30, 2017, and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation as of that date. The University's proportion of the net OPEB liability was based on a projection of the University's long-term share of contributions to the OPEB plan relative to the projected contributions of all participating organizations, actuarially determined. At June 30, 2017, the University's proportion was 0.974 percent. The complete actuarial valuation report including all actuarial assumptions and methods is publicly available on the website at <https://trs.ky.gov/financial-reports-information>.

**MOREHEAD STATE UNIVERSITY**

Notes to the Financial Statements, continued

**7. Pension & OPEB Plans, continued**

Kentucky Teachers Retirement System – Life Insurance, continued

For the year ended June 30, 2018, the University recognized OPEB expense of \$32,000. At June 30, 2018, the University reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Net difference between projected and actual earnings on OPEB plan investments	\$ 45,000	\$ -
University contributions subsequent to the measurement date	9,317	-
Total	\$ 54,317	\$ -

\$9,317 reported as deferred outflows of resources related to the University's contributions to the TRS OPEB plan subsequent to the measurement date will be recognized as a reduction of the net OPEB liability in the year ending June 30, 2019. Other amounts reported as deferred outflows of resources and deferred inflows of resources will be recognized in OPEB expense as follows:

Year ending June 30:	
2019	\$ 11,000
2020	11,000
2021	11,000
2022	12,000
Total	\$ 45,000

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

Investment rate of return	7.50%, net of OPEB plan investment expense, including inflation.
Projected salary increases	3.50 – 7.20%, including inflation
Inflation rate	3.00%
Real Wage Growth	0.50%
Wage Inflation	3.50%
Municipal Bond Index Rate	3.56%
Discount Rate	7.50%
Single Equivalent Interest Rate	7.50%, net of OPEB plan investment expense, including inflation.

**MOREHEAD STATE UNIVERSITY**

Notes to the Financial Statements, continued

**7. Pension & OPEB Plans, continued**

Kentucky Teachers Retirement System – Life Insurance, continued

Mortality rates were based on the RP-2000 Combined Mortality Table projected to 2025 with projection scale BB and set forward two years for males and one year for females is used for the period after service retirement and for dependent beneficiaries. The RP-2000 Disabled Mortality Table set forward two years for males and seven years for females is used for the period after disability retirement.

The remaining actuarial assumptions (e.g. initial per capita costs, rate of plan participation, rates of plan election, etc.) used in the June 30, 2017 valuation were based on a review of recent plan experience done concurrently with the June 30, 2017 valuation.

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 OPEB 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.

The target allocation and best estimates of arithmetic real rates of return for each major asset class, as provided by TRS's investment consultant, are summarized in the following table:

<u>Asset Class*</u>	<u>Target Allocation</u>	<u>30 Year Expected Geometric Real Rate of Return</u>
U.S. Large Cap Equity	38.4%	4.3%
U.S. Small Cap Equity	2.6%	4.8%
Developed Int'l Equity	15.8%	5.2%
Emerging Markets Equity	4.2%	5.4%
Fixed Income - Inv Grade	16.0%	1.2%
Real Estate	6.0%	4.0%
Private Equity	7.0%	6.6%
High Yield	2.0%	4.3%
Other Additional Categories**	7.0%	3.3%
Cash (LIBOR)	1.0%	0.5%
Total	100.0%	

*\*As the LIF investment policy is to change, the above reflects the pension allocation and returns that achieve the target 7.5% long-term rate of return.*

*\*\*Modeled as 50% High Yield and 50% Bank Loans.*

**MOREHEAD STATE UNIVERSITY**

Notes to the Financial Statements, continued

**7. Pension & OPEB Plans, continued**

Kentucky Teachers Retirement System – Life Insurance, continued

*Discount rate* - The discount rate used to measure the total OPEB liability for life insurance was 7.50%. The projection of cash flows used to determine the discount rate assumed that the employer contributions will be made at statutorily required rates. Based on those assumptions, the OPEB plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on OPEB plan investments was applied to all periods of projected benefit payments to determine the total OPEB liability.

*Sensitivity of the 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 using the discount rate of 7.50% as well as what the University's proportionate share of the net OPEB liability would be if it were calculated using a discount rate that is 1-percentage-point lower or 1-percentage-point higher than the current discount rate:

	<b>1% Decrease</b>	<b>Current Discount Rate</b>	<b>1% Increase</b>
	<b>( 6.50% )</b>	<b>( 7.50% )</b>	<b>( 8.50% )</b>
University's share of net OPEB liability	\$ 355,000	\$ 214,000	\$ 98,000

*OPEB plan fiduciary net position* – Detailed information about the OPEB plan's fiduciary net position is available in the separately issued TRS financial report.

Kentucky Employee Retirement System - Pension

Under the provisions of Kentucky Revised Statute (KRS) Section 61.645, the Board of Trustees of Kentucky Retirement Systems administers the Kentucky Employees Retirement System (KRS), County Employees Retirement System (CRS), and State Police Retirement System (SPRS). These are cost sharing, multiple employer defined benefit pension and insurance plans. 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 the administrative costs incurred by those receiving a benefit, in accordance with the provisions of KRS Sections 16.510, 61.515, 61.702, 78.520, and 78.630. The University has elected to participate in KRS pursuant to KRS Section 78.530. Under the provisions of KRS Section 61.701, the Board of Trustees of Kentucky Retirement Systems administers the Kentucky Retirement Systems' Insurance Fund (Insurance Fund). The statutes provide for a single insurance fund to provide group hospital and medical benefits to retirees drawing a benefit from the three pension funds administered by Kentucky Retirement Systems: (1) KRS; (2) CRS; and (3) SPRS. The assets of the Insurance Fund are also segregated by plan.



## MOREHEAD STATE UNIVERSITY

### Notes to the Financial Statements, continued

#### 7. Pension & OPEB Plans, continued

##### Kentucky Employee Retirement System - Pension, continued

The KRS Pension and Insurance Funds are cost sharing, multiple employer defined benefit pension and OPEB plans, which cover all eligible full-time employees and provide retirement, disability and death benefits, and health insurance benefits. Benefit contributions and provisions are established by statute. KRS issues a publicly available financial report that includes financial statements and required supplementary information. That report is publicly available on the website at [www.kyret.ky.gov](http://www.kyret.ky.gov) or may be obtained by writing to Kentucky Retirement Systems, Perimeter Park West, 1260 Louisville Road, Frankfort, Kentucky 40601-6124 or by calling (502) 696-8800.

Funding for the plan for the year ended June 30, 2017 was provided from eligible hazardous and non-hazardous employees who contributed 8.00% and 5.00% for members prior to September 1, 2008 and 9.00% and 6.00% for members after September 1, 2008, respectively, of their salary through payroll deductions. The Commonwealth of Kentucky also indirectly contributes 23.82% and 48.59%, respectively of current eligible hazardous and non-hazardous employees' salaries to the KRS through appropriations to the University. University contribution rates are determined by the Kentucky Revised Statute and the Board of Trustees of the Kentucky Retirement Systems each biennium.

The University's contributions to KRS for the years ended June 30, 2017 and 2016 were \$3,766,727 and \$3,249,473, respectively.

##### *Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions*

At June 30, 2018 and 2017, the University reported a liability of \$80,255,228 and \$71,768,458, respectively, for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2017 and 2016 (Measurement Date), and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The University's proportion of the net pension liability was based on a projection of the University's long-term share of contributions to the pension plan relative to the projected contributions of all participating University's and the State, actuarially determined. At June 30, 2018 and 2017, the University's proportion was 0.58 percent and 0.61 percent, respectively.

For the years ended June 30, 2018 and 2017, the University recognized pension expense of \$9,233,104 and \$6,765,617, respectively. At June 30, 2018, the University reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

**MOREHEAD STATE UNIVERSITY**

Notes to the Financial Statements, continued

**7. Pension & OPEB Plans, continued**

Kentucky Employee Retirement System - Pension, continued

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual experience	\$ 72,560	\$ 506,833
Changes of assumptions	10,270,404	-
Net difference between projected and actual earnings on pension plan investments	1,105,090	707,307
Changes in proportion and differences between University contributions and proportionate share of contributions	-	4,578,107
University contributions subsequent to the measurement date	<u>3,493,862</u>	<u>-</u>
<b>Total</b>	<b><u>\$ 14,941,916</u></b>	<b><u>\$ 5,792,247</u></b>

\$3,493,862 reported as deferred outflows of resources related to pensions resulting from University contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2019. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Years ended June 30:	
2019	\$ 3,495,835
2020	2,156,347
2021	131,520
2022	(127,895)

**MOREHEAD STATE UNIVERSITY**

Notes to the Financial Statements, continued

**7. Pension & OPEB Plans, continued**

Kentucky Employee Retirement System - Pension, continued

At June 30, 2017, the University reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual experience	\$ 81,100	\$ -
Changes of assumptions	5,407,154	-
Net difference between projected and actual earnings on pension plan investments	1,200,298	-
Changes in proportion and differences between University contributions and proportionate share of contributions	-	4,053,141
University contributions subsequent to the measurement date	<u>3,823,977</u>	<u>-</u>
<b>Total</b>	<b><u>\$ 10,512,529</u></b>	<b><u>\$ 4,053,141</u></b>

\$3,823,977 reported as deferred outflows of resources related to pensions resulting from University contributions subsequent to the measurement date was recognized as a reduction of the net pension liability in the year ended June 30, 2018.

*Actuarial assumptions.* For financial reporting, the actuarial valuation as of June 30, 2017, was performed by Gabriel Roeder Smith (GRS). The total pension liability, net pension liability, and sensitivity information as of June 30, 2017 were based on an actuarial valuation date of June 30, 2016. The total pension liability was rolled-forward from the valuation date (June 30, 2016) to the plan's fiscal year ending June 30, 2017, using generally accepted actuarial principles. GRS did not perform the actuarial valuation as of June 30, 2016 but did replicate the prior actuary's valuations results on the same assumption, methods, and data, as of that date. The roll-forward is based on the results of GRS' replication. Subsequent to the actuarial valuation date (June 30, 2016), but prior to the measurement date the KRS Board of Trustees reviewed investment trends, inflation, and payroll growth historical trends. Based on this review the Board adopted the following updated actuarial assumptions which were used in performing the actuarial valuation as of June 30, 2017, which were also used to determine the Total Pension Liability and Net Pension Liability as of June 30, 2017.

Inflation	2.30%
Salary Increases	3.05%, average
Investment Rate of Return	6.25% for KRS hazardous, 5.25% for KRS non-hazardous

**MOREHEAD STATE UNIVERSITY**

Notes to the Financial Statements, continued

**7. Pension & OPEB Plans, continued**

Kentucky Employee Retirement System - Pension, continued

The mortality table used for active members is RP-2000 Combined Mortality Table projected with Scale BB to 2013 (multiplied by 50% for males and 30% for females). For healthy retired members and beneficiaries, the mortality table used is the RP-2000 Combined Mortality Table projected with Scale BB to 2013 (set-back for one year for females). For disabled members, the RP-2000 Combined Disabled Mortality Table projected with Scale BB to 2013 (set back four years for males) is used for the period after disability retirement.

The long-term expected rate of return was determined by using a building-block method in which best-estimate ranges of expected future real rate of returns are developed for each asset class. The ranges are combined by weighting the expected future real rate of return by the target asset allocation percentage. The target asset allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

KRS Non-Hazardous

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
<b>US Equity*</b>	17.50%	5.75%
<b>International Equity*</b>	17.50%	7.38%
<b>Global Bonds</b>	10.00%	2.63%
<b>Global Credit</b>	17.00%	3.63%
<b>High Yield</b>	0.00%	5.75%
<b>Emerging Market Debt</b>	0.00%	5.50%
<b>Private Credit</b>	0.00%	8.75%
<b>Real Estate*</b>	5.00%	6.63%
<b>Absolute Return</b>	10.00%	5.63%
<b>Real Return*</b>	10.00%	5.13%
<b>Private Equity</b>	10.00%	8.25%
<b>Cash</b>	3.00%	1.88%
<b>Total</b>	100.00%	5.46%

\* Long-Term Expected Real Rates of Return may vary by plans depending on the risk tolerance of the plan

**MOREHEAD STATE UNIVERSITY**

Notes to the Financial Statements, continued

**7. Pension & OPEB Plans, continued**

Kentucky Employee Retirement System - Pension, continued

KRS Hazardous

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
<b>US Equity*</b>	17.50%	5.97%
<b>International Equity*</b>	17.50%	7.85%
<b>Global Bonds</b>	4.00%	2.63%
<b>Global Credit</b>	2.00%	3.63%
<b>High Yield</b>	7.00%	5.75%
<b>Emerging Market Debt</b>	5.00%	5.50%
<b>Private Credit</b>	10.00%	8.75%
<b>Real Estate*</b>	5.00%	7.63%
<b>Absolute Return</b>	10.00%	5.63%
<b>Real Return*</b>	10.00%	6.13%
<b>Private Equity</b>	10.00%	8.25%
<b>Cash</b>	2.00%	1.88%
<b>Total</b>	100.00%	6.56%

\* Long-Term Expected Real Rates of Return may vary by plans depending on the risk tolerance of the plan

*Discount rate.* Single discount rates of 5.25% for the Non-Hazardous and 6.25% for the Hazardous System were used to measure the total pension liability for the fiscal year ending June 30, 2017. This single discount rate was based on the expected rate of return on pension plan investments for each system. Based on the stated assumptions and the projection of cash flows as of each fiscal year ending, the pension plan's fiduciary net position and future contributions were projected to be sufficient to finance all the future benefit payments of the current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of the projected benefit payments to determine the total pension liability for each system. The projection of cash flows used to determine the single discount rate assumes that the State contributes the actuarially determined contribution rate in all future years.

**MOREHEAD STATE UNIVERSITY**

Notes to the Financial Statements, continued

**7. Pension & OPEB Plans, continued**

Kentucky Employee Retirement System - Pension, continued

*Sensitivity of the 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 rate of 6.25% for Hazardous and 5.25% for Non-Hazardous, as well as what the University's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (5.25 percent/4.25 percent) or 1-percentage-point higher (7.25 percent/6.25 percent) than the current rate:

	<b>Hazardous</b>		
	1% Decrease (5.25%)	Current Discount Rate (6.25%)	1% Increase (7.25%)
Morehead State University's proportionate share of the Collective Net Pension Liability	\$ 1,969,924	\$ 1,548,678	\$ 1,199,130

	<b>Non-Hazardous</b>		
	1% Decrease (4.25%)	Current Discount Rate (5.25%)	1% Increase (6.25%)
Morehead State University's proportionate share of the Collective Net Pension Liability	\$ 89,865,034	\$ 78,706,550	\$ 69,428,821

*Pension plan fiduciary net position.* Detailed information about the pension plan's fiduciary net position is available in the separately issued KRS financial report.

Kentucky Employee Retirement System - OPEB

*KRS OPEB Liabilities, OPEB Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB* - At June 30, 2018, the University reported a liability of \$14,927,052 for its proportionate share of the net OPEB liability. The net OPEB liability was measured as of June 30, 2017, and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation as of that date. The University's proportion of the net OPEB liability was based on a projection of the University's long-term share of contributions to the OPEB plan relative to the projected contributions of all participating organizations, actuarially determined. At June 30, 2017, the University's proportion was 0.587 percent. The complete actuarial valuation report including all actuarial assumptions and methods is publicly available on the website at [www.kyret.ky.gov](http://www.kyret.ky.gov).

**MOREHEAD STATE UNIVERSITY**

Notes to the Financial Statements, continued

**7. Pension & OPEB Plans, continued**

Kentucky Employee Retirement System - OPEB, continued

For the year ended June 30, 2018, the University recognized OPEB expense of \$1,512,407. At June 30, 2018, the University reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual liability experience	\$ -	\$ 21,145
Changes of assumptions	2,186,184	-
Net difference between projected and actual earnings on OPEB plan investments	-	260,245
Changes in proportion and differences between University contributions and proportionate share of contributions	-	112,201
University contributions subsequent to the measurement date	701,432	-
<b>Total</b>	<b>\$ 2,887,616</b>	<b>\$ 393,591</b>

\$701,432 reported as deferred outflows of resources related to the University's contributions to the KRS OPEB plan subsequent to the measurement date will be recognized as a reduction of the net OPEB liability in the year ending June 30, 2019. Other amounts reported as deferred outflows of resources and deferred inflows of resources will be recognized in OPEB expense as follows:

Year ending June 30:			
2019	\$	433,066	
2020		433,066	
2021		433,066	
2022		433,066	
2023		47,791	
Thereafter		12,538	
<b>Total</b>	<b>\$</b>	<b>1,792,593</b>	

## MOREHEAD STATE UNIVERSITY

### Notes to the Financial Statements, continued

#### 7. Pension & OPEB Plans, continued

##### Kentucky Employee Retirement System - OPEB, continued

*Actuarial assumptions* - For financial reporting the actuarial valuation as of June 30, 2017, was performed by Gabriel Roeder Smith (GRS). The total OPEB liability, net OPEB liability, and sensitivity information as of June 30, 2017, were based on an actuarial valuation date of June 30, 2016. The total OPEB liability was rolled-forward from the valuation date (June 30, 2016) to the plan's fiscal year ending June 30, 2017, using generally accepted actuarial principles. GRS did not perform the actuarial valuation as of June 30, 2016, but did replicate the prior actuary's valuations results on the same assumption, methods, and data, as of that date. The roll-forward is based on the results of GRS' replication. Subsequent to the actuarial valuation date (June 30, 2016), but prior to the measurement date, and before the required 2019 experience study, the Kentucky Retirement Systems Board of Trustees reviewed investment trends, inflation, and payroll growth historical trends. Based on this review the Board adopted the following updated actuarial assumptions which were used in performing the actuarial valuation as of June 30, 2017:

Inflation	2.30%
Payroll Growth Rate	0.0% for KRS non-hazardous
Salary Increase	3.05%, average
Investment Rate of Return	6.25%
Healthcare Trend Rates:	
Pre - 65	Initial trend starting at 7.25% at January 1, 2019, and gradually decreasing to an ultimate trend rate of 4.05% over a period of 13 years.
Post-65	Initial trend starting at 5.10% at January 1, 2019, and gradually decreasing to an ultimate trend rate of 4.05% over a period of 11 years.

The mortality table used for active members is RP-2000 Combined Mortality Table projected with Scale BB to 2013 (multiplied by 50% for males and 30% for females). For healthy retired members and beneficiaries, the mortality table used is the RP-2000 Combined Mortality Table projected with Scale BB to 2013 (set-back for one year for females). For disabled members, the RP-2000 Combined Disabled Mortality Table projected with Scale BB to 2013 (set back four years for males) is used for the period after disability retirement.

*Discount Rate* - The projection of cash flows used to determine the discount rate of 5.83% for KRS Non-hazardous and 5.87% for KRS Hazardous assumed that local employers would contribute the actuarially determined contribution rate of projected compensation over the remaining 26 years (closed) amortization period of the unfunded actuarial accrued liability. The discount rate determination used an expected rate of return of 6.25%, and a municipal bond rate of 3.56%, as reported in Fidelity Index's "20-Year Municipal GO AA Index" as of June 30, 2017. However, the cost associated with the implicit employer subsidy was not included in the calculation of the System's actuarial determined contributions, and any cost associated with the implicit subsidy will not be paid out of the System's trusts. Therefore, the municipal bond rate was applied to future expected benefit payments associated with the implicit subsidy. The target asset allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the pension section above.



**MOREHEAD STATE UNIVERSITY**

Notes to the Financial Statements, continued

**7. Pension & OPEB Plans, continued**

Kentucky Employee Retirement System - OPEB, continued

*Sensitivity of the 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, as well as what the University's proportionate share of the net OPEB liability would be if it were calculated using a discount rate that is 1-percentage-point lower or 1-percentage-point higher than the current discount rate:

	<b>Non- Hazardous 1% Decrease ( 4.83% )</b>	<b>Current Discount Rate ( 5.83% )</b>	<b>1% Increase ( 6.83% )</b>
University's share of net OPEB liability for Non-Hazardous	\$ 17,429,560	\$ 14,908,263	\$ 12,812,907

  

	<b>Hazardous 1% Decrease ( 4.87% )</b>	<b>Current Discount Rate ( 5.87% )</b>	<b>1% Increase ( 6.87% )</b>
University's share of net OPEB liability for Hazardous	\$ 228,835	\$ 18,789	\$ (153,305)

*Sensitivity of the University's proportionate share of the net OPEB liability to changes in the healthcare cost trend rates -* The following presents the University's proportionate share of the net OPEB liability, as well as what the University's proportionate share of the net OPEB liability would be if it were calculated using healthcare cost trend rates that are 1-percentage-point lower or 1-percentage-point higher than the current healthcare cost trend rates:

	<b>Non-Hazardous 1% Decrease</b>	<b>Current Healthcare Trend Rates</b>	<b>1% Increase</b>
University's share of net OPEB liability for Non-Hazardous	\$ 12,667,196	\$ 14,908,263	\$ 17,722,321

  

	<b>Hazardous 1% Decrease</b>	<b>Current Healthcare Trend Rates</b>	<b>1% Increase</b>
University's share of net OPEB liability for Hazardous	\$ (154,928)	\$ 18,789	\$ 234,429

# MOREHEAD STATE UNIVERSITY

## Notes to the Financial Statements, continued

### 7. Pension & OPEB Plans, continued

#### Optional Retirement Plans

Optional retirement plans (ORP's) are available to employees hired on or after January 1, 1997, who would otherwise be participants in the Kentucky Teachers' Retirement System. The ORP is established as a 403(b) defined contribution plan under the Internal Revenue Code guidelines. The providers of the University's ORP's are the Teachers Insurance and Annuity Association-College Retirement Equities Fund, TIAA/CREF, Variable Annuity Life Insurance Company, Fidelity and Voya Financial. Under these plans the employee's contribution is 8.185% of their gross salary and the University's contribution is 8.74% to the retirement company and 5.10% to Kentucky Teachers Retirement System. The University's contributions to these plans for the years ended June 30, 2018 and 2017 were \$1,101,125 and \$1,141,419 respectively, equal to the required contributions for each year.

### 8. Prepaid Lease

On February 7, 2017, the University sold property located in West Liberty, Kentucky for \$5,395,000. The University received \$1,894,000 in cash and recorded \$3,501,000 in assets for a prepaid lease to leaseback a portion of the building. The University also recorded \$1,429,844 as a deferred gain on disposal of the property, which will be recognized over the term of the lease. The University amortized \$130,291 as lease expense in 2018. The University also recognized \$71,492 as a gain on disposal of the property in 2018.

### 9. Operating Leases

The University has operating lease agreements for use of equipment and various parcels of real estate cancelable annually with the option to renew. The University recognizes the expenditures related to these obligations as lease payments are made. Total rent expenses under operating type leases were approximately \$736,000 and \$747,000 in 2018 and 2017, respectively.

### 10. Contingencies and Commitments

The University is a defendant in various lawsuits; however, University management is of the opinion, based on advice of legal counsel, that the ultimate resolution of these litigation matters will not have a material effect on the future operations or financial position of the University.

The University receives financial assistance from federal and state agencies in the form of grants and awards. The expenditure of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and are subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the applicable fund. The University has had no disallowed claims in the past. In the opinion of management, such potential disallowed claims, if any, would not have a material adverse effect on the overall financial position of the University at June 30, 2018.

The University has made certain commitments related to the completion of various construction projects in progress totaling approximately \$10,138,603. Such construction is principally financed by appropriations from the Commonwealth of Kentucky and proceeds from bonds.

## MOREHEAD STATE UNIVERSITY

### Notes to the Financial Statements, continued

#### **11. Self-Insurance Program**

The University maintains a self-insurance program for employees' dental insurance which has two plan options; a Preferred (PPO) and Premier (Indemnity). The University funds the plan at the single rate for all permanent full-time employees with the employees paying the difference between the preferred (PPO) single plan and the premier, two person or family plans, if applicable. Expenses incurred to cover claims paid by the University under the plan for fiscal years ended June 30, 2018 and 2017 totaled \$459,668 and \$452,043, respectively.

During the period ending June 30, 2017 the University switched to a self-insurance program for employees' health insurance which has three plan options; a PPO plan, Enhanced Value HRA and Life Long Savings Plan. Expenses incurred to cover claims paid by the University under the plan for fiscal year June 30, 2018 totaled \$8,222,003. Payments for employee health insurance for the fiscal year ending June 30, 2017 were \$5,764,753, including \$2,735,079 paid for insurance premiums, and \$3,029,674 paid for claims on behalf of employees.

#### **12. Risk Management**

The University is exposed to various risks of loss from torts; theft of, damage to, destruction of assets; business interruption; employee injuries and illnesses; natural disasters; and employee health and accident benefits. Commercial insurance coverage is purchased for claims arising from theft of, damage to, destruction of assets; business interruption; natural disasters; and employee health and accident benefits. Settled claims have not exceeded this commercial coverage in any of the three preceding years. As a sovereign entity of the Commonwealth of Kentucky, the Kentucky Board of Claims handles tort claims on behalf of the University.

The Commonwealth of Kentucky operates a public entity risk pool operating as a common risk management and insurance program for its members. The pool's governing agreement specifies that the pool will be self-sustaining through member premiums and will reinsure through commercial carriers for claims in excess of specified stop loss amounts. The University operates a self-insurance program for worker's compensation for its employees. The University purchases reinsurance through commercial carriers for claims in excess of specified stop loss amounts.

#### **13. Friends of Kentucky Folk Art Center, Inc.**

The Friends of Kentucky Folk Art Center, Inc. (KFAC) provides educational opportunities, benefits and programs to the public to enhance the awareness of and foster an appreciation and understanding of contemporary folk art. Under an operating agreement, the University provides office space and certain administrative services to the KFAC at no charge. For each of the fiscal years ended June 30, 2018 and 2017, KFAC received State Appropriations in the amount of \$198,000 and \$200,000, respectively. KFAC is an affiliate of the University in accordance with the provisions of KRS 164A.610. The financial statements of this affiliated corporation are reported upon separately. However, the assets, liabilities and net assets of KFAC have been included in the University's financial statements.

# MOREHEAD STATE UNIVERSITY

## Notes to the Financial Statements, continued

### 14. Endowment Trust Funds

The Foundation holds endowment investments for the University, the majority of which are associated with the Regional University Excellence Trust Fund (RUETF). The RUETF was created by the Kentucky General Assembly with the passage of the Postsecondary Education Improvement Act of 1997 ("House Bill 1"). The RUETF Endowment Match Program, also known as "Bucks for Brains", provides state funds on a dollar-for-dollar basis. Funds are endowed for the purposes of supporting endowed chairs and professorships.

The Foundation also holds endowment investments for the University which are associated with the Technology Endowment Program. The University will provide matching funds of at least one dollar for every dollar of grant funds. At the end of twenty years, both the principal and the income derived will be used to upgrade and/or replace software/hardware of the University's Information Management System.

The fair market value of Morehead State University endowment funds held by the Foundation as of June 30, 2018 and 2017 was \$41,885,094 and \$39,402,117, respectively. The portion of the endowments representing the value of the funding received from the Kentucky General Assembly was \$7,774,998 for the years ended June 30, 2018 and 2017, and is included in investments held by the Foundation. The portion of the endowments representing the value of the funding received from the Technology Endowment Program was \$290,229 for both years ended June 30, 2018 and 2017, and is included in investments held by the Foundation.

### 15. Related Parties

The University and the Foundation are related parties. The Foundation's purpose is to assist in the development, growth, expansion and progress of the student programs of Morehead State University. The University authorizes the Foundation to solicit contributions on its behalf. In the absence of donor restrictions, the Foundation has discretionary control over the amounts and timing of its distributions to the University. Related party transactions and funds held by the Foundation on behalf of the University are as follows during 2018 and 2017:

	<u>2018</u>	<u>2017</u>
Funds disbursed by the University on behalf of the Foundation for employee salaries and benefits	\$ 142,525	\$ 140,443
Funds held by the Foundation on behalf or for the benefit of the University	10,427,195	10,427,195
Funds due to the University by the Foundation	235,187	212,438
Funds due to the Foundation by the University	-	5,000

## MOREHEAD STATE UNIVERSITY

### Notes to the Financial Statements, continued

#### 15. Related Parties, continued

The University entered into an agreement with the Foundation where the University will provide personnel, office space, support equipment and other services that may be necessary to the operation of the Foundation. The Foundation reimburses the University for these services at an annual rate determined mutually by the two entities, \$164,307 for the year ended June 30, 2018 and \$109,664 for the year ended June 30, 2017. Amounts disclosed above as funds disbursed by the University on behalf of the Foundation for employee salaries and benefits are net of the annual rate for the fiscal years ended June 30, 2018 and 2017. The University has also entered into a direct financing capital lease of real estate with the Foundation as disclosed in Note 16I.

#### 16. Morehead State University Foundation, Inc.

##### A. Nature of the Organization

The Morehead State University Foundation, Inc. (the Foundation) is a corporation formed for educational, charitable and public purposes in accordance with the provisions of KRS 273.0010. The Foundation is a component unit of Morehead State University (the University). Specifically, it was founded to cooperate with the University and its Board of Regents in the promotion of the educational, civic and charitable purposes of the University in any lawful manner deemed appropriate by the Foundation's Board of Trustees. This purpose includes the encouragement of scholarship and research and the promotion of the prestige, expansion and development of the University's physical plant and faculty and the assistance of its students and alumni.

##### B. Summary of Significant Accounting Policies

The financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) which require management to make estimates and assumptions that affect the reported amounts and disclosures in the financial statements. Actual results could differ from those estimates. The following is a summary of the significant accounting policies consistently followed by the Foundation in the preparation of its financial statements.

##### Basis of Presentation

The Foundation's financial statements are presented in accordance with GAAP. Under these standards net assets and revenues, expenses, gains and losses are classified based upon the existence or absence of donor-imposed restrictions. Accordingly, net assets of the Foundation and changes therein are classified and reported as follows:

*Unrestricted net assets:* Net assets that are not subject to donor-imposed stipulations. Unrestricted net assets may be designated for specific purposes by action of the Board of Trustees.

*Temporarily restricted net assets:* Net assets whose use by the Foundation is subject to donor-imposed stipulations that can be fulfilled by actions of the Foundation pursuant to those stipulations or that expire by the passage of time.

## MOREHEAD STATE UNIVERSITY

### Notes to the Financial Statements, continued

#### 16. Morehead State University Foundation, Inc., continued

##### B. Summary of Significant Accounting Policies, continued

###### Basis of Presentation, continued

*Permanently restricted net assets:* Net assets subject to donor-imposed stipulations that neither expire by the passage of time nor can be fulfilled or otherwise removed. Generally, donors of these assets permit the Foundation to use all or part of the income earned on related investments for general or specific purposes.

###### Cash

The Foundation maintains its cash balances in financial institutions, which at times, may exceed federally insured limits. The Foundation has not experienced any losses on such accounts. The Foundation believes it is not exposed to any significant credit risk related to its cash balances.

###### Revenue Recognition

Revenues are reported as increases in unrestricted net assets unless use of the related assets is limited by donor-imposed restrictions. Expenses are reported as decreases in unrestricted net assets. Gains and losses on investments and other assets or liabilities are reported as increases or decreases in unrestricted net assets unless their use is restricted by explicit donor stipulation or by law. Expirations of temporary restrictions on net assets are reported as reclassifications between the applicable classes of net assets.

###### Pledges Receivable

Pledges receivable of amounts greater than \$500, less an appropriate allowance amount, are recorded at the net present value of estimated future cash flows using a discount rate commensurate with the risks involved. Net present value was computed using discount rates ranging from .72% to 5.25%, depending upon the age of the pledge and the expected timing of the payment.

Pledges receivable are presented net of an allowance for doubtful accounts (\$501,989 and \$612,460 as of June 30, 2018 and 2017, respectively). The allowance for doubtful accounts is established through a provision for doubtful accounts charged to expense. The allowance represents an amount, which in management's judgment, will be adequate to absorb probable losses on existing pledges that may become uncollectible.

## MOREHEAD STATE UNIVERSITY

### Notes to the Financial Statements, continued

#### 16. Morehead State University Foundation, Inc., continued

##### B. Summary of Significant Accounting Policies, continued

###### Investments

Investments in mutual funds having a readily determinable fair value and all debt securities are carried at fair value. Investment returns include dividend, interest and other investment income and realized and unrealized gains and losses on investments carried at fair value. Investment returns that are initially restricted by donor stipulation and for which the restriction will be satisfied in the same year are included as unrestricted net assets. Other investment returns are reflected in the statement of activities as unrestricted, temporarily restricted or permanently restricted based upon the existence and nature of any donor or legally imposed restrictions.

###### Property and Equipment

Property and equipment is stated at cost at the date of acquisition or fair value at date of donation. Expenditures with a cost greater than \$1,000, which increase values or extend useful lives of the respective assets, are capitalized, whereas expenditures for maintenance and repairs are charged to expense as incurred. Depreciation of assets is computed using the straight-line method over the estimated useful lives of the respective assets.

###### Annuities Payable

The Foundation pays stipulated amounts periodically to individuals (annuitants) who have given to the Foundation certain assets and who have entered into agreements that such payments cease at the death of the annuitant. Total annuity payments for the years ended June 30, 2018 and 2017 were \$228,799 and \$252,942, respectively.

The June 30, 2018 and 2017 annuity liability balances of \$969,743 and \$1,132,416, respectively are the present values of the monthly, quarterly, or semiannual payments to the annuitants based on the life expectancies of the annuitants and interest rates ranging from .69% to 4.39%. The estimated remaining life expectancies of the annuitants ranged from 2.77 to 15.32 years and 3.3 to 16.9 years for the years ended June 30, 2018 and 2017, respectively.

###### Due to Morehead State University

Contributions were made to the Foundation related to a program that the University has prefunded. The Foundation and the University have agreed that contributions made to the Foundation on behalf of this program will be remitted to the University annually. The contributions have been included as a liability on the Foundation's statements of financial position.

## MOREHEAD STATE UNIVERSITY

### Notes to the Financial Statements, continued

#### 16. Morehead State University Foundation, Inc., continued

##### B. Summary of Significant Accounting Policies, continued

###### Funds Held in Trust for Morehead State University

The Foundation is the custodian of funds owned by the University for the purpose of establishing certain endowment funds as authorized by the Kentucky Council on Postsecondary Education, the University Board of Regents and the Kentucky General Assembly. The Foundation invests the principal with a portion of the income derived from the principal to be remitted annually to the University. For the years ended June 30, 2018 and 2017, the Foundation held \$10,427,195 for the University's investment purposes.

###### Income Taxes

The Foundation is exempt from federal income taxes under section 501(c)(3) of the Internal Revenue Code. Except for tax on any unrelated business income activities, no provision for income taxes has been made.

###### Risks and Uncertainties

The Foundation invests in various investment securities. Investment securities are exposed to various risk 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 the value of investment securities will occur in the near term and that such change could materially affect the investment amounts reported in the statement of financial position.

###### Contributions

Gifts of cash and other assets received without donor stipulations are reported as unrestricted revenue and net assets. Gifts received with donor stipulations that limit their use are reported as temporarily or permanently restricted revenue and net assets. When a donor-stipulated time restriction ends or the purpose of the restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statements of activities as net assets released from restrictions. Gifts and investment income that are originally restricted by the donor and for which the restriction is met in the same time period are included in unrestricted net assets.

Gifts of land, buildings, equipment, and other long-lived assets are reported as unrestricted revenue and net assets unless explicit donor stipulations specify how such assets must be used, in which case the gifts are reported as temporarily or permanently restricted revenue and net assets. Absent explicit donor stipulations for the time long-lived assets must be held, expirations of restrictions resulting in the reclassification of temporarily restricted net assets to unrestricted net assets are reported when the long-lived assets are placed in service.



## MOREHEAD STATE UNIVERSITY

### Notes to the Financial Statements, continued

#### 16. Morehead State University Foundation, Inc., continued

##### B. Summary of Significant Accounting Policies, continued

###### Contributions, continued

Unconditional gifts expected to be collected within one year are reported at their net realizable value. Unconditional gifts expected to be collected in future years are recorded at the present value of estimated future cash flows. The resulting discount is computed using risk-free interest applicable to the years in which the promises are received. Amortization using the level-yield method is included in contribution revenue. Conditional gifts are not included as support until the conditions are substantially met.

###### Donated Materials and Property

Donated materials and property are recorded at their estimated fair value when received. The statements of activities for the years ended June 30, 2018 and 2017 include in-kind contributions of \$169,660 and \$182,753, respectively.

###### Functional Allocation of Expenses

The costs of supporting the various programs and other activities have been summarized on a functional basis in the statements of activities. Certain costs have been allocated among the functional categories based on their relationship to various direct costs in those functions.

###### Accounting Standards Update

In August 2016, the FASB issued ASU No. 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities*, that changes how a not-for-profit organization classifies its net assets, as well as the information it presents in the financial statements and notes about its liquidity, financial performance, and cash flows. The ASU includes a reduction in the number of net asset categories from three to two, conforming requirements on releases of capital restrictions, several new requirements related to expense presentation and disclosure (including investment expenses), and new required disclosures communicating information useful in assessing liquidity. This ASU will be effective for the Foundation for the fiscal year beginning July 1, 2018. Early adoption is permitted. The Foundation is currently evaluating the effects adoption of this guidance will have on the financial statements.

###### Reclassification of Net Assets

During the year ended June 30, 2018, the Foundation eliminated a project for which temporarily restricted contributions had been pledged or donated in the prior year. The Foundation worked with donors during the year to re-purpose these contributions into different projects and endowments. As a result, \$1,120,775 was transferred from temporarily restricted net assets to permanently restricted net assets for the year ended June 30, 2018.

# MOREHEAD STATE UNIVERSITY

## Notes to the Financial Statements, continued

### 16. Morehead State University Foundation, Inc., continued

#### B. Summary of Significant Accounting Policies, continued

##### Subsequent Events

The Foundation has evaluated subsequent events and transactions for accounting and disclosure requirements through October 1, 2018, the date on which the financial statements were ready to be issued, for items requiring recognition or disclosure in the financial statements.

#### C. Investments

Investments held as of June 30, 2018 and 2017 are summarized as follows:

	<u>2018</u>	<u>2017</u>
Mutual funds	\$ 29,408,768	\$ 35,015,001
Alternative investments	19,930,859	12,172,362
Corporate bonds and stock	67,786	56,345
Annuity investments	<u>163,688</u>	<u>158,933</u>
	<u>\$ 49,571,101</u>	<u>\$ 47,402,641</u>

Investment management fees were approximately \$176,000 and \$77,700 during the years ended June 30, 2018 and 2017, respectively.

**MOREHEAD STATE UNIVERSITY**

Notes to the Financial Statements, continued

**16. Morehead State University Foundation, Inc., continued**

**D. Fair Value Measurements**

The Foundation has determined the fair value of certain assets and liabilities as follows:

June 30, 2018	Fair Value	Fair Value Measurements at Reporting Date Using		
		Quoted Prices in Active Markets for Identical Assets/Liabilities (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Mutual funds:				
Equity				
U.S. Large Cap	\$ 7,043,950	\$ 7,043,950	\$ -	\$ -
U.S. Small Cap	2,400,008	2,400,008	-	-
International	5,320,884	5,320,884	-	-
Energy Sector	1,964,794	1,964,794	-	-
Fixed income and cash:				
Cash	295,792	295,792	-	-
Fixed income	11,867,260	11,867,260	-	-
Core	516,080	516,080	-	-
Alternative investments:				
Hedge funds	10,199,833	-	-	10,199,833
Real assets	1,408,710	-	-	1,408,710
Private equity	8,322,316	-	-	8,322,316
Corporate bonds and stocks	67,786	-	67,786	-
Annuity investment	163,688	-	163,688	-
<b>Total assets</b>	<b>\$ 49,571,101</b>	<b>\$ 29,408,768</b>	<b>\$ 231,474</b>	<b>\$ 19,930,859</b>
<b>Annuities</b>	<b>\$ 969,743</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 969,743</b>
<b>Total liabilities</b>	<b>\$ 969,743</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 969,743</b>

**MOREHEAD STATE UNIVERSITY**

Notes to the Financial Statements, continued

**16. Morehead State University Foundation, Inc., continued**

**D. Fair Value Measurements, continued**

June 30, 2017	Fair Value	Fair Value Measurements at Reporting Date Using		
		Quoted Prices in Active Markets for Identical Assets/Liabilities (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Mutual funds:				
Equity				
U.S. Large Cap	\$ 11,790,542	\$ 11,790,542	\$ -	\$ -
U.S. Small Cap	4,709,860	4,709,860	-	-
International	6,388,543	6,388,543	-	-
Global	-	-	-	-
Fixed income and cash:				
Cash	420,809	420,809	-	-
Fixed income	11,085,971	11,085,971		
Core	619,276	619,276	-	-
Alternative investments:				
Hedge funds	8,709,729	-	-	8,709,729
Real assets	3,211,070	-	-	3,211,070
Private equity	251,563	-	-	251,563
Corporate bonds and stocks	56,345	-	56,345	-
Annuity investment	158,933	-	158,933	-
	<b>\$ 47,402,641</b>	<b>\$ 35,015,001</b>	<b>\$ 215,278</b>	<b>\$ 12,172,362</b>
Annuities	<b>\$ 1,132,416</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 1,132,416</b>
Total liabilities	<b>\$ 1,132,416</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 1,132,416</b>

## MOREHEAD STATE UNIVERSITY

### Notes to the Financial Statements, continued

#### 16. Morehead State University Foundation, Inc., continued

##### D. Fair Value Measurements, continued

Financial assets and liabilities valued using level 1 inputs are based on unadjusted quoted market prices within active markets. Financial assets and liabilities valued using level 2 inputs are based primarily on quoted prices for similar assets or liabilities in active or inactive markets. Financial assets and liabilities using level 3 inputs are valued using management's assumptions about the assumptions market participants would utilize in pricing the asset or liability.

The following is a description of the valuation methodologies used for the assets and liabilities measured at fair value. There have been no changes in the methodologies used to determine fair value as of June 30, 2018 and 2017.

*Mutual funds:* Valued at the daily closing price as reported by the fund. Mutual funds held by the Foundation are open-end mutual funds that are registered with the Securities and Exchange Commission. These funds are required to publish their daily net asset value (NAV) and to transact at that price. The mutual funds held by the Foundation are deemed to be actively traded.

*Corporate bonds and stocks:* Valued using a yield curve matrix derived from quoted prices for similar assets in active markets.

*Annuity investment:* Valued using the net asset value of the underlying funds as determined by the annuity's custodian.

**MOREHEAD STATE UNIVERSITY**

Notes to the Financial Statements, continued

**16. Morehead State University Foundation, Inc., continued**

**D. Fair Value Measurements, continued**

Financial assets and liabilities valued using level 3 inputs are valued as follows:

Quantitative Information about Level 3 Fair Value Measurements		
	Valuation Techniques	Unobservable Inputs
Hedge funds	Capital contribution adjusted for allocated profits and losses based upon participation percentage (investor capital account divided total capital accounts) as determined at the beginning of the fiscal year.	<ul style="list-style-type: none"> <li>- Valuation and performance of underlying fund(s) being invested in by the hedge fund</li> <li>- Diversification of the underlying fund(s)</li> <li>- Leverage model used by the underlying fund(s)</li> </ul>
Real assets	Investment is in various funds, which are valued individually using the following methods: <ol style="list-style-type: none"> <li>1) Capped, float-adjusted, capitalization-weighted methodology</li> <li>2) Net asset value of underlying companies/funds being invested in, which hold real estate</li> <li>3) Current appraisal values and market information for properties held</li> <li>4) Market comparable companies</li> </ol>	<ul style="list-style-type: none"> <li>- Valuation and performance of underlying fund(s) being invested in</li> <li>- Diversification of the underlying fund(s)</li> <li>- Leverage model used by the underlying fund(s)</li> <li>- Relative health of industry in which real assets held are associated with</li> </ul>
Private equities	Market comparable companies	<ul style="list-style-type: none"> <li>- Discount for lack of marketability</li> <li>- Control premium</li> <li>- Threats from competition and regulatory environment</li> </ul>

The methods described above may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, while the Foundation believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

**MOREHEAD STATE UNIVERSITY**

Notes to the Financial Statements, continued

**16. Morehead State University Foundation, Inc., continued**

**D. Fair Value Measurements, continued**

The following is a reconciliation of the beginning and ending balances of recurring fair value measurements recognized in the accompanying statement of financial position using significant unobservable (level 3) inputs:

	<u>Hedge Funds</u>	<u>Real Assets</u>	<u>Private Equity</u>	<u>Total</u>
Balance, June 30, 2016	\$ 7,690,860	\$ 5,620,917	\$ 380,211	\$ 13,691,988
Additional investment	8,485,029	1,372,062	-	9,857,091
Funds sold	(7,802,949)	(4,288,906)	(153,918)	(12,245,773)
Realized and unrealized gains	345,332	512,796	25,270	883,398
Fees	(8,543)	(5,799)	-	(14,342)
Balance, June 30, 2017	<b>8,709,729</b>	<b>3,211,070</b>	<b>251,563</b>	<b>12,172,362</b>
Additional investment	1,641,775	166,198	8,229,009	10,036,982
Funds sold	(114,290)	(2,260,411)	(74,534)	(2,449,235)
Realized and unrealized (losses) gains	(11,302)	294,818	(83,722)	199,794
Fees	(26,079)	(2,965)	-	(29,044)
Balance, June 30, 2018	<b>\$ 10,199,833</b>	<b>\$ 1,408,710</b>	<b>\$ 8,322,316</b>	<b>\$ 19,930,859</b>

Donor-Designated Endowments

The Foundation has adopted the Uniform Prudent Management of Institutional Funds Act (UPMIFA). The Foundation follows UPMIFA and its own governing documents. The Foundation has interpreted UPMIFA as maintaining historical dollar value and to retain in endowment funds a portion of the investment return to support the increasing cost of benefits in the future, absent explicit donor stipulations to the contrary. As a result of this interpretation, the Foundation classifies as permanently restricted net assets (1) the original value of gifts donated to the permanent endowment, (2) the original value of subsequent gifts to the permanent endowment, and (3) accumulations made pursuant to an applicable gift agreement. The Foundation has determined that the balance of its endowments includes funds that require that the income and net appreciation be restricted to certain uses for the benefit of participants.

## MOREHEAD STATE UNIVERSITY

### Notes to the Financial Statements, continued

#### 16. Morehead State University Foundation, Inc., continued

##### D. Fair Value Measurements, continued

###### Donor-Designated Endowments, continued

The Foundation, on the advice of legal counsel, has determined that the majority of contributions are subject to the terms of its governing documents. Certain contributions are received subject to other gift instruments, or are subject to specific agreements with the Foundation. Under the terms of the Foundation's governing documents, the Foundation has the ability to distribute as much of the original principal of any trust or separate gift, devise, bequest, or fund as the Foundation in its sole discretion shall determine. As a result of the ability to distribute the original principal, all contributions not classified as temporarily restricted or permanently restricted are classified as unrestricted net assets for financial statement purposes.

The Foundation has established a financial management and investment policy for endowment assets that provides general guidelines for the prudent investment management of the endowment fund assets. The investment policy is established with the objective to preserve the real purchasing power of endowment assets as well as generate capital appreciation, after accounting for endowment spending, inflation, and costs of the portfolio and fund management, both internal and external.

The current financial management and investment policy establishes an annual maximum approved spending goal for distributions of up to 3.5% of endowment assets, a combined Foundation management fee to support the annual operating budget and investment consultant fees shall not be greater than 2.5% of the portfolio value, and a long-term target minimum annual return benchmark of the Consumer Price Index plus 6.0%.

The Foundation's investments include endowment investments for the University associated with the Technology Endowment Program and RUETF Endowment Match Program, also known as "Bucks for Brains." Funds held for the Technology Endowment Program are matched by the University of at least one dollar for every dollar of grant funds. As of both June 30, 2018 and 2017, the amount of funds included in the Foundation's investments held for the Technology Endowment Program was \$290,229. Funds held for the RUETF Endowment Match Program are endowed for the purposes of supporting endowed chairs and professorships, scholarships, fellowships, research funds, and mission support funds. As of June 30, 2018 and 2017, the amount of funds included in the Foundation's investments held for the RUETF Endowment Match Program was \$7,774,998 each year. These amounts are shown as funds held in trust for Morehead State University on the statements of financial position and are therefore not included in donor-designated endowment net assets.



**MOREHEAD STATE UNIVERSITY**

Notes to the Financial Statements, continued

**16. Morehead State University Foundation, Inc., continued**

**D. Fair Value Measurements, continued**

Donor-Designated Endowments, continued

Endowment net asset composition by fund type and changes in endowment net assets by fund type as of June 30, 2018 are as follows:

	Temporarily Restricted	Permanently Restricted	Total Net Endowment Assets
Endowment net assets, beginning of year	\$ 17,754,591	\$ 21,647,526	\$ 39,402,117
Contributions, net of bad debt expense	39,617	347,320	386,937
Other income	1,275	-	1,275
Interest and dividend income	998,904	-	998,904
Net appreciation	1,962,407	-	1,962,407
Amounts appropriated for expenditure and transfers	(1,987,321)	1,120,775	(866,546)
Endowment net assets, end of year	\$ 18,769,473	\$ 23,115,621	\$ 41,885,094

Endowment net asset composition by fund type and changes in endowment net assets by fund type as of June 30, 2017 are as follows:

	Temporarily Restricted	Permanently Restricted	Total Net Endowment Assets
Endowment net assets, beginning of year	\$ 15,002,400	\$ 20,967,235	\$ 35,969,635
Contributions, net of bad debt expense	8,011	680,291	688,302
Other income	339,966	-	339,966
Interest and dividend income	1,135,533	-	1,135,533
Net appreciation	3,077,111	-	3,077,111
Amounts appropriated for expenditure and transfers	(1,808,430)	-	(1,808,430)
Endowment net assets, end of year	\$ 17,754,591	\$ 21,647,526	\$ 39,402,117

**MOREHEAD STATE UNIVERSITY**

Notes to the Financial Statements, continued

**16. Morehead State University Foundation, Inc., continued**

**E. Pledges Receivable**

Pledges receivable have been designated to be paid by donors as follows:

Year ended June 30,		
2019	\$	1,653,165
2020		1,537,241
2021		321,390
2022		272,490
2023		254,390
Thereafter		<u>1,261,932</u>
		5,300,608
Less: present value discount		(280,716)
Less: allowance for uncollectible pledges		<u>(501,989)</u>
Pledges receivable, net		4,517,903
Less: current pledges receivable		<u>(1,618,914)</u>
Noncurrent pledges receivable	\$	<u><u>2,898,989</u></u>

During the years ending June 30, 2018 and 2017, the Foundation had bad debt expense of \$143,975 and \$35,277, respectively.

**F. Property and Equipment**

As of June 30, 2018 and 2017, property consists of the following:

	<u>2018</u>	<u>2017</u>
Land	\$ 53,000	\$ 53,000
Furniture and equipment	211,927	211,927
Buildings	<u>175,000</u>	<u>175,000</u>
	439,927	439,927
Less: accumulated depreciation	<u>(231,783)</u>	<u>(207,326)</u>
	<u>\$ 208,144</u>	<u>\$ 232,601</u>

Depreciation expense was \$24,457 and \$28,655 for the years ended June 30, 2018 and 2017, respectively.

# MOREHEAD STATE UNIVERSITY

## Notes to the Financial Statements, continued

### 16. Morehead State University Foundation, Inc., continued

#### G. Deferred Giving Program

The Foundation established a life insurance deferred giving program during 1983. The program consists of donors designating the Foundation as the owner and beneficiary of life insurance policies. There are seventeen and nineteen deferred giving programs with life insurance in effect totaling \$903,042 and \$878,041 for the years ended June 30, 2018 and 2017, respectively. The cash surrender value of these policies as of June 30, 2018 and 2017 was \$126,897 and \$121,277, respectively.

#### H. Support for Morehead State University

The Foundation's purpose is to assist in the development, growth, expansion and progress of the student programs of Morehead State University. All support to the University has been disclosed separately on the statements of activities as University support.

#### I. Net Investment in Capital Leases

The Foundation's net investment in direct financing capital leases of real estate with the University as of June 30 is as follows:

	<u>2018</u>	<u>2017</u>
Total minimum lease payments to be received	\$ -	\$ 31,546
Less: unearned income	<u>-</u>	<u>(1,338)</u>
Net investment in capital leases	<u>\$ -</u>	<u>\$ 30,208</u>

The outstanding lease payments due from direct financing capital lease were paid off during the year ended June 30, 2018.

**MOREHEAD STATE UNIVERSITY**

Notes to the Financial Statements, continued

**16. Morehead State University Foundation, Inc., continued**

**J. Temporarily and Permanently Restricted Net Assets**

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

	<u>2018</u>	<u>2017</u>
Funds restricted for specific purposes	\$ 21,584,202	\$ 21,758,056
Scholarships	27,647	12,679
Athletics	<u>47,353</u>	<u>4,803</u>
	<u>\$ 21,659,202</u>	<u>\$ 21,775,538</u>

Permanently restricted net assets at June 30, 2018 and 2017 consist of endowment funds.

Temporarily restricted net assets consist of the following as of June 30:

	<u>2018</u>	<u>2017</u>
Cash	\$ 175,338	\$ 33,113
Pledges receivable	3,364,268	5,292,892
Accounts receivable	-	8,000
Investments	18,001,344	16,289,573
Buildings	118,252	121,752
Net investment in capital leases	<u>-</u>	<u>30,208</u>
	<u>\$ 21,659,202</u>	<u>\$ 21,775,538</u>

Permanently restricted net assets consist of the following as of June 30:

	<u>2018</u>	<u>2017</u>
Cash	\$ 92,624	\$ 49,548
Pledges receivable	1,012,343	135,618
Investments	21,957,654	21,420,345
Land	<u>53,000</u>	<u>53,000</u>
	<u>\$ 23,115,621</u>	<u>\$ 21,658,511</u>

**MOREHEAD STATE UNIVERSITY**

Notes to the Financial Statements, continued

**16. Morehead State University Foundation, Inc., continued**

**J. Temporarily and Permanently Restricted Net Assets, continued**

During the years ended June 30, 2018 and 2017, net assets were released from donor restrictions by incurring expenses satisfying the restricted purposes or by occurrence of other events specified by donors.

	<u>2018</u>	<u>2017</u>
Academic programs	\$ 1,770,586	\$ 1,684,646
Student financial aid	902,760	771,651
Operations and materials	763,952	616,427
Athletics	443,523	427,634
General and administrative expenses	112,154	303,542
Fundraising	53,895	54,378
	<u>\$ 4,046,870</u>	<u>\$ 3,858,278</u>

**K. Related-Party Transactions**

The University entered into an agreement with the Foundation where the University will provide personnel, office space, support equipment and other services that may be necessary to the operation of the Foundation. The Foundation reimburses the University for these services at a rate determined mutually by the two entities, \$164,307 and \$109,664 for the years ended June 30, 2018 and 2017, respectively. GAAP requires recognition of professional services received if those services (a) create long-lived assets or (b) require specialized skills, are provided by individuals possessing those skills, and would typically need to be purchased if not provided by donation. Those services in excess of the agreed upon amount are considered in-kind contributed services and are treated as both revenue and expense to the Foundation.

Related party transactions and balances are as follows for the year ended June 30:

	<u>2018</u>	<u>2017</u>
Funds disbursed by the University on behalf of the Foundation for employee salaries and benefits	\$ 142,525	\$ 140,443
Funds due to the University by the Foundation	235,187	212,438
Funds due to the Foundation by the University	-	5,000

Transactions with the University include direct financing capital leases and support for the University as disclosed in Notes 16H and 16I.

**SUPPLEMENTAL INFORMATION**

**MOREHEAD STATE UNIVERSITY**

Schedule of Bonds and Capital Lease Obligations

June 30, 2018

	<u>Issue Date</u>	<u>Net Amount of Issue</u>	<u>Interest Cost</u>	<u>Outstanding June 30, 2017</u>	<u>Payments/ Reductions 2017-18</u>	<u>New Issues</u>	<u>Premium Amortization</u>	<u>Outstanding June 30, 2018</u>	<u>Interest Paid 2017-18</u>	<u>Debt Service Requirements 2018-19</u>	
										<u>Principal</u>	<u>Interest</u>
General Receipts:											
2007 Series A Bonds	08/14/07	\$ 6,445,000	4.00	\$ 540,000	\$ 265,000	\$ -	\$ -	\$ 275,000	\$ 16,300	\$ 275,000	\$ 5,500
2008 Series A Bonds	06/10/08	10,000,000	3.00-3.80	3,700,000	805,000	-	-	2,895,000	120,228	835,000	91,110
2011 Series A Bonds	07/25/11	5,090,000	2.00-4.125	3,990,000	225,000	-	-	3,765,000	144,138	240,000	138,006
2012 Series A Bonds	06/15/12	5,060,000	2.00-3.625	4,190,000	230,000	-	-	3,960,000	125,581	235,000	120,931
2013 Series A Bonds	09/10/13	9,475,000	1.00-4.375	7,990,000	410,000	-	-	7,580,000	281,119	405,000	272,919
2014 Series A Bonds	07/24/14	22,620,000	2.00-5.00	18,890,000	1,220,000	-	-	17,670,000	811,400	1,285,000	748,775
2014 Series B Bonds	07/24/14	4,840,000	1.00-5.00	4,105,000	245,000	-	-	3,860,000	149,566	255,000	141,966
2015 Series A Bonds	03/25/15	28,185,000	3.00-5.00	27,690,000	285,000	-	-	27,405,000	1,177,738	305,000	1,163,488
2015 Reoffering Premium	03/25/15	2,835,829	-	2,625,576	-	-	145,651	2,479,925	-	145,651	-
2016 Series A Bonds	03/22/16	3,280,000	1.00-3.00	3,205,000	35,000	-	-	3,170,000	74,445	35,000	74,060
2016 Series B Bonds	12/01/16	<u>6,560,000</u>	2.00-3.75	<u>6,560,000</u>	<u>250,000</u>	<u>-</u>	<u>-</u>	<u>6,310,000</u>	<u>203,068</u>	<u>255,000</u>	<u>198,019</u>
Total General Receipts		104,390,829		83,485,576	3,970,000	-	145,651	79,369,925	3,103,583	4,270,651	2,954,774

**MOREHEAD STATE UNIVERSITY**

Schedule of Bonds and Capital Lease Obligations, continued

June 30, 2018

	<u>Issue Date</u>	<u>Net Amount of Issue</u>	<u>Interest Cost</u>	<u>Outstanding June 30, 2017</u>	<u>Payments/ Reductions 2017-18</u>	<u>New Issues</u>	<u>Premium Amortization</u>	<u>Outstanding June 30, 2018</u>	<u>Interest Paid 2017-18</u>	<u>Debt Service Requirements 2018-19</u>	
										<u>Principal</u>	<u>Interest</u>
Lease Purchase Agreements:											
MSU Foundation, Inc.	03/01/99	240,000	5.00	30,208	30,208	-	-	-	1,048	-	-
Citi Mortgage, Inc.	03/31/05	1,824,000	4.19	387,833	387,833	-	-	-	26,067	-	-
JP Morgan/Chase	03/31/12	9,671,127	2.65	7,001,075	796,401	-	-	6,204,674	177,658	817,716	156,342
Mabry Property	12/19/13	875,000	4.50	471,818	127,325	-	-	344,493	18,627	133,174	12,778
IT Infrastructure (estimated)	06/19/15	10,000,000	2.92	9,564,463	885,336	-	-	8,679,127	271,275	915,051	241,560
Caudill Property	11/21/14	400,000	6.139	234,338	53,457	-	-	180,881	14,385	56,739	11,104
Rowan Co. Board of Ed	06/16/16	<u>2,000,000</u>	-	<u>1,300,000</u>	<u>1,300,000</u>	-	-	-	-	-	-
Total lease purchase		<u>25,010,127</u>		<u>18,989,735</u>	<u>3,580,560</u>	-	-	<u>15,409,175</u>	<u>509,060</u>	<u>1,922,680</u>	<u>421,784</u>
Total		<u>\$ 129,400,956</u>		<u>\$ 102,475,311</u>	<u>\$ 7,550,560</u>	<u>\$ -</u>	<u>\$ 145,651</u>	<u>\$ 94,779,100</u>	<u>\$ 3,612,643</u>	<u>\$ 6,193,331</u>	<u>\$ 3,376,558</u>

See report of independent auditors.



**SCHEDULE OF MOREHEAD STATE UNIVERSITY'S PROPORTIONATE SHARE  
OF THE NET PENSION LIABILITY**

**Kentucky Teachers Retirement System**  
Last 10 Fiscal Years  
(Dollar amounts in thousands)

	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>
<b>University's proportion of the net pension liability (asset)</b>	0.614%	0.617%	0.623%	0.366%
<b>University's proportionate share of the net pension liability (asset)</b>	\$132,575	\$150,686	\$192,662	\$103,482
<b>University's covered-employee payroll</b>	\$44,381	\$45,275	\$46,253	\$44,838
<b>University's proportionate share of the net pension liability (asset) as a percentage of its covered-employee payroll</b>	298.72%	332.82%	416.54%	230.79%
<b>Plan fiduciary net position as a percentage of the total pension liability</b>	45.59%	42.49%	35.22%	39.83%

This schedule is presented to illustrate the requirement to show information for 10 years. However, until a full 10-year trend is compiled, governments should present information for those years for which information is available.

*See report of independent auditors.*

**SCHEDULE OF MOREHEAD STATE UNIVERSITY'S PENSION CONTRIBUTIONS**

**Kentucky Teachers Retirement System**

Last 10 Fiscal Years

(Dollar amounts in thousands)

	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>
<b>Contractually required contribution</b>	\$4,770	\$4,852	\$4,957	\$4,826
<b>Contributions in relation to the contractually required contribution</b>	\$(4,770)	\$(4,852)	\$(4,957)	\$(4,826)
<b>Contribution deficiency (excess)</b>	-	-	-	-
<b>University's covered-employee payroll</b>	\$44,381	\$45,275	\$46,253	\$44,838
<b>Contributions as a percentage of covered-employee payroll</b>	10.75%	10.72%	10.72%	10.76%

This schedule is presented to illustrate the requirement to show information for 10 years. However, until a full 10-year trend is compiled, governments should present information for those years for which information is available.

*See report of independent auditors.*

**SCHEDULE OF MOREHEAD STATE UNIVERSITY'S PROPORTIONATE SHARE  
OF THE NET OPEB LIABILITY – MEDICAL INSURANCE PLAN**

**Kentucky Teachers Retirement System**  
Last 10 Fiscal Years  
(Dollar amounts in thousands)

	<u><b>2017</b></u>
<b>University's proportion of the net OPEB liability (asset)</b>	0.462%
<b>University's proportionate share of the net OPEB liability (asset)</b>	\$16,482
<b>University's covered-employee payroll</b>	\$44,838
<b>University's proportionate share of the net OPEB liability (asset) as a percentage of its covered-employee payroll</b>	36.75%
<b>Plan fiduciary net position as a percentage of the total OPEB liability</b>	21.18%

This schedule is presented to illustrate the requirement to show information for 10 years. However, until a full 10-year trend is compiled, governments should present information for those years for which information is available.

**SCHEDULE OF MOREHEAD STATE UNIVERSITY'S CONTRIBUTIONS**

**MEDICAL INSURANCE PLAN**

**Kentucky Teachers Retirement System**

Last 10 Fiscal Years

(Dollar amounts in thousands)

	<u>2017</u>
<b>Contractually required contribution</b>	\$792
<b>Contributions in relation to the contractually required contribution</b>	\$(792)
<b>Contribution deficiency (excess)</b>	-
<b>University's covered-employee payroll</b>	\$44,838
<b>Contributions as a percentage of covered-employee payroll</b>	1.77%

This schedule is presented to illustrate the requirement to show information for 10 years. However, until a full 10-year trend is compiled, governments should present information for those years for which information is available.

**SCHEDULE OF MOREHEAD STATE UNIVERSITY'S PROPORTIONATE SHARE  
OF THE NET OPEB LIABILITY – LIFE INSURANCE PLAN**

**Kentucky Teachers Retirement System**  
Last 10 Fiscal Years  
(Dollar amounts in thousands)

	<u><b>2017</b></u>
<b>University's proportion of the net OPEB liability (asset)</b>	0.974%
<b>University's proportionate share of the net OPEB liability (asset)</b>	\$214
<b>University's covered-employee payroll</b>	\$44,838
<b>University's proportionate share of the net OPEB liability (asset) as a percentage of its covered-employee payroll</b>	0.48%
<b>Plan fiduciary net position as a percentage of the total OPEB liability</b>	79.99%

This schedule is presented to illustrate the requirement to show information for 10 years. However, until a full 10-year trend is compiled, governments should present information for those years for which information is available.

**SCHEDULE OF MOREHEAD STATE UNIVERSITY'S CONTRIBUTIONS –  
LIFE INSURANCE PLAN**

**Kentucky Teachers Retirement System**  
Last 10 Fiscal Years  
(Dollar amounts in thousands)

	<u><b>2017</b></u>
<b>Contractually required contribution</b>	\$9
<b>Contributions in relation to the contractually required contribution</b>	\$(9)
<b>Contribution deficiency (excess)</b>	-
<b>University's covered-employee payroll</b>	\$44,838
<b>Contributions as a percentage of covered-employee payroll</b>	0.02%

This schedule is presented to illustrate the requirement to show information for 10 years. However, until a full 10-year trend is compiled, governments should present information for those years for which information is available.

**SCHEDULE OF MOREHEAD STATE UNIVERSITY'S PROPORTIONATE SHARE  
OF THE NET PENSION LIABILITY**

**Kentucky Employees Retirement System**  
Last 10 Fiscal Years  
(Dollar amounts in thousands)

	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>
<b>University's proportion of the net pension liability (asset)</b>	0.67%	0.66%	0.61%	0.58%
<b>University's proportionate share of the net pension liability (asset)</b>	\$62,124	\$68,784	\$71,768	\$80,255
<b>University's covered-employee payroll</b>	\$11,898	\$11,750	\$10,723	\$9,842
<b>University's proportionate share of the net pension liability (asset) as a percentage of its covered-employee payroll</b>	522.14%	585.40%	669.29%	815.43%
<b>Plan fiduciary net position as a percentage of the total pension liability</b>	25.39%	21.73%	17.54%	16.07%

This schedule is presented to illustrate the requirement to show information for 10 years. However, until a full 10-year trend is compiled, governments should present information for those years for which information is available.

**SCHEDULE OF MOREHEAD STATE UNIVERSITY'S PENSION CONTRIBUTIONS**

**Kentucky Employees Retirement System**

Last 10 Fiscal Years

(Dollar amounts in thousands)

	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>
<b>Contractually required contribution</b>	\$3,199	\$3,587	\$3,249	\$3,766
<b>Contributions in relation to the contractually required contribution</b>	\$(3,199)	\$(3,587)	\$(3,249)	\$(3,766)
<b>Contribution deficiency (excess)</b>	-	-	-	-
<b>University's covered-employee payroll</b>	\$11,898	\$11,750	\$10,723	\$9,842
<b>Contributions as a percentage of covered-employee payroll</b>	26.89%	30.53%	30.30%	38.26%

This schedule is presented to illustrate the requirement to show information for 10 years. However, until a full 10-year trend is compiled, governments should present information for those years for which information is available.



**SCHEDULE OF MOREHEAD STATE UNIVERSITY'S PROPORTIONATE SHARE**

**OF THE NET OPEB LIABILITY**

**Kentucky Employees Retirement System**  
Last 10 Fiscal Years  
(Dollar amounts in thousands)

	<u>2017</u>
<b>University's proportion of the net OPEB liability (asset)</b>	0.587%
<b>University's proportionate share of the net OPEB liability (asset)</b>	\$14,927
<b>University's covered-employee payroll</b>	\$9,842
<b>University's proportionate share of the net OPEB liability (asset) as a percentage of its covered-employee payroll</b>	151.67 %
<b>Plan fiduciary net position as a percentage of the total OPEB liability</b>	33.94%

This schedule is presented to illustrate the requirement to show information for 10 years. However, until a full 10-year trend is compiled, governments should present information for those years for which information is available.

SCHEDULE OF MOREHEAD STATE UNIVERSITY'S OPEB CONTRIBUTIONS –

**Kentucky Employees Retirement System**

Last 10 Fiscal Years

(Dollar amounts in thousands)

	<u>2017</u>
<b>Contractually required contribution</b>	\$830
<b>Contributions in relation to the contractually required contribution</b>	\$(830)
<b>Contribution deficiency (excess)</b>	-
<b>University's covered-employee payroll</b>	\$9,842
<b>Contributions as a percentage of covered-employee payroll</b>	8.43%

This schedule is presented to illustrate the requirement to show information for 10 years. However, until a full 10-year trend is compiled, governments should present information for those years for which information is available.

MOREHEAD STATE UNIVERSITY

Schedule of Expenditures of Federal Awards

Year ended June 30, 2018

<u>Federal Grantor/Pass-Through Grantor/Program or Cluster Title</u>	<u>Federal CFDA Number</u>	<u>Pass-Through Entity Identifying Number</u>	<u>Passed Through to Subrecipients</u>	<u>Total Federal Expenditures</u>
<b>US Department of Education</b>				
<b>Direct Programs:</b>				
<b>Student Financial Aid Cluster:</b>				
Federal Work Study	84.033		\$ -	\$ 623,220
Federal Pell Grant Program	84.063		-	14,625,329
Federal Supplemental Educational Opportunity Grants Program	84.007		-	336,274
Federal Perkins Loan Program	84.038		-	652,519
Federal Direct Loan Program	84.268		-	40,248,125
Teacher Educational Assistance for College and Higher Education Grant	84.405		-	9,789
			<hr/>	<hr/>
			-	56,495,256
<b>TRIO Cluster:</b>				
Talent Search II 16/21	84.044A		-	294,710
Talent Search 16/21	84.044A		-	452,728
UPWARD BOUND MATH/SCI 12/13	84.047M		-	83,663
UPWARD BOUND EAST 12/13	84.047A		-	102,252
UPWARD BOUND CENTRAL 13/14	84.047A		-	548,606
UPWARD BOUND EAST 17/22	84.047A		-	183,424
UPWARD BOUND CENTRAL 18/23	84.047A		-	104,901
UPWARD BOUND MATH/SCI 17/22	84.047M		-	172,897
UPWARD BOUND MATH/SCI-S 17/22	84.047M		-	137,937
Student Support 15/20	84.042		-	354,205
CEOC-SE 17/22	84.066A		-	181,770
CEOC-NE 14/19	84.066A		-	481,348
ROWLAND-USED-CEOC-SE 12/17	84.066A		-	40,563
			<hr/>	<hr/>
			-	3,139,004
MCLAREN-PEEAK 15/19	84.325K		-	287,355
			<hr/>	<hr/>
			-	287,355
<b>Passed through Berea College</b>				
Connell-USED-Berea-GEAR UP 17/18	84.334		-	24,764
			<hr/>	<hr/>
			-	24,764
<b>Passed through Kentucky Council on Postsecondary Education</b>				
NILES-CPE-Adult Prof Dev 17/18	84.002	PO2 415 1600001699	-	70,801
Henderson-Bath-Adult LC 17/18	84.002	PO2 415 1800001275 1	-	76,100
Henderson-Powell-Adult LC 17/1	84.002	PO2 415 1800001275 1	-	92,715
Henderson-Montgomery LC 17/18	84.002	PO2 415 1800001275 1	-	146,042
Henderson-Wolfe-Adult LC 17/18	84.002	PO2 415 1800001275 1	-	78,208
Henderson-MSU-Adult LC 17/18	84.002	PO2 415 1800001275 1	-	120,944
Henderson-WL-Adult LC 17/18	84.002	PO2 415 1800001275 1	-	128,332
Henderson-Perform-MSU 17/18	84.002	PO2 415 1800001275 1	-	6,672
Blackwell-USED-CPE-STEM 16/17	84.367B	PO2 415 1600003906 1	-	696
Connell-Adult Ed-USED-CPE 17/1	84.002A	PO2 415 1800000428 1	-	306,852
Henderson-Bath-Adult LC 16/17	84.002	PO2 415 1700001260 1	-	175
Henderson-Wolfe-Adult LC 16/17	84.002	PO2 415 1700001260 1	-	(226)
Barton-USED-CPE-Science 16/17	84.367B	PO2 415 1600003325	-	9,433
Connell-USED-CPE-GEAR UP 16/17	84.334S	PO2 415 1700002099	-	7,128
Henderson-MSU-Adult LC 16/17	84.002	PO2 415 1700001260 1	-	(45)
Henderson-Montgomery LC 16/17	84.002	PO2 415 1700001260 1	-	(100)
Miller-USED-CPE-STEM 17/8	84.367B	PO2 415 1700004407 1	-	113,179
BLACKWELL-USED-CPE-MATH 17/18	84.367B	PO2 415 1700003267	-	111,212
Connell-CPE-GEAR UP-Summer 17	84.334S	PO2 415 1700004608 1	-	13,866
			<hr/>	<hr/>
			-	1,281,984
<b>Passed through Kentucky Department of Education</b>				
Stubbs-USED-KDE-PD 17/18	84.048A	PON2 540 1700002912 1	-	1,707
STUBBS-TITLE 1C-IMAGING 16/17	84.048A	PON2 540 1600003899 1	-	1,640
Stubbs-USED-KDE-Field Based 17	84.048A	PON2 540 1700002912 1	-	18,899
			<hr/>	<hr/>
			-	22,246

\*Items denoted with an asterisk are those included in the Research and Development Cluster

MOREHEAD STATE UNIVERSITY

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<u>Federal Grantor/Pass-Through Grantor/Program or Cluster Title</u>	<u>Federal CFDA Number</u>	<u>Pass-Through Entity Identifying Number</u>	<u>Passed Through to Subrecipients</u>	<u>Total Federal Expenditures</u>
<b>Passed through Kentucky Education and Workforce Development Cabinet</b>				
STUBBS-TITLE 1C-NURSE 17/18	84.048A	PON2 540 1700002885 1	-	12,199
STUBBS-TITLE 1C-IMAGING 17/18	84.048A	PON2 540 1700002885 1	-	5,212
STUBBS-TITLE 1C-VET 17/18	84.048A	PON2 540 1700002885 1	-	15,250
STUBBS-TITLE 1C-DEAN 17/18	84.048A	PON2 540 1700002885 1	-	1,418
			-	34,079
<b>Passed through Kentucky Education Cabinet</b>				
MATTINGLY-CDP REHAB 16/18	84.346	PON2 531 1600002267 1	-	708,111
			-	708,111
<b>Passed through National Writing Project Corp</b>				
MASCLE-USED-NWP-SEED 17/18	84.367D	94-KY07-SEED2017-ILI	-	11,341
Mascle-USED-NWP-SEED 18/19	84.367D	94-KY07-SEED2018-C3WPPE	-	2,233
MASCLE-USED-NWP-SCALE UP 17/18	84.928A	94-KY07-SEED2017-CRWPAI	-	17,240
			-	30,814
<b>Total U.S. Department of Education</b>			-	<b>62,023,613</b>
<b>Appalachian Regional Commission</b>				
<b>Direct Programs</b>				
MILLER-ARC-SOAR-STEM 17/18	23.001		-	428,331
WALKER-ARC-KY AHED 13/14	23.001		-	20,332
DeMoss-ARC-Dental 16/17	23.001		-	35,698
			-	484,361
<b>Passed through The Center for Rural Development</b>				
NIEHOFF-PRIDE-EARTH DAY 18	23.002		-	1,198
			-	1,198
<b>Total Appalachian Regional Commission</b>			-	<b>485,559</b>
<b>Corporation for National and Community Service</b>				
<b>Direct Programs</b>				
JUDD-CNCS-RSVP-EXPAND 17/18	94.002		-	83,481
JUDD-CNCS-RSVP 18/21	94.002		-	19,670
RSVP-CNCS-Augmentation 15/18	94.002		-	11,365
Judd-CNCS-RSVP 15/18	94.002		-	64,881
			-	179,397
<b>Passed through Kentucky Cabinet for Health and Family Services</b>				
WILLIAMS-CNCS-CHFS-MSU CORPS	94.006	PON2 730 1800000078 1	-	363,602
Williams-CNCS-VGF-Bed 17/18	94.021	PON2 730 1800000078 3	-	4,899
Williams-CNCS-CHFS-MSU Corps 1	94.006	PON2 730 1700000014 1	-	46,783
			-	415,284
<b>Total Corporation for National and Community Service</b>			-	<b>594,681</b>
<b>Corporation for Public Broadcasting</b>				
<b>Direct Programs</b>				
HITCHCOCK-CPB-RADIO-REST 16/18	11.550		-	3,175
Hitchcock-CPB-Radio-Rest 17/19	11.550		-	25,159
HITCHCOCK-CPB-RADIO 16/18	11.550		-	94,277
Hitchcock-CPB-Radio 17/19	11.550		-	8,453
			-	131,064
<b>Total Corporation for Public Broadcasting</b>			-	<b>131,064</b>

\*Items denoted with an asterisk are those included in the Research and Development Cluster

MOREHEAD STATE UNIVERSITY

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<u>Federal Grantor/Pass-Through Grantor/Program or Cluster Title</u>	<u>Federal CFDA Number</u>	<u>Pass-Through Entity Identifying Number</u>	<u>Passed Through to Subrecipients</u>	<u>Total Federal Expenditures</u>
<b>US Environmental Protection Agency</b>				
<b>Passed through Kentucky Division of Water</b>				
GEARNER-PRINCIPAL LAB 16/18	66.468	PON2 129 1600002199	-	30,339
HAIGHT-TRIPLETT CREEK 16/18	66.605	PON2 129 1600001087	-	119,667
			-	150,006
<b>Passed through Kentucky Energy and Environment Cabinet</b>				
HAIGHT-TRIPLETT CREEK 14/17	66.605	PON2 129 1400001224 1	-	95,588
			-	95,588
<b>Passed through Earth Force</b>				
HAIGHT-EPA-EARTH FORCE 16/17	66.951	NE-00042316-0	-	2,186
			-	2,186
<b>Passed through Kentucky Association for Environmental Education</b>				
HAIGHT-EPA-KAEE-KUPEE 16/17	66.951	NE-00043216-0	-	4,722
			-	4,722
<b>Passed through Kentucky Environmental and Public Protection Cabinet</b>				
GEARNER-PRINCIPAL LAB 14/16	66.468	PON2 129 1400001833 1	-	(33)
			-	(33)
<b>Total US Environmental Protection Agency</b>			-	<b>252,469</b>
<b>National Aeronautics and Space Administration</b>				
<b>Direct Programs</b>				
MALPHRUS-NASA-ICECUBE 15/20*	43.001		230,554	881,176
Malphrus-NASA-PRISM 17/18*	43.001		25,000	99,998
MALPHRUS-NASA-BOLAS 17*	43.001		25,000	99,998
			280,554	1,081,172
<b>Passed through Busek Company, INC</b>				
Malphrus-BCI-Lunar Cube 15/17*	43.001	S1080	-	35,283
			-	35,283
<b>Passed through Exomedicine, INC</b>				
Malphrus-NASA-Exomedicine 17/1*	43.001	219-602-17-001	-	116,220
			-	116,220
<b>Passed through Roccor, LLC</b>				
MALPHRUS-ROCCOR-SCOUT II 17*	43.001	SC-RC01-7027	-	13,907
Malphrus-NASA-Roccor-SBIR 17*	43.001	SC-RC01-7029	-	6,275
			-	20,182
<b>Passed through University of Kentucky Research Foundation</b>				
FULTZ-NASA-UKRF-A7r5 17*	43.008	3200000161-17-172	-	14,301
			-	14,301
<b>Passed through University of Maryland</b>				
Malphrus-NASA-UMD-PrOVE 17/18*	43.001	Z6042201	-	54,001
			-	54,001
<b>Passed through Smithsonian Astrophysical Observatory</b>				
PANNUTI-NASA-SAO-REMNANT 15/16*	43.001	G05-16074X	-	1,635
GRUPE-NASA-SAO-FLUX 17/18*	43.001	DD7-18087X	-	3,806
			-	5,441
<b>Total National Aeronautics and Space Administration</b>			<b>280,554</b>	<b>1,326,600</b>
<b>National Highway Traffic Safety Administration</b>				
<b>Passed through Kentucky Transportation Cabinet</b>				
Stidam-NHTSA-KYTC-Sober 17	20.616	PO2 625 1700004289 1	-	2,211
Stidam-NHTSA-KYTC-Sober 18	20.616	PO2 625 1800004519 1	-	268
			-	2,479
<b>Total National Highway Traffic Safety Administration</b>			-	<b>2,479</b>
<b>National Institute of Health</b>				
<b>Direct Programs</b>				
HARE-NIH-MOA OF UmuD 12/16*	93.859		-	87
Gibbs-NIH-Expression 14/17*	93.865		-	72,755
Hare-NIH-MOA of UmuD 17/20*	93.113		-	41,028
CARLSON-NIH 17/20*	93.173		-	99,950
			-	213,820

\*Items denoted with an asterisk are those included in the Research and Development Cluster

MOREHEAD STATE UNIVERSITY

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<u>Federal Grantor/Pass-Through Grantor/Program or Cluster Title</u>	<u>Federal CFDA Number</u>	<u>Pass-Through Entity Identifying Number</u>	<u>Passed Through to Subrecipients</u>	<u>Total Federal Expenditures</u>
<b>Passed through University of Louisville Research Foundation</b>				
INBRE-KBRIN-CARLSON 17/18*	93.859	ULRF 13-1493C-07	-	7,423
INBRE-KBRIN-HARE-BRIDGE 17/18*	93.859	ULRF 13-1493C-07	-	22,327
INBRE-KBRIN-Hare-Lead 16/17*	93.859	ULRF 13-1493B-02	-	(102)
INBRE-KBRIN-MATTINGLY 17/18*	93.859	ULRF 13-1493C-07	-	88,447
INBRE-KBRIN-HARE-LEAD 17/18*	93.859	ULRF 13-1493C-07	-	14,236
INBRE-KBRIN-HARE-BRIDGE 16/17*	93.859	ULRF 13-1493B-02	-	512
INBRE-KBRIN-CARLSON 18/19*	93.389	ULRF 13-1493D-05	-	4,024
INBRE-KBRIN-HARE-BRIDGE 18/19*	93.389	ULRF 13-1493D-05	-	5,589
INBRE-KBRIN-HARE-LEAD 18/19*	93.859	ULRF 13-1493D-05	-	10,980
INBRE-KBRIN-MATTINGLY 18/19*	93.859	ULRF 13-1493D-05	-	16,523
			-	169,959
<b>Passed through Western Kentucky University</b>				
Bush-WKU-BINGOCIZE 17/20	93.859	596441-17-001	-	2,306
			-	2,306
<b>Total National Institute of Health</b>				
			-	<b>386,085</b>
<b>National Science Foundation</b>				
<b>Direct Programs</b>				
SCHACK-NSF-NOYCE 17/22*	47.076		-	64,314
SCHACK-NSF-TECHNO 14/17*	47.076		-	56,545
THare-NSF-UAV Sensor 16/18*	47.075		-	26,212
			-	147,071
<b>Passed through Eastern Kentucky University</b>				
RISK-NSF-EKU-DATABASE 14/16*	47.074	452944-15-218	-	615
			-	615
<b>Passed through Kentucky EPSCOR</b>				
OKeefe-NSF-EPSCoR-Data 17/18*	47.079	320000271-18-062	-	16,788
			-	16,788
<b>Total National Science Foundation</b>				
			-	<b>164,474</b>
<b>US Department of Agriculture</b>				
<b>Direct Programs:</b>				
Murphy-Rural Business-USDA 16/	10.769		-	1,162
			-	1,162
<b>Passed through Kentucky Department of Education</b>				
COOPER-SUMMER FOOD 17	10.558	CNIPS No. 12018	-	28,080
			-	28,080
<b>Passed through The University of Central Florida</b>				
Getchell-USDA-UCF-Pest 17/18*	10.310	24048020	-	9,535
			-	9,535
<b>Total US Department of Agriculture</b>				
			-	<b>38,777</b>
<b>US Department of Defense</b>				
<b>Passed through Eastern Kentucky University</b>				
Hail-DOD-EKU-IC CAE 16/17	12.598	453336-17-213	-	6,264
HAIL-DOD-EKU-IC CAE 17/18	12.598	453530-18-195	-	37,114
			-	43,378
<b>Total US Department of Defense</b>				
			-	<b>43,378</b>
<b>US Department of Health and Human Services</b>				
<b>Passed through Eastern Kentucky University</b>				
GEURIN-PCWCP-MOREHEAD 17/18	93.658	453445-18-155	-	6,657
GEURIN-PCWCP-ASHLAND 17/18	93.658	453445-18-154	-	5,987
GEURIN-PCWCP-MT STERLING 17/18	93.658	453445-18-156	-	5,987
GEURIN-PCWCP-PRESTON 17/18	93.658	453445-18-157	-	5,987
LOGAN-TRAINING RESOURCE 17/18	93.658	453442-18-108	-	87,950
			-	112,568

\*Items denoted with an asterisk are those included in the Research and Development Cluster

MOREHEAD STATE UNIVERSITY

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<u>Federal Grantor/Pass-Through Grantor/Program or Cluster Title</u>	<u>Federal CFDA Number</u>	<u>Pass-Through Entity Identifying Number</u>	<u>Passed Through to Subrecipients</u>	<u>Total Federal Expenditures</u>
<b>Passed through Kentucky Administrative Office of the Courts</b>				
Shannon-HHS-AOC-Allen/Simp 17/	93.243	PON2-025-1700001015	-	47,031
Shannon-HHS-AOC-18th District	93.243	PON2-025-1700001019	-	28,252
Shannon-HHS-AOC-Floyd Crt 17/1	93.243	PON2-025-1600000958	-	34,096
Shannon-HHS-AOC-Fayette 17/18	93.243	PON2-025-1700001018	-	42,608
Shannon-HHS-AOC-Christian 17/1	93.243	PON2-025-1700001014	-	25,157
Shannon-HHS-AOC-Hopkins 17/18	93.243	PON2-025-1700001012	-	18,894
Shannon-HHS-AOC-Letcher 17/18	93.243	PON2-025-1600001048	-	24,362
Shannon-HHS-AOC-McCracken 17/1	93.243	PON2-025-1700001017	-	28,893
Shannon-HHS-AOC-Perry 17/18	93.243	PON2-025-1700001013	-	26,741
Shannon-HHS-AOC-Clark/Mad 18	93.243	PON2 025 1800001090	-	30,149
Shannon-HHS-AOC-Clark/Mad 15/1	93.243	PON2-025-1400000391	-	2,515
Shannon-HHS-AOC-Floyd Crt 16/1	93.243	PON2-025-1600000958	-	13,466
Shannon-HHS-AOC-Letcher 16/17	93.243	PON2-025-1600001048	-	9,704
Shannon-HHS-AOC-Allen/Simp 16/	93.243	PON2-025-1700001015	-	17,299
Shannon-HHS-AOC-Christian 16/1	93.243	PON2-025-1700001014	-	7,925
Shannon-HHS-AOC-18th District	93.243	PON2-025-1700001019	-	14,133
Shannon-HHS-AOC-Hopkins 16/17	93.243	PON2-025-1700001012	-	7,132
Shannon-HHS-AOC-Fayette 16/17	93.243	PON2-025-1700001018	-	11,806
Shannon-HHS-AOC-Perry 16/17	93.243	PON2-025-1700001013	-	14,061
Shannon-HHS-AOC-McCracken 16/1	93.243	PON2-025-1700001017	-	8,348
			-	412,572
<b>Passed through Louisville Metro Government</b>				
JUDD-HHS-CAPACITY BLDG 17/18	93.048	90MP0199-03-00	-	32,256
JUDD-HHS-CAPACITY BLDG 18/19	93.048	90MPPG0020-01-00	-	2,186
			-	34,442
<b>Passed through Mountain Comprehensive Care Center</b>				
Shannon-HHS-MCCC-AOTP 17	93.243	1H79SM063530-01	-	4,736
Shannon-HHS-MCCC-FVPS 16/17	93.243	90-EV0448-01-00	-	5,475
Shannon-HHS-MCCC-AWARE 16/17	93.243	1H79SM062838-01	-	6,383
Shannon-HHS-MCCC-CTS 16/17	93.243	1U79SM063045-01	-	10,433
SHANNON-HHS-MCCC-CABHI 17	93.243	1H79SM063368-01	-	3,804
Shannon-HHS-MCCC-FVPS 17/18	93.243	90EV0448-01-00	-	28,324
Shannon-HHS-MCCC-AOTP 17/18	93.243	1H79SM063530-01	-	24,705
Shannon-HHS-MCCC-CABHI 17/18	93.243	1H79SM063368-01	-	20,194
Shannon-HHS-MCCC-AWARE 17/18	93.243	1H79SM062838-01	-	7,258
Shannon-HHS-MCCC-CTS 17/18	93.243	1U79SM063045-01	-	46,676
			-	157,988
<b>Passed through Southern California Alcohol Drug Programs</b>				
Shannon-HHS-SCADP-TCE-HIV 17/1	93.243	TI026178	-	17,266
Shannon-HHS-SCADP-La Casita 16	93.243	TI025554	-	9,730
Shannon-HHS-SCADP-TCE-HIV 16/1	93.243	TI026178	-	5,880
			-	32,876
<b>Passed through Volunteers of America Los Angeles</b>				
Shannon-HHS-VOALA-HIV 16/17	93.243	TI024433	-	5,711
Shannon-HHS-VOALA-Barracks 16/	93.243	TI025601	-	3,897
Shannon-HHS-VOALA-MAI 16/17	93.243	TI025799	-	4,099
SHANNON-HHS-VOALA-SHAWL 16/17	93.243	TI080011	-	2,876
SHANNON-HHS-VOALA-HVCE 16/17	93.243	TI026488	-	7,548
Shannon-HHS-VOALA-MAI 17/18	93.243	TI025799	-	18,065
Shannon-HHS-VOALA-HVCE 17/18	93.243	TI026488	-	12,823
Shannon-HHS-VOALA-SHAWL 17/18	93.243	TI080011	-	18,819
Shannon-HHS-VOALA-HIV 17/18	93.243	TI024433	-	7,921
Shannon-HHS-VOALA-Barracks 17/	93.243	TI025601	-	6,640
Shannon-HHS-VOALA-GBHI 17/18	93.243	TI080416	-	11,445
			-	99,844
<b>Passed through Volunteers of America Utah</b>				
PERKINS-HHS-VOAU-CISP 16/17*	93.243	1H79SM062336-01	-	19,137
			-	19,137
<b>Total US Department of Health and Human Services</b>			-	<b>869,427</b>

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<u>Federal Grantor/Pass-Through Grantor/Program or Cluster Title</u>	<u>Federal CFDA Number</u>	<u>Pass-Through Entity Identifying Number</u>	<u>Passed Through to Subrecipients</u>	<u>Total Federal Expenditures</u>
<b>US Department of Justice</b>				
<b>Passed through Kentucky Administrative Office of the Courts</b>				
Shannon-DOJ-AOC-Campbell 17/18	16.585	PON2-025-1600000957	-	6,306
Shannon-DOJ-AOC-Christian 17/1	16.585	PON2-025-1600000961	-	6,967
Shannon-DOJ-AOC-Statewide 17/1	16.585	PON2-025-1600000959	-	19,714
Shannon-DOJ-AOC-Muhlenberg 17/	16.585	PON2-025-1500001328	-	12,019
Shannon-DOJ-AOC-Fayette VTC 17	16.585	PON2-025-1500001325	-	7,883
Shannon-DOJ-AOC-DUI Cr1 17/18	16.585	PON2-025-1500001324	-	5,049
Shannon-DOJ-AOC-Enhance 18	16.585	PON2 025 1800001091	-	1,134
Shannon-DOJ-AOC-Standards 18	16.585	PON2 025 1800001092	-	1,102
Shannon-DOJ-AOC-Hardin Co Eval	93.243	PON2-025-1500001326	-	1,612
Shannon-DOJ-AOC-Hardin VTC 15/	93.243	PON2-025-1400000814	-	1,784
Shannon-DOJ-AOC-John/Mar/Law 1	93.243	PON2-025-1600000947	-	(30)
Shannon-DOJ-AOC-Christian 16/1	93.243	PON2-025-1600000961	-	1,508
Shannon-DOJ-AOC-Campbell 16/17	93.243	PON2-025-1600000957	-	1,785
Shannon-DOJ-AOC-John/Mar/Law 1	93.243	PON2-025-1600000947	-	2,540
Shannon-DOJ-AOC-Statewide 16/1	93.243	PON2-025-1600000959	-	6,152
Shannon-DOJ-AOC-DUI Cr1 16/17	93.243	PON2-025-1500001324	-	2,457
Shannon-DOJ-AOC-Fayette VTC 16	93.243	PON2-025-1500001325	-	1,784
Shannon-DOJ-AOC-Muhlenberg 16/	93.243	PON2-025-1500001328	-	4,052
			-	83,818
<b>Total US Department of Justice</b>			-	<b>83,818</b>
<b>US Department of Labor</b>				
<b>Passed through Buffalo Trace Area Development District</b>				
Reynolds-Today's Youth 17/18	17.259	FY18-5245	-	156,289
			-	156,289
<b>Total US Department of Labor</b>			-	<b>156,289</b>
<b>US Small Business Administration</b>				
<b>Passed through University of Kentucky Research Foundation</b>				
Murphy-SBA-UKRF-SBDC 16/17	59.037	3200001037-17-159	-	46,404
Murphy-SBA-UKRF-SBDC 17/18	59.037	3200001644-18-228	-	99,967
			-	146,371
<b>Total US Small Business Administration</b>			-	<b>146,371</b>
<b>Total</b>			<b>\$ 280,554</b>	<b>\$ 66,705,084</b>

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MOREHEAD STATE UNIVERSITY

Notes to Schedule of Expenditures of Federal Awards

1. Basis of Presentation

The accompanying Schedule of Expenditures of Federal Awards includes the federal grant activity of Morehead State University (the University) and is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of Title 2 U.S. Code of Federal Regulations (CFR) Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (Uniform Guidance). Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

2. Federal Student Loan Programs

Loans made by the University to eligible students under the Federal Perkins Loan Program and federal student loans issued by the Federal Direct Loan Program during the year ended June 30, 2018 are summarized as follows:

Federal Perkins Loan Program:		
Loans disbursed	\$	652,519
Federal Direct Loan Program:		
Federal Unsubsidized Loans	\$	23,435,302
Federal Subsidized Loans		12,992,023
Federal Plus Loans		3,820,800

As of June 30, 2018, the University had loans outstanding, in the amount of \$3,593,268 with an allowance for doubtful accounts of \$80,705 under the Federal Perkins Loan Program.

3. Facilities and Administrative Costs Rates

Predetermined fixed facilities and administrative costs rates have been approved as follows:

Period Covered	From 7/1/2015 to 6/30/2019
Based on Financial Information for fiscal year	
Predetermined rate – on campus	40%
Predetermined rate – off campus	13%

These rates are applied to modified total direct costs (as defined by the agreement) for on-campus programs.

**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**

Members of the Board of Regents and  
Dr. Joseph A. Morgan, President  
Morehead State University  
Morehead, 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 the business-type activities and discretely presented component units of Morehead State University (the University), which comprise the statements of net position as of June 30, 2018, and the related statements of revenues, expenses and changes in net position and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated October 1, 2018.

**Internal Control over Financial Reporting**

In planning and performing our audit of the financial statements, we considered the University's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions 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 over financial reporting 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.

Members of the Board of Regents and  
Dr. Joseph A. Morgan, President  
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### **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the University's financial statements are free from 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 entity'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 entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

*Dean Dotson Allen Ford, PLLC*

October 1, 2018  
Lexington, Kentucky

**Report on Compliance For Each Major Federal Program  
and Report on Internal Control Over Compliance and  
Report on the Schedule of Expenditures of  
Federal Awards Required by the Uniform Guidance**

**Report of Independent Auditors**

Members of the Board of Regents and  
Dr. Joseph A. Morgan, President  
Morehead State University  
Morehead, Kentucky

**Report on Compliance for Each Major Federal Program**

We have audited the compliance of Morehead State University (the University) with the types of compliance requirements described in the Title 2 U.S. Code of Federal Regulations (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance) that could have a direct and material effect on each of the University's major federal programs for the year ended June 30, 2018. The University's major federal programs are identified in the summary of auditors' results section of the accompanying *Schedule of Findings and Questioned Costs*.

**Management's Responsibility**

Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

**Auditor's Responsibility**

Our responsibility is to express an opinion on compliance for each of the University's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of the Uniform Guidance. Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the University's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of the University's compliance.

### **Opinion on Each Major Federal Program**

In our opinion, the University complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2018.

### **Other Matters**

We did not audit the University's compliance with requirements governing maintaining contact with and billing borrowers and processing deferment and cancellation requests and payments for the Federal Perkins Loan Program. Those requirements govern functions that are performed by University Accounting Services, LLC (UAS). Since we did not apply auditing procedures to satisfy ourselves as to compliance with those requirements, the scope of our work was not sufficient to enable us to express, and we do not express, an opinion on compliance with those requirements. UAS' compliance with the requirements governing the functions that it performed for the University was examined by other accountants whose report has been furnished to us. The report of the other accountants indicates that compliance with those requirements was examined in accordance with the Department of Education's Audit Guide, *Compliance Audits (Attestation Engagements) of Federal Student Financial Assistance Programs at Participating Institutions and Institution Servicers*. Based on our review of the service organization accountant's report, we have determined that all of the compliance requirements included the *Compliance Supplement* that are applicable to the major program in which the University participates are addressed in either our report or the report of the service organization accountants. Further, based on our review of the service organization accountant's report, we have determined that it does not contain any findings of noncompliance that would have a direct and material effect on the University's major program.

The results of our auditing procedures and those of other accountants disclosed an instance of noncompliance, which is required to be reported in accordance with the Uniform Guidance and which is described in the accompanying schedule of findings and questioned costs as item 2018-001. Our opinion on each major federal program is not modified with respect to this matter.

The University's response to the noncompliance findings identified in our audit are described in the accompanying schedule of findings and questioned costs and corrective action plan. The University's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

### **Report on Internal Control Over Compliance**

Management of the University is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the University's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the University's internal control over compliance.

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

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

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

#### **Report on Schedule of Expenditures of Federal Awards**

We have audited the financial statements of the University as of and for the year ended June 30, 2018, and have issued our report thereon dated October 1, 2018, which contained an unmodified opinion on those financial statements. Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by the Uniform Guidance and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditures of federal awards is fairly stated in all material respects in relation to the financial statements as a whole.

*Dean Dotson Allen Ford, PLLC*

October 10, 2018  
Lexington, Kentucky

**MOREHEAD STATE UNIVERSITY**

Schedule of Findings and Questioned Costs

Year ended June 30, 2018

**Section I – Summary of Auditors’ Results**

Financial Statements:

- a. The type of auditors’ report issued on the financial statements: **Unmodified Opinion**
- b. Internal control over financial reporting:  
Material weaknesses identified: **No**  
Significant deficiencies identified: **None reported**
- c. Noncompliance material to the financial statements noted: **No**

Federal Award:

- d. Internal control over major programs:  
Material weaknesses identified: **No**  
Significant deficiencies identified: **Yes**
- e. The type of report issued on compliance for major federal programs: **Unmodified Opinion**
- f. Any audit findings which are required to be reported under 2 CFR 200.516(a): **Yes**
- g. Major programs:  
**Total Student Financial Aid – Cluster (consisting of):**
  - Federal Pell Grant, CFDA 84.063
  - Federal Work Study, CFDA 84.033
  - Federal Supplemental Educational Opportunity Grant, CFDA 84.007
  - Federal Perkins Loan, CFDA 84.038
  - Federal Direct Loan Program, CFDA 84.268
  - Teacher Education Assistance for College and Higher Education Grant, CFDA 84.405**Total TRIO – Cluster (consisting of):**
  - CEOC, CFDA 84.066
  - Student Support Services, CFDA 84.042
  - Talent Search, CFDA 84.044
  - Upward Bound, CFDA 84.047
- h. Dollar threshold used to distinguish between Type A and Type B programs: **\$750,000**
- i. Auditee qualified as a low-risk auditee: **Yes**

**MOREHEAD STATE UNIVERSITY**

Schedule of Findings and Questioned Costs

Year ended June 30, 2018

**Section II – Financial Statement Findings:**

Findings Relating to the Financial Statements Reported in Accordance with *Government Auditing Standards*:  
**None Noted**

**Section III – Federal Award Findings and Questioned Costs:**

**Finding 2018-001**

**Federal Program:** U.S. Department of Education - Student Financial Aid Cluster

**Criteria:**

The University must comply with 34 CFR Section 685.309(b).

**Condition:**

During our testing of student status changes for withdrawals and graduates, we noted some students for which the National Student Loan Data System (NSLDS) was not notified timely of the correct student status change. 9 graduates from the fall semester and 9 students who officially withdrew from the University during the fiscal year ended June 30, 2018 were not reported to the NSLDS within 60 days of the graduation date or school's determination date that the student withdrew.

**Cause:**

The graduated or withdrawn status for 18 students was not reported to the NSLDS in a timely manner.

**Effect:**

Student status changes were not reported within the required timeframe under federal regulations. The provisions of 34 CFR Section 685.309(b) were not followed and thus some students were not reported timely and subsequently were not placed into loan repayment status in a timely manner.

**Recommendation:**

We recommend that the University implement a control to ensure data is being reviewed for accuracy by the appropriate personnel before roster files are submitted to the NSLDS. In addition, we recommend that the University submit roster files on a regular basis.

**Views of Responsible Officials:**

We agree with this finding and recommendation. Refer to Corrective Action Plan for planned response.



**MOREHEAD STATE UNIVERSITY**

Schedule of Prior Year Findings

Year ended June 30, 2018

**Finding 2017-001**

**Condition:**

During our testing of student status changes for withdrawals and graduates, we noted some students for which the National Student Loan Data System (NSLDS) was not notified timely of the correct student status change. During the fall and spring semesters, 5 students were not reported to the NSLDS within 60 days of the school's determination date that the student withdrew.

**Effect:**

Student status changes were not reported within the required timeframe under federal regulations. The provisions of 34 CFR Section 685.309(b) were not followed and thus some students were not reported timely and subsequently were not placed into loan repayment status in a timely manner.

**Recommendation:**

We recommend that the University implement a control to ensure data is being reviewed for accuracy by the appropriate personnel before roster files are submitted to the NSLDS.

**Views of responsible officials and planned corrective actions:**

We agree with this recommendation and we are in process of implementing a control to ensure data is being reviewed for accuracy by the appropriate personnel before roster files are submitted to the NSLDS.

**Status of Prior Year Finding:**

Refer to finding 2018-001.

## MOREHEAD STATE UNIVERSITY

### Corrective Action Plan

Year ended June 30, 2018

**Identifying Number:** 2018-001

**Finding:** During our testing of student status changes for withdrawals and graduates, we noted some students for which the National Student Loan Data System (NSLDS) was not notified timely of the correct student status change. 9 graduates and 9 students who officially withdrew from the University during the fiscal year ended June 30, 2018 were not reported to the NSLDS within 60 days of the graduation date or school's determination date that the student withdrew.

**Corrective Actions Taken or Planned:** The University worked with an Ellucian ERP system consultant to develop and implement a control to ensure data is being reviewed for accuracy before roster files are submitted to the National Student Clearinghouse (NSC) to be forwarded on to the NSLDS. The University also implemented a control to ensure roster files are submitted on a regular basis and student enrollment status changes are reported within the required timeframe under federal regulations. These controls were developed during the fall 2017 semester, but were not fully implemented until the beginning of the spring 2018 semester.