



Financial Statements

for

**MOREHEAD STATE UNIVERSITY**

For the Years Ended June 30, 2023 and 2022  
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, 2023. 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 *Come SOAR With Us, MSU Vision & Strategic Plan 2018-2025*.
- Total assets and deferred outflows of resources were \$352 million at June 30, 2023 versus \$374 million at June 30, 2022. The decrease is primarily related to decreases in capital assets, net of \$4 million and decreases in deferred outflows of resources of \$15 million.

## MOREHEAD STATE UNIVERSITY

### Management's Discussion and Analysis, continued

- Total liabilities and deferred inflows of resources were \$261 million at June 30, 2023 versus \$275 million at June 30, 2022. The decrease is primarily related to reductions in deferred inflows of resources of \$16 million and decreases in bond and lease obligations of \$5 million. The decrease was offset by increases in Morehead State University's proportionate share of the Commonwealth of Kentucky's net pension liability in the amount of \$7 million.
- Total net position was \$91.0 million at June 30, 2023 and \$98.6 million at June 30, 2022.

### 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 the:

- Statement of Net Position,
- Statement of Revenues, Expenses and Changes in Net Position and
- 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 26 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>2023</u>	<u>2022</u>
<b><u>Assets</u></b>		
Current assets	\$ 76,082	\$ 75,445
Capital assets	221,822	226,098
Other noncurrent assets	<u>20,122</u>	<u>23,890</u>
Total assets	318,026	325,433
Deferred outflows of resources	<u>34,011</u>	<u>48,682</u>
Total assets and deferred outflows of resources	352,037	374,115
<b><u>Liabilities</u></b>		
Current liabilities	17,244	16,741
Net pension liability	131,919	125,035
Net OPEB Liability	21,675	20,990
Other noncurrent liabilities	<u>68,159</u>	<u>74,243</u>
Total liabilities	238,997	237,009
Deferred inflows of resources	<u>22,046</u>	<u>38,480</u>
Total liabilities and deferred inflows of resources	261,043	275,489
<b><u>Net Position</u></b>		
Net investment in capital assets	151,918	151,502
Restricted, expendable	5,029	8,685
Restricted, nonexpendable	12,128	11,492
Unrestricted	<u>(78,081)</u>	<u>(73,053)</u>
Total net position	<u>\$ 90,994</u>	<u>\$ 98,626</u>

**Assets and deferred outflows of resources**

As of June 30, 2023, the University's total assets and deferred outflows of resources were approximately \$352 million versus \$374 million at June 30, 2022. Investment in capital assets, net of depreciation, represented the University's largest asset, totaling \$222 million compared to \$226 million at June 30, 2022. Cash and investments, totaling \$79 million at June 30, 2023 and \$81 million at June 30, 2022, were the University's next largest asset. Total assets and deferred outflows of resources decreased by approximately \$22 million during the year ended June 30, 2023. The principal areas of change were:

## MOREHEAD STATE UNIVERSITY

### Management's Discussion and Analysis, continued

- Capital assets, net of accumulated depreciation, decreased \$4 million primarily due to depreciation.
- Investments decreased \$2 million due to timing of when debt service payments were transferred.
- Deferred outflows of resources decreased \$15 million, primarily due to increases in Morehead State University's proportionate share of the Commonwealth of Kentucky's net pension liability.

#### Liabilities and deferred inflows of resources

At June 30, 2023, the University's total liabilities and deferred inflows of resources were approximately \$261 million versus \$275 million in the previous year. Net pension liability represented \$132 million at June 30, 2023 as compared to \$125 million in the prior year and Net OPEB Liability represented \$22 million at June 30, 2023 and \$21 million at June 30, 2022. Bonds and lease obligations for capital assets represented \$72 million at June 30, 2023 and \$77 million at June 30, 2022. Total liabilities and deferred inflows of resources decreased by \$14 million during the year ended June 30, 2023. This decrease was primarily due to the following:

- Net pension liability increased \$7 million due to increases in Morehead State University's proportionate share of the Commonwealth of Kentucky's net pension liability.
- Bonds and lease obligations decreased \$5 million, due to debt payments and bond premium amortization.
- Deferred inflows of resources pensions decreased \$16 million, primarily due to increases in Morehead State University's proportionate share of the Commonwealth of Kentucky's net pension liability.

#### Net Position

Net position at June 30, 2023 totaled approximately \$91 million compared to approximately \$99 million at June 30, 2022. Net investment in capital assets, totaled \$152 million at June 30, 2023 and June 30, 2022. Restricted net position totaled \$17 million compared to \$20 million at June 30, 2022. Unrestricted net position totaled (\$78) million versus (\$73) million at June 30, 2022. Total net position decreased by \$7.6 million as of June 30, 2023. Unrestricted net position, excluding the impact of net pension liabilities, increased \$1 million during the year ended June 30, 2023 to \$61 million versus \$60 million at June 30, 2022.

## MOREHEAD STATE UNIVERSITY

### Management's Discussion and Analysis, continued

#### 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 \$416 thousand. The increase is related to debt service payments made in the amount of \$5 million and is offset by depreciation of capital assets.

#### 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 \$3 million at June 30, 2023 due to timing of revenue recognition on grants and timing of debt service payment transfers.

#### Unrestricted Net Position

Unrestricted net position decreased by \$5 million from the previous year to (\$78) million. This decrease is primarily due to changes in Morehead State University's proportionate share of the Commonwealth of Kentucky's net pension and OPEB liability which decreased the unrestricted net position by \$6 million from the previous year. 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>2023</u>	<u>2022</u>
<b><u>Operating Revenues</u></b>		
Student tuition and fees, net	\$ 21,677	\$ 25,900
Federal grants and contracts	14,575	13,913
State and local grants and contracts	501	285
Nongovernmental grants and contracts	202	1,744
Sales and services of educational activities	3,410	2,907
Auxiliary enterprises	11,017	13,770
Other operating revenues	<u>7,867</u>	<u>7,191</u>
Total operating revenues	59,249	65,710
<b><u>Operating Expenses</u></b>		
Educational and general	122,746	124,703
Auxiliary enterprises	9,645	11,067
Depreciation	12,105	12,936
Amortization	963	1,075
GASB 68 pension expense (benefit)	8,525	(10,517)
GASB 75 OPEB (benefit)	(2,515)	(1,289)
Other operating loss	<u>178</u>	<u>84</u>
Total operating expenses	<u>151,647</u>	<u>138,059</u>
<b>Operating loss</b>	(92,398)	(72,349)
<b><u>Non-operating Revenues (Expenses)</u></b>		
Grants and contracts	26,371	43,812
State appropriations	50,601	43,325
Investment income (loss), net	1,740	(1,094)
Interest on capital assets – debt related	<u>(2,283)</u>	<u>(2,496)</u>
Net non-operating revenues	<u>76,429</u>	<u>83,547</u>
<b>(Loss) income before capital appropriations</b>	(15,969)	11,198
Capital appropriations	<u>8,337</u>	<u>2,567</u>
<b>(Decrease) increase in net position</b>	(7,632)	13,765
Net position, beginning of year	<u>98,626</u>	<u>84,861</u>
<b>Net position, end of year</b>	<u>\$ 90,994</u>	<u>\$ 98,626</u>

## MOREHEAD STATE UNIVERSITY

### Management's Discussion and Analysis, continued

#### Revenues

Total operating revenues were approximately \$59 million for the year ended June 30, 2023 and \$66 million for the year ended June 30, 2022. The most significant sources of operating revenues for the University are net student tuition and fees \$22 million, federal grants and contracts \$15 million, and auxiliary enterprises revenue \$11 million.

- Net tuition and fees revenue decreased approximately \$4 million. This decrease was due to an increase in financial aid scholarship allowances and also due to decreases in enrollment. Tuition and fees scholarship allowances were \$33.9 million at June 30, 2023 and \$32.7 million at June 30, 2022.
- Bookstore revenue decreased approximately \$2 million due to outsourcing the University Store to Barnes & Noble.

#### Expenses

Operating expenses totaled approximately \$152 million compared to \$138 million at June 30, 2022. The increase in operating expenses was primarily related to GASB 68 and 75 pension and OPEB expense (benefit) adjustments. Pension expense increased \$19 million as a result of changes in the University's proportionate share of the Commonwealth of Kentucky's net pension liability. Approximately \$123 million of operating expenses were 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.

- Operating expenses (excluding GASB 68 and 75 expense adjustments) decreased approximately \$4 million from the prior year.
- Student aid expense decreased \$7 million primarily due to American Rescue Plan funds that were provided to students in the prior year.
- Bookstore expenses decreased approximately \$3 million due to outsourcing the University Store to Barnes & Noble.
- Renovation/asset preservation project expenditures increased \$6.7 million from the prior year. These expenditures are primarily reflected in Operation & maintenance of plant and Public service categories.

# 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 year. 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, 2023 and 2022

	<u>2023</u>	<u>2022</u>
<b>Cash Provided By (Used In):</b>		
Operating activities	\$ (72,164)	\$ (69,860)
Noncapital financing activities	76,972	87,137
Capital and related financing activities	(8,081)	(8,293)
Investing activities	<u>4,064</u>	<u>2,057</u>
Net increase in cash and cash equivalents	791	11,041
Cash and cash equivalents, beginning of the year	<u>66,156</u>	<u>55,115</u>
<b>Cash and cash equivalents, end of the year</b>	<u>\$ 66,947</u>	<u>\$ 66,156</u>

Major sources of funds included in operating activities are student tuition and fees, \$22 million for the year ended June 30, 2023 compared to \$28 million in the prior year and grants and contracts, \$16 million for the year ended June 30, 2023 compared to \$14 million in the prior year. The largest cash payments for operating activities were made to suppliers in the amount of \$80 million for the year ended June 30, 2023 and \$84 million for fiscal year ended June 30, 2022 and to employees in the amount of \$53 million as compared to \$52 million in the prior year.

Noncapital financing activities include non-operating grants and contracts in the amounts of \$26 million for the year ended June 30, 2023 as compared to \$44 million in the prior year. The operating appropriation from the Commonwealth of Kentucky is also included as noncapital financing activities and was \$51 million for the year ended June 30, 2023 and \$43 million for the prior year. Cash used in capital and related financing activities was primarily due to the expenditure of funds for capital asset purchases and for debt service obligations.

# 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 \$222 million at June 30, 2023 versus \$226 million at June 30, 2022. The decrease of \$4 million was primarily due to depreciation of capital assets and was offset by capital asset additions.

#### Debt

At June 30, 2023, the University had \$72 million in outstanding debt versus \$77 million in the previous year. This includes \$54 million in bonds payable and premium amortization compared to \$58 million at June 30, 2022. In addition, the University had lease obligations of \$18 million as of June 30, 2023 compared to \$19 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>2023</u></b>	<b><u>2022</u></b>
General Receipts bonds	\$ 52,055	\$ 56,110
Premium Amortization	1,752	1,897
Lease obligations	15,557	15,976
GASB 87 & 96 Leases	<u>2,783</u>	<u>3,406</u>
	<b><u>\$ 72,147</u></b>	<b><u>\$ 77,389</u></b>

Bonds and lease obligations decreased by \$5 million, due to debt payments and bond premium amortization.

## 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, 2024 totaling \$144 million.
- In the 2022-2024 Biennial Budget, the University received approval for \$40.5 million to be utilized for Asset Preservation Pool Projects. The 2023-2024 fiscal year pool totaled \$26.24 million with \$22.82 million provided from Bonds to be issued by the Commonwealth of Kentucky and \$3.42 million to be matched by the University. On August 8, 2023, the University sold General Receipts Bonds in the amount of \$5,175,000. The proceeds of the 2023 Series A Bonds will be used to finance the University's required match for the 2023-2024 Asset Preservation Pool Projects.
- The University also received approval to construct a new \$98 million Science and Engineering Building in the 2023-2024 fiscal year to be paid from Bonds to be issued by the Commonwealth of Kentucky.
- State Appropriations for the 2023-24 fiscal year will increase to \$49.8 million from \$45.7 million in the previous fiscal year. The increase includes appropriations for MSU's proportionate share of debt service related to state bonds issued to provide funding for the \$22.82 million provided by the Commonwealth of Kentucky for Asset Preservation Pool Projects and the \$98 million to be provided for the construction of the Science and Engineering building.

## 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 Audit of the Financial Statements

#### *Opinion*

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 June 30, 2023 and 2022, and the related notes to the financial statements, which collectively comprise the University's basic financial statements as listed in the table of contents.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the University as of June 30, 2023 and 2022, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

#### *Basis for Opinion*

We conducted our audits in accordance with auditing standards generally accepted in the United States of America (GAAS) and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller of the United States. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the University and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

#### *Responsibilities of Management 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, and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the University's ability to continue as a going concern, for 12 months beyond the financial statement date; including any currently known information that may raise substantial doubt shortly thereafter.

***Auditor's Responsibility for the Audit of the Financial Statements***

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS and *Government Auditing Standards*, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures including examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 University's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the University's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

**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 86 - 97 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.

Board of Regents  
Morehead State University  
Report of Independent Auditors, continued

**Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated October 20, 2023 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.

*Dean Dotson Allen Ford, PLLC*

Lexington, Kentucky  
October 20, 2023



**MOREHEAD STATE UNIVERSITY**

Statements of Net Position

June 30, 2023 and 2022

<b>Assets and Deferred Outflows</b>	<u><b>2023</b></u>	<u><b>2022</b></u>
Current assets:		
Cash and cash equivalents	\$ 66,946,518	\$ 66,155,991
Accounts, grants and loans receivable, net	6,597,759	7,412,051
Lease receivable	157,916	158,811
Prepaid expenses	1,280,552	565,425
Prepaid interest	114,023	114,023
Inventories	732,209	715,565
Other current assets	<u>252,711</u>	<u>322,962</u>
Total current assets	76,081,688	75,444,828
Noncurrent assets:		
Accounts, grants and loans receivable, net	1,222,460	1,769,082
Lease receivable	909,185	891,935
Prepaid interest	456,090	570,113
Prepaid lease	2,658,224	2,809,267
Investments, at fair value	12,224,142	14,548,787
Capital assets, net	221,822,031	226,097,699
Lease assets, net	<u>2,651,616</u>	<u>3,301,269</u>
Total noncurrent assets	<u>241,943,748</u>	<u>249,988,152</u>
Total assets	318,025,436	325,432,980
Deferred outflows of resources:		
Pensions	20,742,280	38,648,503
OPEB	<u>13,269,196</u>	<u>10,033,911</u>
Total deferred outflows of resources	<u>34,011,476</u>	<u>48,682,414</u>
Total assets and deferred outflows of resources	352,036,912	374,115,394

**Liabilities, Deferred Inflows and Net Position**

Current liabilities:		
Accounts payable and accrued liabilities	7,428,602	6,880,899
Unearned revenue	3,627,091	3,897,256
Other current liabilities	380,840	253,025
Bonds and lease obligations, current portion	<u>5,807,149</u>	<u>5,709,554</u>
Total current liabilities	17,243,682	16,740,734
Long-term liabilities:		
Bonds and lease obligations, noncurrent portion	66,340,342	71,679,602
Advances from federal government for student loans	527,668	1,201,181
Unearned revenue	290,235	290,235
Deferred gain on disposal	1,000,891	1,072,383
Net pension liability	131,919,160	125,035,101
Net OPEB liability	<u>21,675,094</u>	<u>20,989,721</u>
Total long-term liabilities	<u>221,753,390</u>	<u>220,268,223</u>
Total liabilities	238,997,072	237,008,957

See accompanying notes

**MOREHEAD STATE UNIVERSITY**

Statements of Net Position, continued

June 30, 2023 and 2022

	<u>2023</u>	<u>2022</u>
Deferred inflows of resources:		
Bookstore Contract	84,848	100,000
Deferred bond reoffering contract	1,110,443	1,297,315
Leases	1,001,634	1,003,512
Pensions	6,753,322	23,018,478
OPEB	<u>13,095,553</u>	<u>13,060,898</u>
Total deferred inflows of resources	22,045,800	38,480,203
Net Position:		
Net investment in capital assets	151,917,493	151,501,575
Restricted:		
Expendable	5,029,256	8,685,368
Nonexpendable	12,128,209	11,492,080
Unrestricted	<u>(78,080,918)</u>	<u>(73,052,789)</u>
Total net position	<u>\$ 90,994,040</u>	<u>\$ 98,626,234</u>

*See accompanying notes.*

**MOREHEAD STATE UNIVERSITY FOUNDATION, INC.**

Statements of Financial Position

June 30, 2023 and 2022

	<u>2023</u>	<u>2022</u>
<b>Assets</b>		
Current assets:		
Cash	\$ 363,704	\$ 482,672
Accounts receivable	5,705	-
Current portion of pledges receivable, net	652,634	589,751
Prepaid expenses	<u>7,608</u>	<u>-</u>
Total current assets	1,029,651	1,072,423
Noncurrent assets:		
Investments, at fair value	72,058,987	66,178,532
Cash surrender value – life insurance	165,669	158,329
Equipment, net	61,008	46,925
Pledges receivable, net of current portion	<u>2,533,227</u>	<u>3,570,326</u>
Total noncurrent assets	<u>74,818,891</u>	<u>69,954,112</u>
Total assets	<u>\$ 75,848,542</u>	<u>\$ 71,026,535</u>
<b>Liabilities and Net Assets</b>		
Current liabilities:		
Current portion of annuities payable	\$ 132,211	\$ 129,861
Accounts payable	4,012	14,525
Due to Morehead State University	<u>477,783</u>	<u>406,216</u>
Total current liabilities	614,006	550,602
Long-term liabilities:		
Funds held in trust for Morehead State University	11,052,195	10,427,195
Annuities payable, net of current portion	<u>431,150</u>	<u>442,916</u>
Total long-term liabilities	<u>11,483,345</u>	<u>10,870,111</u>
Total liabilities	12,097,351	11,420,713
Net (deficit) assets:		
Without donor restrictions	(1,293,461)	(1,333,715)
With donor restrictions	<u>65,044,652</u>	<u>60,939,537</u>
Total net assets	<u>63,751,191</u>	<u>59,605,822</u>
Total liabilities and net assets	<u>\$ 75,848,542</u>	<u>\$ 71,026,535</u>

See accompanying notes

**MOREHEAD STATE UNIVERSITY**

Statements of Revenues, Expenses and Changes in Net Position

Years ended June 30, 2023 and 2022

	<u>2023</u>	<u>2022</u>
Operating revenues:		
Student tuition and fees (net of scholarship allowances of \$33,987,259 and \$32,653,552)	\$ 21,677,091	\$ 25,899,937
Federal grants and contracts	14,574,578	13,913,111
State and local grants and contracts	500,648	285,334
Nongovernmental grants and contracts	201,734	1,744,333
Sales and services of educational activities	3,410,355	2,906,878
Auxiliary enterprises:		
Residence halls (net of scholarship allowances of \$5,545,822 and \$4,200,456)	8,837,107	9,425,968
Bookstore	656,229	2,822,192
Other auxiliaries	1,524,267	1,521,146
Other operating revenues	<u>7,867,305</u>	<u>7,191,218</u>
Total operating revenues	59,249,314	65,710,117
Operating expenses:		
Education and general:		
Instruction	43,231,850	43,657,919
Research	2,795,537	4,956,065
Public service	6,281,737	3,961,062
Library	2,311,349	2,360,168
Academic support	5,664,350	4,569,693
Student services	20,228,872	19,817,157
Institutional support	14,094,610	12,839,716
Operation and maintenance of plant	13,163,342	10,317,195
Depreciation	12,104,849	12,936,074
Amortization	962,557	1,075,312
Student aid	14,974,235	22,224,190
Auxiliary enterprises:		
Residence halls	7,807,664	6,352,538
Bookstore	135,854	3,027,157
Other auxiliaries	1,702,303	1,686,825
GASB 68 pension expense (benefit)	8,525,127	(10,517,072)
GASB 75 OPEB expense (benefit)	(2,515,257)	(1,288,789)
Other operating loss	<u>178,135</u>	<u>83,824</u>
Total operating expenses	<u>151,647,114</u>	<u>138,059,034</u>
Operating loss	(92,397,800)	(72,348,917)

See accompanying notes.

**MOREHEAD STATE UNIVERSITY**

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

Years ended June 30, 2023 and 2022

	<u>2023</u>	<u>2022</u>
Nonoperating revenues (expenses):		
Grants and contracts	26,371,325	43,812,069
State appropriations	50,600,832	43,324,900
Investment income (loss), net	1,739,585	(1,094,135)
Interest on capital asset-related debt	<u>(2,282,850)</u>	<u>(2,495,636)</u>
Net nonoperating revenues	<u>76,428,892</u>	<u>83,547,198</u>
 (Loss) income before capital appropriations	 (15,968,908)	 11,198,281
 Capital appropriations	 <u>8,336,714</u>	 <u>2,566,870</u>
 (Decrease) increase in net position	 (7,632,194)	 13,765,151
 Net position, beginning of year	 <u>98,626,234</u>	 <u>84,861,083</u>
 Net position, end of year	 <u>\$ 90,994,040</u>	 <u>\$ 98,626,234</u>

*See accompanying notes.*

**MOREHEAD STATE UNIVERSITY FOUNDATION, INC.**

Statements of Activities

Year ended June 30, 2023

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
Revenues and other support:			
Contributions	\$ 146,087	\$ 4,782,448	\$ 4,928,535
Other revenue and gains:			
Investment gains:			
Interest and dividend income, net	94,019	450,747	544,766
Realized and unrealized (losses) gains	(78,830)	4,119,131	4,040,301
In-kind contributed services	85,676	-	85,676
Development activities	294,420	456,351	750,771
Annuities payable adjustment	(118,606)	-	(118,606)
Net assets released from restrictions:			
Restrictions satisfied by payments	<u>5,695,979</u>	<u>(5,695,979)</u>	<u>-</u>
Total revenues, gains and other support	6,118,745	4,112,698	10,231,443
Expenses:			
Program services expenses:			
Contributions to Morehead State University for:			
Academic programs	2,568,437	-	2,568,437
Athletics	427,485	-	427,485
University support:			
Operations and materials	800,448	-	800,448
Student financial aid	1,319,462	-	1,319,462
Athletics	<u>552,643</u>	<u>-</u>	<u>552,643</u>
Total program expenses	5,668,475	-	5,668,475
General and administrative	308,999	-	308,999
Bad debt expense	7,927	7,583	15,510
Fundraising	<u>93,090</u>	<u>-</u>	<u>93,090</u>
Total expenses	<u>6,078,491</u>	<u>7,583</u>	<u>6,086,074</u>
Change in net assets	40,254	4,105,115	4,145,369
Net (deficit) assets, beginning of year	<u>(1,333,715)</u>	<u>60,939,537</u>	<u>59,605,822</u>
Net (deficit) assets, end of year	<u>\$ (1,293,461)</u>	<u>\$ 65,044,652</u>	<u>\$ 63,751,191</u>

*See accompanying notes.*

**MOREHEAD STATE UNIVERSITY FOUNDATION, INC.**

Statements of Activities

Year ended June 30, 2022

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
Revenues and other support:			
Contributions	\$ 72,024	\$ 4,521,798	\$ 4,593,822
Other revenue and gains:			
Investment losses:			
Interest and dividend income (expense), net	27,033	(94,518)	(67,485)
Realized and unrealized losses	(263,004)	(2,710,819)	(2,973,823)
Gain on the sale of property and equipment	109,248		109,248
In-kind contributed services	126,506	-	126,506
Development activities	218,370	215,029	433,399
Annuities payable adjustment	(47,874)	-	(47,874)
Net assets released from restrictions:			
Restrictions satisfied by payments	<u>4,264,615</u>	<u>(4,264,615)</u>	<u>-</u>
Total revenues, gains and other support	4,506,918	(2,333,125)	2,173,793
Expenses:			
Program services expenses:			
Contributions to Morehead State University for:			
Academic programs	2,304,085	-	2,304,085
Athletics	193,036	-	193,036
University support:			
Operations and materials	795,736	-	795,736
Student financial aid	1,113,106	-	1,113,106
Athletics	<u>76,007</u>	<u>-</u>	<u>76,007</u>
Total program expenses	4,481,970	-	4,481,970
General and administrative	246,987	-	246,987
Bad debt expense	3,619	15,141	18,760
Fundraising	<u>59,002</u>	<u>-</u>	<u>59,002</u>
Total expenses	<u>4,791,578</u>	<u>15,141</u>	<u>4,806,719</u>
Change in net assets	(284,660)	(2,348,266)	(2,632,926)
Net (deficit) assets, beginning of year	<u>(1,049,055)</u>	<u>63,287,803</u>	<u>62,238,748</u>
Net (deficit) assets, end of year	<u>\$ (1,333,715)</u>	<u>\$ 60,939,537</u>	<u>\$ 59,605,822</u>

*See accompanying notes.*

MOREHEAD STATE UNIVERSITY FOUNDATION, INC.

Statement of Functional Expenses

Year ended June 30, 2023

	Program Services								
	Contributions to MSU		University Support			Total	General and Administrative	Fundraising	Total
	Academic Programs	Athletics	Operations and Materials	Student Financial Aid	Athletics				
Transfers to MSU	\$ 2,448,437	\$ 427,485	\$ -	\$ -	\$ -	\$ 2,875,922	\$ -	\$ -	\$ 2,875,922
Scholarship expense	-	-	-	1,319,462	-	1,319,462	-	-	1,319,462
Program expense	-	-	611,371	-	550,965	1,162,336	-	-	1,162,336
Contributions to MSU-GIK	117,760	-	-	-	-	117,760	-	-	117,760
General operating expense	-	-	105,163	-	-	105,163	-	-	105,163
Software & maintenance	-	-	-	-	-	-	173,544	-	173,544
Special events/Cultivation	-	-	-	-	-	-	-	82,898	82,898
Fundraising expense	-	-	-	-	-	-	-	10,192	10,192
Recognition & awards	-	-	10,755	-	-	10,755	-	-	10,755
Depreciation	-	-	24,708	-	-	24,708	-	-	24,708
External audit	-	-	-	-	-	-	25,051	-	25,051
General operating - CC Fees	-	-	-	-	-	-	17,834	-	17,834
Travel & entertainment	-	-	24,546	-	-	24,546	-	-	24,546
Income tax expense	-	-	-	-	-	-	11,486	-	11,486
President's discretionary fund	-	-	10,761	-	-	10,761	-	-	10,761
Membership	-	-	8,716	-	-	8,716	-	-	8,716
Insurance	-	-	-	-	1,678	1,678	11,844	-	13,522
Interest expense	2,240	-	-	-	-	2,240	-	-	2,240
Legal	-	-	-	-	-	-	12,781	-	12,781
Vehicle & maintenance	-	-	4,428	-	-	4,428	-	-	4,428
Promotion expense	-	-	-	-	-	-	21,044	-	21,044
Professional development	-	-	-	-	-	-	8,018	-	8,018
Wages and benefits	-	-	-	-	-	-	27,397	-	27,397
<b>Total expenses by function</b>	<b>\$ 2,568,437</b>	<b>\$ 427,485</b>	<b>\$ 800,448</b>	<b>\$ 1,319,462</b>	<b>\$ 552,643</b>	<b>\$ 5,668,475</b>	<b>\$ 308,999</b>	<b>\$ 93,090</b>	<b>\$ 6,070,564</b>

See accompanying notes.



MOREHEAD STATE UNIVERSITY FOUNDATION, INC.

Statement of Functional Expenses

Year ended June 30, 2022

	Program Services								
	Contributions to MSU		University Support			Total	General and Administrative	Fundraising	Total
	Academic Programs	Athletics	Operations and Materials	Student Financial Aid	Athletics				
Transfers to MSU	\$ 2,129,648	\$ 193,036	\$ -	\$ -	\$ -	\$ 2,322,684	\$ -	\$ -	\$ 2,322,684
Scholarship expense	-	-	-	1,113,106	-	1,113,106	-	-	1,113,106
Program expense	-	-	591,903	-	74,329	666,232	-	-	666,232
Contributions to MSU-GIK	172,145	-	-	-	-	172,145	-	-	172,145
General operating expense	-	-	144,769	-	-	144,769	31,440	-	176,209
Software & maintenance	-	-	-	-	-	-	148,178	-	148,178
Special events/Cultivation	-	-	-	-	-	-	-	59,002	59,002
Recognition & awards	-	-	8,410	-	-	8,410	-	-	8,410
Depreciation	-	-	14,086	-	-	14,086	-	-	14,086
External audit	-	-	-	-	-	-	19,650	-	19,650
General operating - CC Fees	-	-	-	-	-	-	15,826	-	15,826
Travel & entertainment	-	-	13,068	-	-	13,068	-	-	13,068
Income tax expense	-	-	-	-	-	-	8,443	-	8,443
President's discretionary fund	-	-	10,495	-	-	10,495	-	-	10,495
Membership	-	-	8,212	-	-	8,212	-	-	8,212
Insurance	-	-	-	-	1,678	1,678	15,487	-	17,165
Interest expense	2,292	-	-	-	-	2,292	-	-	2,292
Legal	-	-	-	-	-	-	7,963	-	7,963
Vehicle & maintenance	-	-	3,896	-	-	3,896	-	-	3,896
Materials & supplies	-	-	897	-	-	897	-	-	897
<b>Total expenses by function</b>	<b>\$ 2,304,085</b>	<b>\$ 193,036</b>	<b>\$ 795,736</b>	<b>\$ 1,113,106</b>	<b>\$ 76,007</b>	<b>\$ 4,481,970</b>	<b>\$ 246,987</b>	<b>\$ 59,002</b>	<b>\$ 4,787,959</b>

See accompanying notes.

**MOREHEAD STATE UNIVERSITY**

Statements of Cash Flows

Years ended June 30, 2023 and 2022

	<u>2023</u>	<u>2022</u>
<b>Cash flows from operating activities:</b>		
Tuition and fees	\$ 22,081,643	\$ 28,198,453
Grants and contracts	16,100,410	13,977,691
Payments to suppliers	(79,842,797)	(83,978,798)
Payments to employees	(52,907,576)	(51,989,929)
Collection of loans issued to students	164,037	277,329
Auxiliary enterprises:		
Residence halls	8,837,107	9,425,968
Bookstore	680,805	2,728,571
Other auxiliaries	1,529,851	1,475,774
Sales and services of educational activities	3,401,329	2,732,484
Other receipts	<u>7,790,356</u>	<u>7,292,857</u>
Net cash used in operating activities	(72,164,835)	(69,859,600)
 <b>Cash flows from noncapital financing activities:</b>		
Nonoperating grants and contracts	26,371,325	43,812,069
State appropriations	<u>50,600,832</u>	<u>43,324,900</u>
Net cash provided by noncapital financing activities	76,972,157	87,136,969
 <b>Cash flows from capital and related financing activities:</b>		
Capital appropriations	8,336,714	2,566,870
Purchase of capital assets	(7,927,765)	(2,152,990)
Purchase of lease assets	(405,969)	(83,903)
Decrease in advances from federal government for student loans	(673,513)	(757,275)
Issuance of new debt	405,969	83,903
Principal paid on debt and leases	(5,501,983)	(5,422,445)
Interest paid on debt and leases	<u>(2,314,478)</u>	<u>(2,527,264)</u>
Net cash used in capital and related financing activities	(8,081,025)	(8,293,104)
 <b>Cash flows from investing activities:</b>		
Changes in investments, net	<u>4,064,230</u>	<u>2,056,780</u>
Net cash provided by investing activities	<u>4,064,230</u>	<u>2,056,780</u>
 Net increase in cash and cash equivalents	790,527	11,041,045
Cash and cash equivalents, beginning of year	<u>66,155,991</u>	<u>55,114,946</u>
Cash and cash equivalents, end of year	<u>\$ 66,946,518</u>	<u>\$ 66,155,991</u>

See accompanying notes.

**MOREHEAD STATE UNIVERSITY**

Statements of Cash Flows, continued

Years ended June 30, 2023 and 2022

	<u>2023</u>	<u>2022</u>
<b>Reconciliation of operating loss to net cash used in operating activities:</b>		
Operating loss	\$ (92,397,800)	\$ (72,348,917)
Adjustments to reconcile operating loss to net cash used in operating activities:		
Depreciation	12,104,849	12,936,074
Amortization	962,557	1,075,312
Loss on disposal of capital assets	98,584	11,612
Loss on disposal of lease assets	93,065	-
Bad debt expense	649,171	224,627
Changes in assets and liabilities:		
Receivables, net	711,743	6,356,506
Lease receivable	(16,355)	101,634
Inventories	(16,644)	748,764
Other current assets	70,251	(174,689)
Prepaid lease	151,043	146,644
Prepaid expenses	(715,127)	(532,103)
Accounts payable and accrued liabilities	547,703	(872,809)
Unearned revenue	(270,165)	(5,424,662)
Deferred gain on disposal	(71,492)	(71,492)
Deferred outflows/inflows	(1,763,465)	(48,509,417)
Net pension liability	6,884,059	33,408,245
Net OPEB liability	685,373	3,084,839
Other liabilities	<u>127,815</u>	<u>(19,768)</u>
 Net cash used in operating activities	 <u>\$ (72,164,835)</u>	 <u>\$ (69,859,600)</u>

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. 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

Inventory 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 (TRS) and the Kentucky Employees Retirement System (KERS). 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

The University reports 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.

The University also reports 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 KERS. The TRS and KERS 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.

#### 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.

# MOREHEAD STATE UNIVERSITY

## Notes to the Financial Statements, continued

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

#### 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 July 1, 2023 to October 20, 2023 (the date the financial statements were ready to be issued) for items requiring recognition or disclosure in the financial statements. Except as disclosed in Note 15, there were no events occurring during the evaluation period that require recognition or disclosure in the financial statements.

#### Recent Accounting Pronouncements

In May 2020, the Governmental Accounting Standards Board (GASB) issued Statement No. 96, *Subscription-Based Information Technology Arrangements (SBITAs)*. The objective of this statement is to better meet the information needs of financial statement users by establishing uniform accounting and financial reporting requirements for SBITAs, improving the comparability of financial statements among governments that have entered into SBITAs, and enhancing the understandability, reliability, relevance, and consistency of information about SBITAs. The statement requires recognition of certain right-to-use subscription assets and subscription liabilities for SBITAs and recognition of inflows of resources or outflows of resources based on the payment provisions of the agreement. The University adopted GASB 96 using the retrospective approach effective July 1, 2021. There was no impact to net assets as of July 1, 2021. The net impact as of June 30, 2022 was a reduction in net assets of \$49,056.

In June 2017, the Governmental Accounting Standards Board (GASB) issued Statement No. 87, *Leases*. The objective of this statement is to address government lessee's recognition of lease liabilities, intangible assets, and report amortization expense for using the lease; interest expense on the lease liability; and, note disclosures about the lease. Another objective of this statement is to address government lessor's recognition of a lease receivable, deferred inflow, and report lease revenue, interest income, and note disclosures about the lease. In May 2020, GASB issued Statement No. 95, which deferred the effective date of Statement 87. The University adopted GASB 87 using the retrospective approach effective July 1, 2020. The net impact of the adoption was a reduction in net assets as of July 1, 2021 of \$9,801.

### 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.



## MOREHEAD STATE UNIVERSITY

### Notes to the Financial Statements, continued

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

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, 2023 and 2022, the University had petty cash funds totaling \$9,640 and \$9,140, respectively, and deposits as reflected by bank balances as follows:

	<u>2023</u>	<u>2022</u>
Insured, commercial banks	\$ 250,000	\$ 250,000
Uninsured, commercial banks; collateral held by pledging institution's agent in the University's name	15,417,176	16,368,231
Maintained by Commonwealth of Kentucky	<u>51,269,702</u>	<u>49,528,620</u>
	<u>\$ 66,936,878</u>	<u>\$ 66,146,851</u>

As of June 30, 2023 and 2022, investments consisted of:

	<u>2023</u>	<u>2022</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	\$ 95,932	\$ 3,056,707
Equity mutual funds	<u>947,422</u>	<u>939,918</u>
	1,043,354	3,996,625
Certificate of deposit	128,593	124,967
Restricted assets held by the Morehead State University Foundation, Inc.	<u>11,052,195</u>	<u>10,427,195</u>
	<u>\$ 12,224,142</u>	<u>\$ 14,548,787</u>

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.

# MOREHEAD STATE UNIVERSITY

## Notes to the Financial Statements, continued

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

University investments held by the Foundation are comprised of the Regional University Excellence Trust Fund endowment and other similar endowments (see Note 12). 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, 2023 and 2022, are invested as follows:

	<u>2023</u>	<u>2022</u>
Percentage of pool invested in:		
Registered investment companies fixed income funds	9%	5%
Registered investment companies equity fund	13%	10%
Registered investment companies alternative investments	<u>78%</u>	<u>85%</u>
	<u>100%</u>	<u>100%</u>

#### Interest Rate Risk

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. The University does not 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.

#### 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.

**MOREHEAD STATE UNIVERSITY**

Notes to the Financial Statements, continued

**3. Receivables**

Accounts, grants and loans receivable

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

	<u>2023</u>	<u>2022</u>
Student tuition and fees	\$ 2,673,378	\$ 2,575,503
Scholarship receivable	319,018	107,891
Student loans	1,246,270	1,786,009
Grants and contracts	3,687,894	4,594,632
Auxiliary enterprises	368,003	420,787
Other	<u>474,035</u>	<u>557,839</u>
	8,768,598	10,042,661
Allowance for doubtful accounts	<u>(948,379)</u>	<u>(861,528)</u>
	7,820,219	9,181,133
Current portion	<u>(6,597,759)</u>	<u>(7,412,051)</u>
Noncurrent portion	<u>\$ 1,222,460</u>	<u>\$ 1,769,082</u>

Lease receivable

The University, as a lessor, has entered into several real estate lease agreements. Lease receivable as of June 30, 2023 and 2022 was \$1,067,101 and \$1,050,746, respectively. The University recognized \$207,088 and \$198,147 in lease-related inflows from these leases during the years ended June 30, 2023 and 2022, respectively.

**MOREHEAD STATE UNIVERSITY**

Notes to the Financial Statements, continued

**4. Capital & Lease Assets, Net**

Capital assets as of June 30, 2023, are summarized as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>CIP Transfers</u>	<u>Reductions</u>	<u>Ending Balance</u>
Land and improvements	\$ 23,280,126	\$ -	\$ -	\$ -	\$ 23,280,126
Buildings	377,333,972	-	3,516,102	246,555	380,603,519
Library books	27,843,085	31,418	-	-	27,874,503
Vehicles	1,560,743	-	-	-	1,560,743
Equipment and livestock	30,806,989	457,387	-	2,075,751	29,188,625
Colleague	4,202,200	-	-	-	4,202,200
Art collection	1,106,605	-	-	-	1,106,605
Construction in progress	<u>575,050</u>	<u>7,557,685</u>	<u>(3,516,102)</u>	<u>118,725</u>	<u>4,497,908</u>
	466,708,770	8,046,490	-	2,441,031	472,314,229
<u>Accumulated depreciation</u>					
Land improvements	12,375,804	451,784	-	-	12,827,588
Buildings	168,865,140	9,452,298	-	168,949	178,148,489
Library books	27,152,639	240,427	-	-	27,393,066
Vehicles	1,390,278	36,604	-	-	1,426,882
Equipment and livestock	26,625,010	1,923,736	-	2,054,773	26,493,973
Colleague	<u>4,202,200</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>4,202,200</u>
	<u>240,611,071</u>	<u>12,104,849</u>	<u>-</u>	<u>2,223,722</u>	<u>250,492,198</u>
Capital assets, net	<u>\$ 226,097,699</u>	<u>\$ (4,058,359)</u>	<u>\$ -</u>	<u>\$ (217,309)</u>	<u>\$ 221,822,031</u>

**MOREHEAD STATE UNIVERSITY**

Notes to the Financial Statements, continued

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

Lease assets as of June 30, 2023, are summarized as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>CIP Transfers</u>	<u>Reductions</u>	<u>Ending Balance</u>
Land & improvements	\$ 219,762	\$ -	\$ -	\$ -	\$ 219,762
Buildings	1,019,376	-	-	-	1,019,376
Vehicles	142,853	-	-	-	142,853
Equipment	<u>1,389,619</u>	<u>57,539</u>	<u>-</u>	<u>155,109</u>	<u>1,292,049</u>
	<u>2,771,610</u>	<u>57,539</u>	<u>-</u>	<u>155,109</u>	<u>2,674,040</u>
 <u>Accumulated amortization</u>					
Land improvements	93,204	48,626	-	-	141,830
Buildings	203,559	104,590	-	-	308,149
Vehicles	40,475	28,571	-	-	69,046
Equipment	<u>714,493</u>	<u>137,918</u>	<u>-</u>	<u>62,044</u>	<u>790,367</u>
	<u>1,051,731</u>	<u>319,705</u>	<u>-</u>	<u>62,044</u>	<u>1,309,392</u>
 Lease assets, net	 <u>\$ 1,719,879</u>	 <u>\$ (262,166)</u>	 <u>\$ -</u>	 <u>\$ (93,065)</u>	 <u>\$ 1,364,648</u>

Subscription-Based Information Technology Arrangement Assets (SBITAs) as of June 30, 2023, are summarized as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>CIP Transfers</u>	<u>Reductions</u>	<u>Ending Balance</u>
Software	\$ 2,116,078	\$ 348,430	\$ -	\$ -	\$ 2,464,508
 <u>Accumulated amortization</u>					
Software	<u>534,688</u>	<u>642,852</u>	<u>-</u>	<u>-</u>	<u>1,177,540</u>
 Software assets, net	 <u>\$ 1,581,390</u>	 <u>\$ (294,422)</u>	 <u>\$ -</u>	 <u>\$ -</u>	 <u>\$ 1,286,968</u>
 Lease & software assets, net	 <u>\$ 3,301,269</u>	 <u>\$ (556,588)</u>	 <u>\$ -</u>	 <u>\$ (93,065)</u>	 <u>\$ 2,651,616</u>

**MOREHEAD STATE UNIVERSITY**

Notes to the Financial Statements, continued

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

Capital assets as of June 30, 2022, are summarized as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>CIP Transfers</u>	<u>Reductions</u>	<u>Ending Balance</u>
Land and improvements	\$ 22,460,517	\$ 679,319	\$ 140,290	\$ -	\$ 23,280,126
Buildings	377,034,314	-	299,658	-	377,333,972
Library books	27,803,681	39,404	-	-	27,843,085
Vehicles	1,511,263	161,523	-	112,043	1,560,743
Equipment and livestock	32,609,089	551,181	-	2,353,281	30,806,989
Colleague	4,202,200	-	-	-	4,202,200
Art collection	1,106,605	-	-	-	1,106,605
Construction in progress	<u>293,435</u>	<u>721,563</u>	<u>(439,948)</u>	<u>-</u>	<u>575,050</u>
	467,021,104	2,152,990	-	2,465,324	466,708,770
<u>Accumulated depreciation</u>					
Land improvements	11,873,876	501,928	-	-	12,375,804
Buildings	159,423,945	9,441,195	-	-	168,865,140
Library books	26,802,638	350,001	-	-	27,152,639
Vehicles	1,477,437	14,134	-	101,293	1,390,278
Equipment and livestock	26,348,613	2,628,816	-	2,352,419	26,625,010
Colleague	<u>4,202,200</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>4,202,200</u>
	<u>230,128,709</u>	<u>12,936,074</u>	<u>-</u>	<u>2,453,712</u>	<u>240,611,071</u>
Capital assets, net	<u>\$ 236,892,395</u>	<u>\$ (10,783,084)</u>	<u>\$ -</u>	<u>\$ (11,612)</u>	<u>\$ 226,097,699</u>

**MOREHEAD STATE UNIVERSITY**

Notes to the Financial Statements, continued

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

Lease assets as of June 30, 2022, are summarized as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>CIP Transfers</u>	<u>Reductions</u>	<u>Ending Balance</u>
Land & improvements	\$ 169,585	\$ 50,177	\$ -	\$ -	\$ 219,762
Buildings	985,650	33,726	-	-	1,019,376
Vehicles	142,853	-	-	-	142,853
Equipment	<u>1,389,619</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,389,619</u>
	<u>2,687,707</u>	<u>83,903</u>	<u>-</u>	<u>-</u>	<u>2,771,610</u>
<u>Accumulated amortization</u>					
Land improvements	43,697	49,507	-	-	93,204
Buildings	98,969	104,590	-	-	203,559
Vehicles	11,904	28,571	-	-	40,475
Equipment	<u>356,537</u>	<u>357,956</u>	<u>-</u>	<u>-</u>	<u>714,493</u>
	<u>511,107</u>	<u>540,624</u>	<u>-</u>	<u>-</u>	<u>1,051,731</u>
Lease assets, net	<u>\$ 2,176,600</u>	<u>\$ (456,721)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,719,879</u>

Subscription-Based Information Technology Arrangement Assets (SBITAs) as of June 30, 2022, are summarized as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>CIP Transfers</u>	<u>Reductions</u>	<u>Ending Balance</u>
Software assets	\$ 2,116,078	\$ -	\$ -	\$ -	\$ 2,116,078
<u>Accumulated amortization</u>					
Software assets	<u>-</u>	<u>534,688</u>	<u>-</u>	<u>-</u>	<u>534,688</u>
Software assets, net	<u>\$ 2,116,078</u>	<u>\$ (534,688)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,581,390</u>
Lease & software assets, net	<u>\$ 4,292,678</u>	<u>\$ (991,409)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 3,301,269</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>2023</u>	<u>2022</u>
Payable to vendors and contractors	\$ 952,206	\$ 549,075
Accrued vacation	1,962,415	1,874,494
Accrued sick leave liability	708,989	700,206
Accrued salaries and other liabilities	<u>3,804,992</u>	<u>3,757,124</u>
	<u>\$ 7,428,602</u>	<u>\$ 6,880,899</u>

**6. Long-Term Liabilities**

Long-term liabilities at June 30, 2023, 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	\$ 56,110,000	\$ -	\$ 4,055,000	\$ 52,055,000	\$ 4,095,000	\$ 47,960,000
Premium amortization	1,897,321	-	145,651	1,751,670	145,651	1,606,019
Lease obligations	15,975,624	-	418,087	15,557,537	672,683	14,884,854
GASB 96 Leases	1,630,446	348,430	630,408	1,348,468	655,537	692,931
GASB 87 Leases	<u>1,775,765</u>	<u>57,539</u>	<u>398,488</u>	<u>1,434,816</u>	<u>238,278</u>	<u>1,196,538</u>
Total bonds and lease obligations	77,389,156	405,969	5,647,634	72,147,491	5,807,149	66,340,342
Federal refundable grants	<u>1,201,181</u>	-	<u>673,513</u>	<u>527,668</u>	-	<u>527,668</u>
Total long-term liabilities	<u>\$ 78,590,337</u>	<u>\$ 405,969</u>	<u>\$ 6,321,147</u>	<u>\$ 72,675,159</u>	<u>\$ 5,807,149</u>	<u>\$ 66,868,010</u>

Long-term liabilities at June 30, 2022, 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	\$ 59,965,000	\$ -	\$ 3,855,000	\$ 56,110,000	\$ 4,055,000	\$ 52,055,000
Premium amortization	2,042,972	-	145,651	1,897,321	145,651	1,751,670
Lease obligations	16,537,629	-	562,005	15,975,624	551,219	15,424,405
GASB 96 Leases	2,116,078	-	485,632	1,630,446	630,408	1,000,038
GASB 87 Leases	<u>2,211,670</u>	<u>83,903</u>	<u>519,808</u>	<u>1,775,765</u>	<u>327,276</u>	<u>1,448,489</u>
Total bonds and lease obligations	82,873,349	83,903	5,568,096	77,389,156	5,709,554	71,679,602
Federal refundable grants	<u>1,958,456</u>	-	<u>757,275</u>	<u>1,201,181</u>	-	<u>1,201,181</u>
Total long-term liabilities	<u>\$ 84,831,805</u>	<u>\$ 83,903</u>	<u>\$ 6,325,371</u>	<u>\$ 78,590,337</u>	<u>\$ 5,709,554</u>	<u>\$ 72,880,783</u>



**MOREHEAD STATE UNIVERSITY**

Notes to the Financial Statements, continued

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

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

	<u>2023</u>	<u>2022</u>
2.00-3.625% General Receipts Bonds, 2012 Series A Tax-Exempt Bonds, portion advance refunded by 2020 Series A General Receipts Bonds, remaining principle repayable in semi-annual installments with the final installment due November, 2031	<b>\$ 1,320,000</b>	\$ 1,320,000
1.00-4.375% General Receipts Bonds, 2013 Series A Tax-Exempt Bonds, portion advance refunded by 2020 Series A General Receipts Bonds, remaining principle repayable in semi-annual installments with the final installment due April, 2033	<b>2,970,000</b>	2,970,000
2.00-5.00% General Receipts Refunding Bonds, 2014 Series A, repayable in semi-annual installments with the final installment due October, 2028	<b>10,580,000</b>	12,140,000
1.00-5.00% General Receipts Refunding Bonds, 2014 Series B, repayable in semi-annual installments with the final installment due October, 2029	<b>2,470,000</b>	2,780,000
3.00-5.00% General Receipts Bonds, 2015 Series A, repayable in semi-annual installments with the final installment due April, 2035	<b>23,045,000</b>	24,615,000
1.00-3.00% General Receipts Refunding Bonds, 2016 Series A, repayable in semi-annual installments with the final installment due November, 2027	<b>1,815,000</b>	2,155,000
2.00-3.75% General Receipts Bonds, 2016 Series B, repayable in semi-annual installments with the final installment due November, 2036	<b>4,985,000</b>	5,260,000
2.05-2.40% General Receipts Bonds, 2020 Series A, repayable in semi-annual installments with the final installment due November, 2032	<b>4,870,000</b>	4,870,000
General Receipts Bonds, 2015 Series A Reoffering Premium, amortized over semi-annual installments with the final installment amortized April 2035	<b>1,751,670</b>	1,897,321
2.65% Lease obligation with JP Morgan/Chase, repayable in quarterly installments with the final installment due June, 2025	<b>2,947,537</b>	3,342,773
4.50-5.99% Lease obligation for land acquisition, repayable in monthly installments with the final installment paid June, 2023	-	22,851
3.15% Lease obligation with Stockyards Bank & Trust, repayable in semi-annual installments with the final installment due February, 2037	<b>12,610,000</b>	12,610,000
3.13-3.20% Lease obligations under GASB 96, various payment amounts with final installments due in 2026	<b>1,348,468</b>	1,630,446
3.13-3.64% Lease obligations under GASB 87, various payment amounts with final installments due in 2041	<u><b>1,434,816</b></u>	<u>1,775,765</u>
	<u><b>\$ 72,147,491</b></u>	<u>\$ 77,389,156</u>

**MOREHEAD STATE UNIVERSITY**

Notes to the Financial Statements, continued

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

Lease Assets

The University, as a lessee, has entered into lease agreements involving real estate, equipment, vehicles and software. The leased equipment includes items related to an energy savings project, multi-function printing devices, campus laundry equipment, and information technology (IT) infrastructure upgrade. The subscription-based information technology agreements include Colleague ERP system subscription and cloud software, Adobe software, and several athletic software subscriptions.

The following assets are held under lease obligations at June 30:

	<u>2023</u>	<u>2022</u>
Real estate, equipment and vehicles	\$ 24,957,277	\$ 22,590,339
Less: accumulated depreciation	<u>( 16,353,982)</u>	<u>( 13,192,696)</u>
	<u>\$ 8,603,295</u>	<u>\$ 9,397,643</u>

During the year ended June 30, 2021, the University entered into a lease obligation with Stockyards Bank & Trust that had a principal balance of \$12,610,000 as of both June 30, 2023 and 2022. This obligation is secured by various fixed assets as defined in the agreement.

The following is a schedule by years of future minimum payments required for the lease obligations as of June 30, 2023:

Year ending June 30,	
2024	\$ 2,125,291
2025	2,178,424
2026	1,472,914
2027	1,442,778
2028	1,420,680
Thereafter	<u>13,957,421</u>
Total minimum lease payments	22,597,508
Less: amounts representing interest	<u>(4,256,687)</u>
Principal due	<u>\$ 18,340,821</u>

**MOREHEAD STATE UNIVERSITY**

Notes to the Financial Statements, continued

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

The principal and interest repayment requirements relating to the outstanding bonds at June 30, 2023, are as follows:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
Year ending June 30,			
2024	\$ 4,095,000	\$ 1,905,195	\$ 6,000,195
2025	4,210,000	1,717,270	5,927,270
2026	4,385,000	1,541,645	5,926,645
2027	4,545,000	1,376,070	5,921,070
2028	4,685,000	1,235,890	5,920,890
2029-2037	<u>30,135,000</u>	<u>3,801,463</u>	<u>33,936,463</u>
	<u>\$ 52,055,000</u>	<u>\$ 11,577,533</u>	<u>\$ 63,632,533</u>

If the University fails to make timely payment of any General Receipts Bond, the Secretary of the Finance and Administration Cabinet of the Commonwealth of Kentucky (the Cabinet) is obligated, pursuant to KRS 164A.608, to apply to such payment, any funds that have been appropriated to the University that have not yet been disbursed.

**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>.

For the year ended June 30, 2023, eligible employees who began before January 1, 2022 contributed 8.185% of their salary through payroll deductions and the Commonwealth of Kentucky, indirectly contributed 15.865% of currently eligible employees' salaries to the TRS through appropriations to the University. Employees participating in TRS on or after January 1, 2022, contributed 9.775% of their salary which is matched by the University at 9.775%. Contribution requirements of the plan members and the University are established by Kentucky Revised Statute and the TRS Board of Trustees.

**MOREHEAD STATE UNIVERSITY**

Notes to the Financial Statements, continued

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

Kentucky Teachers Retirement System – Pension, continued

The University's contributions to TRS for the years ended June 30, 2022 and 2021 were \$3,830,755 and \$3,799,231, respectively.

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

At June 30, 2023 and 2022, 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>2023</u>	<u>2022</u>
University's proportionate share of the net pension liability	\$50,797,356	\$43,701,079
Commonwealth of Kentucky's proportionate share of the net pension liability associated with the University	<u>66,012,090</u>	<u>46,136,557</u>
Total	<u>\$116,809,446</u>	<u>\$89,837,636</u>

The net pension liability was measured as of June 30, 2022 and 2021, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation of TRS as of June 30, 2021. 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, 2022 and 2021, the University's proportion was 0.287 and 0.321 percent, respectively.

For the years ended June 30, 2023 and 2022, the valuation of the University's net pension liability resulted in the recognition of pension (benefit) expense of (\$2,258,806) and (\$13,359,634), respectively.

At June 30, 2023, 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	\$ (1,763,658)	\$ -
Changes of assumptions	4,607,386	-
Net difference between projected and actual earnings on pension plan investments	3,237,100	-
Changes in proportion and differences between University contributions and proportionate share of contributions	370,115	4,806,629
University contributions subsequent to the measurement date	<u>3,788,195</u>	<u>-</u>
Total	<u>\$ 10,239,138</u>	<u>\$ 4,806,629</u>

**MOREHEAD STATE UNIVERSITY**

Notes to the Financial Statements, continued

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

Kentucky Teachers Retirement System – Pension, continued

\$3,788,195 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, 2024. The average expected remaining service life was determined to be 3.9 years for TRS employees as of the June 30, 2022 measurement date. 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:	
2024	(\$5,723)
2025	361,445
2026	(1,480,826)
2027	<u>2,769,418</u>
	<u>\$ 1,644,314</u>

At June 30, 2022, 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	\$ (823,228)	\$ 395,860
Changes of assumptions	7,474,485	3,858,559
Net difference between projected and actual earnings on pension plan investments	-	10,773,918
Changes in proportion and differences between University contributions and proportionate share of contributions	908,808	3,991,415
University contributions subsequent to the measurement date	<u>3,830,755</u>	<u>-</u>
Total	<u>\$ 11,390,820</u>	<u>\$ 19,019,752</u>

\$3,830,755 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, 2023.

**MOREHEAD STATE UNIVERSITY**

Notes to the Financial Statements, continued

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

Kentucky Teachers Retirement System – Pension, continued

*Actuarial assumptions.* The total pension liability was determined by an actuarial valuation as of June 30, 2021, using the following key actuarial assumptions:

Inflation	2.5%
Salary increases	3.00-7.50%, including inflation
Investment rate of return	7.10%, net of pension plan investment expense, including inflation
Municipal Bond Index Rate	
Prior Measurement Date	2.13%
Measurement Date	3.37%
Year fiduciary net position (FNP)	
is projected to be depleted	N/A
Single Equivalent Interest rate, net of pension plan investment expense, including inflation	
Prior Measurement Date	7.10%
Measurement Date	7.10%
Post-Retirement Benefit Increases	1.50% annually

Mortality rates were based on the Pub2010 (Teachers Benefit-Weighted) Mortality Table projected generationally with MP-2020 with various set-forwards, set-backs, and adjustments for each of the groups; service, retirees, contingent annuitants, disabled retirees, and active members.

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>
Large Cap U.S. Equity	37.4%	4.2%
Small Cap U.S. Equity	2.6%	4.7%
International Equity	16.5%	5.3%
Emerging Markets Equity	5.5%	5.4%
Fixed Income	15.0%	(0.1)%
High Yield Bonds	2.0%	1.7%
Additional Categories	5.0%	2.2%
Real Estate	7.0%	4.0%
Private Equity	7.0%	6.9%
Cash	2.0%	(0.3)%

**MOREHEAD STATE UNIVERSITY**

Notes to the Financial Statements, continued

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

Kentucky Teachers Retirement System – Pension, continued

*Discount rate.* The discount rate used to measure the Total Pension Liability (TPL) as of the Measurement Date was 7.10%. 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 the Actuarially Determined Contribution rates for all fiscal years in the future. 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. Therefore, the long term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

*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 7.10 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 (6.10 percent) or 1-percentage-point higher (8.10 percent) than the current rate:

	<b>1% Decrease (6.10%)</b>	<b>Current Discount Rate (7.10%)</b>	<b>1% Increase (8.10%)</b>
Morehead State University’s proportionate share of the Collective Net Pension Liability	\$ 64,908,523	\$ 50,797,356	\$ 39,149,765

*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.

**MOREHEAD STATE UNIVERSITY**

Notes to the Financial Statements, continued

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

Kentucky Teachers Retirement System – Medical Insurance, continued

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, 5.55% of the gross annual payroll is contributed for members who began before January 1, 2022, with 2.775% paid by member contributions that are matched by the employer. For members who began on or after January 1, 2022, 4.775% of the gross annual payroll is contributed for members, with 2.775% paid by member contributions and 2% matched by 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.

The University's contributions to TRS for the years ended June 30, 2022 and 2021 were \$741,341 and \$691,714, respectively.

*TRS OPEB Liabilities, OPEB Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB* - At June 30, 2023 and 2022, 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:

	<u>2023</u>	<u>2022</u>
University's proportionate share of the net OPEB liability	\$ 13,870,000	\$ 8,368,000
Commonwealth of Kentucky's proportionate share of the		
Net OPEB liability associated with the University	<u>871,000</u>	<u>3,763,000</u>
Total	<u>\$ 14,741,000</u>	<u>\$ 12,131,000</u>

The net OPEB liability was measured as of June 30, 2022 and 2021, and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation of TRS as of June 30, 2021. 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, 2022 and 2021, the University's proportion was 0.558 and 0.389 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 – Medical Insurance, continued

For the year ended June 30, 2023 and 2022, the University recognized OPEB expense (benefit) of \$50,000 and (\$768,000). At June 30, 2023, 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>
Differences between expected and actual experience	\$ -	\$ 5,830,000
Changes of assumptions	2,817,000	-
Net difference between projected and actual earnings on pension plan investments	737,000	-
Changes in proportion and differences between University contributions and proportionate share of contributions	4,402,000	1,091,000
University contributions subsequent to the measurement date	<u>796,474</u>	<u>-</u>
<b>Total</b>	<b><u>\$ 8,752,474</u></b>	<b><u>\$ 6,921,000</u></b>

\$796,474 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, 2024. The average expected remaining service life was determined to be 6.43 years for TRS employees as of the June 30, 2022 measurement date. 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:	
2024	(\$449,000)
2025	(319,000)
2026	(154,000)
2027	846,000
2028	766,000
Thereafter	<u>345,000</u>
<b>Total</b>	<b><u>\$1,035,000</u></b>

**MOREHEAD STATE UNIVERSITY**

Notes to the Financial Statements, continued

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

Kentucky Teachers Retirement System – Medical Insurance, continued

At June 30, 2022, 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>
Differences between expected and actual experience	\$ -	\$ 4,976,000
Changes of assumptions	2,189,000	-
Net difference between projected and actual earnings on pension plan investments	-	893,000
Changes in proportion and differences between University contributions and proportionate share of contributions	-	1,478,000
University contributions subsequent to the measurement date	<u>741,341</u>	<u>-</u>
<b>Total</b>	<b><u>\$ 2,930,341</u></b>	<b><u>\$ 7,347,000</u></b>

\$741,341 reported as deferred outflows of resources related to the University's contributions to the TRS OPEB plan subsequent to the measurement date was recognized as a reduction of the net OPEB liability in the year ending June 30, 2023.

*Actuarial assumptions* – The total OPEB liability as of June 30, 2022 was determined based on an actuarial valuation as of June 30, 2021, using assumptions based on the experience investigation for the five-year period ending June 30, 2020. The following actuarial assumptions are applied to all periods in the measurement:

Investment rate of return	7.10%, net of OPEB plan investment expense, including inflation.
Projected salary increases	3.00 – 7.50%, including inflation
Inflation rate	2.50%
Real Wage Growth	0.25%
Wage Inflation	2.75%
Municipal Bond Index Rate	3.37%
Discount Rate	7.10%
Single Equivalent Interest Rate	7.10%, 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 – Medical Insurance, continued

Healthcare cost trend rates

Under 65	7.00% for FY 2022 decreasing to an ultimate rate of 4.50% by FY 2032
Ages 65 and Older	5.125% for FY 2022 decreasing to an ultimate rate of 4.50% by FY 2025
Medicare Part B Premiums	6.97% for FY 2022 with an ultimate rate of 4.50% by 2034

Mortality rates were based on the Pub2010 (Teachers Benefit-Weighted) Mortality Table projected generationally with MP-2020 with various set-forwards, set-backs, and adjustments for each of the groups; service, retirees, contingent annuitants, disabled retirees, and active members.

The demographic actuarial assumptions for retirement, disability incidence, withdrawal, rates of plan participation, and rates of plan election used in the June 30, 2021 valuation were based on the results of the most recent actuarial experience studies for the System, which covered the five-year period ending June 30, 2020, adopted by the Board on September 20, 2021. The remaining actuarial assumptions (e.g. initial per capita costs, health care cost trends) used in the June 30, 2021 valuation of the Health Trust were based on a review of recent plan experience done concurrently with the June 30, 2021 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 are developed for each major asset class. 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>Long-Term Expected Real Rate of Return</u>
Global Equity	58.0%	5.1%
Fixed Income	9.0%	(0.1)%
Real Estate	6.5%	4.0%
Private Equity	8.5%	6.9%
High Yield	8.0%	1.7%
Other Categories	9.0%	2.2%
Cash (LIBOR)	1.0%	(0.3)%

**MOREHEAD STATE UNIVERSITY**

Notes to the Financial Statements, continued

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

Kentucky Teachers Retirement System – Medical Insurance, continued

*Discount rate* - The discount rate used to measure the total OPEB liability was 7.10%. The projection of cash flows used to determine the discount rate was performed in accordance with GASB 75. 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 7.10% 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 (6.10%)</b>	<b>Current Discount Rate (7.10%)</b>	<b>1% Increase (8.10%)</b>
University’s share of net OPEB liability	\$ 17,402,000	\$ 13,870,000	\$ 10,946,000

*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	\$ 10,398,000	\$ 13,870,000	\$ 18,189,000

*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.

**MOREHEAD STATE UNIVERSITY**

Notes to the Financial Statements, continued

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

Kentucky Teachers Retirement System – Life Insurance, continued

For employees who began prior to January 1, 2022, TRS provides a life insurance benefit of five thousand dollars payable for members who retire based on service or disability and two thousand dollars payable for its active contributing members. For employees who began on or after January 1, 2022, TRS provides a life insurance benefit of ten thousand dollars payable for members who retire based on service or disability and of five 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, eight hundredths of one percent (.08%) of the gross annual payroll of members is contributed by the University.

The University's contributions to TRS for the years ended June 30, 2022 and 2021 were \$19,924 and \$17,049, respectively.

*TRS OPEB Liabilities, OPEB Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB* - At June 30, 2023 and 2022, the University reported a liability of \$261,000 and \$111,000 for its proportionate share of the net OPEB liability. The net OPEB liability was measured as of June 30, 2022 and 2021, and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation of TRS as of June 30, 2021. 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, 2022 and 2021, the University’s proportion was 0.839 and 0.848 percent, respectively. 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, 2023 and 2022, the University recognized OPEB expense of \$16,000 and \$12,000, respectively. At June 30, 2023, 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>
Differences between expected and actual experience	\$ 4,000	\$ 31,000
Changes of assumptions	-	34,000
Net difference between projected and actual earnings on pension plan investments	72,000	-
Changes in proportion and differences between University contributions and proportionate share of contributions	-	17,000
University contributions subsequent to the measurement date	<u>23,201</u>	<u>-</u>
Total	<u>\$ 99,201</u>	<u>\$ 82,000</u>

**MOREHEAD STATE UNIVERSITY**

Notes to the Financial Statements, continued

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

Kentucky Teachers Retirement System – Life Insurance, continued

\$23,201 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, 2024. 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:	
2024	\$ (4,000)
2025	(5,000)
2026	(5,000)
2027	25,000
2028	(12,000)
Thereafter	<u>(5,000)</u>
Total	<u>\$ (6,000)</u>

At June 30, 2022, 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>
Differences between expected and actual experience	\$ 5,000	\$ 3,000
Changes of assumptions	-	42,000
Net difference between projected and actual earnings on pension plan investments	-	102,000
Changes in proportion and differences between University contributions and proportionate share of contributions	-	18,000
University contributions subsequent to the measurement date	<u>19,924</u>	<u>-</u>
Total	<u>\$ 24,924</u>	<u>\$ 165,000</u>

\$19,924 reported as deferred outflows of resources related to the University's contributions to the TRS OPEB plan subsequent to the measurement date was recognized as a reduction of the net OPEB liability in the year ending June 30, 2023.

# MOREHEAD STATE UNIVERSITY

## Notes to the Financial Statements, continued

### 7. Pension & OPEB Plans, continued

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

*Actuarial assumptions* – The total OPEB liability as of June 30, 2022 was determined based on an actuarial valuation as of June 30, 2021, using assumptions based on the experience investigation for the five-year period ending June 30, 2021. The following actuarial assumptions are applied to all periods in the measurement:

Investment rate of return	7.10%, net of OPEB plan investment expense, including inflation.
Projected salary increases	3.00 – 7.50%, including inflation
Inflation rate	2.50%
Real Wage Growth	0.25%
Wage Inflation	2.75%
Municipal Bond Index Rate	3.37%
Discount Rate	7.10%
Single Equivalent Interest Rate	7.10%, net of OPEB plan investment expense, including inflation.

Mortality rates were based on the Pub2010 (Teachers Benefit-Weighted) Mortality Table projected generationally with MP-2020 with various set-forwards, set-backs, and adjustments for each of the groups; service, retirees, contingent annuitants, disabled retirees, and active members.

The demographic actuarial assumptions for retirement, disability incidence, withdrawal, rates of plan participation, and rates of plan election used in the June 30, 2021 valuation were based on the results of the most recent actuarial experience studies for the System, which covered the five-year period ending June 30, 2020, adopted by the Board on September 20, 2021. The remaining actuarial assumptions (e.g. initial per capita costs, health care cost trends) used in the June 30, 2021 valuation of the Health Trust were based on a review of recent plan experience done concurrently with the June 30, 2021 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 are developed for each major asset class. 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:

**MOREHEAD STATE UNIVERSITY**

Notes to the Financial Statements, continued

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

Kentucky Teachers Retirement System – Life Insurance, continued

Asset Class	Target Allocation	Long Term Expected Real Rate of Return
U.S. Equity	40.0%	4.4%
International Equity	23.0%	5.6%
Fixed Income	18.0%	-0.1%
Real Estate	6.0%	4.0%
Private Equity	5.0%	6.9%
Other Additional Categories	6.0%	2.1%
Cash (LIBOR)	2.0%	-0.3%
Total	100.0%	

*Discount rate* - The discount rate used to measure the total OPEB liability was 7.10%. The projection of cash flows used to determine the discount rate was performed in accordance with GASB 75. 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 7.10% 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 (6.10%)	Current Discount Rate (7.10%)	1% Increase (8.10%)
University's share of net OPEB liability	\$ 403,000	\$ 261,000	\$ 146,000

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



## MOREHEAD STATE UNIVERSITY

### Notes to the Financial Statements, continued

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

##### Kentucky Employees Retirement System - Pension

Under the provisions of Kentucky Revised Statute Section 78.782 and 61.645, the Kentucky Public Pensions Authority (KPPA) oversees the administration and operation of the personnel and accounting systems for the Kentucky Employees Retirement System – Nonhazardous Pension Plan (KERS Nonhazardous), Kentucky Employees Retirement System – Hazardous Pension Plan (KERS Hazardous), collectively KERS, County Employees Retirement System – Nonhazardous Pension Plan (CERS Nonhazardous), County Employees Retirement System – Hazardous Pension Plan (CERS Hazardous), collectively CERS, and State Police Retirement System (SPRS), which are administered by KPPA. Although the assets of the funds are invested as a whole, each plan's assets are accounted for separately; invested according to plan-specific asset allocation goals; and, are used only for the payment of benefits to the members of that plan and a pro rata share of administrative costs, in accordance with the provisions of Kentucky Revised Statute Sections 78.630, 61.570 and 16.555.

KERS Nonhazardous and Hazardous plans are cost-sharing multiple-employer defined benefit plans that cover all regular full-time members employees. The plans provide for retirement, disability, and death benefits to plan members. Retirement benefits may be extended to beneficiaries of plan members under certain circumstances. KERS 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 Employees 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, 2022 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 33.43% of current eligible hazardous employees' salaries to KERS through appropriations to the University. The Commonwealth also indirectly contributes 10.10% plus an annual dollar amount to cover the amortized unfunded liability for current eligible nonhazardous employees. This amount is based on each agency's percentage of the KERS Nonhazardous plan's total actuarially accrued liability. University contribution rates are determined by the Kentucky Revised Statute and the Board of Trustees of the Kentucky Employees Retirement Systems each biennium. The University's contributions to KERS for the years ended June 30, 2022 and 2021 were \$6,330,584 and \$1,602,491, respectively.

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

At June 30, 2023 and 2022, the University reported a liability of \$81,121,804 and \$81,334,022, respectively, for its proportionate share of the net pension liability. The net pension liability as of June 30, 2022 was based on an actuarial valuation date of June 30, 2021. The total pension liability was rolled-forward from the valuation date (June 30, 2021) to the plan's fiscal year ending June 30, 2022, using generally accepted actuarial principles. At June 30, 2022 and 2021, the University's proportion was 0.59 percent for both fiscal years.

**MOREHEAD STATE UNIVERSITY**

Notes to the Financial Statements, continued

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

Kentucky Employees Retirement System - Pension, continued

House Bill 1 passed during the 2022 legislative session and included a provision that provided an approximate 8% across-the-board salary increase effective July 1, 2022 for eligible State employees. While this salary increase may produce an actuarial loss with respect to the liability attributable to Tier 1 and Tier 2 active members (i.e. a higher total pension liability than expected based on current actuarial assumptions), there was not sufficient information available at the time the roll-forward Total Pension Liability was calculated to make a reasonable adjustment to reflect these anticipated salary increases.

House Bill 8 passed during the 2021 legislative session and changed how employer contributions are allocated and collected from the participating employers in the KERS Non-Hazardous Plan. This change does not impact the calculation of the total pension liability but does impact the allocation of required contributions amongst the participating employers. As a result of this legislation, there are several employers that will experience a relatively large change in proportionate share of the Collective Pension Amounts in the KERS Non-Hazardous Plan from 2020 to 2021.

For the years ended June 30, 2023 and 2022, the University recognized pension expense of \$20,719,166 and \$12,986,603, respectively. At June 30, 2023 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	\$ 7,288	\$ 109,129
Net difference between projected and actual earnings on pension plan investments	1,896,277	1,549,644
Changes in proportion and differences between University contributions and proportionate share of contributions	2,359,625	287,920
University contributions subsequent to the measurement date	<u>6,239,952</u>	<u>-</u>
<b>Total</b>	<b><u>\$ 10,503,142</u></b>	<b><u>\$ 1,946,693</u></b>

**MOREHEAD STATE UNIVERSITY**

Notes to the Financial Statements, continued

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

Kentucky Employees Retirement System - Pension, continued

\$6,239,952 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, 2024. The average expected remaining service life was determined to be 2.02 years for KERS-nh employees and 2.08 years for KERS-h employees as of the June 30, 2022 measurement date. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year ending	
June 30:	
2024	\$ 1,984,140
2025	(9,268)
2026	(86,641)
2027	<u>428,266</u>
Total	<u>\$ 2,316,497</u>

At June 30, 2022, the University reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of <u>Resources</u>	Deferred Inflows of <u>Resources</u>
Differences between expected and actual experience	\$ 120,832	\$ 417,537
Net difference between projected and actual earnings on pension plan investments	284,607	2,165,418
Changes in proportion and differences between University contributions and proportionate share of contributions	20,510,582	1,415,771
University contributions subsequent to the measurement date	<u>6,341,662</u>	<u>-</u>
Total	<u>\$ 27,257,683</u>	<u>\$ 3,998,726</u>

\$6,341,662 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, 2023.

# MOREHEAD STATE UNIVERSITY

## Notes to the Financial Statements, continued

### 7. Pension & OPEB Plans, continued

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

*Actuarial assumptions.* The total pension liability, net pension liability, and sensitivity information as of June 30, 2022 were based on an actuarial valuation date of June 30, 2021. The total pension liability was rolled-forward from the valuation date (June 30, 2021) to the plan's fiscal year ending June 30, 2022, using generally accepted actuarial principles. The Total Pension liability as of June 30, 2022, was determined using these assumptions:

Inflation	2.30%
Salary Increases	3.30% to 15.30% varies by service for KERS non-hazardous 3.55% to 20.05% varies by service for KERS hazardous
Investment Rate of Return	6.25% for KERS hazardous, 5.25% for KERS non-hazardous

The mortality table used for active members was a Pub-2010 General Mortality table, for the Non-Hazardous System, and Pub-2010 Public Safety Mortality table for the Hazardous System, projected with the ultimate rates from the MP-2014 mortality improvement scale using a base year of 2010. The mortality table used for healthy retired members was a system-specific mortality table based on mortality experience from 2013-2018, projected with the ultimate rates from MP-2014 mortality improvement scale using a base year of 2019. The mortality table used for the disabled members was PUB-2010 Disabled Mortality table, with a 4-year set-forward for both male and female rates, projected with the ultimate rates from the MP-2014 mortality improvement scale using a base year of 2010.

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:

**MOREHEAD STATE UNIVERSITY**

Notes to the Financial Statements, continued

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

Kentucky Employees Retirement System - Pension, continued

KERS Non-Hazardous

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
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**Equity**

<b>Public Equity</b>	32.50%	4.45%
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<b>Private Equity</b>	7.00%	10.15%
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**Fixed Income**

<b>Core Bonds</b>	20.50%	0.28%
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<b>Specialty Credit/High Yield</b>	15.00%	2.28%
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<b>Cash</b>	5.00%	(0.91%)
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**Inflation Protected**

<b>Real Estate</b>	10.00%	3.67%
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<b>Real Return</b>	10.00%	4.07%
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<b>Expected Real Return</b>	100.00%	3.28%
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<b>Long Term Inflation Assumption</b>		2.30%
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<b>Expected Nominal Return for Portfolio</b>		5.58%
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**MOREHEAD STATE UNIVERSITY**

Notes to the Financial Statements, continued

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

Kentucky Employees Retirement System - Pension, continued

KERS Hazardous

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
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**Equity**

<b>Public Equity</b>	43.50%	4.45%
<b>Private Equity</b>	10.00%	10.15%

**Fixed Income**

<b>Core Bonds</b>	10.00%	0.28%
<b>Specialty Credit/High Yield</b>	15.00%	2.28%
<b>Cash</b>	1.50%	(0.91%)

**Inflation Protected**

<b>Real Estate</b>	10.00%	3.67%
<b>Real Return</b>	10.00%	4.07%

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<b>Expected Real Return</b>	100.00%	4.08%
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<b>Long Term Inflation Assumption</b>		2.30%
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<b>Expected Nominal Return for Portfolio</b>		6.38%
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*Discount rate.* The projection of cash flows used to determine the discount rate of 5.25% for the KERS Non-hazardous, and 6.25% for KERS Hazardous, assumes that the funds receive the required employer contributions each future year, as determined by the current funding policy, established in Statute as amended by House Bill 8, passed during the 2021 legislative session, over the remaining 29 years (closed) amortization period of the unfunded actuarial accrued liability.

*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:

**MOREHEAD STATE UNIVERSITY**

Notes to the Financial Statements, continued

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

Kentucky Employees Retirement System - Pension, continued

**Hazardous**

	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	\$ 1,109,306	\$ 839,523	\$ 620,894

**Non-Hazardous**

	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	\$ 92,337,681	\$ 80,282,281	\$70,355,766

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

Kentucky Employees Retirement System - OPEB

Under the provisions of Kentucky Revised Statute Section 78.782 and 61.645, the Kentucky Public Pensions Authority (KPPA) oversees the administration and operation of the personnel and accounting systems for the Kentucky Employees Retirement System – Nonhazardous Pension Plan (KERS Nonhazardous), Kentucky Employees Retirement System – Hazardous Pension Plan (KERS Hazardous), collectively KERS, County Employees Retirement System – Nonhazardous Pension Plan (CERS Nonhazardous), County Employees Retirement System – Hazardous Pension Plan (CERS Hazardous), collectively CERS, and State Police Retirement System (SPRS), which are administered by KPPA. Although the assets of the funds are invested as a whole, each plan's assets are accounted for separately; invested according to plan-specific asset allocation goals; and, are used only for the payment of benefits to the members of that plan and a pro rata share of administrative costs, in accordance with the provisions of Kentucky Revised Statute Sections 78.630, 61.570 and 16.555.

KERS Nonhazardous and Hazardous plans are cost-sharing multiple-employer other post-employment benefits (OPEB) plans that cover all regular full-time employees. The plans provide for health insurance benefits to plan members. Health insurance benefits may be extended to beneficiaries of plan members under certain circumstances. 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.

**MOREHEAD STATE UNIVERSITY**

Notes to the Financial Statements, continued

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

Kentucky Employees Retirement System - OPEB, continued

*KERS OPEB Liabilities, OPEB Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB* - At June 30, 2023 and 2022, the University reported a liability of \$7,544,094 and \$12,510,721 for its proportionate share of the net OPEB liability. The net OPEB liability as of June 30, 2022, was based on an actuarial valuation date of June 30, 2021. The total OPEB liability was rolled-forward from the valuation date (June 30, 2021) to the plan's fiscal year ending June 30, 2022, using the generally accepted actuarial principles. At June 30, 2022 and 2021, the University's proportion was 0.339 and 0.552 percent.

The University's contributions to KERS for the years ended June 30, 2022 and 2021 were \$743,642 and \$301,363, respectively.

For the year ended June 30, 2023 and 2022, the University recognized OPEB (benefit) expense of (\$964,221) and \$1,176,068. At June 30, 2023, 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	\$ 199,217	\$ 655,167
Changes of assumptions	496,022	560,129
Net difference between projected and actual earnings on OPEB plan investments	676,983	507,548
Changes in proportion and differences between University contributions and proportionate share of contributions	2,389,112	4,369,709
University contributions subsequent to the measurement date	656,187	-
Total	\$ 4,417,521	\$ 6,092,553



**MOREHEAD STATE UNIVERSITY**

Notes to the Financial Statements, continued

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

Kentucky Employees Retirement System - OPEB, continued

\$656,187 reported as deferred outflows of resources related to the University's contributions to the KERS OPEB plan subsequent to the measurement date will be recognized as a reduction of the net OPEB liability in the year ending June 30, 2024. The average expected remaining service life was determined to be 3.44 years for KERS-nh employees and 4.66 years for KERS-h employees as of the June 30, 2022 measurement date. 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:	
2024	\$ (950,252)
2025	(768,009)
2026	(743,325)
2027	<u>130,367</u>
Total	<u>\$ (2,331,219)</u>

At June 30, 2022, 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>
Differences between expected and actual liability experience	\$ 758,177	\$ 1,804,412
Changes of assumptions	1,387,219	12,200
Net difference between projected and actual earnings on OPEB plan investments	240,753	1,066,149
Changes in proportion and differences between University contributions and proportionate share of contributions	3,947,375	2,666,137
University contributions subsequent to the measurement date	<u>745,122</u>	<u>-</u>
Total	<u>\$ 7,078,646</u>	<u>\$ 5,548,898</u>

## MOREHEAD STATE UNIVERSITY

### Notes to the Financial Statements, continued

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

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

\$745,122 reported as deferred outflows of resources related to the University's contributions to the KERS OPEB plan subsequent to the measurement date was recognized as a reduction of the net OPEB liability in the year ending June 30, 2023.

*Actuarial assumptions* – The total OPEB liability, net OPEB liability and sensitivity information as of June 30, 2022 were based on an actuarial valuation date of June 30, 2021. The total OPEB liability was rolled-forward from the valuation date (June 30, 2021) to the plan's fiscal year ending June 30, 2022, using generally accepted actuarial principles. The total OPEB liability as of June 30, 2022, was determined using these assumptions:

Inflation	2.30%
Payroll Growth Rate	0.0% for KERS non-hazardous and hazardous
Salary Increase	3.30% - 15.30% KERS Non-Hazardous, varies by service 3.55% - 20.05% KERS Hazardous, varies by service
Investment Rate of Return	6.25%
Healthcare Trend Rates:	
Pre – 65	Initial trend starting at 6.40% at January 1, 2022, and gradually decreasing to an ultimate trend rate of 4.05% over a period of 14 years.
Post-65	Initial trend starting at 6.30% at January 1, 2023, and gradually decreasing to an ultimate trend rate of 4.05% over a period of 13 years.

The mortality table used for active members was a Pub-2010 General Mortality table, for the Non-Hazardous System, and Pub-2010 Public Safety Mortality table for the Hazardous System, projected with the ultimate rates from the MP-2014 mortality improvement scale using a base year of 2010. The mortality table used for healthy retired members was a system-specific mortality table based on mortality experience from 2013-2018, projected with the ultimate rates from MP-2014 mortality improvement scale using a base year of 2019. The mortality table used for the disabled members was PUB-2010 Disabled Mortality table, with a 4-year set-forward for both male and female rates, projected with the ultimate rates from the MP-2014 mortality improvement scale using a base year of 2010.

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:

**MOREHEAD STATE UNIVERSITY**

Notes to the Financial Statements, continued

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

Kentucky Employees Retirement System - OPEB, continued

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
<b>Equity</b>		
Public Equity	43.50%	4.45%
Private Equity	10.00%	10.15%
<b>Fixed Income</b>		
Core Bonds	10.00%	0.28%
Specialty Credit/High Yield	15.00%	2.28%
Cash	1.50%	(0.91%)
<b>Inflation Protected</b>		
Real Estate	10.00%	3.67%
Real Return	10.00%	4.07%
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<b>Expected Real Return</b>	100.00%	4.08%
<b>Long Term Inflation Assumption</b>		2.30%
<hr/>		
<b>Expected Nominal Return for Portfolio</b>		6.38%

*Discount Rate* – The projection of cash flows used to determine the discount rate of 5.72% for the KERS Non-hazardous, and 5.59% for KERS Hazardous, assumes that the funds receive the required employer contributions each future year, as determined by the current funding policy.

*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:

**MOREHEAD STATE UNIVERSITY**

Notes to the Financial Statements, continued

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

Kentucky Employees Retirement System - OPEB, continued

**Non- Hazardous**

	<b>1% Decrease (4.72%)</b>	<b>Current Discount Rate (5.72%)</b>	<b>1% Increase (6.72%)</b>
University's share of net OPEB liability for Non-Hazardous	\$ 9,016,501	\$ 7,531,484	\$ 6,164,877

**Hazardous**

	<b>1% Decrease (4.59%)</b>	<b>Current Discount Rate (5.59%)</b>	<b>1% Increase (6.59%)</b>
University's share of net OPEB liability for Hazardous	\$ 151,203	\$12,610	(\$99,895)

*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:*

**Non-Hazardous**

	<b>1% Decrease</b>	<b>Current Healthcare Trend Rates</b>	<b>1% Increase</b>
University's share of net OPEB liability for Non-Hazardous	\$ 6,192,133	\$ 7,531,484	\$ 8,969,834

**Hazardous**

	<b>1% Decrease</b>	<b>Current Healthcare Trend Rates</b>	<b>1% Increase</b>
University's share of net OPEB liability for Hazardous	(\$89,177)	\$12,610	\$ 136,224

## 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%. The University's contributions to these plans for the years ended June 30, 2023 and 2022 were \$1,204,003 and \$1,171,099 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 \$151,043 and \$146,644 as lease expense in 2023 and 2022, respectively. The University also recognized \$71,492 as a gain on disposal of the property in both 2023 and 2022.

#### 9. 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, 2023.

The University has made certain commitments related to the completion of various construction projects in progress totaling approximately \$126,782. Such construction is principally financed by appropriations from the Commonwealth of Kentucky and proceeds from bonds.

#### 10. Insurance Programs

The University maintains 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 the fiscal years ended June 30, 2023 and 2022 were \$8,871,631 and \$8,064,003, respectively.

## MOREHEAD STATE UNIVERSITY

### Notes to the Financial Statements, continued

#### 11. 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.

#### 12. 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, 2023 and 2022 was \$62,117,229 and \$56,141,302, respectively. The portion of the endowments representing the value of the funding received from the Kentucky General Assembly was \$8,399,998 and \$7,774,998 for the years ended June 30, 2023 and 2022, respectively, 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, 2023 and 2022, and is included in investments held by the Foundation.

#### 13. 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.

**MOREHEAD STATE UNIVERSITY**

Notes to the Financial Statements, continued

**13. Related Parties, continued**

Related party transactions and funds held by the Foundation on behalf of the University are as follows during 2023 and 2022:

	<u>2023</u>	<u>2022</u>
Funds disbursed by the University on behalf of the Foundation for employee salaries and benefits	\$ 85,676	\$ 126,506
Funds held by the Foundation on behalf or for the benefit of the University	11,052,195	10,427,195
Funds due to the University by the Foundation	477,783	406,215

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; \$137,677 for years ended June 30, 2023 and June 30, 2022. 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 fiscal years ended June 30, 2023 and 2022.

**14. Higher Education Emergency Relief Fund**

The University received Higher Education Emergency Relief Funds from the United States Department of Education. These funds were awarded to institutions of higher education in three individual grants, two of which provided institutional aid to defray expenses associated with coronavirus and the third grant provided funding for emergency financial aid grants to students. The University received a total of \$21,647,823 in institutional aid funds and \$16,022,464 for student aid.

The University incurred \$21,647,823 defraying the impact of the coronavirus of which \$3,772,037 was incurred in the year ending June 30, 2022, with \$14,757,286 and \$3,118,500 incurred in the years ending June 30, 2021 and 2020, respectively. The University recognized offsetting revenues totaling \$21,647,823 through June 30, 2022, \$9,847,029 of which were recognized during the year ended June 30, 2022 with \$10,213,700 and \$1,587,094 recognized in the years ending June 30, 2021 and 2020, respectively. Revenues are reported in the Nonoperating Revenues (Expenses) section and expenses are reported in operating expenses of the Statement of Revenues, Expenses, and Changes in Net Position.

The University also had Student aid revenues which offset expenditures through the year ended June 30, 2022 which totaled \$16,022,464 of which \$10,006,024 was incurred through June 30, 2022 and \$4,724,211 and \$1,292,229, was incurred in the years ending June 30, 2021 and 2020, respectively. These revenues are reported in the Nonoperating Revenues (Expenses) section and the expenses are reported in Operating Expenses on the Statement of Revenues, Expenses, and Changes in Net Position.

## MOREHEAD STATE UNIVERSITY

### Notes to the Financial Statements, continued

#### 15. Subsequent Events

##### Cybersecurity

Despite the implementation of network security measures by the University, its information technology systems may be vulnerable to breaches, hacker attacks, computer viruses, physical or electronic break-ins, and other similar events or issues. Such events or issues could lead to the inadvertent disclosure of a wide range of confidential information or could have an adverse effect on the University's ability to provide educational services or its reputation resulting in a reduction in its ability to produce revenues.

On July 12, 2023, the University discovered that it was the victim of an Akira cybersecurity ransomware attack. The University responded to the cybersecurity/ransomware attack by launching an investigation with the assistance of Microsoft Corporation and Dell Technologies, both of whom are providing independent computer forensics expertise. The University also proactively took many of its network utilities offline to protect unaffected parts of its network. Working with its vendors, the University continues to restore affected network systems. While the University's network was temporarily offline, and while restoration work continues, student services are being delivered. The University is cooperating with law enforcement in the ongoing investigation of this incident. The University continues to assess the impact of this incident. There is evidence that data was exfiltrated as part of the attack, though the extent of such exfiltration is unknown. No ransom fees have been paid to the attackers in connection with the corrective measures taken to address the incident.

##### Bond Issuance

On August 8, 2023, the University issued General Receipts Bonds in the amount of \$5,175,000. The bonds were sold at a premium, which resulted in net proceeds of \$5,424,114. The net effective interest rate to the University is 4.042% and the final maturity date is September 1, 2043. The proceeds of the 2023 Series A Bonds will be used to finance the University's required match for the 2023-2024 Asset Preservation Pool Projects.



## MOREHEAD STATE UNIVERSITY

### Notes to the Financial Statements, continued

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

##### A. Nature of the Organization

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

Net assets and revenues, expenses, gains and losses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, net assets of the Foundation and changes therein are classified and reported as follows:

**Net Assets Without Donor Restrictions** include the portion of expendable funds that are not subject to donor-imposed stipulations.

**Net Assets With Donor Restrictions** include net assets subject to donor-imposed restrictions. Some donor-imposed restrictions are temporary in nature, such as those that will be met by the passage of time or other events specified by the donor. Other donor-imposed restrictions are perpetual in nature, where the donor stipulates that resources be maintained in perpetuity. Donor-imposed restrictions are released when a restriction expires, that is, when the stipulated time has elapsed, when the stipulated purpose for which the resource was restricted has been fulfilled, or both. Generally, the donors of these assets permit the Foundation to use all or part of the income earned on related investments for general or specific purposes.

The Foundation reports gifts of cash and other assets as restricted support if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the combined statements of activities as net assets released from restrictions. The Foundation treats donor-restricted contributions whose restrictions are met in the same reporting period as support without donor restrictions.

# MOREHEAD STATE UNIVERSITY

## Notes to the Financial Statements, continued

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

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

##### 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 net assets without donor restrictions unless use of the related assets is limited by donor-imposed restrictions. Expenses are reported as decreases in net assets without donor restrictions. Gains and losses on investments and other assets or liabilities are reported as increases or decreases in net assets without donor restrictions unless their use is restricted by explicit donor stipulation or by law. Expirations of net assets with donor restrictions are reported as reclassifications between the applicable classes of net assets.

Opening balances as of July 1, 2021 were as follows:

Accounts receivable	\$ 37,836
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##### 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 .29% to 5.13%, 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 (\$353,982 and \$462,231 as of June 30, 2023 and 2022, 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.

Opening balances as of July 1, 2021 were as follows:

Pledges receivable, current and long-term	\$ 5,186,595
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## 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 with or without donor restrictions 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, 2023 and 2022 were \$128,022 and \$127,570, respectively.

The June 30, 2023 and 2022 annuity liability balances of \$563,361 and \$572,777, 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 0.69% to 4.16%. The estimated remaining life expectancies of the annuitants ranged from 2.85 to 11.05 years for the year ended June 30, 2023 and 2.83 to 10.96 years for the year ended June 30, 2022.

###### 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, 2023 and 2022, the Foundation held \$11,052,195 and \$10,427,195, respectively, for the University's investment purposes.

##### Income Taxes

The Foundation constitutes a qualified, not-for-profit organization, and is therefore, exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code. Accordingly, no provision for income taxes is recorded in the financial statements. However, the Foundation is subject to federal income tax on any unrelated business taxable income.

##### 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 revenue and net assets without donor restrictions. Gifts received with donor stipulations that limit their use are reported as revenue and net assets with donor restrictions. When a donor-stipulated time restriction ends or the purpose of the restriction is accomplished, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the statements of activities as net assets released from restriction. 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 net assets without donor restrictions.

Gifts of land, buildings, equipment, and other long-lived assets are reported as revenue and net assets without donor restriction unless explicit donor stipulations specify how such assets must be used, in which case the gifts are reported as revenue and net assets with donor restrictions. Absent explicit donor stipulations for the time long-lived assets must be held, expirations of restrictions resulting in the reclassification of net assets with donor restrictions to net assets without donor restrictions 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

In addition to receiving cash contributions, the Foundation receives in-kind contributions from various donors. The Foundation's policy is to record the estimated fair value of certain donated material and property as an asset or expense in its financial statements and similarly increase contribution revenue by a like amount.

###### 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.

###### Recent Accounting Pronouncements

At July 1, 2022 and June 30, 2023, the Foundation evaluated Accounting Standards Update (ASU) 2016-02, Leases (Topic 842) and associated amendments. Management determined that the standard did not have a material impact on its financial statements.

###### Subsequent Events

The Foundation has evaluated subsequent events and transactions for accounting and disclosure requirements through October 16, 2023, the date on which the financial statements were ready to be issued, for items requiring recognition or disclosure in the financial statements.

**MOREHEAD STATE UNIVERSITY**

Notes to the Financial Statements, continued

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

**C. Liquidity and Availability**

As of June 30, 2023 and 2022, the below assets, held by the Foundation, could readily be made available within one year of the statement of financial position date to meet general expenditures.

	<u>2023</u>	<u>2022</u>
Financial assets available to meet general expenditures over the next 12 months:		
Cash and equivalents	\$ 363,704	\$ 482,672
Investments without donor restrictions	<u>3,160,850</u>	<u>3,148,985</u>
	<u>\$ 3,524,554</u>	<u>\$ 3,631,657</u>

The Foundation regularly monitors liquidity required to meet its operating needs and other contractual commitments, while also striving to maximize the investment of its available funds. The Foundation has various sources of liquidity at its disposal, including cash and cash equivalents, as well as investment securities. The Foundation strives to maintain financial assets available to meet general expenditures at a level that represents 100% of annual expenses. The Finance Committee meets semi-annually to review cash needs and investment performance.

For purposes of analyzing resources available to meet general expenditures over a 12-month period, the Foundation considers all expenditures related to its ongoing activities of providing scholarships and other reimbursements to the University, restricted expenditures on behalf of the University, as well as its own operating needs to be general expenditures. The Foundation operates with a balanced budget and anticipates collecting sufficient revenue to cover general expenditures not covered by donor restricted resources.

**D. Investments**

Investments held as of June 30, 2023 and 2022 are summarized as follows:

	<u>2023</u>	<u>2022</u>
Mutual funds	\$ 13,087,466	\$ 10,511,709
Alternative investments	58,879,951	55,590,060
Corporate bonds and stock	<u>91,570</u>	<u>76,763</u>
	<u>\$ 72,058,987</u>	<u>\$ 66,178,532</u>

Investment management fees were approximately \$317,000 and \$219,000 during the years ended June 30, 2023 and 2022, respectively.

**MOREHEAD STATE UNIVERSITY**

Notes to the Financial Statements, continued

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

**E. Assets Held of Sale**

During May 2021, the Foundation purchased real estate valued at \$715,000 with the intent to sell the property to the University. As of June 30, 2021, the property was included in assets held for sale and was valued at the carrying value, which approximates fair value. The fair value of the real estate was determined by management to be \$715,000. The Foundation sold all of the property during its fiscal year ending June 30, 2022.

**F. Pledges Receivable**

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

Year ended June 30,		
2024	\$	1,233,810
2025		1,234,645
2026		544,515
2027		345,489
2028		260,225
Thereafter		<u>34,407</u>
		3,653,091
Less: present value discount		(113,248)
Less: allowance for uncollectible pledges		<u>(353,982)</u>
Pledges receivable, net		3,185,861
Less: current pledges receivable		<u>(652,634)</u>
Noncurrent pledges receivable	\$	<u>2,533,227</u>

During the years ending June 30, 2023 and 2022, the Foundation had bad debt expense of \$15,510 and \$18,760, respectively.

**G. Equipment**

As of June 30, 2023 and 2022, equipment consists of the following:

	<u>2023</u>	<u>2022</u>
Furniture and equipment	\$ 214,441	\$ 175,650
Less: accumulated depreciation	<u>(153,433)</u>	<u>(128,725)</u>
	<u>\$ 61,008</u>	<u>\$ 46,925</u>

**MOREHEAD STATE UNIVERSITY**

Notes to the Financial Statements, continued

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

**G. Equipment, continued**

Depreciation expense was \$24,708 and \$14,086 for the years ended June 30, 2023 and 2022, respectively.

**H. 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 eighteen giving programs with life insurance in effect totaling \$903,042 for both of the years ended June 30, 2023 and 2022. The cash surrender value of these policies as of June 30, 2023 and 2022 was \$165,669 and \$158,329, respectively.

**I. Fair Value Measurements**

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

June 30, 2023	Fair Value	Fair Value Measurements 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:				
Equities:				
Domestic	\$ 7,095,258	\$ 7,095,258	\$ -	\$ -
Energy sector	2,288,223	2,288,223	-	-
Fixed income and cash:				
Cash	569,037	569,037	-	-
Fixed income	6,002,030	6,002,030	-	-
Alternative investments:				
Hedge funds	5,642,157	-	-	5,642,157
Real assets	7,981,093	-	-	7,981,093
Private equity	9,181,770	-	-	9,181,770
Domestic equity	7,568,196	-	-	7,568,196
International equity	11,364,213	-	-	11,364,213
Fixed income	10,708,980	-	-	10,708,980
Global credit	3,566,460	-	-	3,566,460
Corporate bonds and stocks	91,570	-	91,570	-
Total assets	<u>\$ 72,058,987</u>	<u>\$ 15,954,548</u>	<u>\$ 91,570</u>	<u>\$ 56,012,869</u>
Annuities payable	<u>\$ 563,361</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 563,361</u>
Total liabilities	<u>\$ 563,361</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 563,361</u>



**MOREHEAD STATE UNIVERSITY**

Notes to the Financial Statements, continued

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

**I. Fair Value Measurements, continued**

June 30, 2022	Fair Value	Fair Value Measurements 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:				
Equities:				
Domestic	\$ 3,783,538	\$ 3,783,538	\$ -	\$ -
Energy sector	3,065,482	3,065,482	-	-
Fixed income and cash:				
Cash	540,663	540,663	-	-
Fixed income	3,122,026	3,122,026	-	-
Alternative investments:				
Hedge funds	5,740,291	-	-	5,740,291
Real assets	8,115,285	-	-	8,115,285
Private equity	8,046,927	-	-	8,046,927
Domestic equity	9,177,347	-	-	9,177,347
International equity	10,548,046	-	-	10,548,046
Fixed Income	10,684,294	-	-	10,684,294
Global credit	3,277,870	-	-	3,277,870
Corporate bonds and stocks	76,763	-	76,763	-
Total assets	<u>\$ 66,178,532</u>	<u>\$ 10,511,709</u>	<u>\$ 76,763</u>	<u>\$ 55,590,060</u>
Annuities payable	<u>\$ 572,777</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 572,777</u>
Total liabilities	<u>\$ 572,777</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 572,777</u>

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, 2023 and 2022.

*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.

MOREHEAD STATE UNIVERSITY

Notes to the Financial Statements, continued

16. Morehead State University Foundation, Inc., continued

I. Fair Value Measurements, continued

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

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

Financial assets and liabilities valued as follows:

Quantitative Information about Level 3 Fair Value Measurements		
	Valuation Techniques	Unobservable Inputs
Alternative investments - hedge funds, domestic equity, international equity, fixed income, global credit	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.	- Valuation and performance of underlying fund(s) being invested in by the hedge fund - Diversification of the underlying fund(s) - Leverage model used by the underlying fund(s)
Alternative investments - real assets	Investment is in various funds, which are valued individually using the following methods: 1) Capped, float-adjusted, capitalization-weighted methodology 2) Net asset value of underlying companies/funds being invested in, which hold real estate 3) Current appraisal values and market information for properties held 4) Market comparable companies	- Valuation and performance of underlying fund(s) being invested in - Diversification of the underlying fund(s) - Leverage model used by the underlying fund(s) - Relative health of industry in which real assets held are associated with
Alternative investments - private equities	Market comparable companies	- Discount for lack of marketability - Control premium - Threats from competition and regulatory environment

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

#### I. 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:

Balance, June 30, 2021	\$ 60,573,651
Additional investment	7,845,727
Funds sold	(10,331,396)
Realized and unrealized losses	<u>(2,497,922)</u>
Balance, June 30, 2022	55,590,060
Additional investment	2,072,500
Funds sold	(1,252,998)
Realized and unrealized losses	<u>(396,693)</u>
Balance, June 30, 2023	<u>\$ 56,012,869</u>

#### J. Endowment Funds

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 net assets with donor restrictions (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.

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 with donor restrictions are classified as net assets without donor restrictions for financial statement purposes.

# MOREHEAD STATE UNIVERSITY

## Notes to the Financial Statements, continued

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

#### J. Endowment Funds, continued

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, 2023 and 2022, 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, 2023 and 2022, the amount of funds included in the Foundation's investments held for the RUETF Endowment Match Program was \$8,399,998 and \$7,774,998, respectively. 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.

As of June 30, 2023, all endowment net assets were subject to donor restrictions. Changes in endowment net assets subject to donor restrictions as of June 30, 2023 are as follows:

Endowment net assets, beginning of year	\$ 56,141,302
Contributions, net of bad debt expense	3,231,484
Other income	2,496
Interest and dividend income	450,024
Net appreciation	4,105,045
Amounts appropriated for expenditure and transfers	<u>(1,813,122)</u>
Endowment net assets, end of year	<u>\$ 62,117,229</u>

**MOREHEAD STATE UNIVERSITY**

Notes to the Financial Statements, continued

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

**J. Endowment Funds, continued**

As of June 30, 2022, all endowment net assets were subject to donor restrictions. Changes in endowment net assets subject to donor restrictions as of June 30, 2022 are as follows:

Endowment net assets, beginning of year	\$ 58,794,332
Contributions, net of bad debt expense	2,061,697
Other income	14,102
Interest and dividend income	95,113
Net depreciation	(2,886,829)
Amounts appropriated for expenditure and transfers	<u>(1,937,113)</u>
Endowment net assets, end of year	<u>\$ 56,141,302</u>

**K. 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.

**L. Net Assets With Donor Restrictions**

Net assets with donor restrictions as of June 30, 2023 and 2022 are restricted for the following purposes or periods:

	<u>2023</u>	<u>2022</u>
Subject to expenditure for specified purpose:		
Funds restricted for specific purposes	\$ 26,457,582	\$ 25,673,156
Scholarships	196,666	290,715
Athletics	<u>164,660</u>	<u>193,006</u>
	26,818,908	26,156,877
Funds held in perpetuity	<u>38,225,744</u>	<u>34,782,660</u>
Total net assets with donor restrictions	<u>\$ 65,044,652</u>	<u>\$ 60,939,537</u>

**MOREHEAD STATE UNIVERSITY**

Notes to the Financial Statements, continued

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

**L. Net Assets With Donor Restrictions, continued**

During the years ended June 30, 2023 and 2022, net assets were released from donor restrictions by incurring expenses satisfying the restricted purposes or by occurrence of other events specified by donors.

	<u>2023</u>	<u>2022</u>
Student financial aid	\$ 1,299,713	\$ 1,113,105
Academic programs	2,051,987	2,112,376
Operations and materials	716,973	513,605
Athletics	991,972	284,530
Fundraising	93,090	9,477
General and administrative expenses	<u>542,244</u>	<u>231,522</u>
	<u>\$ 5,695,979</u>	<u>\$ 4,264,615</u>

**M. 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, \$252,711 and \$138,677 for the years ended June 30, 2023 and 2022, 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>2023</u>	<u>2022</u>
Funds disbursed by the University on behalf of the Foundation for employee salaries and benefits	\$ 85,676	\$ 126,506
Funds due to the University by the Foundation	\$ 477,783	\$ 406,216

**SUPPLEMENTAL INFORMATION**

**MOREHEAD STATE UNIVERSITY**

Schedule of Bonds and Lease Obligations

June 30, 2023

	<u>Issue Date</u>	<u>Net Amount of Issue</u>	<u>Interest Cost</u>	<u>Outstanding June 30, 2022</u>	<u>Payments/ Reductions 2022-23</u>	<u>New Issues</u>	<u>Premium Amortization</u>	<u>Outstanding June 30, 2023</u>	<u>Interest Expense 2022-23</u>	<u>Debt Service Requirements 2023-24</u>	
										<u>Principal</u>	<u>Interest</u>
General Receipts:											
2012 Series A Bonds	06/15/12	\$ 5,060,000	2.00-3.625	\$ 1,320,000	\$ -	\$ -	\$ -	\$ 1,320,000	\$ 23,528	\$ -	\$ 47,056
2013 Series A Bonds	09/10/13	9,475,000	1.00-4.375	2,970,000	-	-	-	2,970,000	-	-	125,124
2014 Series A Bonds	07/24/14	22,620,000	2.00-5.00	12,140,000	1,560,000	-	-	10,580,000	465,400	1,640,000	385,400
2014 Series B Bonds	07/24/14	4,840,000	1.00-5.00	2,780,000	310,000	-	-	2,470,000	94,391	325,000	78,516
2015 Series A Bonds	03/25/15	28,185,000	3.00-5.00	24,615,000	1,570,000	-	-	23,045,000	1,023,988	1,495,000	945,488
2015 Reoffering Premium	03/25/15	2,835,829		1,897,321	-	-	145,651	1,751,670		-	-
2016 Series A Bonds	03/22/16	3,280,000	1.00-3.00	2,155,000	340,000	-	-	1,815,000	50,850	350,000	43,950
2016 Series B Bonds	12/01/16	6,560,000	2.00-3.75	5,260,000	275,000	-	-	4,985,000	176,475	285,000	169,106
2020 Series A Bonds	12/15/20	<u>4,870,000</u>	2.29-2.40	<u>4,870,000</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>4,870,000</u>	<u>110,555</u>	<u>-</u>	<u>110,555</u>
Total General Receipts		\$ 87,725,829		\$ 58,007,321	\$ 4,055,000	\$ -	\$ 145,651	\$ 53,806,670	\$1,945,187	\$ 4,095,000	\$ 1,905,195



**MOREHEAD STATE UNIVERSITY**

Schedule of Bonds and Lease Obligations, continued

June 30, 2023

	<u>Issue Date</u>	<u>Net Amount of Issue</u>	<u>Interest Cost</u>	<u>Outstanding June 30, 2022</u>	<u>Payments/Reductions 2022-23</u>	<u>New Issues</u>	<u>Premium Amortization</u>	<u>Outstanding June 30, 2023</u>	<u>Interest Expense 2022-23</u>	<u>Debt Service Requirements 2023-24</u>	
										<u>Principal</u>	<u>Interest</u>
Lease Purchase Agreements:											
JP Morgan/Chase	03/31/12	\$ 9,671,127	2.65	\$ 3,342,773	\$ 395,236	\$ -	\$ -	\$ 2,947,537	\$ 50,581	\$ 672,683	\$ 70,347
Mabry Property	12/19/13	875,000	4.50-5.99	22,851	22,851	-	-	-	748	-	-
Stockyards Bank & Trust	11/27/20	12,610,000	3.15	12,610,000	-	-	-	12,610,000	397,215	-	397,215
GASB 96 leases	Various	2,464,508	3.13-3.20	1,630,446	630,408	348,430	-	1,348,468	52,174	655,537	43,018
GASB 87 leases	Various	<u>2,674,041</u>	3.13-3.64	<u>1,775,765</u>	<u>398,488</u>	<u>57,539</u>	<u>-</u>	<u>1,434,816</u>	<u>55,446</u>	<u>238,278</u>	<u>48,213</u>
Total lease purchase		<u>28,294,676</u>		<u>19,381,835</u>	<u>1,446,983</u>	<u>405,969</u>	<u>-</u>	<u>18,340,821</u>	<u>556,164</u>	<u>1,566,498</u>	<u>558,793</u>
Total		<u>\$116,020,505</u>		<u>\$ 77,389,156</u>	<u>\$5,501,983</u>	<u>\$405,969-</u>	<u>\$ 145,651</u>	<u>\$ 72,147,491</u>	<u>\$2,501,351</u>	<u>\$5,661,498</u>	<u>\$ 2,463,988</u>

**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>	<u>2018</u>	<u>2019</u>	<u>2020</u>	<u>2021</u>	<u>2022</u>
<b>University's proportion of the net pension liability (asset)</b>	0.614%	0.617%	0.623%	0.366%	0.383%	0.336%	0.335%	0.321%	0.287%
<b>University's proportionate share of the net pension liability (asset)</b>	\$132,575	\$150,686	\$192,662	\$103,482	\$52,598	\$48,065	\$49,769	\$43,701	\$50,797
<b>University's covered-employee payroll</b>	\$44,381	\$45,275	\$46,253	\$44,838	\$44,111	\$41,776	\$41,511	\$41,200	\$41,988
<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%	119.24%	115.05%	119.89%	106.07%	120.98%
<b>Plan fiduciary net position as a percentage of the total pension liability</b>	45.59%	42.49%	35.22%	39.83%	59.30%	58.80%	58.27%	65.59%	56.41%

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 Teachers Retirement System**

Last 10 Fiscal Years

(Dollar amounts in thousands)

	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>2018</u>	<u>2019</u>	<u>2020</u>	<u>2021</u>	<u>2022</u>
<b>Contractually required contribution</b>	\$4,770	\$4,852	\$4,957	\$4,826	\$4,778	\$3,934	\$3,891	\$3,799	\$3,831
<b>Contributions in relation to the contractually required contribution</b>	\$(4,770)	\$(4,852)	\$(4,957)	\$(4,826)	\$(4,778)	\$(3,934)	\$(3,891)	\$(3,799)	\$(3,831)
<b>Contribution deficiency (excess)</b>	-	-	-	-	-	-	-	-	-
<b>University's covered-employee payroll</b>	\$44,381	\$45,275	\$46,253	\$44,838	\$44,111	\$41,776	\$41,511	\$41,200	\$41,988
<b>Contributions as a percentage of covered-employee payroll</b>	10.75%	10.72%	10.72%	10.76%	10.83%	9.42%	9.37%	9.22%	9.12%

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 – MEDICAL INSURANCE PLAN**

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

	<u>2017</u>	<u>2018</u>	<u>2019</u>	<u>2020</u>	<u>2021</u>	<u>2022</u>
<b>University's proportion of the net OPEB liability (asset)</b>	0.462%	0.437%	0.418%	0.405%	0.389%	0.558%
<b>University's proportionate share of the net OPEB liability (asset)</b>	\$16,482	\$15,159	\$12,258	\$10,220	\$8,368	\$13,870
<b>University's covered-employee payroll</b>	\$44,838	\$44,111	\$41,776	\$41,511	\$41,200	\$41,988
<b>University's proportionate share of the net OPEB liability (asset) as a percentage of its covered-employee payroll</b>	36.75%	34.37%	29.34%	24.62%	20.31%	33.03%
<b>Plan fiduciary net position as a percentage of the total OPEB liability</b>	21.18%	25.50%	32.58%	39.05%	51.74%	47.75%

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>	<u>2018</u>	<u>2019</u>	<u>2020</u>	<u>2021</u>	<u>2022</u>
<b>Contractually required contribution</b>	\$792	\$778	\$729	\$715	\$691	\$741
<b>Contributions in relation to the contractually required contribution</b>	\$(792)	\$(778)	\$(729)	\$(715)	\$(691)	\$(741)
<b>Contribution deficiency (excess)</b>	-	-	-	-	-	-
<b>University's covered-employee payroll</b>	\$44,838	\$44,111	\$41,776	\$41,511	\$41,200	\$41,988
<b>Contributions as a percentage of covered-employee payroll</b>	1.77%	1.76%	1.75%	1.72%	1.68%	1.76%

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.

**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>2017</u>	<u>2018</u>	<u>2019</u>	<u>2020</u>	<u>2021</u>	<u>2022</u>
<b>University's proportion of the net OPEB liability (asset)</b>	0.974%	0.950%	0.897%	0.873%	0.848%	0.839%
<b>University's proportionate share of the net OPEB liability (asset)</b>	\$214	\$268	\$279	\$303	\$111	\$261
<b>University's covered-employee payroll</b>	\$44,838	\$44,111	\$41,776	\$41,511	\$41,200	\$41,988
<b>University's proportionate share of the net OPEB liability (asset) as a percentage of its covered-employee payroll</b>	0.48%	0.61%	0.67%	0.73%	0.27%	0.62%
<b>Plan fiduciary net position as a percentage of the total OPEB liability</b>	79.99%	75.00%	73.40%	71.57%	89.15%	73.97%

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>2017</u>	<u>2018</u>	<u>2019</u>	<u>2020</u>	<u>2021</u>	<u>2022</u>
<b>Contractually required contribution</b>	\$9	\$9	\$12	\$14	\$17	\$20
<b>Contributions in relation to the contractually required contribution</b>	\$(9)	\$(9)	\$(12)	\$(14)	\$(17)	\$(20)
<b>Contribution deficiency (excess)</b>	-	-	-	-	-	-
<b>University's covered-employee payroll</b>	\$44,838	\$44,111	\$41,776	\$41,511	\$41,200	\$41,988
<b>Contributions as a percentage of covered-employee payroll</b>	0.02%	0.02%	0.03%	0.03%	0.04%	0.05%

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>	<u>2018</u>	<u>2019</u>	<u>2020</u>	<u>2021</u>	<u>2022</u>
<b>University's proportion of the net pension liability (asset)</b>	0.67%	0.66%	0.61%	0.58%	0.52%	0.36%	0.28%	0.59%	0.59%
<b>University's proportionate share of the net pension liability (asset)</b>	\$62,124	\$68,784	\$71,768	\$80,255	\$73,618	\$53,379	\$41,858	\$81,334	\$81,122
<b>University's covered-employee payroll</b>	\$11,898	\$11,750	\$10,723	\$9,842	\$8,829	\$5,972	\$4,533	\$4,023	\$4,174
<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%	833.82%	893.82%	923.41%	2,021.73%	1,943.50%
<b>Plan fiduciary net position as a percentage of the total pension liability</b>	25.39%	21.73%	17.54%	16.07%	15.81%	16.57%	16.92%	22.01%	21.70%

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>	<u>2018</u>	<u>2019</u>	<u>2020</u>	<u>2021</u>	<u>2022</u>
<b>Contractually required contribution</b>	\$3,199	\$3,587	\$3,249	\$3,766	\$3,431	\$2,357	\$1,807	\$1,602	\$6,331
<b>Contributions in relation to the contractually required contribution</b>	\$(3,199)	\$(3,587)	\$(3,249)	\$(3,766)	\$(3,431)	\$(2,357)	\$(1,807)	\$(1,602)	\$(6,331)
<b>Contribution deficiency (excess)</b>	-	-	-	-	-	-	-	-	-
<b>University's covered-employee payroll</b>	\$11,898	\$11,750	\$10,723	\$9,842	\$8,829	\$5,972	\$4,533	\$4,023	\$4,174
<b>Contributions as a percentage of covered-employee payroll</b>	26.89%	30.53%	30.30%	38.26%	38.86%	39.47%	39.86%	39.82%	151.70%

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>	<u>2018</u>	<u>2019</u>	<u>2020</u>	<u>2021</u>	<u>2022</u>
<b>University's proportion of the net OPEB liability (asset)</b>	0.587%	0.533%	0.368%	0.286%	0.552 %	0.339%
<b>University's proportionate share of the net OPEB liability (asset)</b>	\$14,927	\$12,452	\$8,088	\$7,382	\$12,510	\$7,544
<b>University's covered-employee payroll</b>	\$9,842	\$8,829	\$5,972	\$4,533	\$4,023	\$4,174
<b>University's proportionate share of the net OPEB liability (asset) as a percentage of its covered-employee payroll</b>	151.67 %	141.04%	135.43%	162.85%	310.96%	180.74%
<b>Plan fiduciary net position as a percentage of the total OPEB liability</b>	33.94%	37.63%	41.05%	38.00%	47.52%	46.80%

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>	<u>2018</u>	<u>2019</u>	<u>2020</u>	<u>2021</u>	<u>2022</u>
<b>Contractually required contribution</b>	\$830	\$692	463	\$353	\$301	\$744
<b>Contributions in relation to the contractually required contribution</b>	\$(830)	\$(692)	\$(463)	\$(353)	\$(301)	\$(744)
<b>Contribution deficiency (excess)</b>	-	-	-	-	-	-
<b>University's covered-employee payroll</b>	\$9,842	\$8,829	\$5,972	\$4,533	\$4,023	\$4,174
<b>Contributions as a percentage of covered-employee payroll</b>	8.43%	7.84%	7.75%	7.79%	7.48%	17.82%

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

### Notes to the Required Supplementary Information Last 10 Fiscal Years

#### Pension

*Changes in assumptions* – In fiscal year 2023, there were no material changes to the KERS or the KTRS plan.

In fiscal year 2022, for KERS Salary Increases changed from 3.55% - 15.55% for Non-Hazardous and Hazardous to 3.30% - 15.30% for Non-Hazardous and to 3.55% to 20.05% for Hazardous. The KERS Amortization Period changed from 26 years, closed to 30 years, closed. For KTRS Price Inflation changed from 3.00% to 2.50%, Salary Increases changed from 3.50% - 7.30%, including inflation to 3.00% - 7.50%, including inflation, and the Investment Rate of Return changed from 7.50%, net of pension plan investment expense, including inflation to 7.10%, net of pension plan investment expense, including inflation.

In fiscal year 2021, there were no changes to the KERS plan or the KTRS plan.

In fiscal year 2020, for KERS, the salary increase assumption changed from 3.05%, average to 3.55% - 15.55%, varies by service. There were no changes for KTRS.

In fiscal year 2019, there were no changes to the KERS plan and the KTRS plan discount rate increased from 4.49% to 7.50%.

In fiscal year 2018, the KERS plan discount rate and assumed investment rate of return decreased from 6.75% to 5.25%, the assumed rate of inflation decreased from 3.25% to 2.30% which also resulted in a 0.95% decrease in the salary increase assumption for all years of service. The payroll growth rate assumption decreased from 4.00% to 0.00% and the KTRS plan discount rate increased from 4.20% to 4.49%.

In fiscal year 2017, the KERS Non-Hazardous investment rate and discount rate both decreased from 7.50% to 6.75% and the KTRS plan discount rate decreased from 4.88% to 4.20%.

In fiscal year 2016, the KERS plan inflation rate decreased from 3.50% to 3.25%, the estimated salary increases decreased from 4.50% to 4.00%, and the investment rate and discount rate both decreased from 7.75% to 7.50%. Additionally, the mortality tables changed from the 1983 and 1994 Group Annuity Mortality Tables to the RP-2000 Combined Mortality Table projected with Scale BB to 2013 (adjusted for males and females). The KTRS plan discount rate decreased from 5.23% to 4.88%.

\* The amounts presented for each fiscal year were determined as of the year-end that occurred one year prior.

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

### Notes to the Required Supplementary Information

Last 10 Fiscal Years

#### OPEB

*Changes in assumptions* – In fiscal year 2023, the KTRS MIF Healthcare Trend Rate for Ages 65 and older increased from 5.00% to 5.125%. The KTRS MIF Medicare Part B Premiums increased from 4.40% to 6.97%. For KERS the Healthcare Trend Rate for Under Age 65 increased from 6.25% to 6.40% and for Ages 65 and Older the Healthcare Trend Rate increased from 5.50% to 6.30%.

In fiscal year 2022, for KERS the Healthcare Trend Rate for Under Age 65 decreased from 6.40% to 6.25% and for Ages 65 and Older the Healthcare Trend Rate increased from 2.90% to 5.50%. The KERS Salary Increases for Hazardous changed from 3.55% - 19.55% to 3.55% - 20.05%. The KERS Discount Rates used for Non-Hazardous and Hazardous decreased from 5.43% to 5.26% and from 5.28% to 5.01%, respectively. For KTRS, Salary Increases changed from 3.50% - 7.20% to 3.00% - 7.50%, the Inflation Rate decreased from 3.00% to 2.50%, Real Wage Growth decreased from 0.50% to 0.25%, Wage Inflation decreased from 3.50% to 2.75%, and the Municipal Bond Index rate decreased from 2.19% to 2.13%. The KTRS MIF Healthcare Cost Trend Rates for Under Age 65 and Ages 65 and Older decreased from 7.25% to 7.00% and 5.25% to 5.00%, respectively. The KTRS MIF Medicare Part B Premiums decreased from 6.49% to 4.40%.

In fiscal year 2021, for KERS the healthcare trend rates for Under Age 65 and Ages 65 and Older increased from 7.00% to 7.25% and 5.00% to 5.10%, respectively. The KTRS Municipal Bond Index rate decreased from 3.50% to 2.19%. The KTRS MIF health care cost trends for Under Age 65 and Ages 65 and Older decreased from 7.50% to 7.25% and 5.50% to 5.25%, respectively. The KTRS MIF Medicare Part B Premiums increased from 2.63% to 6.49%. The KTRS LIF Salary Increases changed from 3.50% – 7.45% to 3.50% - 7.20%.

In fiscal year 2020, for KERS the salary increases changed from 3.05% avg. to 3.55% – 15.55% (non-hazardous) and 3.55% – 19.55% (hazardous). The KTRS Municipal Bond Index rate decreased from 3.89% to 3.50%. The KTRS MIF health care cost trends for Under Age 65 and Ages 65 and Older decreased from 7.75% to 7.50% and 5.75% to 5.50%, respectively.

In fiscal year 2019, the KERS Non-hazardous plan discount rate increased from 5.83% to 5.86% and the KERS Hazardous plan discount rate increased from 5.87% to 5.88%. The KTRS plan health care trend rates decreased from 1.02% to 0.00% for Medicare Part B premiums, the municipal bond index rate increased from 3.56% to 3.89%, the amortization period was changed from 27 year to 30 years and the inflation rate increased from 3.00% to 3.50%.

In fiscal year 2018, the KERS plan assumed investment rate of return decreased from 7.50% to 6.25%, the inflation rate decreased from 3.25% to 2.30% which also resulted in a 0.95% decrease in the salary increase assumption for all years of service, the payroll growth rate assumption decreased from 4.00% to 0.00%. There were no changes in assumptions for the KTRS plan.

*Changes in benefit terms* – For fiscal year 2018, for the KTRS plan, the eligibility for non-single subsidies (NSS) for the KEHP-participating members who retired prior to July 1, 2010 was restored, but the state will only finance, via its KEHP “Shared Responsibility” contributions, the costs of the NSS related to those KEHP-participating members who retired on or after July 1, 2010.

\* The amounts presented for each fiscal year were determined as of the year end that occurred one year prior.

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.

**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 Morehead State University (the University) as of and for the year ended June 30, 2023, and the related notes to the financial statements, which collectively comprise the University's basic financial statements, and have issued our report thereon dated October 20, 2023.

**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, significant deficiencies and material weaknesses may exist that have not been identified.

**Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the University's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, in which noncompliance 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 20, 2023  
Lexington, Kentucky

**MOREHEAD STATE UNIVERSITY**

Schedule of Findings and Responses

Year ended June 30, 2023

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

- a. The type of report issued on the financial statements: **Unmodified Opinion**
- b. Significant deficiencies identified in the internal control over financial reporting: **None noted**

Material Weaknesses: **No**

- c. Non-compliance which is material to the financial statements: **No**