

WESTERN KENTUCKY UNIVERSITY
Bowling Green, Kentucky

**REPORT ON AUDIT OF INSTITUTION
OF HIGHER EDUCATION
IN ACCORDANCE WITH UNIFORM GUIDANCE**
June 30, 2019

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INDEPENDENT AUDITOR'S REPORT

President Timothy C. Caboni and Board of Regents
Western Kentucky University
Bowling Green, Kentucky
and
Secretary of Finance and Administration Cabinet
of the Commonwealth of Kentucky

Report on the Financial Statements

We have audited the accompanying financial statements of the business-type activities and aggregate discretely presented component units of the Western Kentucky University ("University"), a component unit of the Commonwealth of Kentucky, as of and for the years ended June 30, 2019 and 2018, and the related notes to the financial statements, which collectively comprise the University's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audits. We did not audit the financial statements of Western Kentucky University Foundation, Inc., WKU Student Life Foundation, Inc., and College Heights Foundation, Inc. for the years ended June 30, 2019 and 2018, all of which make up the entire aggregate discretely presented component units of the University. Those financial statements were audited by other auditors whose reports thereon have been furnished to us, and our opinions, insofar as it relates to the amounts included for Western Kentucky University Foundation, Inc., WKU Student Life Foundation, Inc., and College Heights Foundation, Inc., for the years ended June 30, 2019 and 2018, are based solely on the reports of the other auditors. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement. The financial statements of Western Kentucky University Research Foundation, Inc., Western Kentucky University Foundation, Inc., WKU Student Life Foundation, Inc., and College Heights Foundation, Inc. were not audited in accordance with *Government Auditing Standards*.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

In our opinion, based on our audits and the reports of the other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities and aggregate discretely presented component units of the University, as of June 30, 2019 and 2018, and the respective changes in financial position and, where applicable, cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis on pages 3 through 13, the Schedules of the University's Proportionate Share of the Net Pension Liability on pages 122 and 123, the Schedules of the University's Pension Contributions on pages 124 and 125, the Schedules of the University's Proportionate Share of the Net OPEB Liability on pages 126 and 127, and the Schedules of the University's OPEB Contributions on pages 128 and 129, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated October 4, 2019, on our consideration of the University's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on 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.



Crowe LLP

Louisville, Kentucky
October 4, 2019

WESTERN KENTUCKY UNIVERSITY
MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2019 and 2018

Overview

Management's Discussion and Analysis (MD&A) of Western Kentucky University's ("WKU" or the "University") financial statements is intended to provide an overview of the financial position, changes in financial position and cash flows of the University as of and for the fiscal years ended June 30, 2019 and 2018. MD&A, in addition to the financial statements and the footnote disclosures, is the responsibility of University management.

All 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.

An independent audit, performed by Crowe LLP, provides an opinion on the basic financial statements taken as a whole. Crowe LLP has expressed an unmodified opinion on the financial statements stating that such statements present fairly, in all material respects, the financial position of the University as of June 30, 2019 and 2018, and the changes in its financial position and its cash flows for the years then ended. Included in these financial statements are the financial statements of the Western Kentucky University Research Foundation, which is a blended component unit of the University's financial statements. Also included are the financial statements of the Western Kentucky University Foundation, College Heights Foundation and the Student Life Foundation, which are each discretely presented within the financial statements of the University. Crowe LLP received and relied upon audit reports prepared and work performed by other auditors as a basis of their opinion on the University's financial statements.

Crowe LLP has applied certain limited procedures consisting principally of inquiries of management regarding the methods of measurement and presentation of MD&A, which the Governmental Accounting Standards Board ("GASB") has determined to be supplementary information required to accompany but not be part of the basic financial statements. Crowe LLP, however, did not audit such information and did not express an opinion on it.

Reporting Entity

The University is a component unit of the Commonwealth of Kentucky. The financial statements of the University include the University and its blended component unit, the Western Kentucky University Research Foundation.

Financial statements have also been included for the University's discretely presented component units, in accordance with the requirements of GASB Statement No. 39, *Determining Whether Certain Organizations are Component Units* and GASB Statement No. 61, *The Financial Reporting Entity: Omnibus – an amendment of GASB Statements No. 14 and No. 34*. These component units are the Western Kentucky University Foundation, Inc., College Heights Foundation, Inc. and the WKU Student Life Foundation, Inc. Financial statements for these entities consist of Statements of Financial Position (balance sheets) and Statements of Activities (income statements). These statements are prepared in accordance with the appropriate Financial Accounting Standards Board ("FASB") pronouncements.

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WESTERN KENTUCKY UNIVERSITY
 MANAGEMENT'S DISCUSSION AND ANALYSIS
 June 30, 2019 and 2018

Fiscal Year 2019 Highlights

The financial viability of a public university is a function of a secure and preferably growing enrollment base, solid and preferably growing private giving, and state funding. It is noted that a majority of the assets of the WKU Foundation are held and expended through the Foundation and are not recognized in the University stand-alone financial statements except for capital asset purchases transferred to the University. Per state requirements, the "Bucks for Brains" state-funded endowment funds flow through the University, but are transferred to the Foundation for investment and management purposes.

The following data is provided to help assess the financial viability of the University:

	<u>Fall 2018</u>	<u>Fall 2017</u>	<u>Fall 2016</u>
<u>Enrollment Base (Headcount)</u>			
Undergraduate applications	9,250	9,804	9,693
Undergraduate enrollment (including returning students)	17,030	17,656	17,595
First-time freshmen	2,934	3,116	3,192
Total graduate enrollment	2,426	2,601	2,676
Total enrollment	19,456	20,257	20,271

The following data, with a comparison between the 2018/2019, 2017/2018, and 2016/2017 school years, is provided to help assess the financial viability of the University:

	<u>June 30, 2019</u>	<u>June 30, 2018</u>	<u>June 30, 2017</u>
<u>Supporting Foundations</u>			
Endowments	\$185.7 million	\$180.9 million	\$152.7 million
Total cash receipts	\$ 23.2 million	\$ 32.1 million	\$ 23.3 million
<u>State Appropriations</u>			
General non-operating revenue	\$ 73,783,400	\$ 73,907,300	\$ 72,040,200
Capital appropriation	<u>8,212,116</u>	<u>12,323,775</u>	<u>20,432,639</u>
Total	<u>\$ 81,995,516</u>	<u>\$ 86,231,075</u>	<u>\$ 92,472,839</u>

Statement of Net Position

The Statement of Net Position presents the financial position of the University as of the end of the fiscal year and includes all assets, deferred outflows of resources, liabilities, and deferred inflows of resources. Readers of the Statement of Net Position are able to determine the assets available to continue the operations of the University. The change in net position is an indicator of whether the overall financial position has improved or worsened during the year and over time. One can think of net position as one method to measure the University's financial strength. Many non-financial factors, such as strategic planning assessments, the trend in admissions, applications and student retention, the condition of the University's capital assets and the quality of the faculty also need to be considered to assess the overall health of the University.

(Continued)

WESTERN KENTUCKY UNIVERSITY
MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2019 and 2018

Restricted net position is subject to externally imposed restrictions governing its use. The corpus of non-expendable restricted resources is only available for investment purposes. Although unrestricted net position is not subject to externally imposed stipulations, a significant portion of these assets has been internally designated to fund encumbrances brought forward from the prior fiscal year, working capital requirements, emergency reserve and specific support of academic and support programs. Allocations of position is set by University policy or approved by the Board of Regents.

A summary of the University's assets, deferred outflows of resources, liabilities, deferred inflows of resources, and net position, as of June 30, 2019, 2018 and 2017, is as follows:

Condensed Statement of Net Position (in Thousands)

	<u>2019</u>	<u>2018</u>	<u>2017</u>
ASSETS			
Current and non-current other assets	\$ 135,464	\$ 122,952	\$ 120,761
Capital assets, net	<u>457,479</u>	<u>469,714</u>	<u>477,901</u>
Total assets	<u>592,943</u>	<u>592,666</u>	<u>598,662</u>
DEFERRED OUTFLOWS OF RESOURCES			
Deferred loss on bond refunding	3,761	4,282	4,803
Deferred pension and OPEB outflows	<u>54,559</u>	<u>79,010</u>	<u>104,313</u>
Total deferred outflows of resources	<u>58,320</u>	<u>83,292</u>	<u>109,116</u>
Total assets and deferred outflows of resources	<u>\$ 651,263</u>	<u>\$ 675,958</u>	<u>\$ 707,778</u>
LIABILITIES			
Long-term obligations (current and non-current)	\$ 163,100	\$ 177,289	\$ 191,475
Net pension liability	279,540	383,922	542,851
Net OPEB liability	55,312	61,303	-
Other liabilities	19,005	15,865	20,382
Unearned revenue	<u>18,976</u>	<u>19,080</u>	<u>12,216</u>
Total liabilities	<u>535,933</u>	<u>657,459</u>	<u>766,924</u>
DEFERRED INFLOWS OF RESOURCES			
Deferred pension and OPEB inflows	177,937	128,007	12,348
NET POSITION			
Net investment in capital assets	299,454	298,367	293,198
Restricted			
Non-expendable	15,592	16,238	15,377
Expendable	16,121	17,354	12,905
Unrestricted	<u>(393,774)</u>	<u>(441,467)</u>	<u>(392,974)</u>
Total net position	<u>(62,607)</u>	<u>(109,508)</u>	<u>(71,494)</u>
Total liabilities, deferred inflows of resources and net position	<u>\$ 651,263</u>	<u>\$ 675,958</u>	<u>\$ 707,778</u>

(Continued)

WESTERN KENTUCKY UNIVERSITY
MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2019 and 2018

Liabilities include pledges payable to the city of Bowling Green ("City") in the amount of \$17,757,327 for the Diddle Arena Improvements Project. Bonds payable for educational buildings total \$125,472,702 with final payments on the bonds scheduled for fiscal year 2036. Additionally, the university's net pension and OPEB liability was \$334,851,781, \$445,224,347, and \$542,851,248, as of June 30, 2019, 2018, and 2017, respectively.

Statement of Revenues, Expenses, and Changes in Net Position

The Statement of Revenues, Expenses, and Changes in Net Position summarizes all financial transactions that increase or decrease net position. The purpose of the statement is to present the revenues from providing goods and services, expenses incurred to acquire and deliver the goods and services and other revenues, expenses and gains and losses recognized by the University. Financial activities are reported as either operating or non-operating.

The most significant source of non-operating revenue is state appropriations. State appropriations are non-operating because these funds are non-exchange revenues provided by the General Assembly to the University without the General Assembly directly receiving commensurate value (goods and services) for those revenues. Other important non-operating revenue sources include non-exchange grants and contracts and investment income.

Accordingly, the University reports net operating losses of \$(91,047,715), \$(131,424,344), and \$(164,470,363), for fiscal years 2019, 2018 and 2017, respectively.

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WESTERN KENTUCKY UNIVERSITY
MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2019 and 2018

A summary of the University's activities for the years ended June 30, 2019, 2018 and 2017 is as follows:

Statement of Revenues, Expenses, and Changes in Net Position (in Thousands)

	<u>2019</u>	<u>2018</u>	<u>2017</u>
Operating revenues			
Net tuition and fees	\$ 126,640	\$ 133,757	\$ 138,712
Grants and contracts	230	457	966
Sales and services of educational departments	17,518	13,769	16,279
Auxiliary enterprises	22,500	22,543	22,018
Other	<u>22,074</u>	<u>21,472</u>	<u>21,876</u>
Total operating revenues	<u>188,962</u>	<u>191,998</u>	<u>199,851</u>
Operating expenses	<u>280,010</u>	<u>323,422</u>	<u>364,321</u>
Operating loss	<u>(91,048)</u>	<u>(131,424)</u>	<u>(164,470)</u>
Non-operating revenues (expenses)			
State appropriations	73,783	73,907	72,040
Grants and contracts	61,364	63,826	58,455
Investment income (loss), net	382	1,744	1,280
Interest on capital asset-related debt	(6,012)	(6,335)	(6,206)
Other	<u>220</u>	<u>215</u>	<u>(206)</u>
Net non-operating revenues	<u>129,737</u>	<u>133,357</u>	<u>125,363</u>
Gain (loss) before capital contributions and special items	36,689	1,933	(39,107)
State capital appropriation	8,212	12,324	20,433
Additions to permanent endowment	<u>-</u>	<u>-</u>	<u>-</u>
Increase (decrease) in net position	46,901	14,257	(18,674)
Net position, beginning of year	<u>(109,508)</u>	<u>(123,765)</u>	<u>(105,091)</u>
Net position, end of year	<u>\$ (62,607)</u>	<u>\$ (109,508)</u>	<u>\$ (123,765)</u>

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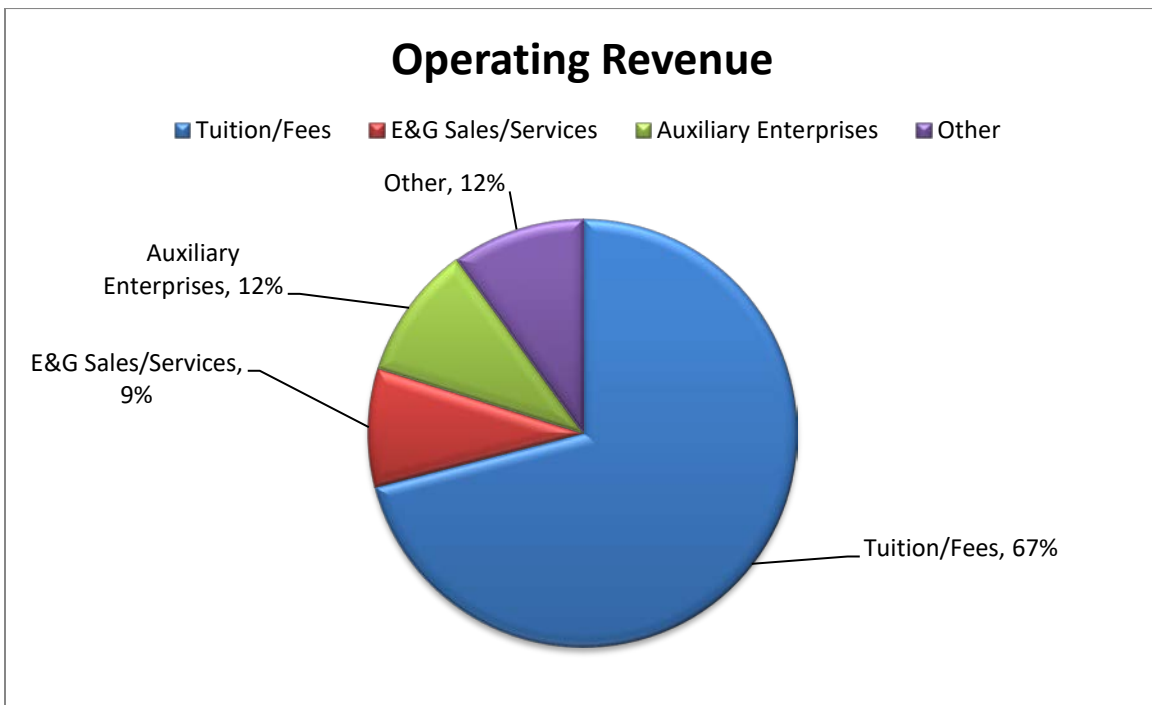
Operating Revenues

Operating revenues include all transactions that result in the sales of goods and services. For the University, the most significant operating revenue is student tuition and fees. Student tuition and fees revenue is a function of enrollment and rates approved by the University's Board of Regents. Other operating revenue is due to University operations such as the bookstore, health services, conferences and workshops, the farm, the police department and athletics.

As noted in the aforementioned enrollment data the University's total headcount enrollment decreased by approximately 4.0% between fall 2017 (20,257 students) and fall 2018 (19,456 students). As of fall 2018, approximately 78.0% of students enrolled at the University were Kentucky residents. An additional 8.9% of the student population came from Tennessee with many coming to the University through a state reciprocity agreement (*i.e.*, enrolled at in-state rates) or in the Tuition Incentive Program.

Tuition and fees revenue is recorded in the financial statements net of scholarship allowances, gift scholarships and institutional aid. A scholarship allowance is the difference between the stated charges for goods and services provided by the institution and the amount that is billed to students and third parties making payments on behalf of students. College Access Program and KEES Program have been included in the scholarship allowance after these sources have been used to satisfy a student's fees and charges. Any excess aid disbursed to the student is recognized as a student financial aid expense. Net tuition and fees, as of June 30, 2019 and 2018, were approximately 63.5% of the gross tuition and fees with approximately \$70.0 million and \$66.7 million, respectively, being recorded as scholarship allowance.

The distribution of operating revenue, by source, is summarized as follows:



The University is awarded grants and contracts by various external agencies. These grants and contracts awards represent amounts that will be recognized as revenue when the service is provided regardless of when cash is exchanged. Thus, the operating and non-operating revenue generated by such grants and contracts will equal the actual expenses in a given fiscal year.

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WESTERN KENTUCKY UNIVERSITY
 MANAGEMENT'S DISCUSSION AND ANALYSIS
 June 30, 2019 and 2018

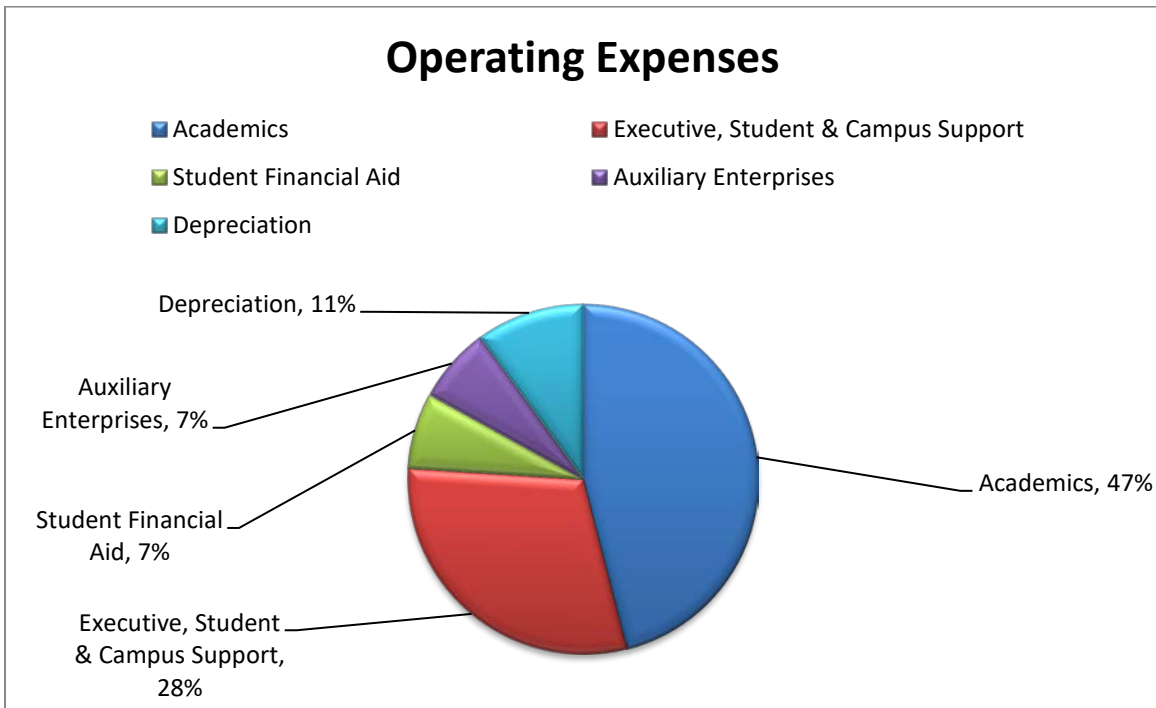
The grant and contract awards received in a given year are frequently multiyear awards for which only the current year activity related to the award will be recorded, *i.e.*, any cash received in excess of expenses incurred will be recorded as unearned revenue. Additionally, awards related to future periods are not recorded in the University's financial statements. The following chart provides a three-year comparison of total grants and contracts awarded (not received/recorded) during fiscal years 2019, 2018 and 2017.

Grants and Contracts Awards (Excluding Financial Aid)

	<u>2019</u>	<u>2018</u>	<u>2017</u>
Federal	\$ 12,861,236	\$ 9,620,339	\$ 11,301,862
State	2,460,090	988,290	2,599,206
Other	<u>2,598,870</u>	<u>5,494,941</u>	<u>10,752,838</u>
 Total	 <u>\$ 17,920,196</u>	 <u>\$ 16,103,570</u>	 <u>\$ 24,653,906</u>

Operating Expenses

Operating expenses are all costs necessary to meet the University's mission, goals and objectives through a broad array of programs and activities. Expenses other than depreciation are reported by program classification (*e.g.*, instruction, research, public service, auxiliary enterprises). Depreciation is recognized as an expense and a reduction in the value of the capital assets. The following graph summarizes expenses as academics, executive, student and campus support, student financial aid, depreciation and auxiliary enterprises. Academics include the program classification categories of instruction, research, public service, libraries and academic support. Executive, student and campus support includes student services, institutional support and operation and maintenance of the plant.



(Continued)

WESTERN KENTUCKY UNIVERSITY
MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2019 and 2018

Non-operating Revenues and Expenses

Non-operating revenues are all revenues that are primarily non-exchange in nature. The most significant single source of non-operating revenue for the University is state appropriations for other than capital purposes. Other sources include many grants and contracts, endowment contributions and investment income.

The University's investments consist primarily of collateralized mortgage obligations and its equity in Commonwealth of Kentucky pooled investment funds. Investment income for the years ended June 30, 2019, 2018 and 2017 is comprised of the following:

	<u>2019</u>	<u>2018</u>	<u>2017</u>
Investment income	\$ 1,030,673	\$ 753,838	\$ 241,264
Net change for the year in the fair value of investments	<u>(648,237)</u>	<u>990,094</u>	<u>1,038,586</u>
	<u>\$ 382,436</u>	<u>\$ 1,743,932</u>	<u>\$ 1,279,850</u>

State appropriations were \$73,783,400, \$73,907,300, and \$72,040,200, for 2019, 2018 and 2017, respectively.

Change in Net Position

For the years ended June 30, 2019, 2018 and 2017, the University's net position increased (decreased) by \$46,900,930, \$(38,013,871), and \$(18,674,340), respectively. The year-end net position for June 30, 2019, 2018 and 2017 were \$(62,606,971), \$(109,507,901), and \$(71,494,030) as restated, respectively.

Statements of Cash Flows

The Statements of Cash Flows present data related to the University's cash inflows and outflows summarized by operating, noncapital financing, capital and related financing and investing activities. The primary purpose of the Statements of Cash Flows is to provide information about the cash receipts and cash payments by the University that will allow for the assessment of the University's ability to generate net cash flows and to meet obligations as they come due. Under certain circumstances, such an analysis might demonstrate a university's need for external financing. The Statements of Cash Flows are broken into the following sections:

- Operating cash flows and the net cash used for the operating activities of the University
- Cash flows from noncapital financing activities
- Cash flows from capital and related financing activities
- Cash flows from investing activities
- Reconciliation of the net cash flows from operating activities to the operating income or loss reflected on the Statement of Revenues, Expenses, and Changes in Net Position

(Continued)

WESTERN KENTUCKY UNIVERSITY
MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2019 and 2018

The major sources of cash received for operating activities are tuition and fees of \$126,327,294, and \$133,654,683 and auxiliary enterprises of \$22,499,800, and \$22,542,902 at June 30, 2019 and 2018, respectively. Major uses of cash for operating activities were payments to employees for salaries and benefits of \$187,354,863 and \$195,981,075 and to suppliers and contractors of \$93,692,000 and \$105,413,781 at June 30, 2019 and 2018, respectively. A majority of the noncapital financing activities is state appropriations and grants and contracts. Principal and interest paid on capital debt and leases are recognized as capital and related financing activities. Investing activities recognize the cash flows from proceeds from sales and maturities of investments, purchases of investments and interest receipts.

The Statements of Cash Flows are summarized as follows:

Condensed Statements of Cash Flows (in thousands)

	<u>2019</u>	<u>2018</u>	<u>2017</u>
Cash Provided By (Used In)			
Operating activities	\$ (92,906)	\$ (106,998)	\$ (97,703)
Non-capital financing activities	135,072	136,070	127,579
Capital and related financing activities	(27,084)	(26,184)	(26,674)
Investing activities	<u>1,006</u>	<u>4,074</u>	<u>598</u>
Net increase (decrease) in cash and cash equivalents	16,088	6,962	3,800
Cash and cash equivalents, beginning of year	<u>76,142</u>	<u>69,180</u>	<u>65,380</u>
Cash and cash equivalents, end of year	<u>\$ 92,230</u>	<u>\$ 76,142</u>	<u>\$ 69,180</u>

Capital Asset and Long-term Obligations

Capital Assets

As of June 30, 2019, 2018 and 2017, the University had \$457.5 million, \$469.7 million, and \$477.9 million invested in capital assets, net of accumulated depreciation of \$412.6 million, \$384.5 million, and \$358.7 million, respectively. Capital assets at June 30, 2019, 2018 and 2017 are summarized below:

	<u>2019</u>	<u>2018</u>	<u>2017</u>
Land	\$ 12,924,788	\$ 12,627,736	\$ 12,627,736
Buildings and improvements	617,391,617	615,787,092	567,551,167
Infrastructure	69,740,734	68,706,566	68,006,262
Furniture, fixtures and equipment	90,776,239	89,415,048	84,413,839
Library materials	64,013,663	61,654,966	59,244,223
Construction in progress	<u>15,267,560</u>	<u>6,064,732</u>	<u>44,709,743</u>
Total capital assets	870,114,600	854,256,140	836,552,970
Less accumulated depreciation	<u>(412,635,935)</u>	<u>(384,541,687)</u>	<u>(358,652,064)</u>
Capital assets, net	<u>\$ 457,478,666</u>	<u>\$ 469,714,453</u>	<u>\$ 477,900,906</u>

The major construction projects in progress, as of June 30, 2019, consisted of the renovation/construction of the Science Campus and the WKU Commons.

(Continued)

WESTERN KENTUCKY UNIVERSITY
MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2019 and 2018

Long-Term Obligations

As of June 30, 2019, 2018, and 2017, the University had \$163.1 million, \$177.3 million, and \$191.5 million, respectively, in long-term obligations consisting of pledges payable to the city of Bowling Green, bonds payable (Consolidated Educational Buildings Revenue Bonds and General Receipts Bonds), capital leases and other long-term obligations. The long-term obligations, including the current portion, are summarized as follows:

	<u>2019</u>	<u>2018</u>	<u>2017</u>
Pledges to the City	\$ 17,757,327	\$ 19,953,374	\$ 22,009,419
General receipts bonds	125,472,702	135,681,421	145,640,140
Capital leases	16,467,442	17,147,425	17,783,492
Other long-term obligations	<u>3,402,904</u>	<u>4,506,876</u>	<u>6,042,094</u>
Total	<u>\$ 163,100,375</u>	<u>\$ 177,289,096</u>	<u>\$ 191,475,145</u>

Economic Factors Impacting Future Periods

The following are known facts and circumstances that may affect the future financial viability of the University:

- WKU's fall 2018 total enrollment of 19,461 continued a trend of fewer nontraditional students. Enrollment of international undergraduate and graduate students decreased by 30 percent from fall 2017. WKU's continuing emphasis on the academic quality of the incoming class has resulted in an average ACT score of 23. Retention rates increased slightly to 71.5 percent for fall 2018 from 69.9 percent for fall 2017. The continued emphasis on student retention will help stabilize a recurring revenue base.
- The Council on Postsecondary Education (CPE) has the statutory responsibility to approve tuition rates. Significant emphasis continues to be placed on setting tuition rates with modest increases that will not impede economic access to postsecondary education. At its April 27, 2018 meeting, CPE approved a resident, undergraduate tuition and mandatory fee ceiling for academic year 2018-19 and 2019-20. The CPE adopted a two-year ceiling of no more than six percent over two years and no more than four percent in any one year for the universities. WKU's resident, undergraduate tuition and mandatory fees increased \$200 per semester (3.90%) in fiscal year 2018-19, and a modest \$100 per semester (1.90%) in fiscal year 2019-20. CPE gives each institution more flexibility in determining nonresident, online and graduate tuition rates based on individual market variables.
- House Bill 200, the Executive Branch Budget, was enacted by the 2018 Regular Session of the Kentucky General Assembly and provides a state expenditure plan for the 2018-20 biennium. The enacted budget reflected a reduction in base operating support of approximately six percent. A majority of this reduction was placed in the Postsecondary Education Performance Pool, to be allocated by the CPE based on distribution parameters that are codified in the Kentucky Revised Statutes. The allocations were announced in June 2018. WKU received \$3,830,100 in fiscal year 2018-19 and will receive \$4,379,100 in fiscal year 2019-20.

- In fiscal year 2018, the University initiated a process to develop a new budget model. This process required revisiting the underlying assumptions and operational details of the entire budget process. The decision was made to transition to a decentralized, incentive-based approach to budgeting that empowers colleges to engage in entrepreneurial activities and to focus on enrollment growth and retention with the goal of increasing tuition and alternative revenue sources. Development continues on the new budget model, and it is expected to be operational during fiscal year 2021.
- In June 2018, the WKU Strategic Plan *Climbing to Greater Heights* was approved by the Board of Regents. The implementation of the plan started with a Comprehensive Academic Program Evaluation (CAPE) process to enhance efficiencies and target the curriculum to prepare students for the careers of today and tomorrow, and to facilitate their role as engaged citizens in a global economy. Additional early initiatives guided by the ten-year Strategic Plan include identifying appropriate metrics of success, re-establishing our role in educating students from the region and around the globe, and creating a learning landscape to assist students on their climb to fulfilling lives. The hallmarks of the plan, Our Students, Our Hill, and Our Community and Beyond, bode well for creating a fiscally responsible academic institution that emphasizes student success.

Requests for Information

This financial report is designed to provide a general overview of Western Kentucky University's finances. Questions concerning any of the information provided in this report or requests for additional information should be addressed to the Chief Financial Officer, Western Kentucky University, Wetherby Administration Building G-21, 1906 College Heights Blvd., #11002, Bowling Green, Kentucky 42101.

WESTERN KENTUCKY UNIVERSITY
STATEMENTS OF NET POSITION
June 30, 2019 and 2018

	<u>2019</u>	<u>2018</u>
ASSETS		
Current assets		
Cash and cash equivalents	\$ 91,948,964	\$ 75,868,261
Accounts receivable, net of allowance of \$2,939,537 and \$3,435,505 for 2019 and 2018, respectively	13,420,200	13,506,830
Federal and state grants receivable	3,541,062	4,256,004
Inventories	702,043	897,160
Loans to students	274,080	328,453
Lease receivable	280,000	270,000
Prepaid expenses and other	<u>3,842,101</u>	<u>5,045,293</u>
 Total current assets	 <u>114,008,450</u>	 <u>100,172,001</u>
Noncurrent assets		
Restricted cash and cash equivalents	281,515	273,439
Long-term investments	-	66,957
Loans to students, net of allowance of \$548,366 each year	1,834,226	2,198,106
Assets held in trust	19,340,218	19,961,520
Lease receivable	-	280,000
Capital assets – non-depreciable	28,192,348	18,692,468
Capital assets – depreciable	841,922,254	835,563,672
Accumulated depreciation	<u>(412,635,935)</u>	<u>(384,541,687)</u>
 Total noncurrent assets	 <u>478,934,626</u>	 <u>492,494,475</u>
 Total assets	 <u>592,943,076</u>	 <u>592,666,476</u>
DEFERRED OUTFLOWS OF RESOURCES		
Deferred loss on bond refunding	3,760,967	4,281,956
Deferred outflows – KTRS Pension	30,827,684	38,869,076
Deferred outflows – KERS Non-Hazardous Pension	15,891,765	31,090,421
Deferred outflows – KERS Hazardous Pension	920,046	970,891
Deferred outflows – KERS OPEB	5,224,580	6,692,402
Deferred outflows – KTRS OPEB	<u>1,694,592</u>	<u>1,386,903</u>
 Total deferred outflows of resources	 <u>58,319,634</u>	 <u>83,291,649</u>
 Total assets and deferred outflows of resources	 <u>\$ 651,262,710</u>	 <u>\$ 675,958,125</u>

(Continued)

WESTERN KENTUCKY UNIVERSITY
STATEMENTS OF NET POSITION
June 30, 2019 and 2018

	<u>2019</u>	<u>2018</u>
LIABILITIES		
Current liabilities		
Accounts payable	\$ 8,053,043	\$ 7,434,780
Self-insured health liability	1,012,412	1,057,653
Self-insured workers' compensation liability	212,311	171,259
Accrued payroll and withholdings	4,058,603	1,921,106
Accrued compensated absences	2,793,454	2,803,046
Accrued interest	1,277,241	1,326,955
Unearned revenue	18,976,444	19,080,212
Long-term obligations - current	14,327,091	14,188,721
Deposits held in custody for others	<u>1,597,152</u>	<u>1,150,960</u>
Total current liabilities	<u>52,307,751</u>	<u>49,134,692</u>
Non-current liabilities		
Long-term obligations	148,773,284	163,100,375
Net pension liability – KTRS	105,246,128	207,035,441
Net pension liability – KERS Non-Hazardous	171,121,072	173,894,678
Net pension liability – KERS Hazardous	3,172,598	2,991,538
Net OPEB liability – KERS	29,588,983	32,974,690
Net OPEB liability – KTRS	<u>25,723,000</u>	<u>28,328,000</u>
Total non-current liabilities	<u>483,625,065</u>	<u>608,324,722</u>
Total liabilities	<u>535,932,816</u>	<u>657,459,414</u>
DEFERRED INFLOWS OF RESOURCES		
Deferred inflows – KTRS Pension	162,210,881	113,662,662
Deferred inflows – KERS Non-Hazardous Pension	8,533,350	12,703,113
Deferred inflows – KERS Hazardous Pension	213,506	503,450
Deferred inflows – KERS OPEB	3,868,128	849,387
Deferred inflows – KTRS OPEB	<u>3,111,000</u>	<u>288,000</u>
Total deferred inflows	177,936,865	128,006,612
NET POSITION		
Net investment in capital assets	299,454,319	298,367,126
Restricted		
Non-expendable - endowments	15,592,110	16,238,202
Expendable		
Loans	2,980,323	3,023,973
Capital projects	13,140,171	14,329,574
Unrestricted	<u>(393,773,894)</u>	<u>(441,466,776)</u>
Total net position	<u>(62,606,971)</u>	<u>(109,507,901)</u>
Total liabilities, deferred inflows and net position	<u>\$ 651,262,710</u>	<u>\$ 675,958,125</u>

See accompanying notes to financial statements.

WESTERN KENTUCKY UNIVERSITY
WESTERN KENTUCKY UNIVERSITY FOUNDATION, INC.
STATEMENTS OF FINANCIAL POSITION
December 31, 2018 and 2017

	<u>2018</u>	<u>2017</u>
ASSETS		
Cash and cash equivalents	\$ 8,849,272	\$ 5,391,542
Pledges receivable, net	5,518,998	6,804,705
Other receivables	11,030	114,798
Prepaid expenses and other current assets	103,525	109,165
Investments	67,348,392	73,366,214
Property, net	9,904,906	10,166,542
Assets held for others	18,479,410	20,664,331
Assets held for sale	<u>1,400,000</u>	<u>-</u>
Total assets	<u>\$ 111,615,533</u>	<u>\$ 116,617,297</u>
LIABILITIES AND NET ASSETS		
Accounts payable	\$ 108,214	\$ 253,613
Due to Western Kentucky University	129,306	129,306
Deferred gift liabilities	878,074	977,524
Capital lease obligation	554,459	556,417
Liability for assets held for others	<u>18,479,410</u>	<u>20,664,331</u>
Total liabilities	20,149,463	22,581,191
Net assets without donor restrictions	13,097,328	15,349,166
Net assets with donor restrictions	<u>78,368,742</u>	<u>78,686,940</u>
Total net assets	<u>91,466,070</u>	<u>94,036,106</u>
Total liabilities and net assets	<u>\$ 111,615,533</u>	<u>\$ 116,617,297</u>

See accompanying notes to financial statements.

WESTERN KENTUCKY UNIVERSITY
 WKU STUDENT LIFE FOUNDATION, INC.
 STATEMENTS OF FINANCIAL POSITION
 June 30, 2019 and 2018

	<u>2019</u>	<u>2018</u>
ASSETS		
Cash and cash equivalents	\$ 13,772,586	\$ 13,374,774
Accounts receivable - Western Kentucky University	527,118	477,969
Accounts receivable - students - net of allowance of \$322,564 and \$403,341 for 2019 and 2018, respectively	505,748	392,335
Accounts receivable – other	9,659	18,830
Net investment in direct financing lease - related party	1,655,979	1,736,989
Prepaid expenses	175,551	158,482
Assets limited as to use - restricted by bond indenture	5,644,622	11,442,411
Assets held for others - student deposits	483,410	619,500
Assets held by others - student deposits - cash	296,290	154,800
Derivative instruments, at fair value	486,436	611,717
Property and equipment, net	<u>114,038,781</u>	<u>114,758,842</u>
Total assets	<u>\$ 137,596,180</u>	<u>\$ 143,746,649</u>
LIABILITIES AND NET ASSETS		
Liabilities		
Accounts payable	\$ 2,820,514	\$ 3,802,942
Accrued expenses	347,174	428,409
Student deposits	779,700	774,300
Asset retirement obligation	794,269	794,269
Long-term debt, net of unamortized debt issue costs	<u>92,403,359</u>	<u>97,686,959</u>
Total liabilities	97,145,016	103,486,879
Net assets without donor restrictions	<u>40,451,164</u>	<u>40,259,770</u>
Total liabilities and net assets	<u>\$ 137,596,180</u>	<u>\$ 143,746,649</u>

See accompanying notes to financial statements.

WESTERN KENTUCKY UNIVERSITY
COLLEGE HEIGHTS FOUNDATION, INC.
STATEMENTS OF FINANCIAL POSITION
December 31, 2018 and 2017

	<u>2018</u>	<u>2017</u>
ASSETS		
Cash and cash equivalents	\$ 2,510,477	\$ 2,862,481
Interest and dividends receivable	67,420	60,313
Investments	62,833,930	65,993,037
Beneficial interest in third-party trusts	4,991,229	5,018,908
Assets held for others	2,481,929	3,429,675
Fixed assets, net of depreciation	<u>1,385,241</u>	<u>151,860</u>
Total assets	<u>\$ 74,270,226</u>	<u>\$ 77,516,274</u>
LIABILITIES AND NET ASSETS		
Liabilities		
Notes payable	\$ 1,467,790	\$ 1,566
Refundable advances and gift annuity liabilities	2,502,545	2,827,511
Liability for assets held for others	<u>2,481,929</u>	<u>3,429,675</u>
Total liabilities	6,452,264	6,258,752
Net assets		
Net assets without donor restrictions	974,819	6,564,958
Net assets with donor restrictions	<u>66,843,143</u>	<u>64,692,564</u>
Total net assets	<u>67,817,962</u>	<u>71,257,522</u>
Total liabilities and net assets	<u>\$ 74,270,226</u>	<u>\$ 77,516,274</u>

See accompanying notes to financial statements.

WESTERN KENTUCKY UNIVERSITY
STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
Years ended June 30, 2019 and 2018

	<u>2019</u>	<u>2018</u>
REVENUES		
Operating revenues		
Tuition and fees, net of discounts and allowances of \$69,995,972 and \$66,661,487	\$ 126,640,269	\$ 133,756,585
Federal grants and contracts	19,647	31,670
State grants and contracts	43,185	97,241
Local and private grants and contracts	167,565	327,803
Sales and services of educational activities	17,517,863	13,769,134
Auxiliary enterprise revenues, net of discounts and allowances of \$1,794,769 and \$1,709,269	22,499,800	22,542,902
Other operating revenues	<u>22,073,543</u>	<u>21,472,544</u>
Total operating revenues	<u>188,961,872</u>	<u>191,997,879</u>
EXPENSES		
Operating expenses		
Education and general		
Instruction	104,742,858	110,635,746
Research	6,561,110	7,471,040
Public service	14,291,717	13,651,252
Libraries	5,314,868	5,994,594
Academic support	19,253,822	21,995,747
Student services	31,399,709	34,620,206
Institutional support	(734,879)	26,284,248
Operation and maintenance of plant	28,942,208	30,530,335
Student financial aid	20,413,878	22,413,562
Depreciation	29,191,922	28,043,348
Auxiliary enterprises	<u>20,632,374</u>	<u>21,782,145</u>
Total operating expenses	<u>280,009,587</u>	<u>323,422,223</u>
Operating loss	<u>(91,047,715)</u>	<u>(131,424,344)</u>
Non-operating revenues (expenses)		
State appropriations	70,034,800	70,077,200
State appropriations – Performance Funding	3,748,600	3,830,100
Federal grants and contracts	34,872,753	38,744,412
State grants and contracts	20,795,936	20,559,911
Local and private grants and contracts	5,695,345	4,522,046
Net investment income (loss)	382,436	1,743,932
Interest on capital asset-related debt	(6,012,236)	(6,334,765)
Gain (loss) on disposal of capital assets	29,797	(61,479)
Income (expense) on sale of investments	(69,678)	17,262
Other non-operating expenses	<u>258,776</u>	<u>258,777</u>
Net non-operating revenues	<u>129,736,529</u>	<u>133,357,396</u>
Gain/(Loss) before other capital contributions	38,688,814	1,933,052
Capital contributions		
State capital appropriation	<u>8,212,116</u>	<u>12,323,775</u>
Increase (Decrease) in net position	46,900,930	14,256,827
Net position, beginning of year	<u>(109,507,901)</u>	<u>(123,764,728)</u>
Net position, end of year	<u>\$ (62,606,971)</u>	<u>\$ (109,507,901)</u>

See accompanying notes to financial statements.

WESTERN KENTUCKY UNIVERSITY
WESTERN KENTUCKY UNIVERSITY FOUNDATION, INC.
STATEMENT OF ACTIVITIES
Year ended December 31, 2018

	Without Donor Restrictions	With Donor Restrictions	Total
Revenues, gains (losses) and other support:			
Contributions	\$ 420,819	\$ 4,322,423	\$ 4,743,242
Non-charitable contributions	27,435	3,542,623	3,570,058
Investment income	461,440	1,359,603	1,821,043
Net unrealized and realized loss on investments	(872,891)	(5,417,318)	(6,290,209)
Management fees	46,363	-	46,363
Net actuarial loss from deferred gift liabilities	-	(633)	(633)
Rental and royalty income	<u>109,265</u>	<u>25,114</u>	<u>134,379</u>
	192,431	3,831,812	4,024,243
 Net assets released from restriction	 <u>4,150,010</u>	 <u>(4,150,010)</u>	 <u>-</u>
 Total revenues, gains (losses) and other support	 <u>4,342,441</u>	 <u>(318,198)</u>	 <u>4,024,243</u>
 Expenses:			
Expenses on behalf of WKU programs			
Public service	559,903	-	599,903
Construction	938,620	-	938,620
Other	<u>4,092,745</u>	<u>-</u>	<u>4,092,745</u>
Total program expenses	5,591,268	-	5,591,268
 Management and general	 867,237	 -	 867,237
Fundraising	<u>135,774</u>	<u>-</u>	<u>135,774</u>
 Total expenses	 <u>6,594,279</u>	 <u>-</u>	 <u>6,594,279</u>
 Change in net assets	 (2,251,838)	 (318,198)	 (2,570,036)
 Net asset, beginning of year	 <u>15,349,166</u>	 <u>78,686,940</u>	 <u>94,036,106</u>
 Net assets, end of year	 <u>\$ 13,097,328</u>	 <u>\$ 78,368,742</u>	 <u>\$ 91,466,070</u>

See accompanying notes to financial statements.

WESTERN KENTUCKY UNIVERSITY
WESTERN KENTUCKY UNIVERSITY FOUNDATION, INC.
STATEMENT OF ACTIVITIES
Year ended December 31, 2017

	Without Donor Restrictions	With Donor Restrictions	Total
Revenues, gains (losses) and other support:			
Contributions	\$ 830,252	\$ 10,915,444	\$ 11,745,696
Non-charitable contributions	447,443	2,041,254	2,488,697
Investment income	318,634	1,512,673	1,831,307
Net unrealized and realized gains on investments	1,298,481	5,351,625	6,650,106
Management fees	26,693	-	26,693
Net actuarial loss from deferred gift liabilities	-	(63,679)	(63,679)
Rental and royalty income	58,029	11,280	69,309
Miscellaneous income	<u>73,476</u>	<u>3,930</u>	<u>77,406</u>
Total contribution revenue	3,053,008	19,772,527	22,825,535
Net assets released from restriction	<u>11,539,432</u>	<u>(11,539,432)</u>	<u>-</u>
Total revenues, gains (losses) and other support	14,592,440	8,233,095	22,825,535
Expenses:			
Expenses on behalf of WKU programs			
Public service	606,185	-	606,185
Construction	1,110,868	-	1,110,868
Other	<u>6,106,882</u>	<u>-</u>	<u>6,106,882</u>
Total program expenses	7,823,935	-	7,823,935
Management and general	1,176,005	-	1,176,005
Fundraising	<u>127,971</u>	<u>-</u>	<u>127,971</u>
Total expenses	<u>9,127,911</u>	<u>-</u>	<u>9,127,911</u>
Change in net assets	5,464,529	8,233,095	13,697,624
Net asset, beginning of year	<u>9,884,637</u>	<u>70,453,845</u>	<u>80,338,482</u>
Net assets, end of year	<u>\$ 15,349,166</u>	<u>\$ 78,686,940</u>	<u>\$ 94,036,106</u>

See accompanying notes to financial statements.

WESTERN KENTUCKY UNIVERSITY
 WKU STUDENT LIFE FOUNDATION, INC.
 STATEMENTS OF ACTIVITIES
 Years ended June 30, 2019 and 2018

	<u>2019</u>	<u>2018</u>
OPERATING REVENUES		
Rent	\$ 23,125,989	\$ 22,209,054
Interest income – direct financing lease	113,139	118,292
Other	<u>846,028</u>	<u>961,404</u>
Total operating revenues	<u>24,085,156</u>	<u>23,288,750</u>
OPERATING EXPENSES		
Salaries, benefits and related expenses	6,288,549	6,312,118
Utilities	2,755,519	2,627,268
Repairs, maintenance and supplies	2,407,547	2,260,960
Management fees	84,200	84,200
Professional fees	173,057	238,855
Insurance	574,629	583,953
Depreciation and amortization	5,504,167	4,129,918
Bad debt expense	244,713	405,099
Long-lived asset impairment	2,541,444	-
Other	<u>531,658</u>	<u>351,551</u>
Total operating expenses	<u>21,105,483</u>	<u>16,993,922</u>
Change in net assets from operations	<u>2,979,673</u>	<u>6,294,828</u>
NONOPERATING REVENUES (EXPENSES)		
Interest income	410,360	421,269
Interest expense, fees and bond issuance costs	(3,073,358)	(2,948,415)
Change in fair value of derivative instruments - forward sale agreement	<u>(125,281)</u>	<u>(227,838)</u>
Total non-operating expenses	<u>(2,788,279)</u>	<u>(2,754,984)</u>
Change in net assets without donor restrictions	191,394	3,539,844
Net assets without donor restrictions, beginning of year	<u>40,259,770</u>	<u>36,719,926</u>
Net assets without donor restrictions, end of year	<u>\$ 40,451,164</u>	<u>\$ 40,259,770</u>

See accompanying notes to financial statements.

WESTERN KENTUCKY UNIVERSITY
COLLEGE HEIGHTS FOUNDATION, INC.
STATEMENT OF ACTIVITIES
Year ended December 31, 2018

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
REVENUES, GAINS AND OTHER SUPPORT			
Contributions	\$ 1,124,178	\$ 5,718,843	\$ 6,843,021
Event registration fees	13,366	-	13,366
Net investment income	144,123	1,792,448	1,936,571
Net realized and unrealized gains (losses) on investments	(235,151)	(4,885,870)	(5,121,021)
Change in value of split-interest agreements	-	(246,381)	(246,381)
Net assets released from restrictions:			
Satisfaction of program restrictions	147,055	(147,055)	-
Gain (loss) on exchange of assets	<u>-</u>	<u>(81,406)</u>	<u>(81,406)</u>
 Total revenues, gains and other support	 <u>1,193,571</u>	 <u>2,150,579</u>	 <u>3,344,150</u>
EXPENSES			
Program services	6,016,188	-	6,016,188
Supporting services			
Management and general	746,464	-	746,464
Fundraising	<u>21,058</u>	<u>-</u>	<u>21,058</u>
Total supporting services	<u>767,522</u>	<u>-</u>	<u>767,522</u>
 Total expenses	 <u>6,783,710</u>	 <u>-</u>	 <u>6,783,710</u>
 CHANGE IN NET ASSETS	 (5,590,139)	 2,150,579	 (3,439,560)
 NET ASSETS, BEGINNING OF YEAR	 <u>6,564,958</u>	 <u>64,692,564</u>	 <u>71,257,522</u>
 NET ASSETS, END OF YEAR	 <u>\$ 974,819</u>	 <u>\$ 66,843,143</u>	 <u>\$ 67,817,962</u>

See accompanying notes to financial statements.

WESTERN KENTUCKY UNIVERSITY
COLLEGE HEIGHTS FOUNDATION, INC.
STATEMENT OF ACTIVITIES
Year ended December 31, 2017

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
REVENUES, GAINS AND OTHER SUPPORT			
Contributions	\$ 1,033,338	\$ 10,356,877	\$ 11,390,215
Net investment income	54,785	1,433,961	1,488,746
Net realized and unrealized gains (losses) on investments	354,968	6,386,080	6,741,048
Change in value of split-interest agreements	-	466,893	466,893
Net assets released from restrictions:			
Satisfaction of program restrictions	11,527,576	(11,527,576)	-
Gain (loss) on exchange of assets	<u>-</u>	<u>(15,658)</u>	<u>(15,658)</u>
Total revenues, gains and other support	<u>12,970,667</u>	<u>7,100,577</u>	<u>20,071,244</u>
EXPENSES			
Program services	5,779,807	-	5,779,807
Supporting services			
Management and general	693,626	-	693,626
Fundraising	<u>18,516</u>	<u>-</u>	<u>18,516</u>
Total supporting services	<u>712,142</u>	<u>-</u>	<u>712,142</u>
Total expenses	<u>6,491,949</u>	<u>-</u>	<u>6,491,949</u>
CHANGE IN NET ASSETS	6,478,718	7,100,577	13,579,295
NET ASSETS, BEGINNING OF YEAR	<u>86,240</u>	<u>57,591,987</u>	<u>57,678,227</u>
NET ASSETS, END OF YEAR	<u>\$ 6,564,958</u>	<u>\$ 64,692,564</u>	<u>\$ 71,257,522</u>

See accompanying notes to financial statements.

WESTERN KENTUCKY UNIVERSITY
WESTERN KENTUCKY UNIVERSITY FOUNDATION, INC.
STATEMENT OF FUNCTIONAL EXPENSES
Year ended December 31, 2018

	WKU Program Services			Total WKU Program Services	Management and General	Fundraising	Total Expenses
	Public Service	Construction	Other				
Salaries/wages, payroll taxes, and benefits	\$ 61,070	\$ -	\$ 1,078,178	\$ 1,139,248	\$ 356,214	\$ 70,571	\$ 1,566,033
Scholarships and honorariums	25	-	720,178	720,203	-	-	720,203
Professional fees and other services	351,493	-	158,511	510,004	382,800	9,150	901,954
Travel, meals, and entertainment	28,905	-	768,732	797,637	3,602	29,459	830,698
Printing, supplies, and other office expenses	77,274	-	277,529	354,803	34,817	5,390	395,010
Other miscellaneous expenses	74	-	98,005	98,079	-	9,260	107,339
Provision for uncollectible pledges	-	-	-	-	89,804	-	89,804
Gifts and donations	40,552	-	307,293	347,845	-	11,944	359,789
Capital expenditures	40	938,620	522,814	1,461,474	-	-	1,461,474
Dues/subscriptions and registrations	-	-	136,783	136,783	-	-	136,783
Equipment rentals and maintenance	470	-	15,574	16,044	-	-	16,044
Interest expense	-	-	9,148	9,148	-	-	9,148
Total expenses	\$ 559,903	\$ 938,620	\$ 4,092,745	\$ 5,591,268	\$ 867,237	\$ 135,774	\$ 6,594,279

See accompanying notes to financial statements.

WESTERN KENTUCKY UNIVERSITY
WESTERN KENTUCKY UNIVERSITY FOUNDATION, INC.
STATEMENT OF FUNCTIONAL EXPENSES
Year ended December 31, 2017

	WKU Program Services			Total WKU Program Services	Management and General	Fundraising	Total Expenses
	Public Service	Construction	Other				
Salaries/wages, payroll taxes, and benefits	\$ 50,090	\$ -	\$ 1,212,981	\$ 1,263,071	\$ 416,276	\$ 63,283	\$ 1,742,630
Scholarships and honorariums	1,500	-	944,461	945,961	-	-	945,961
Professional fees and other services	357,986	-	138,772	496,758	308,358	9,173	814,289
Travel, meals, and entertainment	52,144	-	820,078	872,222	9,370	28,888	910,480
Printing, supplies, and other office expenses	72,679	-	276,619	349,298	45,440	6,478	401,216
Other miscellaneous expenses	443	-	99,145	99,588	-	6,955	106,543
Provision for uncollectible pledges	-	-	-	-	396,561	-	396,561
Gifts and donations	48,589	-	1,888,028	1,936,617	-	13,194	1,949,811
Capital expenditures	4,889	1,110,868	471,666	1,587,423	-	-	1,587,423
Dues/subscriptions and registrations	-	-	170,451	170,451	-	-	170,451
Equipment rentals and maintenance	17,865	-	52,035	69,900	-	-	69,900
Interest expense	-	-	32,646	32,646	-	-	32,646
Total expenses	\$ 606,185	\$ 1,110,868	\$ 6,106,882	\$ 7,823,935	\$ 1,176,005	\$ 127,971	\$ 9,127,911

See accompanying notes to financial statements.

WESTERN KENTUCKY UNIVERSITY
COLLEGE HEIGHTS FOUNDATION, INC.
STATEMENT OF FUNCTIONAL EXPENSES
Year ended December 31, 2018

	<u>Program Services</u>	<u>Supporting Services</u>		<u>Total</u>
		<u>Management and General</u>	<u>Fund Raising</u>	
Scholarships	\$ 5,735,185	\$ -	\$ -	\$ 5,735,185
Salaries and benefits	-	607,310	-	607,310
Other expenses	281,003	38,337	-	319,340
Fundraising	-	-	21,058	21,058
Professional fees	-	17,835	-	17,835
Travel and transportation	-	14,690	-	14,690
Postage	-	12,236	-	12,236
Equipment and furnishings	-	8,213	-	8,213
Software	-	5,504	-	5,504
Scholarship celebration	-	4,244	-	4,244
Sponsorships	-	3,750	-	3,750
Memberships	-	3,710	-	3,710
Bank fees	-	3,296	-	3,296
Telephone	-	2,612	-	2,612
Staff development	-	2,400	-	2,400
Office supplies	-	2,211	-	2,211
Gifts	-	2,100	-	2,100
Total expenses before depreciation	6,016,188	728,448	21,058	6,765,694
Depreciation	-	18,016	-	18,016
Total expense	\$ 6,016,188	\$ 746,464	\$ 21,058	\$ 6,783,710

See accompanying notes to financial statements.

WESTERN KENTUCKY UNIVERSITY
 COLLEGE HEIGHTS FOUNDATION, INC.
 STATEMENT OF FUNCTIONAL EXPENSES
 Year ended December 31, 2017

	<u>Program Services</u>	<u>Supporting Services</u>		<u>Total</u>
		<u>Management and General</u>	<u>Fund Raising</u>	
Scholarships	\$ 5,327,809	\$ -	\$ -	\$ 5,327,809
Salaries and benefits	-	583,293	-	583,293
Other expenses	451,998	29,259	-	481,257
Fundraising	-	-	18,516	18,516
Professional fees	-	17,523	-	17,523
Equipment and furnishings	-	14,505	-	14,505
Travel and transportation	-	14,202	-	14,202
Postage	-	10,946	-	10,946
Software	-	5,144	-	5,144
Sponsorships	-	3,730	-	3,730
Memberships	-	3,690	-	3,690
Staff development	-	3,569	-	3,569
Bank fees	-	3,260	-	3,260
Telephone	-	2,145	-	2,145
Office supplies	-	1,447	-	1,447
Gifts	-	299	-	299
Scholarship celebration	-	(3,139)	-	(3,139)
Total expenses before depreciation	5,779,807	689,873	18,516	6,488,196
Depreciation	-	3,753	-	3,753
Total expense	\$ 5,779,807	\$ 693,626	\$ 18,516	\$ 6,491,949

See accompanying notes to financial statements.

WESTERN KENTUCKY UNIVERSITY
STATEMENTS OF CASH FLOWS
Years ended June 30, 2019 and 2018

	<u>2019</u>	<u>2018</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Tuition and fees	\$ 126,327,294	\$ 133,654,683
Grants and contracts	(695,567)	2,613,212
Payments to employees	(180,436,698)	(188,288,348)
Payments to suppliers	(80,172,908)	(91,301,606)
Loans issued to students, net of collection	418,253	344,011
Sales and services of educational departments	17,517,863	13,769,134
Other operating revenues	22,073,543	21,472,544
Auxiliary enterprise revenues	22,499,800	22,542,902
Auxiliary enterprise payments		
Payments to employees	(6,918,165)	(7,692,727)
Payments to suppliers	<u>(13,519,092)</u>	<u>(14,112,175)</u>
Net cash used in operating activities	<u>(92,905,677)</u>	<u>(106,998,370)</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
State appropriations	70,034,800	70,077,200
State appropriations – Performance Funding	3,748,600	3,830,100
Grants and contracts receipts	61,364,034	63,826,369
Student organization agency receipts (disbursements) - net	<u>(74,798)</u>	<u>(1,664,099)</u>
Net cash provided by noncapital financing activities	<u>135,072,636</u>	<u>136,069,570</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Proceeds from sale of capital assets	133,551	40,947
Purchases of capital assets	(16,229,882)	(18,991,741)
Principal paid on capital debt and leases	(13,138,194)	(13,136,899)
Interest paid on capital debt and leases	(6,061,950)	(6,419,801)
State appropriations for capital acquisition	<u>8,212,116</u>	<u>12,323,775</u>
Net cash used in capital and related financing activities	<u>(27,084,359)</u>	<u>(26,183,719)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from sales and maturities of investments	14,873	3,403,948
Purchase of investments	-	(18)
Investment income	<u>991,306</u>	<u>670,374</u>
Net cash provided by investing activities	<u>1,006,179</u>	<u>4,074,304</u>
Net change in cash and cash equivalents	16,088,779	6,961,785
Cash and cash equivalents, beginning of year	<u>76,141,700</u>	<u>69,179,915</u>
Cash and cash equivalents, end of year	<u>\$ 92,230,479</u>	<u>\$ 76,141,700</u>

(Continued)

WESTERN KENTUCKY UNIVERSITY
STATEMENTS OF CASH FLOWS
Years ended June 30, 2019 and 2018

	<u>2019</u>	<u>2018</u>
Reconciliation of net operating loss to net cash used in operating activities		
Operating loss	\$ (91,047,715)	\$ (131,424,344)
Depreciation expense	29,191,922	28,043,348
Changes in operating assets and liabilities		
Accounts receivable, net	63,755	(162,874)
Federal and state grants receivable	714,942	2,191,874
Assets held in trust	16,952	16,950
Inventories	195,117	(22,757)
Loans to students, net	418,253	344,011
Prepaid expenses and other	1,203,191	(178,648)
Accounts payable and other current liabilities	(211,745)	(6,015,530)
Health insurance liability	(4,188)	(298,607)
Accrued payroll and payroll withholdings	2,137,497	719,284
Accrued compensated absences	(9,592)	(202,971)
Deferred outflows – pension liability	24,972,015	29,055,054
Deferred inflows – pension liability	49,930,253	117,192,710
Net pension liability	(104,381,859)	(158,929,591)
Net OPEB liability	(5,990,707)	5,809,399
Unearned revenue	<u>(103,768)</u>	<u>6,864,322</u>
Net cash used in operating activities	<u>\$ (92,905,677)</u>	<u>\$ (106,998,370)</u>
Supplemental cash flows information		
Non-cash activities:		
Construction in process included in accounts payable	\$ (830,008)	\$ (967,580)
Reconciliation of cash and cash equivalents to the statement of net position		
Cash and cash equivalents	\$ 91,948,964	\$ 75,868,261
Restricted cash and cash equivalents	<u>281,515</u>	<u>273,439</u>
Total cash and cash equivalents	<u>\$ 92,230,479</u>	<u>\$ 76,141,700</u>

See accompanying notes to financial statements.

NOTE 1 - NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Operations: Western Kentucky University (the "University") is a state supported institution of higher education located in Bowling Green, Kentucky, and accredited by the Southern Association of Colleges and Schools Commission on Colleges. The University awards graduate and undergraduate degrees and serves a student population of approximately 19,500 and 20,300 in 2019 and 2018, respectively. The University is operated under the jurisdiction of a Board of Regents and is a component unit of the Commonwealth of Kentucky. Major federally funded student financial aid programs in which the University participates include the Federal Pell Grant, Federal Supplemental Educational Opportunity Grant, Federal Work Study, Federal Family Education Loan, Federal Direct Loan and Federal Perkins Loan Programs. The University extends unsecured credit to students.

Reporting Entity: The financial reporting entity includes Western Kentucky University, as the primary government, and the accounts of the Western Kentucky University Research Foundation, Inc. ("Research Foundation"), collectively referred to as the University.

The financial reporting entity, as defined by Governmental Accounting Standards Board ("GASB") Statement No. 14, *The Financial Reporting Entity*, as amended by GASB Statement No. 61, *The Financial Reporting Entity: Omnibus*, under which these basic financial statements include all organizations, activities, functions and component units for which the University is financially accountable, consists of the organizations for which exclusion could cause the financial statements to be misleading or incomplete. The determination of financial accountability includes consideration of a number of criteria including (1) the University's ability to appoint a voting majority of another entity's governing body and to impose its will on that entity; (2) the potential for that entity to provide specific financial benefits or to impose specific financial burdens on the University; and (3) that entity's fiscal dependency on the University.

The Research Foundation is included in the University's financial statements as a component unit based on the above criteria. The Research Foundation is a legally separate not-for-profit corporation that is, in substance, a part of the University's operations. It is organized exclusively to benefit the University by generating funding for and performing many of the University's research activities.

The Research Foundation's financial data is combined with the University for financial reporting purposes by the blended component unit method. Transactions between the University and the Research Foundation are eliminated upon consolidation.

GASB Statement No. 39, *Determining Whether Certain Organizations are Component Units*, requires certain organizations be reported as component units of a primary government based on the nature and significance of that organization's relationship to the primary government. Western Kentucky University Foundation, Inc., College Heights Foundation, Inc. and WKU Student Life Foundation, Inc. (the "Foundations") are discretely presented component units of the University. The Foundations are private nonprofit organizations that report under Financial Accounting Standards Board ("FASB") Accounting Standards Codifications ("ASC"), including FASB ASC No. 958, *Not-for-Profit Entities*. As such, certain revenue recognition criteria and presentation features are different from GASB revenue recognition criteria and presentation features. No modifications have been made to the Foundations' financial information in the University's financial report for these differences.

The financial information included for each foundation noted above is derived from the respective foundation's annual audited financial statements. WKU Foundation, Inc. and College Heights Foundation, Inc. operate on a calendar year. Thus, the information included for each of these foundations is as of and for the years ended December 31, 2018 and 2017. The Student Life Foundation, Inc. operates on a fiscal year beginning July 1, and extending through June 30; likewise the information contained herein is as of and for the years ended June 30, 2019 and 2018.

(Continued)

NOTE 1 - NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
(Continued)

Basis of Accounting and Presentation: The financial statements of the University have been prepared on the accrual basis of accounting. Revenues, expenses, gains, losses, assets and liabilities from exchange and exchange-like transactions are recognized when the exchange transaction takes place, while those from government-mandated non-exchange transactions (principally federal and state grants and state appropriations) are recognized when all applicable eligibility requirements are met. Operating revenues and expenses include exchange transactions and program-specific, government-mandated non-exchange transactions. Government-mandated non-exchange transactions that are not program specific (such as state appropriations), investment income and interest on capital asset-related debt are included in non-operating revenues and expenses.

The University routinely incurs expenses for which both restricted and unrestricted net position is available. The University's policy is to allow departmental units the flexibility to determine whether to first apply restricted or unrestricted resources based on the most advantageous application of resources.

Use of Estimates: The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America ("GAAP") requires management to make estimates and assumptions that affect the reported amounts of assets, deferred outflows and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues, expenses and other changes in net position during the reporting period. Actual results could differ from those estimates.

Cash and Cash Equivalents: The University considers all highly liquid investments with an original maturity of three months or less that are immediately available to the University to be cash equivalents. Funds held by the Commonwealth of Kentucky are also considered cash equivalents.

The University currently uses commercial banks and the Commonwealth of Kentucky as depositories. Deposits with commercial banks are covered by federal depository insurance or collateral held by the banks in the University's name. At the Commonwealth level, the University's accounts are pooled with other agencies of the Commonwealth. These Commonwealth-pooled deposits are covered by federal depository insurance or by collateral held by the bank in the Commonwealth's name.

Restricted Cash and Cash Equivalents: Externally restricted cash and cash equivalents are classified as restricted assets. Restricted cash and cash equivalents includes cash and cash equivalents used to purchase or construct capital or other noncurrent assets.

Investments and Investment Income: The University accounts for its investments at fair value in accordance with GASB Statement No. 72, *Fair Value Measurement and Application*. Investment income consists of interest income and the net change for the year in the fair value of investments carried at fair value.

Accounts Receivable: Accounts receivable consist of tuition and fee charges to students and auxiliary enterprise services provided to students, faculty, staff and external entities, and include reimbursement of costs from external entities and related foundations. Accounts receivable also include amounts due from the federal government, state and local governments or private sources in connection with reimbursement of allowable expenditures made pursuant to the University's grants and contracts. Accounts receivable are recorded net of estimated uncollectible amounts.

Bond Issuance Costs: The bond issuance costs are expensed in the year of the bond issuance.

(Continued)

WESTERN KENTUCKY UNIVERSITY
NOTES TO FINANCIAL STATEMENTS
June 30, 2019 and 2018

NOTE 1 - NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
(Continued)

Inventories: Inventories, consisting principally of bookstore merchandise, are stated at the lower of cost, determined using the FIFO (first-in, first-out) method, or market.

Loans to Students: The University makes loans to students under various federal and other loan programs. Such loans receivable are recorded net of estimated uncollectible amounts.

Capital Assets: Capital assets are recorded at cost at the date of acquisition, or acquisition value at the date of donation if acquired by gift. Depreciation is computed using the straight-line method over the estimated useful life of each asset and is not allocated to functional expense categories. Equipment with an estimated useful life of greater than one year and a cost of \$5,000 is capitalized and depreciated with one-half year's depreciation taken during the year of purchase or donation. Library materials are capitalized in total for the year with one-half year's depreciation taken during the year of purchase or donation. Construction in progress is capitalized when incurred. Routine repairs and maintenance are charged to operating expense in the year in which the expense was incurred or when the project was closed and is identified as projects less than \$100,000. The University continues to track equipment with a cost of \$500 or more for insurance purposes consistent with applicable Kentucky Revised Statutes but does not capitalize items at these lower thresholds.

The following estimated useful lives are being used by the University:

Buildings and building improvements	15 - 40 years
Furniture, fixtures and equipment	3 - 15 years
Land improvements and infrastructure	20 years
Library materials	10 years

The University capitalizes interest costs as a component of construction in progress, based on interest costs of borrowing specifically for the project, net of interest earned on investments acquired with the proceeds of borrowings. For the years ended June 30, 2019 and 2018, total interest capitalized was:

	<u>2019</u>	<u>2018</u>
Total interest expense incurred on borrowings for project	\$ -	\$ -
Interest income from investment of proceeds of borrowings for project	-	-
Net interest cost capitalized	<u>\$ -</u>	<u>\$ -</u>
Interest capitalized	\$ -	\$ -
Interest charged to expense	<u>6,012,236</u>	<u>6,334,765</u>
Total interest incurred	<u>\$ 6,012,236</u>	<u>\$ 6,334,765</u>

Historical Collections: The University owns historical collections housed throughout the campus that it does not capitalize, including collections in the Kentucky Building & Museum. These collections adhere to the University's policy to (1) maintain them for public exhibition, education or research; (2) protect, keep unencumbered, care for and preserve them; and (3) require proceeds from their sale to be used to acquire other collection items. GAAP permits collections maintained in this manner to be charged to operations at time of purchase rather than capitalized.

(Continued)

NOTE 1 - NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
(Continued)

Compensated Absences: University policies permit employees to accumulate vacation and sick leave benefits that may be utilized as paid time off or, in limited circumstances, as a cash payment. Expense and the related liability are recognized when vacation benefits are earned whether the employee is expected to realize the benefit as time off or in cash. Sick leave benefits expected to be realized as paid time off are recognized as expense when the time off occurs and no liability is accrued for such benefits employees have earned but not yet utilized. Compensated absence liabilities are computed using the regular pay rates in effect at the statement of net position date plus an additional amount for compensation-related payments such as Social Security and Medicare taxes which are computed using rates in effect at that date.

Unearned Revenue: Tuition and fee revenues collected during the fiscal year, which relate to the period after June 30, 2019 (or June 30, 2018), have been recorded as unearned revenues. Unearned revenues arise when resources are received by the University before it has a legal claim to them, as when grant monies are received prior to the incurrence of qualifying expenditures. In subsequent periods, when both revenue recognition criteria are met, or when the University has a legal claim to the resources, the liability for unearned revenue is removed from the statement of net position and revenue is recognized. Unearned revenue also includes amounts received from grant and contract sponsors that have not yet been earned and unexpended state capital appropriations.

Pensions: For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the Kentucky Employees' Retirement System and Kentucky Teachers' Retirement System (referred to collectively as "the Plans") and additions to/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 generally reported at fair value.

Other Postemployment Benefits (OPEB): For purposes of measuring the liability, deferred outflows of resources and deferred inflows of resources related to OPEB, and OPEB expense, information about the fiduciary net position of the Kentucky Employees' Retirement System and Kentucky Teachers' Retirement System (referred to collectively as "the Plans") and additions to/deductions from the Plan's 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, except for money market investments and participating interest-earning investment contracts that have a maturity at the time of purchase of one year or less, which are reported at cost.

Classification of Revenues: The University has classified its revenues as either operating or non-operating revenues according to the following criteria:

Operating Revenues: Operating revenues include activities that have the characteristics of exchange transactions, such as (1) student tuition and fees, net of scholarship discounts and allowances; (2) sales and services of auxiliary enterprises; and (3) interest on student loans. Operating revenues also include certain federal, state, local, and private grants and contracts.

Non-operating Revenues: Non-operating revenues include activities that have the characteristics of non-exchange transactions, such as gifts and contributions, and other revenue sources that are defined as non-operating revenues by GASB No. 9, *Reporting Cash Flows of Proprietary and Non-expendable Trust Funds and Government Entities That Use Proprietary Fund Accounting*, and GASB No. 34, *Basic Financial Statements – Management's Discussion & Analysis – for State & Local Governments*, such as state appropriations and investment income.

(Continued)

NOTE 1 - NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
(Continued)

Scholarship Discounts and Allowances: Student tuition and fee revenues and certain other revenues from students are reported net of scholarship allowances in the Statements of Revenues, Expenses, and Changes in Net Position. Scholarship allowances are the difference between the stated charge for goods and services provided by the University and the amount that is paid by students and/or third parties making payments on the students' behalf. Certain governmental grants, such as Pell grants, and other federal, state or nongovernmental programs, are recorded as either operating or non-operating revenues in the University's financial statements. To the extent that revenues from such programs are used to satisfy tuition, fees, and other student charges, the University has recorded a scholarship allowance.

Net Position: The University's net position is classified as follows:

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

Restricted Net Position – Expendable: Restricted expendable net position includes resources in which the University is legally or contractually obligated to spend resources in accordance with restrictions imposed by external third parties.

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

Unrestricted Net Position: Unrestricted net position represents resources derived from student tuition and fees and sales and services of educational activities, intercollegiate athletics, and auxiliary enterprises. These resources are used at the discretion of the governing board to meet current expenses for any purpose.

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(a) of the Internal Revenue Code and a similar provision of state law. However, the University is subject to federal income tax on any unrelated business taxable income.

Recent Accounting Pronouncements Adopted/Implemented:

- GASB Statement No. 83, *Certain Asset Retirement Obligations*, issued November 2016. The provisions of this Statement are effective for periods beginning after June 15, 2018. The objective of this Statement is to address accounting and financial reporting for certain asset retirement obligations ("ARO's"). An ARO is a legally enforceable liability associated with the retirement of a tangible capital asset. A government that has legal obligations to perform future asset retirement activities related to its tangible capital assets should recognize a liability based on the guidance in this Statement. The adoption of this Standard has no effect on the University's net position or changes therein.

(Continued)

NOTE 1 - NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
(Continued)

- GASB Statement No. 88, *Certain Disclosures Related to Debt, Including Direct Borrowings and Direct Placements*, issued April 2018. The provisions of this Statement are effective for periods beginning after June 15, 2018. The objective of this Statement is to improve the information that is disclosed in notes to government financial statements related to debt, including direct borrowings and direct placements. It also clarifies which liabilities governments should include when disclosing information related to debt. This Statement also requires that existing and additional information be provided for direct borrowings and direct placements of debt separately from other debt. The adoption of this Standard has no effect on the University's net position or changes therein.

Recent Accounting Pronouncements: As of June 30, 2019, the GASB has issued the following statements not yet implemented by the University.

- GASB Statement No. 84, *Fiduciary Activities*, issued January 2017. The provisions of this Statement are effective for periods beginning after December 15, 2018. The objective of this Statement is to improve guidance regarding the identification of fiduciary activities for accounting and financial reporting purposes and how those activities should be reported. The University's management has not yet determined the effect this statement will have on the University's financial statements.
- GASB Statement No. 87, *Leases*, issued June 2017. The provisions of this Statement are effective for periods beginning after December 15, 2019. The objective of this Statement is to better meet the information needs of financial statement users by improving accounting and financial reporting for leases by governments. This Statement increases the usefulness of governments' financial statements by requiring recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. It establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. Under this Statement, a lessee is required to recognize a lease liability and an intangible right-to-use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources, thereby enhancing the relevance and consistency of information about governments' leasing activities. The University's management has not yet determined the effect this statement will have on the University's financial statements.
- GASB Statement No. 89, *Accounting for Interest Cost Incurred before the End of a Construction Period*, issued June 2018. The provisions of this Statement are effective for reporting periods beginning after December 15, 2019. The objectives of this Statement are (1) to enhance the relevance and comparability of information about capital assets and the cost of borrowing for a reporting period and (2) to simplify accounting for interest cost incurred before the end of a construction period. The University's management has not yet determined the effect this statement will have on the University's financial statements.
- GASB Statement No. 90, *Majority Equity Interests – An Amendment of GASB Statements No. 14 and No. 61*, issued August 2018. The provisions of this Statement are effective for reporting periods beginning after December 15, 2018. The objectives of this Statement are to improve the consistency and comparability of reporting a government's majority equity interest in a legally separate organization and to improve the relevance of financial statement information for certain component units. The University's management has not yet determined the effect this statement will have on the University's financial statements.

(Continued)

NOTE 1 - NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
 (Continued)

- GASB Statement No. 91, *Conduit Debt Obligations*, issued May 2019. The provisions of this Statement are effective for reporting periods beginning after December 15, 2020. The objectives of this Statement are to provide a single method of reporting conduit debt obligations by issuers and eliminate diversity in practice associated with (1) commitments extended by issuers, (2) arrangements associated with conduit debt obligations, and (3) related note disclosures. This Statement achieves those objectives by clarifying the existing definition of a conduit debt obligation; establishing that a conduit debt obligation is not a liability of the issuer; establishing standards for accounting and financial reporting of additional commitments and voluntary commitments extended by issuers and arrangements associated with conduit debt obligations; and improving required note disclosures. The University's management has not yet determined the effect this statement will have on the University's financial statements.

NOTE 2 - ASSETS HELD IN TRUST

Assets held in trust as of June 30, 2019 and 2018 consisted of:

	<u>2019</u>	<u>2018</u>
Cash equivalents	\$ 93,326	\$ 40,817
Common equity, common fixed income and mutual funds	<u>19,246,892</u>	<u>19,920,703</u>
Fair value of assets held in trust	<u>\$ 19,340,218</u>	<u>\$ 19,961,520</u>

Assets held in trust include funds held with the City of Bowling Green, Kentucky (the "City") and the Regional University Excellence Trust Fund. Funding received through the Regional University Excellence Trust Fund is further described in Note 12.

NOTE 3 - DEPOSITS AND INVESTMENTS

Cash

The carrying amount of cash and cash equivalents was \$92,230,479 and \$76,141,700 at June 30, 2019 and 2018, while the bank balances were \$97,851,225 and \$85,407,994 at June 30, 2019 and 2018. All account balances at banks were either insured by the Federal Deposit Insurance Corporation (FDIC) for \$250,000, or collateralized with securities of the U.S. Government or with letters of credit issued by the Federal Home Loan Bank held in the University's name by financial institutions acting as the University's agent.

Investments (excluding 457(f) Incentive Plan)

The investments that the University may purchase are limited by Commonwealth of Kentucky law to the following: (1) U.S. Treasury Obligations; (2) U.S. Government Agency securities including collateralized mortgage obligations; (3) certificates of deposit or time deposits of banks and savings and loan associations that are insured by a Federal corporation; and (4) fully collateralized repurchase agreements.

(Continued)

NOTE 3 - DEPOSITS AND INVESTMENTS (Continued)

457(f) Incentive Plan Investments

Pursuant to plan documents, the investments included in this plan are directed by the beneficiaries of the account and consist of money market mutual funds. The beneficiaries of these investments vest a certain percentage of the account balance on an annual basis. The vested balance is paid to the beneficiary subsequent to the University's fiscal year end. The total amount vested and payable as of June 30, 2019 and 2018 was \$0 and \$66,957, respectively. The investments in this plan, by plan agreement, may be liquidated at any time and, as such, have been classified with maturities of less than one year.

The following schedule reports the fair values and maturities (using the segmented time distribution method) for the University's investments at June 30, 2018:

<u>Investment Type</u>	<u>Fair Value</u>	<u>One Year</u>	<u>One to Five Years</u>	<u>Six to Ten Years</u>	<u>Greater than Ten Years</u>
457(f) Incentive Plan	\$ 66,957	\$ 66,957	\$ -	\$ -	\$ -

Fair Value Measures: The University categorizes its fair value measurements within the fair value hierarchy established by accounting principles generally accepted in the United States of America. The hierarchy is based on the valuation inputs used to measure fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs.

The University has the following recurring fair value measurements as of June 30, 2019 and 2018:

- Money market mutual funds of \$0 and \$66,957, respectively, all of which are based on quoted market prices in active markets using the market approach (Level 1 inputs).
- Assets held in trust of \$19,340,218 and \$19,961,520, respectively, which is valued at net asset value (NAV). There are no unfunded commitments and funds can be redeemed on a daily basis. The investment strategy is a long-term growth strategy and the underlying funds in the trust include cash, common stock, mutual funds, and fixed income securities.

Interest Rate Risk: The University does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates. However, bond resolutions govern the investment of bond reserves.

Credit Risk: The University's general investment policy is to apply the prudent-person rule: Investments are made as a prudent person would be expected to act, with discretion and intelligence, to seek reasonable income, preserve capital, and, in general, avoid speculative investments. The University's investment policy allows investments in U.S. Agency securities if such obligations are rated at the time of purchase at one of the three highest classifications established by at least two standard rating services.

The University did not have any investment in debt securities as of June 30, 2019 and 2018. Therefore, the University is not considered to have credit risk.

(Continued)

WESTERN KENTUCKY UNIVERSITY
 NOTES TO FINANCIAL STATEMENTS
 June 30, 2019 and 2018

NOTE 3 - DEPOSITS AND INVESTMENTS (Continued)

Custodial Credit Risk: For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the University will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The University's investment policy requires that all amounts in excess of any insurance limits be collateralized by securities eligible for University investment. The market value of the pledged securities shall equal or exceed the portion of the deposit requiring collateralization. The University is fully collateralized as of June 30, 2019 and 2018.

Of the University's cash balance as of June 30, 2019 and 2018, \$500,000 is secured by FDIC insurance, and \$89,445,316 and \$77,884,219, respectively, is collateralized by the pledging institution. Additionally, as of June 30, 2019 and 2018, \$7,905,909 and \$7,023,775 is held within various accounts with the Commonwealth of Kentucky.

Concentration of Credit Risk: The Commonwealth of Kentucky places no limit on the amount the University may invest in any one issuer. More than 90% percent of the University's investments are U.S. Treasury Obligations. The investments reported in the University's 457(f) Incentive Plan are beneficiary-directed money-market mutual funds.

Investment income (loss) for the year ended June 30, 2019 and 2018 consisted of:

	<u>2019</u>	<u>2018</u>
Interest income, including interest earned on cash equivalents	\$ 1,030,673	\$ 753,838
Net change in fair value of investments and assets held in trust	<u>(648,237)</u>	<u>990,094</u>
	<u>\$ 382,436</u>	<u>\$ 1,743,932</u>

NOTE 4 - ACCOUNTS RECEIVABLE

Accounts receivable consist of the following as of June 30, 2019 and 2018:

	<u>2019</u>	<u>2018</u>
Tuition, fees, sales and services	\$ 12,730,224	\$ 14,259,815
Credit memos	617,560	534,453
Miscellaneous, other	<u>3,011,953</u>	<u>2,148,067</u>
	16,359,737	16,942,335
Less allowance for doubtful accounts	<u>(2,939,537)</u>	<u>(3,435,505)</u>
Accounts receivable, net	<u>\$ 13,420,200</u>	<u>\$ 13,506,830</u>

(Continued)

WESTERN KENTUCKY UNIVERSITY
NOTES TO FINANCIAL STATEMENTS
June 30, 2019 and 2018

NOTE 5 - CAPITAL ASSETS

Changes in capital assets for the year ended June 30, 2019 are summarized as follows:

	Balance July 1, 2018	Additions	Disposals	Transfers	Balance June 30, 2019
Non-depreciable capital assets:					
Land	\$ 12,627,736	\$ 1,697,052	\$ (1,400,000)	\$ -	\$ 12,924,788
Construction in progress	<u>6,064,732</u>	<u>12,190,557</u>	<u>-</u>	<u>(2,987,729)</u>	<u>15,267,560</u>
	<u>18,692,468</u>	<u>13,887,609</u>	<u>(1,400,000)</u>	<u>(2,987,729)</u>	<u>28,192,348</u>
Depreciable capital assets:					
Buildings and improvements	615,787,091	-	-	1,604,526	617,391,617
Infrastructure	68,706,566	-	-	1,034,168	69,740,734
Furniture, fixtures and equipment	89,415,048	1,787,427	(775,271)	349,035	90,776,239
Library materials	<u>61,654,966</u>	<u>2,784,854</u>	<u>(426,157)</u>	<u>-</u>	<u>64,013,663</u>
	<u>835,563,671</u>	<u>4,572,281</u>	<u>(1,201,428)</u>	<u>2,987,729</u>	<u>841,922,253</u>
Less accumulated depreciation:					
Buildings and improvements	240,451,301	18,810,216	-	-	259,261,517
Infrastructure	30,457,369	3,149,625	-	-	33,606,994
Furniture, fixtures, and equipment	66,177,452	4,468,326	(671,517)	-	69,974,261
Library materials	<u>47,455,565</u>	<u>2,763,755</u>	<u>(426,157)</u>	<u>-</u>	<u>49,793,163</u>
	<u>384,541,687</u>	<u>29,191,922</u>	<u>(1,097,674)</u>	<u>-</u>	<u>412,635,935</u>
Net capital assets	<u>\$ 469,714,452</u>	<u>\$ (10,732,032)</u>	<u>\$ (1,503,754)</u>	<u>\$ -</u>	<u>\$ 457,478,666</u>

Changes in capital assets for the year ended June 30, 2018 are summarized as follows:

	Balance July 1, 2017	Additions	Disposals	Transfers	Balance June 30, 2018
Non-depreciable capital assets:					
Land	\$ 12,627,736	\$ -	\$ -	\$ -	\$ 12,627,736
Construction in progress	<u>44,709,743</u>	<u>13,896,008</u>	<u>-</u>	<u>(52,541,019)</u>	<u>6,064,732</u>
	<u>57,337,479</u>	<u>13,896,008</u>	<u>-</u>	<u>(52,541,019)</u>	<u>18,692,468</u>
Depreciable capital assets:					
Buildings and improvements	567,551,167	-	(1,167,470)	49,403,395	615,787,091
Infrastructure	68,006,262	-	-	700,304	68,706,566
Furniture, fixtures and equipment	84,413,839	3,224,831	(660,942)	2,437,320	89,415,048
Library materials	<u>59,244,223</u>	<u>2,838,480</u>	<u>(427,737)</u>	<u>-</u>	<u>61,654,966</u>
	<u>779,215,491</u>	<u>6,063,311</u>	<u>(2,256,149)</u>	<u>52,541,019</u>	<u>835,563,671</u>
Less accumulated depreciation:					
Buildings and improvements	223,824,423	17,794,349	(1,167,471)	-	240,451,301
Infrastructure	27,345,215	3,112,154	-	-	30,457,369
Furniture, fixtures, and equipment	62,303,114	4,432,855	(558,517)	-	66,177,452
Library materials	<u>45,179,312</u>	<u>2,703,990</u>	<u>(427,737)</u>	<u>-</u>	<u>47,455,565</u>
	<u>358,652,064</u>	<u>28,043,348</u>	<u>(2,153,725)</u>	<u>-</u>	<u>384,541,687</u>
Net capital assets	<u>\$ 477,900,906</u>	<u>\$ (8,084,029)</u>	<u>\$ (102,424)</u>	<u>\$ -</u>	<u>\$ 469,714,452</u>

During September 2018, the Western Kentucky University Foundation, Inc. transferred real estate valued at \$1,610,000 to the University in relation to a terminated charitable remainder annuity trust. Immediately following the transfer, the University transferred a portion of the same real estate back to the Western Kentucky University Foundation, Inc. valued at \$1,400,000.

(Continued)

WESTERN KENTUCKY UNIVERSITY
NOTES TO FINANCIAL STATEMENTS
June 30, 2019 and 2018

NOTE 5 - CAPITAL ASSETS (Continued)

A summary of construction in progress at June 30, 2019 and 2018 is as follows:

	<u>2019</u>	<u>2018</u>
Science Campus – Phase IV	\$ 8,878,406	\$ 3,697,630
WKU Commons - Helm	2,312,316	-
Others projects under \$1,000,000	<u>4,076,838</u>	<u>2,367,102</u>
	<u>\$ 15,267,560</u>	<u>\$ 6,064,732</u>

Contractual commitments in connection with all projects totaled \$4,869,854 and \$7,704,658 at June 30, 2019 and 2018.

NOTE 6 - UNEARNED REVENUE

Unearned revenue consisted of the following items as of June 30, 2019 and 2018:

	<u>2019</u>	<u>2018</u>
Summer school tuition and fees	\$ 4,962,169	\$ 5,338,899
Grants and contracts	3,520,144	5,161,050
Advance sale of football tickets	886,873	908,410
University master plan	120,375	139,000
Miscellaneous	<u>9,486,883</u>	<u>7,532,853</u>
Total unearned revenue	<u>\$ 18,976,444</u>	<u>\$ 19,080,212</u>

NOTE 7 - LONG-TERM OBLIGATIONS

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

	<u>Balance</u> <u>July 1, 2018</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance</u> <u>June 30, 2019</u>	<u>Current</u> <u>Portion</u>
Capital lease obligations	\$ 17,147,426	\$ -	\$ (679,986)	\$ 16,467,440	\$ 719,450
General receipts bonds payable, net of discounts	135,681,421	-	(10,208,719)	125,472,702	10,343,719
Other long-term debt	4,506,877	-	(1,103,971)	3,402,906	912,875
Pledges payable, net of discount premiums	<u>19,953,372</u>	<u>-</u>	<u>(2,196,045)</u>	<u>17,757,327</u>	<u>2,351,047</u>
Total bonds, pledges and capital leases	<u>\$ 177,289,096</u>	<u>\$ -</u>	<u>\$ 14,188,721</u>	<u>\$ 163,100,375</u>	<u>\$ 14,327,091</u>

(Continued)

WESTERN KENTUCKY UNIVERSITY
NOTES TO FINANCIAL STATEMENTS
June 30, 2019 and 2018

NOTE 7 - LONG-TERM OBLIGATIONS (Continued)

The following is a summary of long-term obligation transactions for the University for the year ended June 30, 2018:

	<u>Balance</u> <u>July 1, 2017</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance</u> <u>June 30, 2018</u>	<u>Current</u> <u>Portion</u>
Capital lease obligations	\$ 17,783,492	\$ -	\$ (636,066)	\$ 17,147,426	\$ 679,984
General receipts bonds payable, net of discounts	145,640,140	-	(9,958,719)	135,681,421	10,208,719
Other long-term debt	6,042,094	-	(1,535,217)	4,506,877	1,103,971
Pledges payable, net of discount premiums	<u>22,009,419</u>	<u>-</u>	<u>(2,056,047)</u>	<u>19,953,372</u>	<u>2,196,047</u>
Total bonds, pledges and capital leases	<u>\$ 191,475,145</u>	<u>\$ -</u>	<u>\$ (14,186,049)</u>	<u>\$ 177,289,096</u>	<u>\$ 14,188,721</u>

General Receipts Bonds Payable

Bonds payable as of June 30, 2019 and 2018, are composed of General Receipts Bonds, Series 2009A, 2011A, 2012A, 2012B, 2013A, 2015A, 2016A, 2016B and 2016C. The bonds mature in varying amounts through September 1, 2033, with interest payable at annual rates ranging from 2.00% to 5.00%. Buildings and revenues from student registration fees are pledged as collateral against the Consolidated Educational Buildings Revenue Bond payable, whereas general receipts of the University are pledged as collateral against the General Receipts Bonds payable.

The total bonds payable as of June 30, 2019 and 2018 were as follows:

	<u>2019</u>	<u>2018</u>
General Receipts Bonds, Series 2009A, dated February 18, 2009, with interest rates from 2.50% to 5.00%. Final principal payment date is September 1, 2028.	\$ -	\$ 2,230,000
General Receipts Refunding Bonds, Series 2011A, dated November 15, 2011, with interest rates from 2.00% to 3.00%. Final payment date is May 1, 2023.	2,635,726	3,247,158
General Receipts Bonds, Series 2012A, dated June 6, 2012, with interest rates from 2.00% to 5.00%. Final principal payment date is May 1, 2032.	25,910,587	27,543,632
General Receipts Refunding Bonds, Series 2012B, dated June 6, 2012, with interest rates from 2.00% to 3.00%. Final principal payment date is May 1, 2023.	2,564,219	3,166,786
General Receipts Bonds, Series 2013A, dated October 29, 2013, with interest rates from 2.00% to 4.75%. Final principal payment date is September 1, 2033.	29,236,568	30,734,120
General Receipts Refunding Bonds, Series 2015A, dated October 13, 2015, with interest rates from 2.00% to 3.00%. Final principal payment date is September 1, 2026.	5,058,417	5,620,095

(Continued)

WESTERN KENTUCKY UNIVERSITY
NOTES TO FINANCIAL STATEMENTS
June 30, 2019 and 2018

NOTE 7 - LONG-TERM OBLIGATIONS (Continued)

	<u>2019</u>	<u>2018</u>
General Receipts Refunding Bonds, Series 2016A, dated March 17, 2016, with interest rates from 2.00% to 5.00%. Final principal payment date is September 1, 2026.	\$ 21,526,738	\$ 23,871,069
General Receipts Bonds, Series 2016B, dated October 25, 2016, with interest rates from 2.00% to 4.00%. Final principal payment date is September 1, 2036	8,907,787	9,259,066
General Receipts Refunding Bonds, Series 2016C, dated October 25, 2016, with interest rates from 3.00% to 4.00%. Final principal payment date is September 1, 2028	<u>29,632,660</u>	<u>30,009,495</u>
Total bonds payable	<u>\$ 125,472,702</u>	<u>\$ 135,681,421</u>

The debt service requirements for the bonds payable as of June 30, 2019 are as follows:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2020	\$ 9,575,000	\$ 4,339,679	\$ 13,914,679
2021	9,860,000	4,050,166	13,910,166
2022	10,195,000	3,716,166	13,911,166
2023	10,555,000	3,355,091	13,910,091
2024	9,570,000	2,968,616	12,538,616
2025-2029	46,410,000	9,158,843	55,568,843
2030-2034	20,920,000	2,532,347	23,452,347
2035-2037	<u>1,790,000</u>	<u>109,200</u>	<u>1,899,200</u>
	118,875,000	30,230,108	149,105,108
Add: unamortized premiums, net of discounts	<u>6,597,702</u>	-	<u>6,597,702</u>
	<u>\$ 125,472,702</u>	<u>\$ 30,230,108</u>	<u>\$ 155,702,810</u>

On December 19, 2006, the University issued Western Kentucky University General Receipts Bonds, Series 2006A. The \$10,000,000 proceeds generated from the bond issue were used for a portion of the renovation/expansion of Academic Athletic Complex #2, South Campus Parking and Dining, Math and Science Academy, Student Health Services Center and for Information Technology Infrastructure improvements.

(Continued)

WESTERN KENTUCKY UNIVERSITY
NOTES TO FINANCIAL STATEMENTS
June 30, 2019 and 2018

NOTE 7 - LONG-TERM OBLIGATIONS (Continued)

On May 30, 2007, the University issued Western Kentucky University General Receipts Bonds, Series 2007A. The \$43,180,000 proceeds generated from the bond issue were used to fund a portion of the renovation/expansion of Academic Athletic Complex #2, South Campus Parking and Dining, Math and Science Academy, Student Health Services Center and for Information Technology Infrastructure improvements.

On February 18, 2009, the University issued Western Kentucky University General Receipts Bonds, Series 2009A. The \$46,900,000 proceeds generated from the bond issue were used to fund a portion of the renovation/expansion of Van Meter Hall, Preston Center, Ivan Wilson Center, Science Campus, Grise Hall and various parking lots across campus.

On November 15, 2011, the University issued Western Kentucky University General Receipts Refunding Bonds, Series 2011A. The \$6,905,000 proceeds were used as a refunding source for the Western Kentucky University Consolidated Educational Buildings Revenue Bond, Series P.

On June 6, 2012, the University issued Western Kentucky University General Receipts Bonds, Series 2012A. The \$35,860,000 proceeds generated from the bond issue were used for the Phase 3 renovation of Downing Student Union.

On June 6, 2012, the University issued Western Kentucky University General Receipts Refunding Bonds, Series 2012B. The \$6,450,000 proceeds were used as a refunding source for Western Kentucky University Consolidated Educational Buildings Revenue Bond, Series Q.

On October 29, 2013, the University issued Western Kentucky University General Receipts Bonds, Series 2013A. The \$36,095,000 proceeds generated from the bond issue were used to construct the Honors College/International Center and to complete the renovation of Downing Student Union.

On October 13, 2015, the University issued Western Kentucky University General Receipts Refunding Bonds, Series 2015A. The \$5,960,000 proceeds were used as a partial refunding source for Western Kentucky University General Receipts Bonds, Series 2006A. The refunding of the 2006A bonds decreased the University's debt service payments over the remaining 11 years by approximately \$367,000 and resulted in an economic gain (difference between the present values of the debt service payments on the old and new debt) of approximately \$328,000.

On March 17, 2016, the University issued Western Kentucky University General Receipts Refunding Bonds, Series 2016A. The \$23,240,000 proceeds were used as a partial refunding source for Western Kentucky University General Receipts Bonds, Series 2007A. The refunding of the 2007A bonds decreased the University's debt service payments over the remaining 18 years by approximately \$1.6 million and resulted in an economic gain of approximately \$1.4 million.

On October 25, 2016, the University issued Western Kentucky University General Receipts Bonds, Series 2016B. The \$8,905,000 proceeds are being used to construct a Parking Structure.

On October 25, 2016, the University issued Western Kentucky University General Receipts Refunding Bonds, Series 2016C. The \$27,395,000 proceeds were used as a partial refunding source for Western Kentucky University General Receipts Bonds, Series 2009A. The refunding of the 2009A bonds will decrease the University's debt service payments over the next 13 years by approximately \$2.86 million and resulted in an economic gain of approximately \$2.5 million.

(Continued)

WESTERN KENTUCKY UNIVERSITY
NOTES TO FINANCIAL STATEMENTS
June 30, 2019 and 2018

NOTE 7 - LONG-TERM OBLIGATIONS (Continued)

Capital Lease Obligations

The University has acquired certain real property and equipment under various lease-purchase contracts and other capital lease agreements. The costs of University assets held under capital leases totaled \$18,232,681, net of accumulated depreciation of \$3,294,446 and \$2,824,243 at June 30, 2019 and 2018, respectively. The following is a schedule by year of future minimum lease payments under the capital leases including interest at rates of 2.23% to 6.42% together with the present value of the future minimum lease payments as of June 30, 2019:

Year ending June 30	Total to be Paid	Present Value of Future Minimum Lease Payments	Interest Portion
2020	\$ 1,380,962	\$ 719,450	\$ 661,512
2021	1,108,162	469,498	638,664
2022	1,125,062	505,164	619,898
2023	1,140,962	541,484	599,478
2024	1,155,862	578,501	577,361
2025-2029	5,560,907	3,035,491	2,525,415
2030-2034	5,125,605	3,139,749	1,985,856
2035-2039	5,572,592	4,319,749	1,252,844
2040-2042	<u>3,392,229</u>	<u>3,158,354</u>	<u>233,875</u>
	<u>\$ 25,562,343</u>	<u>\$ 16,467,440</u>	<u>\$ 9,094,903</u>

Other Long-Term Debt

During fiscal year-ended June 30, 2005, the University acquired certain property from the Western Kentucky University Real Estate Corporation ("WKU Real Estate Corporation"). In connection with this property acquisition, the University agreed to make future payments to the WKU Real Estate Corporation. These payments represent the principal and interest payments of the present value of a life trust held by the WKU Real Estate Corporation, to which this property once belonged. The present value of the liability was determined using the IRS actuarial tables for an ordinary life annuity assuming an implied interest rate of 5.00%. The future payments consist of monthly installments of \$2,000 for the life of the annuitant.

On December 11, 2009, the University entered into a Master Lease agreement with First & Farmer's National Bank. The original financing agreement was refinanced with PNC on November 18, 2010 and again with U.S. Bancorp on December 14, 2012 to take advantage of very competitive interest rates. Under the provisions of this agreement, Johnson Controls performed certain energy-saving capital upgrades to several campus buildings. The annual percentage rate for this financing is 1.716%. Principal and interest payments of \$77,394 are due monthly, beginning on January 14, 2013. The final principal payment is due on February 14, 2023.

On September 11, 2011, the University entered into a Master Lease Agreement with PNC Bank. Under the provisions of this agreement, the total principal balance was drawn and held in an escrow account and dispersed as needed to pay costs associated with the acquisition of a Television Production Truck. The annual percentage rate for this financing is 3.49%. Payments of principal and interest of \$278,898 are due annually, beginning on October 23, 2011. The principal balance was paid on October 23, 2017.

(Continued)

WESTERN KENTUCKY UNIVERSITY
NOTES TO FINANCIAL STATEMENTS
June 30, 2019 and 2018

NOTE 7 - LONG-TERM OBLIGATIONS (Continued)

Debt service requirements on the other long-term debt at June 30, 2019, were as follows:

Year ending June 30	<u>Total to be Paid</u>	<u>Principal</u>	<u>Interest</u>
2020	\$ 968,301	\$ 912,875	\$ 55,426
2021	968,301	929,790	38,511
2022	948,301	926,675	21,626
2023	596,547	590,440	6,107
2024	15,575	13,664	1,911
2025-2026	<u>31,150</u>	<u>29,462</u>	<u>1,688</u>
	<u>\$ 3,528,175</u>	<u>\$ 3,402,906</u>	<u>\$ 125,269</u>

Pledges Payable

The University has pledged certain future revenues consisting of student athletic fees to the City. The University has signed a Memorandum of Agreement dated April 15, 2002, and amended by supplement No. 1 dated June 1, 2002, between the City, Hilltopper Athletic Foundation (the "HAF") and the University. Under this agreement, the University and the HAF have agreed to pledge certain future revenues in exchange for the renovation of E. A. Diddle Arena, financed by General Obligation and Special Revenues Bonds Series 2002B and 2002C issued by the City. These bonds constitute general obligations of the City and the full faith, credit and taxing power of the City.

In the signed Memorandum of Agreement, as amended, the University has agreed to (a) pledge the student athletic fees to the City for the payment of principal and interest on Series 2002B bonds and on a subordinated basis on Series 2002C bonds and (b) the University and HAF pledge the suite rentals (defined as annual suite rental minus annual HAF contributions) to the City on Series 2002C bonds. Additionally, the University has agreed to pay to the City the proceeds from the sale of naming rights to Diddle Arena (if any) for Series 2002B bonds. The University has also covenanted and agreed to maintain the student athletic fees in amounts not less than the principal and interest of the bonds.

During 2011, the City issued Series 2010 General Obligation Bonds for the purpose of refunding the City's General Obligation and Special Revenue Series 2002B. The new Series 2010 effectively refunded a portion of the original 2002B issue. With the refunding issue, the University has recorded the principal of the Series 2010 City Bonds as pledges payable to the City. Financing for the original issue was used for the improvement of University facilities. Financing for the refunding issue was used to refund a portion of the original 2002B issue, and likewise, an effective refinancing of the original pledges payable to the City. As described above, under the Memorandum of Agreement, as amended, the University has agreed to pledge the student athletic fees to the City for the payment of principal and interest on the Series 2010 Bonds. The University has covenanted and agreed to maintain the student athletic fees in amounts not less than the principal and interest of the bonds.

The University has recorded the principal balances of the refunding issue Series 2010 City Bonds as pledges payable to the City.

(Continued)

WESTERN KENTUCKY UNIVERSITY
NOTES TO FINANCIAL STATEMENTS
June 30, 2019 and 2018

NOTE 7 - LONG-TERM OBLIGATIONS (Continued)

The following is a schedule, by year, of future minimum pledge payments under the signed Memorandum of Agreement reimbursing the City for renovation costs:

Year ending June 30	<u>Total to be Paid</u>	<u>Principal Series 2010</u>	<u>Interest Series 2010</u>
2020	\$ 2,984,255	\$ 2,340,000	\$ 644,255
2021	3,068,205	2,500,000	568,205
2022	3,005,705	2,525,000	480,705
2023	2,807,330	2,415,000	392,330
2024	2,822,975	2,520,000	302,975
2025-2027	<u>5,695,231</u>	<u>5,380,000</u>	<u>315,231</u>
	20,383,701	17,680,000	2,703,701
Add unaccrued premiums	<u>77,327</u>	<u>77,327</u>	-
	<u>\$ 20,461,028</u>	<u>\$ 17,757,327</u>	<u>\$ 2,703,701</u>

NOTE 8 - OPERATING LEASES

The University leases certain assets under operating lease agreements. The operating leases expire in various years through 2038. These leases generally do not transfer assets at the end of the lease term. The original terms on these leases range from two to twenty-five years and require the University to pay all executor costs (property taxes, maintenance and insurance).

Future minimum lease payments at June 30, 2019, were:

2020	\$ 938,390
2021	868,590
2022	844,447
2023	837,375
2024	837,375
Thereafter through 2038	<u>19,466,192</u>
	<u>\$ 23,792,369</u>

Lease expense was \$941,614 and \$1,008,989 for the year ended June 30, 2019 and 2018.

(Continued)

NOTE 9 - DEFINED BENEFIT PENSION AND OTHER POSTEMPLOYMENT BENEFITS PLANS

Employees of the University are covered by one of three pension plans: the Optional Retirement Plan, the Kentucky Employees' Retirement System Plan, and the Kentucky Teachers Retirement System Plan.

Optional Retirement Plan

Plan Description – University faculty and administrative staff hired after July 1, 1996, have the option of participating in the Optional Retirement Program, a defined contribution pension plan. The plan is administered by one of three providers chosen by the employee. The plan provides retirement benefits to plan members. Benefit provisions are contained in the plan document and were established and may be amended by action of the Commonwealth of Kentucky.

For the year ended June 30, 2019, contribution rates for plan members and the University expressed as a percentage of covered payrolls were 6.16% and 8.74%, respectively. Of the University's 8.74% contribution, 0.00% is paid to Kentucky Teachers' Retirement System for unfunded liabilities. For the year ended June 30, 2018, contribution rates for plan members and the University expressed as a percentage of covered payrolls were 6.16% and 13.84%, respectively. Of the University's 13.84% contribution, 5.10% is paid to Kentucky Teachers' Retirement System for unfunded liabilities.

Covered payroll totaled \$49,273,607 and \$49,962,322 for the years ended June 30, 2019 and 2018. The University's contributions to the Optional Retirement Program for the years ended June 30, 2019 and 2018 were \$4,306,515 and \$4,366,707, respectively. Employees' contributions to the Optional Retirement Program for the years ended June 30, 2019 and 2018 were \$3,035,254 and \$3,077,679, respectively.

Kentucky Employees Retirement System

Plan Description - The University contributes to the Kentucky Employees' Retirement System (KERS), a cost-sharing, multiple-employer defined benefit pension and OPEB plan administered by the Kentucky Retirement System (KRS), an agency of the Commonwealth. Under the provisions of Kentucky Revised Statute Section 61.645, the Board of Trustees ("KRS Board") of KRS administers the KERS, County Employees Retirement System and State Police Retirement System. Although the assets of the systems are invested as a whole, each system's assets are used only for the payment of benefits to members of that plan, and a pro rata share of administrative costs, in accordance with the provisions of Kentucky Revised Statute Sections 16.555, 61.570, and 78.630.

KRS issues a publicly available financial report that includes audited financial statements and audited required supplementary information for KERS. The report may be obtained by writing to Kentucky Retirement System, Perimeter Park West, 1260 Louisville Road, Frankfort, Kentucky 40601, or it may be found at the KRS website at www.kyret.ky.gov.

Basis of Accounting: For purposes of measuring the net pension and OPEB liabilities, deferred outflow of resources and deferred inflow of resources related to pensions and OPEB, pension and OPEB expense, information about the fiduciary net position of KERS and additions to/deductions from KERS's fiduciary net position have been determined on the same basis as they are reported by KERS. 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.

Pension Benefits Provided: The information below summarizes the major retirement benefit provisions of KERS-Non-Hazardous and Hazardous plans. It is not intended to be, nor should it be interpreted as, a complete statement of all benefit provisions:

(Continued)

WESTERN KENTUCKY UNIVERSITY
 NOTES TO FINANCIAL STATEMENTS
 June 30, 2019 and 2018

NOTE 9 - DEFINED BENEFIT PENSION AND OTHER POSTEMPLOYMENT BENEFITS PLANS
 (Continued)

Non-Hazardous

	Tier 1 Participation Prior to <u>9/1/2008</u>	Tier 2 Participation <u>9/1/2008 through 12/31/13</u>	Tier 3 Participation <u>1/1/2014</u>
Benefit Formula	Final Compensation X Benefit Factor X Years of Service		Cash Balance Plan
Final Compensation	Average of the highest 5 fiscal years (must contain at least 48 months). Includes lump-sum compensation payments (before and at retirement).	5 complete fiscal years immediately preceding retirement; each year must contain 12 months. Lump-sum compensation payments (before and at retirement) are not to be included in creditable compensation.	No Final Compensation
Benefit Factor	1.97% or 2.0% for those retiring with service for all months between 1/1998 and 1/1999.	10 years or less = 1.10%. Greater than 10 years, but no more than 20 years = 1.30%. Greater than 20 years, but no more than 26 years = 1.50%. Greater than 26 years, but no more than 30 years = 1.75%. Additional years above 30 = 2.00% (2.00% benefit factor only applies to service earned in excess of 30 years).	No benefit factor. A life annuity can be calculated in accordance with actuarial assumptions and methods adopted by the board based on member's accumulated account balance.
Cost of Living Adjustment (COLA)	No COLA unless authorized by the Legislature. If authorized, the COLA is limited to 1.5%. This impacts all retirees regardless of Tier.		
Unreduced Retirement Benefit	Any age with 27 years of service. Age 65 with 48 months of service. Money purchase for age 65 with less than 48 months based on contributions and interest.	Rule of 87: Member must be at least age 57 and age plus earned service must equal 87 years at retirement to retire under this provision. Age 65 with 5 years of earned service. No month purchased calculations.	
Reduced Retirement Benefit	Any age with 25 years of service. Age 55 with 5 years of service.	Age 60 with 10 years of service. Excludes purchased service (exception: refunds, omitted, free military).	No reduced retirement benefit.

Hazardous

	Tier 1 Participation Prior to <u>9/1/2008</u>	Tier 2 Participation <u>9/1/2008 through 12/31/13</u>	Tier 3 Participation <u>1/1/2014</u>
Benefit Formula	Final Compensation X Benefit Factor X Years of Service		Cash Balance Plan
Final Compensation	Highest 3 fiscal years (must contain at least 24 months). Includes lump-sum compensation payments (before and at retirement).	3 highest salaries; each year must contain 12 months. Lump-sum compensation payments (before and at retirement) are not to be included in creditable compensation.	No Final Compensation
Benefit Factor	2.49%	10 years or less = 1.30%. Greater than 10 years, but no more than 20 years = 1.50%. Greater than 20 years, but no more than 26 years = 2.25%. Greater than 25 years = 2.50%.	No benefit factor. A life annuity can be calculated in accordance with actuarial assumptions and methods adopted by the board based on member's accumulated account balance.
Cost of Living Adjustment (COLA)	No COLA unless authorized by the Legislature. If authorized, the COLA is limited to 1.5%. This impacts all retirees regardless of Tier.		
Unreduced Retirement Benefit	Any age with 20 years of service. Age 55 with 60 months of service.	Any age with 25 years of service. Age 60 with 60 months of service.	Any age with 25 years of service. Age 60 with 60 months of service.
Reduced Retirement Benefit	Age 50 with 15 years of service.	Age 50 with 15 years of service.	No reduced retirement benefit.

(Continued)

NOTE 9 - DEFINED BENEFIT PENSION AND OTHER POSTEMPLOYMENT BENEFITS PLANS
(Continued)

Kentucky Employees Retirement System (Continued)

OPEB Benefits Provided: The information below summarizes the major retirement benefit provisions of KERS-Non-Hazardous and Hazardous plans. It is not intended to be, nor should it be interpreted as, a complete statement of all benefit provisions:

Insurance Tier 1: Participation began before 7/1/2003

Benefit Eligibility: Recipient of a retirement allowance

Benefit: The percentage of member premiums paid by the retirement system are dependent on the number of years of service. Benefits also include duty disability retirements, duty death in service, non-duty death in service and surviving spouse of a retiree.

Insurance Tier 2: Participation began on or after 7/1/2003, but before 9/1/2008

Benefit Eligibility: Recipient of a retirement allowance with at least 120 months of service at retirement

Benefit: The system provide a monthly contribution subsidy of \$10 (Non-hazardous) and \$15 (Hazardous) for each year of earned service. The monthly contribution is increased by 1.5% each July 1. Benefits also include duty disability retirements, duty death in service and non-duty death in service.

Insurance Tier 3: Participation began on or after 9/1/2008

Benefit Eligibility: Recipient of a retirement allowance with at least 180 months of service at retirement

Benefit: Tier 3 insurance benefits are identical to Tier 2, except Tier 3 members are required to have at least 180 month of service in order to be eligible.

Contributions: The University was required to contribute at an actuarially determined rate determined by Statute. Per Kentucky Revised Statute Section 78.545(33) normal contribution and past service contribution rates shall be determined by the KRS Board on the basis of an annual valuation last preceding July 1 of a new biennium. The KRS Board may amend contribution rates as of the first day of July of the second year of a biennium, if it is determined on the basis of a subsequent actuarial valuation that amended contribution rates are necessary to satisfy requirements determined in accordance with actuarial bases adopted by the KRS Board.

For the fiscal years ended June 30, 2019 and 2018, participating employers in the Nonhazardous plan contributed 49.47% (41.06% allocated to pension and 8.41% allocated to OPEB) as set by KRS, of each Nonhazardous employee's creditable compensation. For the fiscal years ended June 30, 2019 and 2018, participating employers in the Hazardous plan contributed 36.85% (34.39% allocated to pension and 2.46% allocated to OPEB) and 23.70% (21.44% allocated to pension and 2.26% allocated to OPEB) as set by KRS, respectively, of each Hazardous employee's creditable compensation. These percentages are inclusive of both pension and insurance payments for employers. Administrative costs of KRS are financed through employer contributions and investments earnings.

(Continued)

NOTE 9 - DEFINED BENEFIT PENSION AND OTHER POSTEMPLOYMENT BENEFITS PLANS
(Continued)

Kentucky Employees Retirement System (Continued)

The University has met 100% of the contribution funding requirement for the fiscal years ended June 30, 2019 and 2018. Total contributions by the Plan were \$8,736,893 (\$7,300,009 related to pension and \$1,436,885 related to OPEB) and \$9,950,951 (\$8,281,007 related to pension and \$1,669,944 related to OPEB) for the years ended June 30, 2019 and 2018, respectively. The OPEB contributions amount does not include the implicit subsidy of \$272,302 and \$257,348 for the fiscal years ended June 30, 2019 and 2018, respectively.

Members whose participation began before 9/1/2008:

Nonhazardous contributions equal 5% and Hazardous contributions equal 8% of all creditable compensation. Interest paid on the members' accounts is currently 2.5%; and per statute shall not be less than 2.0%. Member entitled to a full refund of contributions with interest.

Members whose participation began on or after 9/1/2008:

Nonhazardous contributions equal to 6% and Hazardous contributions equal 9% of all creditable compensation, with 5% (Non-hazardous) and 8% (Hazardous) being credited to the member's account and 1% deposited to the KRS 401(h) Account. Interest paid on the members' accounts will be set at 2.5%. Member is entitled to a full refund of contributions and interest in their individual account, however, the 1% contributed to the insurance fund is non-refundable.

Members whose participation on or after 1/1/2014:

Nonhazardous contributions equal to 6% and Hazardous contributions equal 9% of all creditable compensation, with 5% (Non-hazardous) and 8% (Hazardous) being credited to the member's account and 1% deposited to the KRS 401(h) Account. Interest paid on the members' accounts will be set at 2.5%. Member is entitled to a full refund of contributions and interest in their individual account, however, the 1% contributed to the insurance fund is non-refundable.

Pension Information

Total Pension Liability: The total pension liability ("TPL") was determined by an actuarial valuation as of June 30, 2018 and 2017, using the following actuarial assumptions, applied to all periods included in the measurement:

Price Inflation	2.30 percent
Salary increases	3.05 percent, average, including inflation
Investment rate of return	5.25 percent (Non-hazardous) and 6.25 percent (Hazardous), net of pension plan investment expense, including inflation

(Continued)

NOTE 9 - DEFINED BENEFIT PENSION AND OTHER POSTEMPLOYMENT BENEFITS PLANS
(Continued)

Kentucky Employees Retirement System (Continued)

The mortality table used for active members is RP-2000 Combined Mortality Table projected with Scale BB to 2013 (multiplied by 50% for males and 30% for females). For healthy retired members and beneficiaries, the mortality table used is the RP-2000 Combined Mortality Table projected with Scale BB to 2013 (set back 1 year for females). For disabled members, the RP-2000 Combined Disabled Mortality Table projected with Scale BB to 2013 (set back 4 years for males) is used for the period after disability retirement. There is some margin in the current mortality tables for possible future improvement in mortality rates and that margin will be reviewed again when the next experience investigation is conducted. The actuarial assumptions used in the June 30, 2018 and 2017 valuation were based on the results of an actuarial experience study for the period July 1, 2008 – June 30, 2013.

Discount rate assumptions:

- (a) Discount Rate: The discount rate used to measure the total pension liability was 5.25% (Non-hazardous) and 6.25% (Hazardous).
- (b) Projected Cash Flows: The projection of cash flows used to determine the discount rate assumed the local employers and plan members would contribute the statutorily determined contribution rate of projected compensation over the remaining 25-year amortization period of the unfunded actuarial accrued liability. The actuarial determined contribution rate is adjusted to reflect the phase in of anticipated gains on actuarial value of assets over the first four years of the projection period.
- (c) Long-Term Rate of Return: 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.
- (d) Municipal Bond Rate: The discount rate determination does not use a municipal bond rate.
- (e) Periods of Projected Benefit Payments: The long-term assumed rate of return was applied to all periods of projected benefit payments to determine the total pension liability.

(Continued)

NOTE 9 - DEFINED BENEFIT PENSION AND OTHER POSTEMPLOYMENT BENEFITS PLANS
(Continued)

Kentucky Employees Retirement System (Continued)

(f) Assumed Asset Allocation: 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:

Non-hazardous

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
US Equity		
US Large Cap	8.50%	4.50%
US Mid Cap	5.00%	4.50%
US Small Cap	4.00%	5.50%
Non US Equity		
International Developed	12.50%	6.50%
Emerging Markets	5.00%	7.25%
Global Bonds	10.00%	3.00%
Credit Fixed		
Global IG Credit	10.00%	3.75%
High Yield	3.00%	5.50%
Emerging Market Debt	4.00%	6.00%
Private Equity	10.00%	6.50%
Real Estate	5.00%	7.00%
Absolute Return	10.00%	5.00%
Real Return	10.00%	5.00%
Cash	<u>3.00%</u>	<u>1.50%</u>
Total	<u>100.00%</u>	<u>5.13%</u>

(Continued)

WESTERN KENTUCKY UNIVERSITY
NOTES TO FINANCIAL STATEMENTS
June 30, 2019 and 2018

NOTE 9 - DEFINED BENEFIT PENSION AND OTHER POSTEMPLOYMENT BENEFITS PLANS
(Continued)

Kentucky Employees Retirement System (Continued)

Hazardous

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
US Equity		
US Large Cap	5.00%	4.50%
US Mid Cap	6.00%	4.50%
US Small Cap	6.50%	5.50%
Non US Equity		
International Developed	12.50%	6.50%
Emerging Markets	5.00%	7.25%
Global Bonds	4.00%	3.00%
Credit Fixed		
Global IG Credit	2.00%	3.75%
High Yield	7.00%	5.50%
Emerging Market Debt	5.00%	6.00%
Illiquid Private	10.00%	8.50%
Private Equity	10.00%	6.50%
Real Estate	5.00%	9.00%
Absolute Return	10.00%	5.00%
Real Return	10.00%	7.00%
Cash	<u>2.00%</u>	<u>1.50%</u>
 Total	 <u>100.00%</u>	 <u>6.09%</u>

The long-term expected rate of return on pension plan assets was established by the KRS Board of Trustees at 5.25% (Non-hazardous) and 6.25% (Hazardous) based on a blending of the factors described above.

- (g) **Sensitivity Analysis:** This paragraph requires disclosure of the sensitivity of the net pension liability to changes in the discount rate. The following presents the University's allocated portion of the Non-hazardous net pension liability ("NPL") of the System, calculated using the discount rate of 5.25 percent, as well as what the University's allocated portion of the net pension liability would be if it were calculated using a discount rate that is 1 percentage-point lower (4.25 percent) or 1 percentage-point higher (6.25 percent) than the current rate:

	1% Decrease (<u>4.25%</u>)	Current Discount Rate (<u>5.25%</u>)	1% Increase (<u>6.25%</u>)
The University's net pension liability - Non-hazardous	\$ 194,946,064	\$ 171,121,072	\$ 151,277,846

(Continued)

NOTE 9 - DEFINED BENEFIT PENSION AND OTHER POSTEMPLOYMENT BENEFITS PLANS
 (Continued)

Kentucky Employees Retirement System (Continued)

The following presents the University's allocated portion of the Hazardous net pension liability ("NPL") of the System, calculated using the discount rate of 6.25 percent, as well as what the University's allocated portion of the net pension liability would be if it were calculated using a discount rate that is 1 percentage-point lower (5.25 percent) or 1 percentage-point higher (7.25 percent) than the current rate:

	1% Decrease (5.25%)	Current Discount Rate (6.25%)	1% Increase (7.25%)
The University's net pension liability – Hazardous	\$ 4,059,459	\$ 3,172,598	\$ 2,436,176

Employer's Portion of the Collective Net Pension Liability: The University's proportionate share of the Non-hazardous net pension liability at June 30, 2019 and 2018 is \$171,121,072, or approximately 1.258%, and \$173,894,678, or approximately 1.293%, respectively. The University's proportionate share of the Hazardous net pension liability at June 30, 2019 and 2018 is \$3,172,598, or approximately 0.628%, and \$2,991,538, or approximately 0.602%, respectively. The net pension liabilities were distributed based on 2018 and 2017 actual employer contributions to the plan.

Measurement Date: June 30, 2018 and 2017 are the actuarial valuation dates and measurement date upon which the total pension liability is based.

Changes in Assumptions and Benefit Terms: Since the prior measurement date there have been no changes in the assumption, however, during the 2018 legislative session, House Bill 185 was enacted, which updated the benefit provisions for active members who die in the line of duty. Benefits paid to the spouses of deceased members have been increased from 25% of the member's final rate of pay to 75% of the member's average pay. If the member does not have a surviving spouse, benefits paid to surviving dependent children have been increased from 10% of the member's final pay rate to 50% of average pay for one child, 65% of average pay for two children, or 75% of average pay for three children. The Total Pension Liability as of June 30, 2018 is determined using these updated benefit provisions..

For the June 30, 2017 measurement date, the demographic and economic assumptions that affect the measurement of the total pension liability have been updated as follows:

- The assumed investment rate of return was decreased from 6.75% to 5.25% (Non-hazardous) and 7.50% to 6.25% (Hazardous).
- The assumed rate of inflation was reduced from 3.25% to 2.30%.
- Salary growth assumption was reduced from 4.00% to 3.05%.
- Payroll growth assumption was reduced from 4.00% to 0.00%.

Changes Since Measurement Date: There were no changes between the measurement date of the collective net pension liability and the employer's reporting date.

Pension Expense: The University was allocated pension expense of \$14,993,475 and \$20,781,236 related to the KERS Non-Hazardous and \$334,795 and \$237,305 related to the KERS Hazardous for the years ending June 30, 2019 and 2018.

(Continued)

WESTERN KENTUCKY UNIVERSITY
 NOTES TO FINANCIAL STATEMENTS
 June 30, 2019 and 2018

NOTE 9 - DEFINED BENEFIT PENSION AND OTHER POSTEMPLOYMENT BENEFITS PLANS
 (Continued)

Kentucky Employees Retirement System (Continued)

Deferred Outflows and Deferred Inflows: Since certain expense items are amortized over closed periods each year, the deferred portions of these items must be tracked annually. If the amounts serve to reduce pension expense they are labeled as deferred inflows. If they will increase pension expense they are labeled deferred outflows. The amortization of these amounts is accomplished on a level dollar basis, with no interest included in the deferred amounts. Experience gains/losses and the impact of changes in actuarial assumptions, if any, are amortized over the average remaining service life of the active and inactive System members at the beginning of the fiscal year. Investment gains and losses are amortized over a fixed five-year period. Deferred inflows and outflows as of the Measurement Date include:

<u>Non-hazardous</u>	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between expected and actual experience	\$ 1,218,880	\$ 478,629
Change of assumptions	7,641,905	-
Changes in proportion and differences between employer contributions and proportionate shares of contributions	-	8,054,721
Net differences between expected and actual investment earning on plan investments	<u>163,366</u>	<u>-</u>
	9,024,151	8,533,350
Contributions subsequent to the measurement date	<u>6,867,614</u>	<u>-</u>
Total	<u>\$ 15,891,765</u>	<u>\$ 8,533,350</u>

Deferred outflows of resources resulting from employer contributions subsequent to the measurement date of \$6,867,614 will be recognized as a reduction of net pension liability in the year ending June 30, 2019. The remainder of the deferred outflows and deferred inflows of resources are amortized over three to five years with remaining amortization as follows:

Year ending June 30:	
2020	\$ 1,543,981
2021	(609,560)
2022	(337,773)
2023	<u>(105,847)</u>
	<u>\$ 490,801</u>

(Continued)

WESTERN KENTUCKY UNIVERSITY
 NOTES TO FINANCIAL STATEMENTS
 June 30, 2019 and 2018

NOTE 9 - DEFINED BENEFIT PENSION AND OTHER POSTEMPLOYMENT BENEFITS PLANS
 (Continued)

Kentucky Employees Retirement System (Continued)

<u>Hazardous</u>	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Difference between expected and actual experience	\$ 163,201	\$ -
Change of assumptions	288,321	-
Changes in proportion and differences between employer contributions and proportionate shares of contributions	76,013	213,506
Net differences between expected and actual investment earning on plan investments	<u>(39,884)</u>	<u>-</u>
Contributions subsequent to the measurement date	487,651	213,506
Total	<u>\$ 920,046</u>	<u>\$ 213,506</u>

Deferred outflows of resources resulting from employer contributions subsequent to the measurement date of \$432,395 will be recognized as a reduction of net pension liability in the year ending June 30, 2019. The remainder of the deferred outflows and deferred inflows of resources are amortized over three to five years with remaining amortization as follows:

Year ending June 30:	
2020	\$ 246,089
2021	96,779
2022	(51,004)
2023	<u>(17,719)</u>
	<u>\$ 274,145</u>

Pension Plan Fiduciary Net Position: Detailed information about the pension plans' fiduciary net position is available in the separately issued pension plan financial reports.

OPEB Information

Total OPEB Liability: The total OPEB liability was determined by an actuarial valuation as of June 30, 2018 and 2017, using the following actuarial assumptions, applied to all periods included in the measurement:

Price inflation	2.30 percent
Payroll growth rate	0.00 percent
Salary increases	3.05 percent, average
Investment rate of return	6.25 percent
Healthcare trend rates	
Pre-65	Initial trend starting at 7.25 percent at January 1, 2019 and gradually decreasing to an ultimate trend rate of 4.05 percent over a period of 13 years.
Post-65	Initial trend starting at 5.10 percent at January 1, 2019 and gradually decreasing to an ultimate trend rate of 4.05 percent over a period of 11 years.

(Continued)

NOTE 9 - DEFINED BENEFIT PENSION AND OTHER POSTEMPLOYMENT BENEFITS PLANS
(Continued)

Kentucky Employees Retirement System (Continued)

The mortality table used for active members is RP-2000 Combined Mortality Table projected with Scale BB to 2013 (multiplied by 50% for males and 30% for females). For healthy retired members and beneficiaries, the mortality table used is the RP-2000 Combined Mortality Table projected with Scale BB to 2013 (set back 1 year for females). For disabled members, the RP-2000 Combined Disabled Mortality Table projected with Scale BB to 2013 (set back 4 years for males) is used for the period after disability retirement. There is some margin in the current mortality tables for possible future improvement in mortality rates and that margin will be reviewed again when the next experience investigation is conducted. The actuarial assumptions used in the June 30, 2018 and 2017 valuations were based on the results of an actuarial experience study for the period July 1, 2008 – June 30, 2013.

Discount rate assumptions:

- (a) Discount Rate: The discount rate used to measure the total Non-hazardous OPEB liability was 5.86%, which was increased from the 5.83% discount rate used in the prior year. The discount rate used to measure the total Hazardous OPEB liability was 5.88%, which was increased from the 5.87% discount rate used in the prior year.
- (b) Projected Cash Flows: The projection of cash flows used to determine the discount rate assumed the local employers and plan members would contribute the actuarially determined contribution rate of projected compensation over the remaining 26-year amortization period of the unfunded actuarial accrued liability.
- (c) Long-Term Rate of Return: 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.
- (d) Municipal Bond Rate: The discount rate determination used a municipal bond rate of 3.56% as reported in Fidelity Index's "20 – Year Municipal GO AA Index" as of June 30, 2018 and 2017.
- (e) Period of Projected Benefit Payments: Current assets, future contributions, and investment earnings are projected to be sufficient to pay the projected benefit payments from the retirement system. However, the cost associated with the implicit employer subsidy is not currently being included in the calculation of the system's actuarial determined contributions, and it is the actuary's understanding that any cost associated with the implicit subsidy will not be paid out of the system's trust. Therefore, the municipal bond rate was applied to future expected benefit payments associated with the implicit subsidy.

(Continued)

NOTE 9 - DEFINED BENEFIT PENSION AND OTHER POSTEMPLOYMENT BENEFITS PLANS
(Continued)

Kentucky Employees Retirement System (Continued)

- (f) Assumed Asset Allocations: 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:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
US Equity		
US Large Cap	5.00%	4.50%
US Mid Cap	6.00%	4.50%
US Small Cap	6.50%	5.50%
Non US Equity		
International Developed	12.50%	6.50%
Emerging Markets	5.00%	7.25%
Global Bonds	4.00%	3.00%
Credit Fixed		
Global IG Credit	2.00%	3.75%
High Yield	7.00%	5.50%
Emerging Market Debt	5.00%	6.00%
Illiquid Private	10.00%	8.50%
Private Equity	10.00%	6.50%
Real Estate	5.00%	9.00%
Absolute Return	10.00%	5.00%
Real Return	10.00%	7.00%
Cash	<u>2.00%</u>	<u>1.50%</u>
Total	<u>100.00%</u>	<u>6.09%</u>

The long-term expected rate of return on pension plan assets was established by the KRS Board of Trustees at 6.25% based on a blending of the factors described above.

- (g) Sensitivity Analysis: This paragraph requires disclosure of the sensitivity of the net OPEB liability to changes in the discount rate and changes in the healthcare cost trend rate.

Non-hazardous

The following presents the University's allocated portion of the Non-hazardous net OPEB liability of the System, calculated using the discount rate of 5.86% percent, as well as what the University's allocated portion of the System's net OPEB liability would be if it were calculated using a discount rate that is 1-percentage-point lower (4.86 percent) or 1-percentage-point higher (6.86 percent) than the current rate for Non-hazardous:

	1% Decrease (4.86%)	Current Discount Rate (5.86%)	1% Increase (6.86%)
The University's Net OPEB liability – Non-hazardous	\$ 34,960,918	\$ 29,797,360	\$ 25,499,964

(Continued)

NOTE 9 - DEFINED BENEFIT PENSION AND OTHER POSTEMPLOYMENT BENEFITS PLANS
 (Continued)

Kentucky Employees Retirement System (Continued)

The following presents the University's allocated portion of the Non-hazardous net OPEB liability of the System, calculated using the healthcare cost trend rate of percent, as well as what the University's allocated portion of the System's net OPEB liability would be if it were calculated using a healthcare cost trend rate that is 1-percentage-point lower or 1-percentage-point higher than the current rate for Non-hazardous:

	<u>1% Decrease</u>	<u>Current Healthcare Cost Trend Rate</u>	<u>1% Increase</u>
The University's Net OPEB liability – Non-hazardous	\$ 25,333,976	\$ 29,797,360	\$ 35,165,228

Hazardous

The following presents The University's allocated portion of the Hazardous net OPEB liability of the System, calculated using the discount rate of 5.88% percent, as well as what the University's allocated portion of the System's net OPEB liability would be if it were calculated using a discount rate that is 1-percentage-point lower (4.88 percent) or 1-percentage-point higher (6.88 percent) than the current rate for Hazardous:

	<u>1% Decrease (4.88%)</u>	<u>Current Discount Rate (5.88%)</u>	<u>1% Increase (6.88%)</u>
The University's Net OPEB liability – Hazardous	\$ 209,702	\$ (208,377)	\$ (543,603)

The following presents the University's allocated portion of the Hazardous net OPEB liability of the System, calculated using the healthcare cost trend rate of percent, as well as what the University's allocated portion of the System's net OPEB liability would be if it were calculated using a healthcare cost trend rate that is 1-percentage-point lower or 1-percentage-point higher than the current rate for Hazardous:

	<u>1% Decrease</u>	<u>Current Healthcare Cost Trend Rate</u>	<u>1% Increase</u>
The University's Net OPEB liability – Hazardous	\$ (535,093)	\$ (208,377)	\$ 195,836

Employer's Portion of the Collective OPEB Liability: The University's proportionate share of the Non-hazardous net OPEB liability at June 30, 2019 and 2018 is \$29,797,360, or approximately 1.257%, and \$32,938,396, or approximately 1.299%, respectively. The University's proportionate share of the Hazardous net OPEB (asset) liability at June 30, 2019 and 2018 is \$(208,377), or approximately 0.628%, and \$36,294, or approximately 0.602%, respectively. The net pension liabilities were distributed based on 2018 actual employer contributions to the plan.

Measurement Date: June 30, 2018 and 2017 is the actuarial valuation date and measurement date upon which the total pension liability is based.

(Continued)

WESTERN KENTUCKY UNIVERSITY
NOTES TO FINANCIAL STATEMENTS
June 30, 2019 and 2018

NOTE 9 - DEFINED BENEFIT PENSION AND OTHER POSTEMPLOYMENT BENEFITS PLANS
(Continued)

Kentucky Employees Retirement System (Continued)

Changes in Assumptions and Benefit Terms: Since the prior measurement date of June 30, 2017, there were no changes to the demographic and economic assumptions that affect the measurement of the total OPEB liability.

Changes Since Measurement Date: There were no changes between the measurement date of the collective net OPEB liability and the employer's reporting date.

OPEB Expense: The University was allocated pension expense of \$2,660,718 and \$3,267,520 related to the KERS Non-Hazardous and \$68,727 and \$64,697 related to the KERS Hazardous for the years ending June 30, 2019 and 2018, respectively.

Deferred Outflows and Deferred Inflows: Since certain expense items are amortized over closed periods each year, the deferred portions of these items must be tracked annually. If the amounts serve to reduce OPEB expense they are labeled as deferred inflows. If they will increase OPEB expense they are labeled deferred outflows. The amortization of these amounts is accomplished on a level dollar basis, with no interest included in the deferred amounts. Experience gains/losses and the impact of changes in actuarial assumptions, if any, are amortized over the average remaining service life of the active and inactive System members at the beginning of the fiscal year. Investment gains and losses are amortized over a fixed five-year period. Deferred inflows and outflows as of the Measurement Date include:

<u>Non-hazardous</u>	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between expected and actual experience	\$ -	\$ 1,945,633
Change of assumptions	3,132,327	112,614
Changes in proportion and differences between employer contributions and proportionate shares of contributions	-	1,011,709
Net differences between expected and actual investment earning on plan investments	<u>-</u>	<u>436,438</u>
Contributions subsequent to the measurement date	3,132,327	3,506,394
Total	<u>1,675,966</u>	<u>-</u>
	<u>\$ 4,808,293</u>	<u>\$ 3,506,394</u>

Deferred outflows of resources resulting from employer contributions subsequent to the measurement date of \$1,675,966 will be recognized as a reduction of net OPEB liability in the year ending June 30, 2019. The remainder of the deferred outflows and deferred inflows of resources are amortized over three to five years with remaining amortization as follows:

Year ending June 30:	
2020	\$ 110,022
2021	110,022
2022	110,022
2023	(704,133)
2024	<u>-</u>
	<u>\$ (374,067)</u>

(Continued)

WESTERN KENTUCKY UNIVERSITY
 NOTES TO FINANCIAL STATEMENTS
 June 30, 2019 and 2018

NOTE 9 - DEFINED BENEFIT PENSION AND OTHER POSTEMPLOYMENT BENEFITS PLANS
 (Continued)

Kentucky Employees Retirement System (Continued)

<u>Hazardous</u>	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Difference between expected and actual experience	\$ -	\$ 169,716
Change of assumptions	383,066	3,075
Changes in proportion and differences between employer contributions and proportionate shares of contributions	-	22,877
Net differences between expected and actual investment earning on plan investments	<u>-</u>	<u>166,066</u>
	383,066	361,734
Contributions subsequent to the measurement date	33,221	-
Total	<u>\$ 416,287</u>	<u>\$ 361,734</u>

Deferred outflows of resources resulting from employer contributions subsequent to the measurement date of \$33,221 will be recognized as a reduction of net OPEB liability in the year ending June 30, 2019. The remainder of the deferred outflows and deferred inflows of resources are amortized over three to five years with remaining amortization as follows:

Year ending June 30:	
2020	\$ 2,251
2021	2,251
2022	2,251
2023	36,173
2024	(9,695)
Thereafter	<u>(11,899)</u>
	<u>\$ 21,332</u>

OPEB Plan Fiduciary Net Position: Detailed information about the OPEB plans' fiduciary net position is available in the separately issued OPEB plan financial reports.

(Continued)

NOTE 9 - DEFINED BENEFIT PENSION AND OTHER POSTEMPLOYMENT BENEFITS PLANS
(Continued)

Kentucky Teachers' Retirement System

Plan Description: All full-time University faculty members and certain other staff occupying a position requiring certification or graduation from a four-year college or university as a condition of employment are covered by the Kentucky Teachers' Retirement System (KTRS), a cost sharing - multiple employer public employee retirement system. KTRS is a defined benefit plan providing for retirement, disability, death benefits and health insurance. Participants have a fully vested interest after the completion of 60 months of service, 12 of which are current service.

KTRS issues a publicly available financial report that includes financial statements, required supplementary information, and detailed information about the pension plan's fiduciary net position. That report may be obtained by writing to Kentucky Teachers' Retirement System, 479 Versailles Road, Frankfort, Kentucky, 40601, by calling (502) 573-3266, or visiting the website at <http://trs.ky.gov>.

Basis of Accounting: For purposes of measuring the net pension and OPEB liabilities, deferred outflows of resources and deferred inflows of resources related to pension and OPEB, pension and OPEB expense, information about the fiduciary net position of the Kentucky Teachers' Retirement System of the State of Kentucky (KTRS) and additions to/deductions from KTRS's fiduciary net position have been determined on the same basis as they are reported by KTRS. 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, except for money market investments and participating interest-earning investment contracts that have a maturity at the time of purchase of one year or less, which are reported at cost.

(Continued)

WESTERN KENTUCKY UNIVERSITY
 NOTES TO FINANCIAL STATEMENTS
 June 30, 2019 and 2018

NOTE 9 - DEFINED BENEFIT PENSION AND OTHER POSTEMPLOYMENT BENEFITS PLANS
 (Continued)

Kentucky Teachers' Retirement System (Continued)

Pension Plan Information

Pension Benefits Provided: The information below summarizes the major retirement benefit provisions of KTRS plan. It is not intended to be, nor should it be interpreted as, a complete statement of all benefit provisions:

	Tier 1 Participation Prior to <u>July 1, 2008</u>	Tier 2 Participation on or After <u>July 1, 2008</u>
Covered Employees:	University faculty and professional staff that do not choose the Optional Retirement Plan (Deferred Contribution)	University faculty and professional staff that do not choose the Optional Retirement Plan (Deferred Contribution)
Benefit Formula:	Final Compensation X Benefit Factor X Years of Service	
Final Compensation:	Average of the highest 5 annual salaries reduced 5% per year from the earlier of age 60 or the date 27 years of service would have been completed. Average of the highest 3 annual salaries if age 55 with 27 or more years of service. The minimum annual service allowance for all members is \$440 multiplied by credited service.	Average of the highest 5 annual salaries reduced 6% per year from the earlier of age 60 or the date 27 years of service would have been completed. Average of the highest 3 annual salaries if age 55 with 27 or more years of service. The minimum annual service allowance for all members is \$440 multiplied by credited service.
Benefit Factor:	Non-University members: 2.00% for service prior to 7/1/1983; 2.50% for service after 7/1/1983; 2.00% if participation after 7/1/2002 and less than 10 years; 2.50% if participation after 7/1/2002 and more than 10 years; 3.00% if retire after 7/1/2004 with more than 30 years. University members: 2.0% for each year of service.	Non-University members: 1.70% if less than 10 years; 2.00% if greater than 10 years, but no more than 20 years; 2.30% if greater than 20 years, but no more than 26 years; 2.50% if greater than 26 years, but no more than 30 years; 3.00% for service greater than 30 years. University members: 1.50% if less than 10 years; 1.70% if greater than 10 years, but less than 20 years; 1.85% if greater than 20 years, but less than 27 years; 2.00% if greater than 27 years.
Cost of Living Adjustment (COLA):	1.5% annually additional ad hoc increases must be authorized by the General Assembly.	
Unreduced Retirement Benefit:	Any age with 27 years of Kentucky service. Age 55 with 5 years of Kentucky service.	Any age with 27 years of Kentucky service. Age 60 with 5 years of Kentucky service. Age 55 with 10 years of Kentucky service.
Reduced Retirement Benefit:	Must be retired for service or disability to be eligible. Retired members are given a supplement based upon a contribution supplement table approved by the KTRS Board of Trustees. The retired member pays premiums in excess of the monthly supplement.	

(Continued)

NOTE 9 - DEFINED BENEFIT PENSION AND OTHER POSTEMPLOYMENT BENEFITS PLANS
 (Continued)

Kentucky Teachers' Retirement System (Continued)

Contributions - Benefit and contribution rates are established by state statute. Per Kentucky Revised Statutes 161.540, 161.550 and 161.565, contribution requirements of the active employees and the participating organizations are established and may be amended by the KTRS Board. For the fiscal year ended June 30, 2019 and 2018, University employees were required to contribute 7.625% of their annual covered salary for retirement benefits. The University was contractually required to contribute 15.87% (14.05% allocated to pension, 1.78% allocated to medical insurance and .04% allocated to life insurance) of covered payroll for the fiscal years ended June 30, 2019 and 2018. The actuarially determined amount, when combined with employee contributions, is expected to finance the cost of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability.

The University has met 100% of the contribution funding requirement for the fiscal years ended June 30, 2019 and 2018. Total contributions by the Plan were \$7,762,578 (\$6,538,986 related to pension and \$1,223,592 related to OPEB) and \$10,874,245 (\$9,564,343 related to pension and \$1,309,903 related to OPEB) for the years ended June 30, 2019 and 2018, respectively. In addition, the Commonwealth of Kentucky contributes ad hoc annual cost of living adjustments provided by the General Assembly for KTRS retirees. This contribution totaled \$7,113,487 and \$7,695,420 for the years ending June 30, 2019 and 2018.

Pension liabilities, pension expense, and deferred outflows of resources and deferred inflows of resources related to pensions - At June 30, 2019 and 2018, the University reported a liability for its proportionate share of the net pension liability that reflected a reduction for pension support provided to the University by the Commonwealth of Kentucky. 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 were as follows:

	<u>2019</u>	<u>2018</u>
University's proportionate share of the net pension liability	\$ 105,246,128	\$ 207,035,441
Commonwealth of Kentucky's proportionate share of the net pension liability associated with the University	<u>78,302,284</u>	<u>165,003,342</u>
	<u>\$ 183,548,412</u>	<u>\$ 372,038,783</u>

The net pension liability was measured as of June 30, 2018 and 2017. The University's proportion of the net pension liability was based on actual contributions to the pension plan during the measurement period. At June 30, 2019 and 2018 University's proportion was 0.767% percent and 0.716% respectively, and the Commonwealth of Kentucky's proportion associated with the University was 0.570% and 0.571%, respectively.

WESTERN KENTUCKY UNIVERSITY
NOTES TO FINANCIAL STATEMENTS
June 30, 2019 and 2018

NOTE 9 - DEFINED BENEFIT PENSION AND OTHER POSTEMPLOYMENT BENEFITS PLANS
(Continued)

Kentucky Teachers' Retirement System (Continued)

For the years ended June 30, 2019 and 2018, the University recognized pension expense of \$(47,772,646) and \$(3,840,629), and revenue of \$(9,108,835) and \$10,527,932, respectively. At June 30, 2019, 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	\$ 853,113	\$ 10,605,962
Change in assumptions	17,729,564	83,980,404
Net difference between projected and actual earnings on investments	-	2,601,376
Changes in proportionate share of contributions	<u>5,706,021</u>	<u>65,023,139</u>
	24,288,698	162,210,881
Contributions subsequent to the measurement date	<u>6,538,986</u>	-
	<u>\$ 30,827,684</u>	<u>\$ 162,210,881</u>

At June 30, 2019, the University reported \$6,538,986 as deferred outflows of resources related to pensions resulting from University contributions subsequent to the measurement date that will be recognized as a reduction of the net pension liability in the following fiscal year. Deferred outflows and deferred inflows of resources at June 30, 2018, related to pensions will be recognized in pension expense as follows:

Year ended June 30:	
2020	\$ (46,846,421)
2021	(49,028,088)
2022	(32,342,588)
2023	<u>(9,705,086)</u>
	<u>\$ (137,922,183)</u>

Actuarial assumptions - The total pension liability ("TPL") was determined by actuarial valuations as of June 30, 2018 and 2017, using the following actuarial assumptions, applied to all periods included in the measurement:

Price Inflation	3.00%
Salary Increases	3.50% - 7.30%, including inflation
Investment Rate of Return	7.50%, net pension plan investment expense, including inflation

The rates of mortality for the period after service retirement are according to the RP-2000 Combined Mortality Table for Males and Females, as appropriate, with adjustments for mortality improvements based on a projection of Scale BB to 2025, set forward 2 years for males and 1 year for females.

The actuarial assumptions used in the June 30, 2018 valuation were based on the results of an actuarial experience study for the period July 1, 2010 - June 30, 2015 adopted by the Board on September 19, 2016.

The long-term expected return on plan 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 weighing the expected future real rates of return by the target asset allocation percentage and by adding expected inflation.

(Continued)

NOTE 9 - DEFINED BENEFIT PENSION AND OTHER POSTEMPLOYMENT BENEFITS PLANS
 (Continued)

Kentucky Teachers' Retirement System (Continued)

The target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Nominal Rate of Return</u>
U.S. Equity	40.0%	4.2%
International Equity	22.0	5.2
Fixed Income	15.0	1.2
Additional Categories*	8.0	3.3
Real Estate	6.0	3.8
Private Equity	7.0	6.3
Cash	<u>2.0</u>	0.9
Total	<u>100.0%</u>	

*Includes High Yield, Non-U.S. Developed Bonds, and Private Credit Strategies.

Changes in Assumptions and Benefit Terms Since Prior Measurement Date - The total pension liability as of June 30, 2018 reflects that the assumed municipal bond index rate increased from 3.56% to 3.89%, and an increase in the Single Equivalent Interest Rate (SEIR) from 4.49% to 7.50%. The change in the discount rate is considered a change in actuarial assumptions under GASB 68.

Changes Since Measurement Date - There were no changes between the measurement date of the collective net pension liability and the University reporting date that are expected to have a significant effect on the University's proportionate share of the collective net pension liability.

Discount rate - The discount rate used to measure the total pension liability at June 30, 2018 and 2017 was 7.50% and 4.49%, respectively. The projection of cash flows used to determine the discount rate assumed that plan member contributions will be made at the current contribution rates and the Employer contributions will contribute the Actuarially Determined Contribution (ADC) in accordance with the LIF's funding policy determined by a valuation performed on a date two years prior to the beginning of the fiscal year in which the ADC applies.

Based on those assumptions, the pension plan's fiduciary net position at June 30, 2018 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.

Based on those assumptions, the pension plan's fiduciary net position at June 30, 2017 was projected to be available to make all projected future benefit payments of current plan members until the 2038 plan year. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments through 2037 and a municipal bond index rate of 3.56% was applied to all periods of projected benefit payments after 2037. The SEIR that discounts the entire projected benefit stream to the same amount as the sum of the present values of the two separate benefit payments streams was used to determine the total pension liability.

The total pension liability as of June 30, 2018 reflects that the assumed municipal bond index rate increased from 3.56% to 3.89%, and an increase in the SEIR from 4.49% to 7.50%. The impact of this change in the discount rate is a change in assumptions that is added to the expected total pension liability to determine the final total pension liability as of June 30, 2018.

(Continued)

NOTE 9 - DEFINED BENEFIT PENSION AND OTHER POSTEMPLOYMENT BENEFITS PLANS
 (Continued)

Kentucky Teachers' Retirement System (Continued)

Sensitivity of the University's proportionate share of the net pension liability to changes in the discount rate - The following table presents the net pension liability of the University as of June 30, 2019, calculated using the discount rate of 7.50%, as well as what the University's net pension liability (in thousands) would be if it were calculated using a discount rate that is 1-percentage-point lower (6.50%) or 1-percentage-point higher (8.50%) than the current rate:

	1% Decrease (<u>6.50%</u>)	Current Discount Rate (<u>7.50%</u>)	1% Increase (<u>8.50%</u>)
Proportionate share of the Collective Net Pension Liability (<i>in thousands</i>)	\$ 134,914,645	\$ 105,246,128	\$ 80,295,506

Medical Insurance Plan

Plan Description - In addition to the OPEB benefits previously described, Kentucky Revised Statute 161.675 requires KTRS to provide post-employment healthcare benefits to eligible members and dependents. The KTRS 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 KTRS Board of Trustees, the Kentucky Department of Employee Insurance and the General Assembly.

Benefits Provided - To be eligible for medical benefits, the member must have retired either for service or disability. The KTRS 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. KTRS 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 KTRS Board of Trustees. The retired member pays premiums in excess of the monthly supplement. Once retired members and eligible spouses attain age 65 and are Medicare eligible, coverage is obtained through the KTRS Medicare Eligible Health Plan.

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

OPEB Liabilities, OPEB Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEBs - At June 30, 2019 and 2018, the University reported a liability of \$25,269,000 and \$27,960,000, respectively, for its proportionate share of the collective net OPEB liability that reflected a reduction for state OPEB support provided to the University. The collective net OPEB liability was measured as of June 30, 2018, and the total OPEB liability used to calculate the collective 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 employers, actuarially determined. At June 30, 2018 and 2017, the University's proportion was 0.728% and 0.784%, respectively.

(Continued)

WESTERN KENTUCKY UNIVERSITY
 NOTES TO FINANCIAL STATEMENTS
 June 30, 2019 and 2018

NOTE 9 - DEFINED BENEFIT PENSION AND OTHER POSTEMPLOYMENT BENEFITS PLANS
 (Continued)

Kentucky Teachers' Retirement System (Continued)

The amount recognized by the University as its proportionate share of the OPEB liability, the related State support, and the total portion of the net OPEB liability at June 30, 2019 and 2018 that was associated with the University were as follows:

University's proportionate share of the net OPEB liability	\$ 25,269,000	\$ 27,960,000
State's proportionate share of the net OPEB liability associated with the University	<u>12,367,000</u>	<u>12,680,000</u>
Total	<u>\$ 37,636,000</u>	<u>\$ 40,640,000</u>

For the years ended June 30, 2019 and 2018, the University recognized OPEB expense of \$1,061,000 and \$2,644,000, and revenue of \$867,000 and \$825,000, respectively, for support provided by the State. At June 30, 2019, the University reported deferred outflows of resources and deferred inflows of resources related to OPEBs from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Difference between expected and actual experience	\$ -	\$ 1,294,000
Changes of assumptions	347,000	-
Net difference between projected and actual earnings on OPEB plan investments	-	103,000
Changes in proportion and differences between University contributions and proportionate share of contributions	<u>-</u>	<u>1,694,000</u>
	347,000	3,091,000
University contributions subsequent to the measurement date	<u>1,204,021</u>	<u>-</u>
Total	<u>\$ 1,551,021</u>	<u>\$ 3,091,000</u>

Of the total amount reported as deferred outflows of resources related to OPEB, \$1,204,021 resulting from University contributions subsequent to the measurement date and before the end of the fiscal year will be included as a reduction of the collective net OPEB liability in the year ended June 30, 2019. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized in the University's OPEB expense as follows:

Year ended June 30:	
2020	\$ (524,000)
2021	(524,000)
2022	(524,000)
2023	(478,000)
2024	(486,000)
Thereafter	<u>(208,000)</u>
	<u>\$ (2,744,000)</u>

(Continued)

WESTERN KENTUCKY UNIVERSITY
NOTES TO FINANCIAL STATEMENTS
June 30, 2019 and 2018

NOTE 9 - DEFINED BENEFIT PENSION AND OTHER POSTEMPLOYMENT BENEFITS PLANS
(Continued)

Kentucky Teachers' Retirement System (Continued)

Actuarial Assumptions - The total OPEB liability in the June 30, 2018 and 2017 actuarial valuations were determined using the following actuarial assumptions, applied to all periods included in the measurement:

Investment rate of return	8.00%, net of OPEB plan investment expense, including inflation.
Projected salary increases	3.50 – 7.20%, including inflation
Inflation rate	3.00%
Real Wage Growth	0.50%
Wage Inflation	3.50%
Healthcare cost trend rates:	
Under 65	7.75% for FY 2018 decreasing to an ultimate rate of 5.00% by FY 2024 (2018) 7.75% for FY 2017 decreasing to an ultimate rate of 5.00% by FY 2023 (2017)
Ages 65 and Older	5.75% for FY 2018 decreasing to an ultimate rate of 5.00% by FY 2021 (2018) 5.75% for FY 2017 decreasing to an ultimate rate of 5.00% by FY 2020 (2017)
Medicare Part B Premiums	0.00% for FY 2018 with an ultimate rate of 5.00% by 2030 (2018) 1.02% for FY 2017 with an ultimate rate of 5.00% by 2029 (2017)
Municipal Bond Index Rate	3.89% (2018); 3.56% (2017)
Discount Rate	8.00%
Single Equivalent Interest Rate	8.00%, net of OPEB plan investment expense, including inflation.

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

The demographic actuarial assumptions for retirement, disability incidence, withdrawal, rates of plan participation, and rates of plan election used in the June 30, 2017 valuation were based on the results of the most recent actuarial experience studies for the University, which covered the five-year period ending June 30, 2015. The remaining actuarial assumptions used in the June 30, 2017 valuation of the MIF were based on a review of recent plan experience done concurrently with the June 30, 2017 valuation. The health care cost trend rate assumption was updated for the June 30, 2017 valuation and was shown as an assumption change in the TOL roll forward while the change in initial per capita claims costs were included with experience in the TOL roll forward.

The remaining actuarial assumptions (e.g. initial per capita costs, health care cost trends, rate of plan participation, rates of plan election, etc.) used in the June 30, 2018 valuation were based on a review of recent plan experience done concurrently with the June 30, 2017 valuation.

(Continued)

WESTERN KENTUCKY UNIVERSITY
NOTES TO FINANCIAL STATEMENTS
June 30, 2019 and 2018

NOTE 9 - DEFINED BENEFIT PENSION AND OTHER POSTEMPLOYMENT BENEFITS PLANS
(Continued)

Kentucky Teachers' Retirement System (Continued)

The long-term expected rate of return on OPEB plan investments was determined using a log-normal distribution analysis in which best-estimate ranges of expected future real rates of return (expected returns, net of OPEB plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation.

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

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Nominal Rate of Return</u>
Global Equity	58.0%	4.6%
Fixed Income	9.0	1.2
Real Estate	5.5	3.8
Private Equity	6.5	6.3
Other Additional Categories	20.0	3.3
Cash (LIBOR)	1.0	0.9
Total	<u>100%</u>	

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

Sensitivity of the University's proportionate share of the net OPEB liability to changes in the discount rate The following table presents the University's proportionate share of the collective net OPEB liability of the System, calculated using the discount rate of 8.00%, as well as what the University's proportionate share of the collective net OPEB liability would be if it were calculated using a discount rate that is 1-percentage-point lower (7.00%) or 1-percentage-point higher (9.00%) than the current rate:

	1% Decrease (7.00%)	Current Discount Rate (8.00%)	1% Increase (9.00%)
University's net OPEB liability (MI)	\$ 29,631,000	\$ 25,269,000	\$ 21,635,000

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

	1% Decrease	Current Trend Rate	1% Increase
University's net OPEB liability (MI)	\$ 20,953,000	\$ 25,269,000	\$ 30,593,000

(Continued)

NOTE 9 - DEFINED BENEFIT PENSION AND OTHER POSTEMPLOYMENT BENEFITS PLANS
 (Continued)

Kentucky Teachers' Retirement System (Continued)

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

Changes of benefit terms – There were no changes in benefit terms for the year ending June 30, 2019. For the year ending June 30, 2018, with the passage of House Bill 471, the eligibility for non-single subsidies (NSS) for the KEHP-participating members who retired prior to July 1, 2010 is 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.

Methods and assumptions used in the actuarially determined contributions – The actuarially determined contribution rates, as a percentage of payroll, used to determine the actuarially determined contribution amounts in the Schedule of Employer Contributions are calculated as the of the indicated valuation date. The following actuarial methods and assumptions (from the indicated actuarial valuations) were used to determine contribution rates reported in that schedule for the year ending June 30, 2019 and 2018:

Valuation date	June 30, 2018 and 2017
Actuarial cost method	Entry Age Normal
Amortization method	Level Percent of Payroll
Amortization period	23 years, Closed (2018); 30 years, open (2017)
Asset valuation method	Five-year smoothed value
Inflation	3.00%
Real wage growth	0.50%
Wage inflation	3.50%
Salary increases, including wage inflation	3.50% - 7.20%
Discount rate	8.00%
Health care cost trends	
Under 65	7.75% for FY 2018 decreasing to an ultimate rate of 5.00% by FY 2024 (2018) 7.75% for FY 2017 decreasing to an ultimate rate of 5.00% by FY 2023 (2017)
Ages 65 and Older	5.75% for FY 2018 decreasing to an ultimate rate of 5.00% by FY 2021 (2018) 5.75% for FY 2017 decreasing to an ultimate rate of 5.00% by FY 2020 (2017)
Medicare Part B Premiums	0.00% for FY 2018 with an ultimate rate of 5.00% by 2030 (2018) 1.02% for FY 2017 with an ultimate rate of 5.00% by 2029 (2017)
Under Age 65 Claims	The current premium charged by KEHP is used as a base cost and is projected forward using only the health care trend assumption (no implicit rate subsidy is recognized)

(Continued)

NOTE 9 - DEFINED BENEFIT PENSION AND OTHER POSTEMPLOYMENT BENEFITS PLANS
 (Continued)

Kentucky Teachers' Retirement System (Continued)

Life Insurance Plan

Plan Description – KTRS administers the life insurance plan as provided by Kentucky Revised Statute 161.655 to eligible active and retired members. The KTRS 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 KTRS Board of Trustees and the General Assembly.

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

Contributions – In order to fund the post-retirement life insurance benefit, three hundredths of one percent (.04%) of the gross annual payroll of members is contributed by the state.

OPEB Liabilities, OPEB Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEBs: At June 30, 2019 and 2018, the University reported a liability of \$454,000 and \$368,000 for its proportionate share of the collective net OPEB liability that reflected a reduction for state OPEB support provided to the University. The collective net OPEB liability was measured as of June 30, 2018, and the total OPEB liability used to calculate the collective 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 employers, actuarially determined. At June 30, 2018 and 2017, the University's proportion was 1.609% and 1.677%, respectively.

The amount recognized by the University as its proportionate share of the OPEB liability, the related State support, and the total portion of the net OPEB liability at June 30, 2019 and 2018 that was associated with the University were as follows:

University's proportionate share of the net OPEB liability	\$	454,000	\$	368,000
State's proportionate share of the net OPEB liability associated with the University		-		-
Total	\$	<u>454,000</u>	\$	<u>368,000</u>

(Continued)

WESTERN KENTUCKY UNIVERSITY
 NOTES TO FINANCIAL STATEMENTS
 June 30, 2019 and 2018

NOTE 9 - DEFINED BENEFIT PENSION AND OTHER POSTEMPLOYMENT BENEFITS PLANS
 (Continued)

Kentucky Teachers' Retirement System (Continued)

For the years ended June 30, 2019 and 2018, the University recognized OPEB expense of \$74,000 and \$55,000, and no revenue support provided by the State. At June 30, 2019, the University reported deferred outflows of resources and deferred inflows of resources related to OPEBs from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Difference between expected and actual experience	\$ 124,000	\$ -
Changes of assumptions	-	-
Net difference between projected and actual earnings on OPEB plan investments	-	10,000
Changes in proportion and differences between University contributions and proportionate share of contributions	-	10,000
	124,000	20,000
Contributions subsequent to the measurement date	19,571	-
Total	\$ 143,571	\$ 20,000

Of the total amount reported as deferred outflows of resources related to OPEB, \$143,571 resulting from University contributions subsequent to the measurement date and before the end of the fiscal year will be included as a reduction of the collective net OPEB liability in the year ended June 30, 2019. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized in the University's OPEB expense as follows:

Year ended June 30:	
2020	\$ 32,000
2021	32,000
2022	32,000
2023	13,000
2024	(5,000)
Thereafter	-
	\$ 104,000

Actuarial Assumptions – The total OPEB liability in the June 30, 2018 and 2017 actuarial valuations were determined using the following actuarial assumptions, applied to all periods included in the measurement:

Investment rate of return	7.50%, net of OPEB plan investment expense, including inflation.
Projected salary increases	3.50 – 7.20%, including inflation
Inflation rate	3.00%
Real Wage Growth	0.50%
Wage Inflation	3.50%
Municipal Bond Index Rate	3.89%
Discount Rate	7.50%
Single Equivalent Interest Rate	7.50%, net of OPEB plan investment expense, including inflation.

(Continued)

NOTE 9 - DEFINED BENEFIT PENSION AND OTHER POSTEMPLOYMENT BENEFITS PLANS
 (Continued)

Kentucky Teachers' Retirement System (Continued)

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

The demographic actuarial assumptions for retirement, disability incidence, withdrawal, rates of plan participation, and rates of plan election used in the June 30, 2017 valuation were based on the results of the most recent actuarial experience studies for the University, which covered the five-year period ending June 30, 2015.

The remaining actuarial assumptions (e.g. initial per capita costs, rate of plan participation, rates of plan election, etc.) used in the June 30, 2018 valuation were based on a review of recent plan experience done concurrently with the June 30, 2017 valuation.

The long-term expected rate of return on OPEB plan investments was determined using a log-normal distribution analysis in which best-estimate ranges of expected future real rates of return (expected returns, net of OPEB plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation.

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

<u>Asset Class*</u>	<u>Target Allocation</u>	<u>Long-Term Nominal Rate of Return</u>
U.S. Equity	40.0%	4.2%
International Equity	23.0	5.2
Fixed Income	18.0	1.2
Real Estate	6.0	3.8
Private Equity	5.0	6.3
Other Additional Categories	6.0	3.3
Cash (LIBOR)	2.0	0.9
Total	<u>100.0%</u>	

* As the LIF investment policy is to change, the above reflects the pension allocation and returns that achieve the target 7.50% long-term rate of return.

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

WESTERN KENTUCKY UNIVERSITY
 NOTES TO FINANCIAL STATEMENTS
 June 30, 2019 and 2018

NOTE 9 - DEFINED BENEFIT PENSION AND OTHER POSTEMPLOYMENT BENEFITS PLANS
 (Continued)

Kentucky Teachers' Retirement System (Continued)

Sensitivity of the University's proportionate share of the net OPEB liability to changes in the discount rate - The following table presents the University's proportionate share of the collective net OPEB liability of the System, calculated using the discount rate of 7.50%, as well as what the University's proportionate share of the collective net OPEB liability would be if it were calculated using a discount rate that is 1-percentage-point lower (6.50%) or 1-percentage-point higher (8.50%) than the current rate:

	1% Decrease (6.50%)	Current Discount Rate (7.50%)	1% Increase (8.50%)
University's net OPEB liability (LI)	\$ 691,000	\$ 454,000	\$ 259,000

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

Methods and assumptions used in the actuarially determined contributions – The actuarially determined contribution rates, as a percentage of payroll, used to determine the actuarially determined contribution amounts in the Schedule of Employer Contributions are calculated as the of the indicated valuation date. The following actuarial methods and assumptions (from the indicated actuarial valuations) were used to determine contribution rates reported in that schedule for the years ending June 30, 2019 and 2018:

Valuation date	June 30, 2018 and 2017
Actuarial cost method	Entry Age Normal
Amortization method	Level Percent of Payroll
Amortization period	23 years, Closed (2018); 30 years, Open (2017)
Asset valuation method	Five-year smoothed value
Inflation	3.50%
Real wage growth	0.50%
Wage inflation	4.00%
Salary increases, including wage inflation	4.00% - 8.10%
Discount rate	7.50%
Health care cost trends	
Under 65	7.75% for FY 2018 decreasing to an ultimate rate of 5.00% by FY 2024 (2018) 7.75% for FY 2017 decreasing to an ultimate rate of 5.00% by FY 2023 (2017)
Ages 65 and Older	5.75% for FY 2018 decreasing to an ultimate rate of 5.00% by FY 2021 (2018) 5.75% for FY 2017 decreasing to an ultimate rate of 5.00% by FY 2020 (2017)
Medicare Part B Premiums	0.00% for FY 2018 with an ultimate rate of 5.00% by 2030 (2018) 1.02% for FY 2017 with an ultimate rate of 5.00% by 2029 (2017)

(Continued)

NOTE 10 - COMMITMENTS AND CONTINGENCIES

Claims and Litigation: The University is currently involved in various claims and pending legal actions related to matters arising from the ordinary conduct of business. The University administration believes the ultimate disposition of the actions will not have a material effect on the financial statements of the University.

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

NOTE 11 - RISK MANAGEMENT

The University is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; business interruption; errors and omissions; employee injuries and illnesses; natural disasters and employee health and accident benefits. Commercial insurance coverage is purchased for claims arising from such matters other than those related to workers' compensation, employee health and certain natural disasters. Settled claims have not exceeded this commercial coverage in any of the three preceding years.

Prior to 2006, the University had joined together with other Kentucky governmental entities to form a public entity risk pool currently operating as a common risk management and insurance program for its members. The University paid an annual premium to the pool for its workers' compensation insurance coverage. The pool's governing agreement specified 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. In 2006, the University began self-insuring workers' compensation claims. Risk Management Services Corporation administers the university's workers' compensation claims. During 2019 and 2018, there were no significant reductions in insurance coverage from the previous years.

Under its self-insured health plan, the University accrued the estimated costs of health care claims based on claims filed subsequent to year end and an additional amount for incurred but not yet reported claims based on prior experience.

Changes in the balance of the self-insured health liability as of June 30, 2019, 2018, and 2017 are summarized as follows:

	<u>2019</u>	<u>2018</u>	<u>2017</u>
Balance, beginning of year	\$ 1,057,653	\$ 1,314,118	\$ 940,157
Claims and changes in estimates	11,651,053	13,718,829	13,317,073
Claims payments	<u>(11,696,294)</u>	<u>(13,975,294)</u>	<u>(12,943,112)</u>
Balance, end of year	<u>\$ 1,012,412</u>	<u>\$ 1,057,653</u>	<u>\$ 1,314,118</u>

(Continued)

WESTERN KENTUCKY UNIVERSITY
NOTES TO FINANCIAL STATEMENTS
June 30, 2019 and 2018

NOTE 11 - RISK MANAGEMENT (Continued)

Under its self-insured workers' compensation plan, the University accrued the estimated costs of workers' compensation claims based on claims filed subsequent to year end and an additional amount for incurred but not yet reported claims.

Changes in the balance of the self-insured workers' compensation liability as of June 30, 2019, 2018, and 2017 are summarized as follows:

	<u>2019</u>	<u>2018</u>	<u>2017</u>
Balance, beginning of year	\$ 171,259	\$ 213,401	\$ 237,169
Claims and changes in estimates	167,550	194,235	315,522
Claims payments	<u>(126,498)</u>	<u>(236,377)</u>	<u>(339,290)</u>
Balance, end of year	<u>\$ 212,311</u>	<u>\$ 171,259</u>	<u>\$ 213,401</u>

NOTE 12 - REGIONAL UNIVERSITY EXCELLENCE TRUST FUND (RUETF)

The Kentucky General Assembly appropriated funds to the RUETF with the passage of the Postsecondary Education Improvement Act of 1997 (House Bill 1). The purpose of this fund is to encourage private investment in public higher education activities within the Commonwealth of Kentucky. These funds were made available when matched dollar-for-dollar from external sources. The Commonwealth's Council on Postsecondary Education (CPE) was designated to oversee the distribution and use of these funds.

The University, under Kentucky House Bill 502, enacted by the 2000 General Assembly, included the provisions that "the proceeds of the endowment program authorized under Part X, Section I of this Act shall be deposited in the Regional University Excellence Trust Fund Account and invested at the direction of the CPE. Upon receipt of certification, the Council shall transfer the endowment funds from the account to the respective universities for management and investment by the university foundations if the foundations have been previously created to manage and invest private gifts and donations on behalf of the universities over time, otherwise by the university itself."

The University transfers these state match funds to the Western Kentucky University Foundation, Inc. and the College Heights Foundation for investment purposes. The Western Kentucky University Foundation, Inc. and the College Heights Foundation are non-affiliated foundations under the governing laws of the Commonwealth of Kentucky. These Foundations are responsible for managing some of the fund raising and investing activities of the University. The University has recorded the state appropriated RUETF as assets held in trust in the Regional University Excellence Trust Fund (see Note 2 for the fair value of assets held in trust).

(Continued)

WESTERN KENTUCKY UNIVERSITY
NOTES TO FINANCIAL STATEMENTS
June 30, 2019 and 2018

NOTE 12 - REGIONAL UNIVERSITY EXCELLENCE TRUST FUND (RUETF) (Continued)

Following is a summary of the funding for the RUETF as of June 30, 2019:

	CPE Funding <u>Received</u>	<u>External Matched Pledges</u>	
		<u>Received</u>	<u>Pledged</u>
Balance, July 1, 2018	\$ 14,211,209	\$ 16,281,723	\$ 111,450
New Pledges	-	-	-
Current year collections	<u>-</u>	<u>51,422</u>	<u>(51,422)</u>
Balance, June 30, 2019	<u>\$ 14,211,209</u>	<u>\$ 16,333,145</u>	<u>\$ 60,028</u>

Following is a summary of the funding for the RUETF as of June 30, 2018:

	CPE Funding <u>Received</u>	<u>External Matched Pledges</u>	
		<u>Received</u>	<u>Pledged</u>
Balance, July 1, 2017	\$ 14,211,209	\$ 16,201,699	\$ 191,474
New Pledges	-	-	-
Current year collections	<u>-</u>	<u>80,024</u>	<u>(80,024)</u>
Balance, June 30, 2018	<u>\$ 14,211,209</u>	<u>\$ 16,281,723</u>	<u>\$ 111,450</u>

The University's externally matched pledges, both received and outstanding, have not been recorded on the University's financial statements.

(Continued)

WESTERN KENTUCKY UNIVERSITY
NOTES TO FINANCIAL STATEMENTS
June 30, 2019 and 2018

NOTE 13 - NATURAL AND FUNCTIONAL CLASSIFICATIONS OF OPERATING EXPENSES

The University's operating expenses by functional classification on June 30, 2019, were as follows:

Functional Classification	Compensation and Benefits	Supplies Contractual Services and Other	Utilities	Non Capitalized Property	Scholarships	Depreciation	Total
Instruction	\$ 90,826,894	\$ 13,161,681	\$ 9,155	\$ 745,128	\$ -	\$ -	\$ 104,742,858
Research	4,143,162	2,286,722	2,571	128,655	-	-	6,561,110
Public service	8,847,206	5,291,361	29,593	123,557	-	-	14,291,717
Libraries	4,559,316	733,801	-	21,751	-	-	5,314,868
Academic support	14,553,447	4,165,116	92,478	442,781	-	-	19,253,822
Student services	19,468,628	11,645,719	12,421	272,941	-	-	31,399,709
Institutional support	(9,977,654)	8,746,741	3,573	492,461	-	-	(734,879)
Operation and maintenance of plant	8,897,928	11,861,031	6,282,169	1,901,080	-	-	28,942,208
Student financial aid	193,742	263,331	-	1,381	19,955,424	-	20,413,878
Depreciation	-	-	-	-	-	29,191,922	29,191,922
Auxiliary enterprise	6,918,165	11,105,068	2,541,925	67,216	-	-	20,632,374
Total operating expenses	\$ 148,430,834	\$ 69,260,571	\$ 8,973,885	\$ 4,196,951	\$ 19,955,424	\$ 29,191,922	\$ 280,009,587

The University's operating expenses by functional classification on June 30, 2018, were as follows:

Functional Classification	Compensation and Benefits	Supplies Contractual Services and Other	Utilities	Non Capitalized Property	Scholarships	Depreciation	Total
Instruction	\$ 96,236,069	\$ 13,401,562	\$ 13,618	\$ 984,497	\$ -	\$ -	\$ 110,635,746
Research	4,579,575	2,834,383	10,781	46,300	-	-	7,471,040
Public service	9,399,500	4,048,895	31,883	170,974	-	-	13,651,252
Libraries	5,245,372	741,608	-	7,614	-	-	5,994,594
Academic support	16,938,974	4,421,497	101,862	533,414	-	-	21,995,747
Student services	21,331,294	13,065,714	41,231	181,967	-	-	34,620,206
Institutional support	18,397,971	7,493,448	5,929	386,900	-	-	26,284,248
Operation and maintenance of plant	9,555,209	14,446,138	6,550,219	(21,231)	-	-	30,530,335
Student financial aid	248,269	600,917	-	9,366	21,555,010	-	22,413,562
Depreciation	-	-	-	-	-	28,043,348	28,043,348
Auxiliary enterprise	7,692,727	11,569,150	2,491,013	29,255	-	-	21,782,145
Total operating expenses	\$ 189,624,960	\$ 72,623,312	\$ 9,246,537	\$ 2,329,056	\$ 21,555,010	\$ 28,043,348	\$ 323,422,223

(Continued)

NOTE 14 - WESTERN KENTUCKY UNIVERSITY FOUNDATION, INC. – ACCOUNTING POLICIES AND DISCLOSURES

Nature of Operations: Western Kentucky University Foundation, Inc. (the “Foundation”) is a Kentucky nonprofit corporation formed to receive, invest, and expend funds for the enhancement and improvement of Western Kentucky University. The Foundation’s fiscal year ends on December 31. It is a legally separate, tax-exempt component unit of the University that manages certain endowments and investments on behalf of the University. The Foundation has a Board of Trustees separate from that of the University; however, the President and certain other officers of the University are also officers of the Foundation. Although the University does not control the timing or amount of receipts from the Foundation, the use of a majority of the resources, or income thereon, which the Foundation holds and invests is 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 statement package.

Complete financial statements for the Foundation can be obtained from the WKU Foundation Office, Alumni House, 1906 College Heights Blvd., Bowling Green, Kentucky, 42101.

Cash Equivalents: The Foundation generally considers all highly liquid investments (money market funds) to be cash equivalents. Certificates of deposit are designated for investment and are not considered to be cash equivalents.

Contributions: All unconditional promises to give (contributions) are considered to be available for unrestricted use unless restricted by the donor. Amounts received that are designated for future periods or restricted by donor for specific purposes are reported as additions to net assets with donor restrictions.

Spending Policy: The annual distribution goal of the Foundation is 3.00% of the endowment fund’s trailing twelve-month calendar quarter moving market average. The annual distribution goal for an individual endowment in its initial year is 3.00 of the beginning market value of the endowment asset. The annual distribution goal for the second and third years of an individual endowment is based on the average market value of the endowment asset for the preceding four calendar quarters and eight calendar quarters, respectively.

The annual distribution may be made at any time during the fiscal year, at the account administrator’s request. Annual distributions may not be carried over between fiscal years, unless a prior approval is granted by the Foundation’s Board of Trustees.

Related Party Transactions: Accounts receivable from the Foundation and accounts payable to the Foundation as of the University’s fiscal year ended June 30, 2019 and 2018 were insignificant.

Concentration of Credit Risk: Effective October 3, 2008, the federal deposit insurance coverage provided by the FDIC temporarily increased from \$100,000 to \$250,000 per depositor.

(Continued)

WESTERN KENTUCKY UNIVERSITY
NOTES TO FINANCIAL STATEMENTS
June 30, 2019 and 2018

NOTE 14 - WESTERN KENTUCKY UNIVERSITY FOUNDATION, INC. – ACCOUNTING POLICIES AND DISCLOSURES (Continued)

Liquidity and Availability

Financial assets available for general expenditures, that is, without donor or other restrictions limiting their use, within one year of the consolidated statements of financial position date, comprise the following:

	<u>2018</u>	<u>2017</u>
Financial assets available to meet general expenditures over the next 12 months:		
Cash and equivalents	\$ 8,123,439	\$ 4,910,433
Accounts receivable, net	11,030	114,798
Contributions for general expenditures due in one year or less	1,207,379	1,137,592
Payout on donor-restricted endowments	2,267,549	2,078,443
Payout on board-designated endowments	411,378	373,130
Investments not encumbered by donor or board restrictions	<u>1,319</u>	<u>3,611</u>
	<u>\$ 12,022,094</u>	<u>\$ 8,618,007</u>

The Foundation's endowment funds consist of donor-restricted endowments and funds designated by the board as endowments. Income from donor-restricted endowments is restricted for specific purposes, with the exception of the amounts available for general use. Donor-restricted endowment funds are not available for general expenditure.

The Foundation's board designated unrestricted endowment of \$2,000,461 is subject to an annual spending rate of 3.5%. Although the Foundation does not intend to spend from this board-designated endowment (other than amounts appropriated for general expenditure as part of the Board's annual budget approval and appropriation), these amounts could be made available, if necessary.

As part of the Foundation's liquidity management plan, the Foundation invests cash in short-term investments and liquid investments.

Investments

As of December 31, 2018 and 2017, investments consist of the following:

	<u>2018</u>	<u>2017</u>
Certificates of deposit	\$ 754,543	\$ 1,548,330
Mutual funds	64,992,327	75,196,359
Exchange traded funds	1,568,067	1,684,039
Equity securities	401,318	700,606
Real estate and other alternative investments	<u>18,111,547</u>	<u>14,901,196</u>
	85,827,802	94,030,545
Less: investments included above which are held for WKU	16,364,854	19,111,290
Less: investments included above which are held for HAF	<u>2,114,556</u>	<u>1,553,041</u>
	<u>\$ 67,348,392</u>	<u>\$ 73,366,214</u>

As previously indicated, investments include vested beneficial interests in various charitable remainder unitrusts and charitable remainder annuity trusts, all for which the Foundation acts as the trustee. One such charitable remainder annuity trust is invested in real estate. The carrying value of the related real estate investment is \$0 and \$1,610,000 as of December 31, 2018 and 2017, respectively, which approximates fair value.

(Continued)

WESTERN KENTUCKY UNIVERSITY
NOTES TO FINANCIAL STATEMENTS
June 30, 2019 and 2018

NOTE 14 - WESTERN KENTUCKY UNIVERSITY FOUNDATION, INC. – ACCOUNTING POLICIES AND DISCLOSURES (Continued)

Assets Held for Sale

During September 2018, the Foundation transferred real estate valued at \$1,610,000 to WKU. This real estate was previously held in Assets Held for Others as of December 31, 2017 and through the date of the transfer. Immediately following the transfer, WKU transferred a portion of the real estate back to the Foundation. Upon receipt of the real estate, the Foundation classified the real estate as assets held for sale.

As of December 31, 2018, 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 \$1,400,000. The Foundation expects to sell all of the property during 2019.

Pledges Receivable

As of December 31, 2018 and 2017, net pledges receivable consist of the following:

	<u>2018</u>	<u>2017</u>
Estimated to be collected in less than one year	\$ 1,436,415	\$ 1,532,339
Estimated to be collected in one to five years	3,974,100	4,846,718
Estimated to be collected thereafter	<u>1,514,623</u>	<u>1,809,551</u>
	6,925,138	8,188,608
Less: allowance for uncollectible pledges	<u>798,565</u>	<u>618,426</u>
	6,126,573	7,570,182
Less: discounts to net present value	<u>607,575</u>	<u>765,477</u>
	<u>\$ 5,518,998</u>	<u>\$ 6,804,705</u>

Discount rates on outstanding pledges due in more than one year range from 1.01% to 6.90%.

Property, Net

Effective November 27, 2013, the Foundation entered into a capital lease agreement to purchase property. Under this agreement, the Foundation made an initial payment of \$4,000,000 to the lessor and agreed to lease the property for a period of six years, maturing on November 1, 2019. At the end of the lease term, the title of the property will transfer to the Foundation in exchange for \$100. The fair market value of the property on November 27, 2013 was \$9,897,810. As part of the agreement, the Foundation recorded a gift-in-kind contribution of \$4,337,129, which represents the fair value of the property less the downpayment and present value of the capital lease payments.

As of December 31, 2018 and 2017, property consists of the following:

	<u>2018</u>	<u>2017</u>
Land	\$ 1,148,500	\$ 1,148,500
Building	<u>10,013,556</u>	<u>10,013,556</u>
	11,162,056	11,162,056
Accumulated depreciation	<u>(1,257,150)</u>	<u>(995,514)</u>
	<u>\$ 9,904,906</u>	<u>\$ 10,166,542</u>

(Continued)

WESTERN KENTUCKY UNIVERSITY
NOTES TO FINANCIAL STATEMENTS
June 30, 2019 and 2018

NOTE 14 - WESTERN KENTUCKY UNIVERSITY FOUNDATION, INC. – ACCOUNTING POLICIES AND DISCLOSURES (Continued)

Assets Held for Others

Assets held for others represent resources in the possession of, but not under the control of the Foundation. As of December 31, 2018 and 2017, assets held for others consist of the following:

	<u>2018</u>	<u>2017</u>
WKU – Regional University Excellence Trust Fund	\$ 12,914,214	\$ 13,883,904
WKU – Self-insurance program funds	3,419,831	3,584,792
Hilltopper Athletic Foundation	2,114,556	1,553,041
Green River	30,809	32,594
WKU	<u>-</u>	<u>1,610,000</u>
	<u>\$ 18,479,410</u>	<u>\$ 20,664,331</u>

Accordingly, the accompanying statements of financial position as of December 31, 2018 and 2017 reflect a liability for assets held for others in the amount of \$18,479,410 and \$20,664,331, respectively.

Capital Lease

Effective November 27, 2013, the Foundation leased a building under an agreement that expires November 1, 2019. The interest rate on this lease is 3.25%

Minimum future lease payments are \$572,626 for 2019, with \$18,167 representing amounts paid for interest.

Deferred Gift Liabilities

The Foundation is party to various irrevocable split-interest agreements. A split-interest agreement is a gift that is partially for the Foundation's benefit and partially for the benefit of the respective donor or their designated beneficiaries. Upon acceptance of a split-interest agreement, the Foundation records the contributed asset and the actuarially determined present value of the liability payable to the beneficiary. Such split-interest agreements include charitable gift annuities and charitable remainder trusts.

A charitable gift annuity is an arrangement between a donor and the Foundation in which the donor contributes assets to the Foundation in exchange for a promise by the Foundation to pay a fixed amount to the donor or to others designated by the donor for a specified period of time. Obligations continue until the death of the beneficiary. The accompanying statements of financial position reflect liabilities totaling \$179,939 and \$142,551 as of December 31, 2018 and 2017, respectively, relative to the estimated present value of the future annuity obligations calculated using discount rates ranging from 1.53% to 6.95%. As of December 31, 2018 and 2017, cash, cash equivalents, and investments relative to charitable gift annuities total \$233,926 and \$218,680, respectively.

(Continued)

NOTE 14 - WESTERN KENTUCKY UNIVERSITY FOUNDATION, INC. – ACCOUNTING POLICIES AND DISCLOSURES (Continued)

Deferred Gift Liabilities (Continued)

Charitable remainder trusts are arrangements in which a donor establishes and funds a trust with specified distributions to be made to the donor or designated beneficiaries over the trust's term. Upon the termination of the trust, the Foundation receives the assets remaining in the trust. Obligations to the beneficiaries are limited to the trust's assets. The accompanying statements of financial position reflect liabilities totaling \$698,135 and \$834,973 as of December 31, 2018 and 2017, respectively, relative to the estimated present value of the future obligations calculated using discount rates ranging from 1.76% to 7.07%. As of December 31, 2018 and 2017, cash, cash equivalents, and investments relative to charitable remainder trusts total \$1,498,090 and \$1,697,544, respectively.

Trust assets are reported at fair value in the same manner as are all Foundation investments. The income or loss recognized under these trusts is included in temporarily restricted net assets. Discount rates are determined in accordance with the Internal Revenue Code and represent the rate at the date of the contribution. The actuarial related assumptions used in calculating the respective present values include the beneficiary's age and life expectancies using the applicable mortality tables, the date of the gift, the fair value of the amount gifted, the estimated rate of return, the payout rate, the payment schedule, and the discount rate.

The carrying amount of the deferred gift liabilities estimates fair value and is calculated using Level 3 inputs.

Fair Value Measurements

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 December 31, 2018 and 2017.

Certificates of deposit: Carried at cost adjusted for accumulated interest earned through year-end, which approximates fair value.

Pledges receivable: The fair value of pledges receivable is the present value of the income that is expected to be collected in future years and is estimated by discounting the future cash flows. The discounts are computed using the risk-free interest rate applicable to the year the promise was received.

Mutual funds: Valued at the net asset value of the shares held by the Foundation at year-end.

Exchange traded funds and equity securities: Valued at the quoted market price of the shares held by the Foundation at year-end.

Real estate: Valued at the carrying values of the respective real estate investments, which approximate fair value. Management considers the carrying value of the two real estate investments to approximate fair value as of year-end.

(Continued)

NOTE 14 - WESTERN KENTUCKY UNIVERSITY FOUNDATION, INC. – ACCOUNTING POLICIES AND DISCLOSURES (Continued)

Fair Value Measurements (Continued)

Marketable alternatives: Valued at the net asset value as provided by the "fund" portfolio at year-end and if they are considered to have sufficient activity or liquidity within the respective "fund" portfolio at year-end.

Limited partnerships: The estimated fair values are based on information provided by the general partners of each of the respective partnerships. One of the limited partnerships invests primarily in marketable securities with a readily determinable fair value. The fair value of this limited partnership is determined by allocating the aggregate fair values of the underlying securities to each limited partner based on the number of units held by the partner. The other limited partnerships invest primarily in securities for which there is no public market or readily determinable fair value. Therefore, the fair values of such limited partnerships are estimated based on the initial cost of the investments adjusted for changes in the general partners' estimates of the fair values of the underlying assets, and are equivalent to net asset values.

The Foundation is a limited partner in all of these investments. None of the investments is considered to have sufficient activity or liquidity within the respective "fund." Under the terms of the respective limited partnership agreements, the limited partners are only liable for losses to the extent of their capital invested.

Deferred gift liabilities: The estimated fair value is based on the present value of the income distributions or other payments to the donors or other designated beneficiaries during the terms of the respective split-interest agreements. The actuarial related assumptions used in calculating the respective present values include the beneficiary's age and life expectancies using the applicable mortality tables, the date of the gift, the fair value of the amount gifted, the estimated rate of return, the payout schedule, and the discount rate.

The following methods and assumptions were used by the Foundation in estimating the fair value of its other financial instruments:

Notes payable: The fair value of the Foundation's long-term debt is based on quoted market prices for the same or similar issues, giving consideration to the interest rates, maturities and other factors. The combined carrying value reported in the statements of financial position for notes payable approximates fair value.

Cash and other items for which Fair Value Disclosure is required: The carrying amount reported in the statements of financial position for such items is either fair value or approximates fair value, due to their short term nature.

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.

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WESTERN KENTUCKY UNIVERSITY
NOTES TO FINANCIAL STATEMENTS
June 30, 2019 and 2018

NOTE 14 - WESTERN KENTUCKY UNIVERSITY FOUNDATION, INC. – ACCOUNTING POLICIES AND DISCLOSURES (Continued)

Fair Value Measurements (Continued)

The following table sets forth by level the fair value hierarchy, the Foundation's investments at fair value as of December 31, 2018:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Fair Value</u>
Certificates of deposit	\$ 754,543	\$ -	\$ -	\$ 754,543
Mutual funds				
Equities	34,142,232	-	-	34,142,232
Fixed income	29,518,045	-	-	29,518,045
Alternative investments	1,332,050	-	-	1,332,050
Exchange traded funds				
Fixed income	541,314	-	-	541,314
Equities	1,026,753	-	-	1,026,753
Equity securities				
Consumer discretionary	17,797	-	-	17,797
Consumer staples	15,452	-	-	15,452
Energy	9,219	-	-	9,219
Financial	31,142	-	-	31,142
Health care	55,327	-	-	55,327
Industrials	17,776	-	-	17,776
Information technology	54,134	-	-	54,134
Materials	9,084	-	-	9,084
Telecommunication services	25,167	-	-	25,167
Exchange traded funds	163,284	-	-	-
Real estate	2,936	-	-	2,936
Real estate and other alternative investments				
Marketable alternatives	-	16,873,788	-	16,873,788
Limited partnership – private equity	-	-	1,237,759	1,237,759
	<u>\$ 67,716,255</u>	<u>\$ 16,873,788</u>	<u>\$ 1,237,759</u>	<u>\$ 85,827,802</u>

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WESTERN KENTUCKY UNIVERSITY
NOTES TO FINANCIAL STATEMENTS
June 30, 2019 and 2018

NOTE 14 - WESTERN KENTUCKY UNIVERSITY FOUNDATION, INC. – ACCOUNTING POLICIES AND DISCLOSURES (Continued)

Fair Value Measurements (Continued)

The following table sets forth by level the fair value hierarchy, the Foundation's investments at fair value as of December 31, 2017:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Fair Value</u>
Certificates of deposit	\$ 1,548,330	\$ -	\$ -	\$ 1,548,330
Mutual funds				
Equities	43,899,612	-	-	43,899,612
Fixed income	29,769,339	-	-	29,769,339
Alternative investments	1,527,408	-	-	1,527,408
Exchange traded funds				
Fixed income	542,558	-	-	542,558
Equities	1,141,481	-	-	1,141,481
Equity securities				
Consumer discretionary	28,854	-	-	28,854
Consumer staples	17,657	-	-	17,657
Energy	41,741	-	-	41,741
Financial	48,593	-	-	48,593
Health care	37,748	-	-	37,748
Industrials	22,501	-	-	22,501
Information technology	275,395	-	-	275,395
Materials	11,510	-	-	11,510
Exchange traded funds	201,754	-	-	4,234
Telecommunication services	4,234	-	-	201,754
Utilities	7,394	-	-	7,394
Other	3,225	-	-	3,225
Real estate and other alternative investments				
Real estate	-	-	1,610,000	1,610,000
Marketable alternatives	-	12,194,893	-	12,194,893
Limited partnership – private equity	-	-	1,096,303	1,096,303
	<u>\$ 79,129,349</u>	<u>\$ 12,194,893</u>	<u>\$ 2,706,303</u>	<u>\$ 94,030,545</u>

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WESTERN KENTUCKY UNIVERSITY
NOTES TO FINANCIAL STATEMENTS
June 30, 2019 and 2018

NOTE 14 - WESTERN KENTUCKY UNIVERSITY FOUNDATION, INC. – ACCOUNTING POLICIES AND DISCLOSURES (Continued)

Fair Value Measurements (Continued)

The 2018 and 2017 activity with respect to the investments included above under Level 3 is as follows:

	<u>2018</u>	<u>2017</u>
Beginning of the year	\$ 2,706,303	\$ 3,015,504
Purchases	667,269	230,000
Sales	(633,619)	(809,845)
Transfer of real estate to WKU	(1,610,000)	-
Net unrealized and realized appreciation	<u>107,806</u>	<u>270,644</u>
End of the year	<u>\$ 1,237,759</u>	<u>\$ 2,706,303</u>

The following table sets forth by level within the fair value hierarchy, the Foundation's deferred gift liabilities at fair value as of December 31, 2018:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Charitable remainder trusts				
Unitrusts	\$ -	\$ -	\$ 329,065	\$ 329,065
Annuity trusts	-	-	369,070	369,070
Charitable gift annuities	<u>-</u>	<u>-</u>	<u>179,939</u>	<u>179,939</u>
	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 878,074</u>	<u>\$ 878,074</u>

The following table sets forth by level within the fair value hierarchy, the Foundation's deferred gift liabilities at fair value as of December 31, 2017:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Charitable remainder trusts				
Unitrusts	\$ -	\$ -	\$ 399,469	\$ 399,469
Annuity trusts	-	-	424,713	424,713
Charitable gift annuities	<u>-</u>	<u>-</u>	<u>153,342</u>	<u>153,342</u>
	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 977,524</u>	<u>\$ 977,524</u>

The 2018 and 2017 activity with respect to the deferred gift liabilities included above under Level 3 is as follows:

	<u>2018</u>	<u>2017</u>
Beginning of the year	\$ 977,524	\$ 1,034,126
New deferred gifts	50,000	-
Payments	(150,083)	(120,284)
Net actuarial loss	<u>633</u>	<u>63,679</u>
End of year	<u>\$ 878,074</u>	<u>\$ 977,524</u>

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WESTERN KENTUCKY UNIVERSITY
 NOTES TO FINANCIAL STATEMENTS
 June 30, 2019 and 2018

NOTE 14 - WESTERN KENTUCKY UNIVERSITY FOUNDATION, INC. – ACCOUNTING POLICIES AND DISCLOSURES (Continued)

Fair Value Measurements (Continued)

The following table provides additional information as of December 31, 2018 relative to alternative investments for which the fair values are determined using a net asset value per share (or its equivalent):

	<u>Fair Value</u>	<u>Unfunded Commitment</u>	<u>Redemption Frequency</u>	<u>Redemption Notice Period</u>
Marketable alternatives	\$ 16,873,788	\$ -	Yearly	30 days
Limited partnership – private equity	25,759	-	N/A	N/A
Limited partnership – private equity	774,048	-	N/A	N/A
Limited partnership – private equity	210,683	780,000	N/A	N/A
Limited partnership – private equity	227,269	772,723	N/A	N/A

The following table provides additional information as of December 31, 2017 relative to alternative investments for which the fair values are determined using a net asset value per share (or its equivalent):

	<u>Fair Value</u>	<u>Unfunded Commitment</u>	<u>Redemption Frequency</u>	<u>Redemption Notice Period</u>
Marketable alternatives	\$ 12,194,883	\$ -	Yearly	30 days
Limited partnership – private equity	335,906	-	N/A	N/A
Limited partnership – private equity	760,397	-	N/A	N/A

Endowment Funds

The Foundation's endowment consists of approximately 252 individual funds established by donors to provide annual funding for specific activities and general operations. The endowment also includes certain net assets without donor restrictions that have been designated for endowment by the Board of Trustees.

The Foundation's Board of Trustees has interpreted the Commonwealth of Kentucky Uniform Prudent Management of Institutional Funds Act (UPMIFA) as requiring the preservation of the fair value of the original gift as of the date of the donor-restricted endowment funds, unless there are explicit donor stipulations to the contrary. As of December 31, 2018 and 2017, there were no such donor stipulations. As a result of this interpretation, the Foundation retains in perpetuity (a) the original value of initial and subsequent gift amounts (including promises to give net of discount and allowance for doubtful accounts) donated to the endowment and (b) any accumulations to the endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added. Donor-restricted amounts not retained in perpetuity are subject to appropriation for expenditure by the Foundation in a manner consistent with the standard of prudence prescribed by UPMIFA.

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WESTERN KENTUCKY UNIVERSITY
NOTES TO FINANCIAL STATEMENTS
June 30, 2019 and 2018

NOTE 14 - WESTERN KENTUCKY UNIVERSITY FOUNDATION, INC. – ACCOUNTING POLICIES AND DISCLOSURES (Continued)

Endowment Funds (Continued)

The Foundation considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

1. the duration and preservation of the fund
2. the purposes of the Foundation and the donor-restricted endowment fund
3. general economic conditions
4. the possible effect of inflation and deflation
5. other resources of the Foundation
6. the investment policies or the organization
7. the expected total return from income and appreciation of investments

Endowment net asset composition by type of fund as of December 31, 2018 is as follows:

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
Donor-restricted endowment funds	\$ -	\$ 52,117,999	\$ 52,117,999
Board designated endowment funds	<u>2,000,461</u>	<u>-</u>	<u>2,000,461</u>
	<u>\$ 2,000,461</u>	<u>\$ 52,117,999</u>	<u>\$ 54,118,460</u>

Endowment net asset composition by type of fund as of December 31, 2017 is as follows:

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
Donor-restricted endowment funds	\$ -	\$ 51,982,775	\$ 51,982,775
Board designated endowment funds	<u>6,132,019</u>	<u>-</u>	<u>6,132,019</u>
	<u>\$ 6,132,019</u>	<u>\$ 51,982,775</u>	<u>\$ 58,114,794</u>

Changes in endowment net assets during the year ended December 31, 2018 are as follows:

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
Endowment net assets, beginning of the year	\$ 6,132,019	\$ 51,982,775	\$ 58,114,794
Contributions	323,680	2,720,320	3,044,000
Investment income	461,440	1,359,603	1,821,043
Realized and unrealized gains(losses)	(872,891)	(5,417,318)	(6,290,209)
Net asset deficiencies	(3,447,571)	3,447,571	-
Amounts appropriated for expenditure	<u>(596,216)</u>	<u>(1,974,952)</u>	<u>(2,571,168)</u>
Endowment net assets, end of year	<u>\$ 2,000,461</u>	<u>\$ 52,117,999</u>	<u>\$ 54,118,460</u>

(Continued)

WESTERN KENTUCKY UNIVERSITY
NOTES TO FINANCIAL STATEMENTS
June 30, 2019 and 2018

NOTE 14 - WESTERN KENTUCKY UNIVERSITY FOUNDATION, INC. – ACCOUNTING POLICIES AND DISCLOSURES (Continued)

Endowment Funds (Continued)

Changes in endowment net assets during the year ended December 31, 2017 are as follows:

	Without Donor <u>Restrictions</u>	With Donor <u>Restrictions</u>	<u>Total</u>
Endowment net assets, beginning of the year	\$ 964,517	\$ 50,763,227	\$ 51,727,744
Contributions	685,358	1,219,548	1,904,906
Investment income	318,498	1,512,673	1,831,171
Realized and unrealized gains(losses)	1,298,481	5,351,625	6,650,106
Net asset deficiencies	2,912,378	(2,912,378)	-
Amounts appropriated for expenditure	<u>(47,213)</u>	<u>(3,951,920)</u>	<u>(3,999,133)</u>
Endowment net assets, end of year	<u>\$ 6,132,019</u>	<u>\$ 51,982,775</u>	<u>\$ 58,114,794</u>

Funds with deficiencies:

From time to time, certain donor restricted endowment funds may have fair values less than the amount the donor or UPMIFA requires the Foundation to retain as a fund of perpetual duration. At December 31, 2018, funds with original gift values of \$21,420,001, fair values of \$20,210,918, and deficiencies of \$1,209,083 were reported in net assets with donor restrictions. At December 31, 2017, funds with deficiencies of \$346,947 were reported in net assets with donor restrictions.

Return objectives and risk parameters:

The Foundation has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowments while seeking to maintain the purchasing power of the endowment assets. The Foundation's spending and investment policies work together to achieve this objective. The investment policy establishes an achievable return objective through the diversification of asset classes. The current long-term return objective is to return 7.0% net of related investment management fees. Actual returns in any given year may vary from this objective.

Strategies employed for achieving return objectives:

To satisfy its long-term rate-of-return objectives, the Foundation relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). The Foundation targets a diversified asset allocation that places a greater emphasis on mutual funds and equity-based investments to achieve its long-term return objectives within prudent risk parameters.

Spending policy and how the investment objectives relate to the spending policy:

The Foundation's annual distribution goal is 3.5% of the endowment fund's trailing twelve-month calendar quarter moving market value average. The annual distribution goal for an individual endowment in its initial year shall be 3.5% of the beginning market value of the endowment. In the second and third years, the annual distribution goal shall be based on the average market value of the endowment for the preceding four and eight calendar quarters, respectively. The annual distribution from accumulated earnings may be made at any time during the fiscal year. Annual distributions may not be carried over between fiscal years unless the Foundation's Board of Trustees grants prior approval to do so.

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WESTERN KENTUCKY UNIVERSITY
 NOTES TO FINANCIAL STATEMENTS
 June 30, 2019 and 2018

NOTE 14 - WESTERN KENTUCKY UNIVERSITY FOUNDATION, INC. – ACCOUNTING POLICIES AND DISCLOSURES (Continued)

Endowment Funds (Continued)

The Foundation's objective is to maintain the purchasing power of endowment assets as well as to provide additional real growth through new gifts and investment returns.

Net Assets With Donor Restrictions

Net assets with donor restrictions are restricted for the following purposes or periods as of December 31:

	<u>2018</u>	<u>2017</u>
Subject to expenditure for specified purpose:		
Academic support/WKU programs	\$ 11,906,679	\$ 10,966,540
Athletics	1,393,106	1,157,145
Public service	2,622,456	1,814,499
Professorships	572,139	578,023
Scholarship funds	3,744,707	3,962,412
Promises to give, the proceeds from which have been restricted by donors for:		
Academic support/WKU programs	2,915,519	3,676,714
Athletics	834,954	845,355
Public services	1,658,250	2,134,200
Professorships	<u>80,000</u>	<u>-</u>
Total subject to expenditure for specified purpose	<u>25,727,810</u>	<u>25,134,888</u>
Subject to passage of time:		
Assets held under split-interest agreements	1,732,016	1,916,224
Endowments:		
Subject to Foundation endowment spending policy and appropriation:		
Investments held in perpetuity, the income from which is expendable to support the Foundation (reported as investment income)	52,117,999	51,982,775
Underwater endowments	<u>(1,209,083)</u>	<u>(346,947)</u>
Total endowments	<u>50,908,916</u>	<u>51,635,828</u>
Total net assets with donor restriction	<u>\$ 78,368,742</u>	<u>\$ 78,686,940</u>

(Continued)

WESTERN KENTUCKY UNIVERSITY
NOTES TO FINANCIAL STATEMENTS
June 30, 2019 and 2018

NOTE 14 - WESTERN KENTUCKY UNIVERSITY FOUNDATION, INC. – ACCOUNTING POLICIES AND DISCLOSURES (Continued)

Net Assets With Donor Restrictions (Continued)

Net assets were released from donor restrictions by incurring expenses satisfying the restricted purpose or by occurrence of the passage of time or other events specified by the donors as follows for the years ended December 31, 2018 and 2017:

	<u>2018</u>	<u>2017</u>
Distributions (proceeds are not restricted by donors):		
Assets held under split-interest agreements	\$ 150,083	\$ 120,281
Restricted-purpose spending-rate distributions and appropriations:		
Academic support/WKU programs	1,084,344	8,249,299
Athletics	901,620	990,857
Public service	550,622	626,306
Professorships	878,602	606,728
Scholarship funds	<u>584,739</u>	<u>945,961</u>
Total	<u>\$ 4,150,010</u>	<u>\$ 11,539,432</u>

Pension Plans

Through WKU, the Foundation participates in the Kentucky Employees' Retirement System (KERS) and the Kentucky Teachers' Retirement System (KTRS), both of which are cost-sharing, multiple-employer, defined benefit pension plans administered by the respective KERS and KTRS Boards of Trustees. Both KERS and KTRS provide retirement, disability, and death benefits to the Foundation's eligible employees. The Foundation reimburses WKU for the Foundation's share of the contributions made on behalf of eligible employees. As of December 31, 2018, 49.47% and 15.87% of annual covered wages, respectively (49.04% and 15.87% as of December 31, 2017, respectively). Employer contributions made under KERS and KTRS on behalf of Foundation employees total approximately \$60,000 and \$58,000 for the years ended December 31, 2018 and 2017, respectively.

Related Party Transactions

Accounts payable as of December 31, 2018 and 2017 include approximately \$11,000 and \$126,000, respectively, which are payable to WKU.

From June 2013 through November 2014, the Foundation leased facilities from WKU for office space. The amount due to WKU totals \$129,306. There are no formal repayment terms and the amount is non-interest bearing.

(Continued)

NOTE 14 - WESTERN KENTUCKY UNIVERSITY FOUNDATION, INC. – ACCOUNTING POLICIES AND DISCLOSURES (Continued)

Contingency

In October 2015, the Foundation entered into an agreement with Aramark Educational Services, LLC (Aramark) for Aramark to provide restaurant operations in the Alumni Square Development. This agreement will expire in January 2023. If the agreement is terminated prior to the expiration date, the Foundation will be responsible to pay Aramark an amount equal to the net book value of the building at the time of termination. The maximum amount of the potential loss is \$1,300,000. The agreement also prescribes that the Foundation will receive commission as a percentage of the incremental portion of net receipts in each operating year of the restaurant.

NOTE 15 – WKU STUDENT LIFE FOUNDATION, INC. – ACCOUNTING POLICIES AND DISCLOSURES

Nature of Operations: WKU Student Life Foundation, Inc. (“Student Life”) is a Kentucky nonprofit corporation formed to facilitate the re-capitalization and renovation of the student residential facilities of the University. Student Life is a legally separate, tax-exempt component unit of the University that manages renovations of the student residential facilities (16 residence halls and 5,300 beds on the main campus) on behalf of the University. Student Life also constructed and owns two facilities that provide a total of 290 beds off the main campus. Student Life has a board of directors separate from that of the University; however, the chair and other members of the Western Kentucky University Foundation’s board of trustees are also board members of Student Life. Because Student Life and the Foundation have common boards of trustees, and as the purpose of Student Life is to operate exclusively in support of the Foundation, which is a component unit created to benefit the University as described above, Student Life is considered a component unit of the University and is discretely presented in the University’s financial statement package. Student Life’s revenues and other support are derived principally from rental of living space to students of the University.

Complete financial statements for Student Life can be obtained from the WKU Student Life Foundation, Inc. office, P.O. Box 8290, Bowling Green, Kentucky, 42101.

Cash and Cash Equivalents: Student Life considers all liquid investments with original maturities of three months or less, not included in assets limited as to use, to be cash equivalents. At June 30, 2019 and 2018, cash equivalents consisted primarily of money market funds. At June 30, 2019 and 2018, the Foundation’s cash accounts exceeded federally insured limits by approximately \$19.5 million and \$25 million, respectively.

Assets Limited as to Use and Investment Return: Investments in equity securities having a readily determinable fair value and in all debt securities are carried at fair value. Other investments are valued at the lower of cost (or fair value at time of donation, if acquired by contribution) or fair value. Investment return includes dividend, interest and other investment income, realized and unrealized gains and losses on investments carried at fair value and realized gains and losses on other investments.

Accounts Receivable: Student Life’s accounts receivable consist primarily of amounts due from the University. The majority of the amounts due from the University are student housing rental fees paid to Student Life through the University, as well as debt service payments paid to Student Life by the University.

(Continued)

WESTERN KENTUCKY UNIVERSITY
 NOTES TO FINANCIAL STATEMENTS
 June 30, 2019 and 2018

NOTE 15 – WKU STUDENT LIFE FOUNDATION, INC. – ACCOUNTING POLICIES AND DISCLOSURES
 (Continued)

Property and Equipment: Property and equipment are recorded at cost and depreciated on a straight-line basis over the estimated useful life of each asset.

Student Life capitalizes interest costs as a component of construction-in-progress, based on interest costs of borrowings specifically for the project, net of interest earned on investments acquired with the proceeds of the borrowings.

Liquidity and Availability

The Foundation's financial assets available within one year of the balance sheet date for general expenditure are:

	<u>2019</u>
Financial assets at June 30, 2019	
Cash and cash equivalents	\$ 13,772,586
Accounts receivable – Western Kentucky University	527,118
Accounts receivable – students, net	505,748
Accounts receivable – other	<u>9,659</u>
	<u>\$ 14,815,111</u>

Net Investment in Direct Financing Lease – Related Party

A food service building is leased to the University through June 2033. The lease is accounted for as a direct financing lease. The net investment in direct financing lease consists of the following at June 30, 2019 and 2018:

	<u>2019</u>	<u>2018</u>
Total minimum lease payments to be received	\$ 1,747,348	\$ 1,941,497
Estimated residual value of building (unguaranteed)	873,095	873,095
Less: Unearned income	<u>964,464</u>	<u>1,077,603</u>
Net investment in direct financing lease	<u>\$ 1,655,979</u>	<u>\$ 1,736,989</u>

Future minimum lease payments to be received by the Foundation are as follows:

2020	\$ 194,149
2021	194,149
2022	194,149
2023	194,149
2024	194,149
Thereafter	<u>776,603</u>
	<u>\$ 1,747,348</u>

At June 30, 2019 and 2018, the carrying amount of the direct financing lease is a reasonable estimate of its fair value. The Foundation annually reviews the unguaranteed residual value of the leased building.

(Continued)

WESTERN KENTUCKY UNIVERSITY
NOTES TO FINANCIAL STATEMENTS
June 30, 2019 and 2018

NOTE 15 – WKU STUDENT LIFE FOUNDATION, INC. – ACCOUNTING POLICIES AND DISCLOSURES
(Continued)

Assets Limited as to Use

Assets limited as to use at June 30, 2019 and 2018, consisted of the following:

	<u>2019</u>	<u>2018</u>
Money market accounts	\$ 1,400,397	\$ 7,201,426
Commercial paper	<u>4,244,225</u>	<u>4,240,985</u>
Total	<u>\$ 5,644,622</u>	<u>\$ 11,442,411</u>
Assets limited as to use		
Restricted by bond indenture	\$ 4,919,851	\$ 10,725,873
Internally restricted for debt principal and interest	<u>724,771</u>	<u>716,538</u>
Total	<u>\$ 5,644,622</u>	<u>\$ 11,442,411</u>

Assets Held for Others – Student Deposits

Assets held for others, which represent student deposits, at June 30, 2019 and 2018 consisted of the following:

	<u>2019</u>	<u>2018</u>
Money market accounts	\$ <u>483,410</u>	\$ <u>619,500</u>

Property and Equipment

Property and equipment at June 30, 2019 and 2018, consisted of:

	<u>2019</u>	<u>2018</u>
Land	\$ 4,058,993	\$ 4,058,993
Land improvements	1,331,637	1,331,637
Buildings	70,035,151	45,206,556
Building improvements	76,440,824	78,448,673
Vehicles	168,277	168,277
Furnishings and fixtures	12,802,403	11,093,816
Software for chill water plant	346,903	346,903
Housing Software	151,050	136,429
Construction in progress	<u>2,994,105</u>	<u>25,565,596</u>
	168,329,343	166,356,880
Less accumulated depreciation and amortization	<u>54,290,562</u>	<u>51,598,038</u>
	<u>\$ 114,038,781</u>	<u>\$ 114,758,842</u>

In May 2019, the Foundation changed its plans for use of a residence hall, whereby the intended service life was reduced. This change in estimate resulted in additional depreciation expense of approximately \$315,000 for the year ended June 30, 2019.

(Continued)

WESTERN KENTUCKY UNIVERSITY
NOTES TO FINANCIAL STATEMENTS
June 30, 2019 and 2018

NOTE 15 – WKU STUDENT LIFE FOUNDATION, INC. – ACCOUNTING POLICIES AND DISCLOSURES
(Continued)

Asset Retirement Obligation

The Foundation has recognized an asset retirement obligation (ARO) associated with the retirement of a tangible long-lived asset be recognized as a liability in the period in which it is incurred or becomes determinable (as defined by the standard) even when the timing and/or method of settlement may be conditional on a future event. The Foundation’s conditional AROs primarily relates to asbestos contained in buildings the Foundation owns. Environmental regulations exist in Kentucky requiring the Foundation to handle and dispose of asbestos properly if a building undergoes renovations or is demolished.

There have been no changed in AROs during the years ended June 30, 2019 and 2018. The balance remains \$794,269 as of June 30, 2019 and 2018.

Long-Term Debt and Letter of Credit

Long-term debt consisted of the following:

	<u>2019</u>	<u>2018</u>
Series 2017 A – Industrial Building Revenue Bonds - Tax-exempt fixed rate of 3.068% through December 2017; Effective January 2018 fixed rate increased to 3.368% payable in monthly installments of principal and interest, annual principal payments range from \$1,930,059 to \$6,805,639 through 2026; rate to be renegotiated in March 2027 when balance due will be \$45,435,919; collateralized by all real estate. Unamortized debt issuance costs as of June 30, 2019 and 2018, were \$210,726 and \$220,305, respectively.	\$ 92,614,085	\$ 94,673,523
Series 2017 B – Industrial Building Revenue Bonds – Taxable fixed rate of 2.68% – payable in monthly installments of principal and interest; annual principal payments range from \$1,099,220 to \$3,241,200 through 2019, collateralized by all real estate. Maturity date is June 1, 2019. Unamortized debt issuance costs as of June 30, 2019 and 2018 were \$0 and \$7,459, respectively.	-	<u>3,241,200</u>
	<u>92,614,085</u>	<u>97,914,723</u>
Less unamortized bond issuance costs	<u>210,726</u>	<u>227,764</u>
	<u>\$ 92,403,359</u>	<u>\$ 97,686,959</u>

The Foundation is required to maintain certain financial ratios and a debt reserve account balance in accordance with the bond agreement.

(Continued)

WESTERN KENTUCKY UNIVERSITY
NOTES TO FINANCIAL STATEMENTS
June 30, 2019 and 2018

NOTE 15 – WKU STUDENT LIFE FOUNDATION, INC. – ACCOUNTING POLICIES AND DISCLOSURES
(Continued)

Long-Term Debt and Letter of Credit (Continued)

Aggregate annual maturities of long-term debt are listed below:

2020		\$	5,520,639
2021			5,755,739
2022			6,000,639
2023			6,260,639
2024			6,525,639
Thereafter			62,550,790
		\$	92,614,085

Derivative Financial Instruments

The Foundation entered into the following agreements to limit its exposure to changes in cash flows resulting from changes in the interest rate on its variable rate bonds.

In August 2000, the Foundation entered into a forward sale agreement with a bank in conjunction with its Series 2000 Bonds. Upon the subsequent repayment of Series 2000 bonds and issuance of Series 2017 bonds, this agreement was transferred to the Series 2017 bonds. This agreement provides for a guaranteed rate of return of 6.3% annually on the balance of commercial paper or other investments held in the debt reserve fund. The required balance of the debt service reserve fund was \$4,145,000 during 2019 and 2018. This agreement has a termination date of May 1, 2022. Balances of \$4,506,343 and \$4,507,144 were on deposit as of June 30, 2019 and 2018, respectively.

The estimated fair value of these derivative arrangements at June 30, 2019 was:

<u>Type</u>	<u>Effective Date</u>	<u>Maturity Date</u>	<u>Underlying Index</u>	<u>Fair Value June 30, 2019</u>	<u>Fair Value June 30, 2018</u>
Forward-sale agreement	August 8, 2000	May 1, 2022	Return on underlying investments	<u>\$ 486,436</u>	<u>\$ 611,717</u>

The statements of activities reflect the change in fair value of the derivative agreement of \$(125,281) and \$(227,838) for the years ended June 30, 2019 and 2018, respectively.

The table below presents certain information regarding the Foundation's derivative instruments:

	<u>2019</u>	<u>2018</u>
Fair value of derivative instruments	\$ 486,436	\$ 611,717
Statement of financial position location of fair value amount	Asset	Asset

(Continued)

WESTERN KENTUCKY UNIVERSITY
NOTES TO FINANCIAL STATEMENTS
June 30, 2019 and 2018

NOTE 15 – WKU STUDENT LIFE FOUNDATION, INC. – ACCOUNTING POLICIES AND DISCLOSURES
(Continued)

Related Party Transactions

The Foundation and University are related parties as described in Note 1. The financial statements include the following amounts related to the University:

	<u>2019</u>	<u>2018</u>
Accounts receivable from WKU – student housing and related fees	\$ 505,748	\$ 392,335
Accounts receivable from WKU – other	527,118	477,969
Net investment in direct financing lease	1,655,979	1,736,989
Accounts payable – operating expenses	1,733,766	1,247,155
Interest income – direct financing lease	113,139	118,292
Operating lease income	47,103	46,179
Chilled water service fees	440,368	536,792
Management fees	84,200	84,200

The University has designated certain employees to work exclusively or partially for the Foundation. Salaries, benefits and related expenses on the statements of activities represent amounts reimbursed to the University for these individuals. The Foundation has no employees of its own and its board of directors serves on a voluntary, noncompensatory basis.

Accounts receivable relate to student housing fees collected by the University, which are due to the Foundation, as well as amounts due from the University for work-study programs, vending contracts and chilled water plant services. The University processes all accounts receivable and payables for the Foundation. The Foundation reimburses the University on a monthly basis for all expenses incurred by the University on the Foundation's behalf, which is represented by the accounts payable amounts noted above.

The Foundation receives rent revenue from the University for the lease of retail space at one of the Foundation's residence halls. The lease was renewed in August 2017 with annual lease payments ranging from \$46,179 to \$49,986. The rent was \$47,103 and \$46,179 for the years ended June 30, 2019 and 2018, respectively. The revenue from this lease is included in other revenues.

The Foundation receives fees from the University relating to chilled water services. The fees were \$440,369 and \$536,792 for the years ended June 30, 2019 and 2018, respectively. These fees are included in other revenues.

The University provides certain direct and indirect support to the Foundation and the Foundation provides certain direct and indirect support to the University. Both organizations have no objective basis for determining the value of these activities. However, as a part of the management agreement, the Foundation does provide an annual amount to the University to help offset such related costs. The management fees were \$84,200 for both years ending June 30, 2019 and 2018.

(Continued)

NOTE 15 – WKU STUDENT LIFE FOUNDATION, INC. – ACCOUNTING POLICIES AND DISCLOSURES
(Continued)

Disclosures about Fair Value of Financial Instruments

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Fair value measurements must maximize the use of observable inputs and minimize the use of unobservable inputs. There is a hierarchy of inputs that may be used to measure fair value:

- Level 1 – Quoted prices in active markets for identical assets or liabilities.
- Level 2 – Observable inputs other than Level 1 prices, such as quoted prices for similar assets or liabilities, quoted prices in markets that are not active or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities.
- Level 3 – Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities.

Recurring Measurements

The following table presents the fair value measurements of assets and liabilities recognized in the accompanying statements of financial position measured at fair value on a recurring basis and the level within the fair value hierarchy in which the fair value measurements fall at June 30, 2019:

	<u>Fair Value Measurements Using</u>			
	<u>Fair Value</u>	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Derivative instruments – Forward-sale agreement – 2017 bond series	\$ 486,436	\$ -	\$ -	\$ 486,436
Cash equivalents – money market accounts	\$ 12,868,647	\$ 12,868,647	\$ -	\$ -
Assets limited as to use – money market accounts	\$ 1,400,397	\$ 1,400,397	\$ -	\$ -
Assets limited as to use – commercial paper	\$ 4,244,225	\$ -	\$ 4,244,225	\$ -
Assets held for others – student deposits – money market accounts	\$ 483,410	\$ 483,410	\$ -	\$ -

(Continued)

WESTERN KENTUCKY UNIVERSITY
NOTES TO FINANCIAL STATEMENTS
June 30, 2019 and 2018

NOTE 15 – WKU STUDENT LIFE FOUNDATION, INC. – ACCOUNTING POLICIES AND DISCLOSURES
(Continued)

Disclosures about Fair Value of Financial Instruments (Continued)

Recurring Measurements (Continued)

The following table presents the fair value measurements of assets and liabilities recognized in the accompanying statements of financial position measured at fair value on a recurring basis and the level within the fair value hierarchy in which the fair value measurements fall at June 30, 2018:

	Fair Value Measurements Using			
	Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Derivative instrument – Forward-sale agreement – 2017 bond series	\$ 611,717	\$ -	\$ -	\$ 611,717
Cash equivalents – money market accounts	\$ 11,377,002	\$ 11,377,002	\$ -	\$ -
Assets limited as to use – money market accounts	\$ 7,201,426	\$ 7,201,426	\$ -	\$ -
Assets limited as to use – commercial paper	\$ 4,240,985	\$ -	\$ 4,240,985	\$ -
Assets held for others student deposits – money market accounts	\$ 619,500	\$ 619,500	\$ -	\$ -

Following is a description of the valuation methodologies and inputs used for assets and liabilities measured at fair value on a recurring basis and recognized in the accompanying statements of financial position, as well as the general classification of such assets and liabilities pursuant to the valuation hierarchy. There have been no significant changes in the valuation techniques during the years ended June 30, 2019 and 2018. For assets classified within Level 3 of the fair value hierarchy, the process used to develop the fair value is described below.

Derivative Instruments

Derivative instruments are classified within Level 3 of the valuation hierarchy. For derivative instruments in Level 3, the fair values are estimated by the counterparties using proprietary calculations for which the inputs are not observable and, therefore, are classified within Level 3 of the valuation hierarchy.

Fair value determinations for Level 3 measurements of the derivative instruments are the responsibility of management. Management receives the fair value determined by the counter-parties on a monthly or annual basis. Management challenges the reasonableness of the fair values by comparing them to historical results and forward-looking expectations.

(Continued)

NOTE 15 – WKU STUDENT LIFE FOUNDATION, INC. – ACCOUNTING POLICIES AND DISCLOSURES
 (Continued)

Disclosures about Fair Value of Financial Instruments (Continued)

Money Market Funds

Money market funds are stated at cost, plus accrued interest, which approximates market value and are based on quoted prices in active markets for identical investments. Therefore, these investments are classified within Level 1 of the valuation hierarchy.

Commercial Paper

Commercial paper is stated at fair market value and is based on quoted prices for similar assets and is therefore classified within Level 2 of the valuation hierarchy.

Level 3 Reconciliation

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

	Asset – Forward Sale Agreement 2017 <u>Bond Series</u>
Balance, June 30, 2017	\$ 839,555
Total realized and unrealized losses included in change in unrestricted net assets	<u>(227,838)</u>
Balance, June 30, 2018	611,717
Total realized and unrealized losses included in change in unrestricted net assets	<u>(125,281)</u>
Balance, June 30, 2019	<u>\$ 486,436</u>

Unobservable (Level 3) Inputs

The fair values of the Foundation’s derivative instruments are determined by the counterparties to the instruments, which are third parties, using proprietary pricing models and they do not provide the inputs to the Foundation. The Foundation does not make any adjustment to that value.

Nonrecurring Measurements

Certain long-lived assets were valued at fair value of \$0 at June 30 2019, due to an impairment recorded. The fair value was estimated based on cash flow projections and observable market data and, therefore, are classified within the Level 2 of the valuation hierarchy.

(Continued)

WESTERN KENTUCKY UNIVERSITY
NOTES TO FINANCIAL STATEMENTS
June 30, 2019 and 2018

NOTE 15 – WKU STUDENT LIFE FOUNDATION, INC. – ACCOUNTING POLICIES AND DISCLOSURES
(Continued)

Disclosures about Fair Value of Financial Instruments (Continued)

Fair Value of Financial Instruments

The following table presents estimated fair values of the Foundation's financial instruments at June 30, 2019:

	<u>2019</u>	
	<u>Carrying Amount</u>	<u>Fair Value</u>
Financial assets		
Cash and cash equivalents	\$ 13,772,586	\$ 13,772,586
Net investment in direct financing lease	1,655,979	1,655,979
Derivative instruments	486,436	486,436
Financial liabilities		
Long-term debt	\$ 92,614,085	\$ 92,614,085

The following table presents estimated fair values of the Foundation's financial instruments at June 30, 2018:

	<u>2018</u>	
	<u>Carrying Amount</u>	<u>Fair Value</u>
Financial assets		
Cash and cash equivalents	\$ 13,374,774	\$ 13,374,774
Net investment in direct financing lease	1,736,989	1,736,989
Derivative instruments	611,717	611,717
Financial liabilities		
Long-term debt	\$ 97,914,723	\$ 97,914,723

Cash and Cash Equivalents

The carrying amount approximates fair value.

Net Investment in Direct Financing Lease

The carrying amount approximates fair value.

Long-Term Debt

Fair value is estimated based on the borrowing rates currently available to the Foundation for bank loans with similar terms and maturities.

(Continued)

WESTERN KENTUCKY UNIVERSITY
NOTES TO FINANCIAL STATEMENTS
June 30, 2019 and 2018

NOTE 15 – WKU STUDENT LIFE FOUNDATION, INC. – ACCOUNTING POLICIES AND DISCLOSURES
(Continued)

Pension Plans

As described previously, the Foundation has no employees; however, the University has designated certain employees to work exclusively or partially for the Foundation. The University participates in three multi-employer pension plans maintained by the state of Kentucky. The plans provide defined benefits to eligible University employees providing services to the Foundation. The Foundation reimburses the University for the Foundation's share of the actuarially determined contributions to the plans, which currently range from 8.49% to 49.47% of its covered payroll based upon the individual's retirement category. Contributions reimbursed to the University were \$511,298 and \$608,588 for the years ended June 30, 2019 and 2018, respectively.

Functional Allocation of Expense

Costs have been allocated among the student housing program and management and general expenses as of June 30, 2019 as follows:

	<u>Program Services</u>	<u>Support Services</u>	
	Student Housing	Management and General	Total
Salaries and wages	\$ 4,733,029	\$ 291,383	\$ 5,024,412
Employee benefits	990,248	100,417	1,090,665
Payroll taxes	151,180	22,292	173,472
Utilities	2,617,743	137,776	2,755,519
Repairs and maintenance	2,287,170	120,377	2,407,547
Depreciation	5,487,130	-	5,487,130
Amortization	17,037	-	17,037
Professional fees and services	-	267,301	267,301
Advertising and promotion	16,186	852	17,038
Travel	22,291	1,172	23,463
Conferences, conventions and meetings	11,231	591	11,822
Insurance	430,972	143,657	574,629
Supplies and other	401,911	67,380	469,291
Long-lived asset impairment	2,541,444	-	2,541,444
Bad debts	<u>244,713</u>	<u>-</u>	<u>244,713</u>
Total	<u>\$ 19,952,285</u>	<u>\$ 1,153,198</u>	<u>\$ 21,105,483</u>

(Continued)

WESTERN KENTUCKY UNIVERSITY
NOTES TO FINANCIAL STATEMENTS
June 30, 2019 and 2018

NOTE 15 – WKU STUDENT LIFE FOUNDATION, INC. – ACCOUNTING POLICIES AND DISCLOSURES
(Continued)

Functional Allocation of Expense (Continued)

Costs have been allocated among the student housing program and management and general expenses as of June 30, 2018 as follows:

	<u>Program Services</u>	<u>Support Services</u>	
	Student Housing	Management and General	Total
Salaries and wages	\$ 4,380,584	\$ 486,731	\$ 4,867,315
Employee benefits	1,128,160	125,351	1,253,511
Payroll taxes	172,163	19,129	191,292
Utilities	2,495,905	131,363	2,627,268
Repairs and maintenance	2,147,912	113,048	2,260,960
Depreciation	4,112,881	-	4,112,881
Amortization	17,037	-	17,037
Professional fees and services	-	333,316	333,316
Advertising and promotion	14,682	773	15,455
Travel	16,029	844	16,873
Conferences, conventions and meetings	8,643	455	9,098
Insurance	437,965	145,988	583,953
Supplies and other	284,871	14,993	299,864
Bad debts	405,099	-	405,099
	<u>405,099</u>	<u>-</u>	<u>405,099</u>
Total	<u>\$ 15,621,931</u>	<u>\$ 1,371,991</u>	<u>\$ 16,993,922</u>

Commitments

As of June 30, 2019, the Foundation had ongoing commitments to improve all residence halls and begin demolition of existing residence halls with the corresponding estimated costs:

	<u>Estimated Cost</u>
Electronic access control in all residence halls	\$ 200,000
First Year Village – demolition of Bemis Lawrence Hall	500,000
First Year Village – parking lot construction	<u>100,000</u>
	<u>\$ 800,000</u>

(Continued)

NOTE 16 - COLLEGE HEIGHTS FOUNDATION, INC. – ACCOUNTING POLICIES AND DISCLOSURES

Nature of Operations

College Heights Foundation, Inc., (“College Heights”) is a Kentucky nonprofit corporation that is a legally separate, tax-exempt component unit of the University that manages certain investments on behalf of the University. College Heights operates on a calendar year ending December 31. College Heights has a board of directors separate from that of the University. The president of the University is also a board member of College Heights. Although the University does not control the timing or amount of receipts from College Heights, the use of a majority of the resources, or income thereon, which College Heights holds and invests is restricted by the donors to the activities of the University. Because these restricted resources held by College Heights can only be used by, or for the benefit of, the University, College Heights is considered a component unit of the University and is discretely presented in the University’s financial statements. A substantial portion of the donations received consists of endowment gifts from which the corpus is not available to be distributed.

Complete financial statements for College Heights can be obtained from the College Heights Foundation Office, Alumni House, 1906 College Heights Blvd., Bowling Green, Kentucky, 42101.

Income Recognition

Contributions, including unconditional promises to give (pledges receivable), are recognized as revenue in the period when they are received or unconditionally pledged and are recorded as with or without donor restrictions depending on the existence and nature of any donor-imposed restrictions. Net assets with donor restrictions are reclassified to net assets without donor restriction upon satisfaction of the time or purpose restriction. Contributions that are originally restricted by donor stipulation and for which the restriction is satisfied in the same fiscal year are recorded as with donor restrictions and then released from restriction. Conditional contributions are not included as support until the applicable conditions are met.

When applicable, gifts of long-lived assets are reported as contributions without donor restrictions unless explicit donor stipulations specify how such assets must be used, in which case such gifts are reported as contributions with donor restrictions. Absent explicit donor stipulations regarding the time period for which the long-lived assets must be held, expirations of restrictions resulting in the reclassification of net assets with donor restrictions as net assets without donor restrictions are reported when the long-lived assets are placed in service.

Interest and dividends on investment securities are included in income when earned. Contributions from beneficial interests in split-interest agreements when the Foundation is not the trustee are recognized in the period in which the Foundation is notified of the gift’s existence.

Cash Equivalents

The Foundation considers all liquid investments with original maturities of three months or less to be cash equivalents. At December 31, 2018 and 2017, cash equivalents consisted primarily of checking accounts and money market accounts held at brokerage houses.

(Continued)

WESTERN KENTUCKY UNIVERSITY
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June 30, 2019 and 2018

NOTE 16 - COLLEGE HEIGHTS FOUNDATION, INC. – ACCOUNTING POLICIES AND DISCLOSURES
(Continued)

Liquidity and Availability

The following reflects the Foundation's financial assets as of the statement of financial position date, reduced by amounts not available for general use within one year of the statement of financial position date because of contractual restrictions, donor-imposed restrictions, or internal designations.

	<u>2018</u>	<u>2017</u>
Financial assets at end of year	\$ 72,884,985	\$ 77,364,414
Less;		
Gift annuity payments due in more than one year	(1,565,812)	(1,778,376)
Charitable remainder trust payments due in more than one year	(448,729)	(555,096)
Donor restricted to maintain as an endowment	(64,127,504)	(61,957,657)
Board designated quasi-endowment	(3,092,222)	(3,638,227)
Assets held for others	<u>(2,481,929)</u>	<u>(3,429,675)</u>
Financial assets available to meet cash needs for general expenditures within one year	<u>\$ 1,168,789</u>	<u>\$ 6,005,383</u>

As part of the Foundation's liquidity management, it has a policy to structure its financial assets to be available as its general expenditures, liabilities, and other obligations come due. In addition, the Foundation invests cash in excess of daily requirements in short-term investments. To help manage unanticipated liquidity needs, the Foundation has a line of credit based upon 60% of a single investment account. At December 31, 2018, this amount equaled approximately \$6,900.00. Although the Foundation does not intend to spend from its quasi-endowment fund for general expenditures, amounts could be made available if necessary.

Concentrations of Credit Risk

The federal deposit insurance coverage provided by the Federal Deposit Insurance Corporation (FDIC) is currently \$250,000 per depositor at each FDIC insured U.S. depository institution. At December 31, 2018 and 2017, the Foundation's uninsured cash balances totaled \$3,562,405 and \$4,348,838, respectively.

Investments

Investments in equity securities having a readily determinable fair value and all debt securities are carried at fair value. Investment income, gains, and losses are reflected in the statement of activities as unrestricted, temporarily restricted or permanently restricted based upon the existence and nature of any donor or legally imposed restrictions.

Investments in certificates of deposit are stated at cost, which approximates fair value.

(Continued)

WESTERN KENTUCKY UNIVERSITY
NOTES TO FINANCIAL STATEMENTS
June 30, 2019 and 2018

NOTE 16 - COLLEGE HEIGHTS FOUNDATION, INC. – ACCOUNTING POLICIES AND DISCLOSURES
(Continued)

Investments consist of the following at December 31, 2018 and 2017:

	<u>2018</u>	<u>2017</u>
Mutual funds	\$ 28,595,564	\$ 32,587,022
Equity securities	19,948,595	19,547,709
Exchange traded funds	9,218,948	9,849,380
Corporate bonds and other fixed income securities	4,683,811	4,559,818
Real estate and real estate investment trusts	1,549,714	1,776,332
Certificates of deposit	1,040,879	886,636
Futures	149,482	86,900
U. S. government and government agency obligations	<u>74</u>	<u>125</u>
	65,187,067	69,293,922
Investments included above held for:		
University	(2,353,137)	(2,475,245)
WKU Foundation	<u>-</u>	<u>(825,640)</u>
	<u>\$ 62,833,930</u>	<u>\$ 65,993,037</u>

As indicated above, at year-end, the Foundation is invested in various types of investment securities. Investments are exposed to various risks such as interest rate risk, credit risk, and market risk. Due to the level of risk associated with certain investments, it is at least reasonably possible that changes in the values of investments will occur in the near term and that such changes could materially affect the amounts reported in the accompanying statement of financial position.

Management considers the carrying value of real estate to approximate fair value at December 31, 2018 and 2017. Real estate investment trust values are reported at fair value based upon an independent valuation performed at least annually.

Investment advisory fees for the years ended December 31, 2018 and 2017 were \$249,880 and \$212,493, respectively.

(Continued)

NOTE 16 - COLLEGE HEIGHTS FOUNDATION, INC. – ACCOUNTING POLICIES AND DISCLOSURES
(Continued)

Assets Held In Trust, Gift Annuities and Refundable Advances

The Foundation is party to various split-interest agreements. Which are gifts that are partially for the Foundation's benefit and partially for the benefit of the respective donor or their designated beneficiaries. When the Foundation is the trustee and upon acceptance of a split-interest agreement, the Foundation records the contributed asset and the actuarially determined present value of the liability payable to the beneficiary. When the Foundation is not the trustee of the split-interest agreement, the beneficial interest and contribution is recorded at the actuarially determined present value when notified. These agreements include charitable gift annuities and charitable remainder unitrusts.

A charitable gift annuity is an arrangement between a donor and the trustee in which the donor contributes assets to the trustee in exchange for a promise by the trustee to pay a fixed amount to the donor or to others designated by the donor for a specific period of time. Obligations continue until the death of the beneficiary. The accompanying statements of financial position as of December 31, 2018 and 2017 reflect liabilities totaling \$1,951,508 and \$2,156,947, relative to the estimated present value of the future annuity obligations calculated using discount rates ranging from 1.09% to 11.5% for the annuities which the Foundation acts as the trustee. At December 31, 2018 and 2017, investments relative to charitable gift annuities totaled \$3,603,205 and \$4,127,501, respectively.

Charitable remainder trusts are arrangements in which a donor establishes and funds a trust with specified distributions to be made to the donor or designated beneficiaries over the trust's term. Upon the termination of the trust, the Foundation receives the assets remaining in the trust. Obligations to the beneficiaries are limited to the trust's assets. The accompanying statements of financial position as of December 31, 2018 and 2017 reflect liabilities totaling \$551,037 and \$670,564, relative to the estimated present value of the future obligations calculated using discount rates ranging from 5.3% to 8%. At December 31, 2018 and 2017, investments relative to charitable remainder trusts totaled \$1,406,106 and \$1,585,924, respectively.

Trust assets are reported at fair value in the same manner as are all Foundation investments. The income or loss recognized under these trusts is included in temporarily restricted net assets. Discount rates are determined in accordance with the Internal Revenue Code and represent the rate at the date (month and year) of the contribution. Actuarial assumptions used in calculating present values, include the beneficiary's age and life expectancies using the applicable mortality tables, the date of the gift, the fair market value of the principal donated, the estimated rate of return, the payout rate, the payment schedule, and the discount rate.

The carrying amount of the deferred gift liabilities estimates fair value and is calculated using Level 3 inputs.

Assets Held For Others

Assets held for others represent resources in the possession of, but not under the control of, the Foundation and represent funds received for investment by the Foundation through the Commonwealth of Kentucky's Regional University Excellence Trust Fund, funds held by the Foundation on behalf of the WKU Foundation for an employee deferred compensation benefit plan, and funds held by the Foundation at year end for the benefit of other beneficiaries.

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WESTERN KENTUCKY UNIVERSITY
NOTES TO FINANCIAL STATEMENTS
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NOTE 16 - COLLEGE HEIGHTS FOUNDATION, INC. – ACCOUNTING POLICIES AND DISCLOSURES
(Continued)

Assets Held For Others (Continued)

Assets held for others at December 31, 2018 and 2017 consist of the following:

	<u>2018</u>	<u>2017</u>
WKU - Regional University Excellence Trust Fund	\$ 2,353,139	\$ 2,475,245
WKU Foundation trust	-	825,640
Assets held – other beneficiaries	<u>128,790</u>	<u>128,790</u>
	<u>\$ 2,481,929</u>	<u>\$ 3,429,675</u>

Accordingly, the statement of financial position reflects liabilities for assets held for others in the amounts of \$2,481,929 and \$3,429,675 as of December 31, 2018 and 2017, respectively.

Net Assets With Donor Restrictions

At December 31, 2018 and 2017, net assets with donor restrictions consist of the following:

	<u>2018</u>	<u>2017</u>
Scholarship funds	\$ 56,548,916	\$ 52,817,861
Other program support	<u>10,294,227</u>	<u>11,874,703</u>
	<u>\$ 66,843,143</u>	<u>\$ 64,692,564</u>

Endowment Funds

In 2008, the FASB issued ASC 958-205-45-28, *Classification of Donor-Restricted Endowment Funds Subject to an Enacted Version of the Uniform Prudent Management of Institutional Funds Act*. This pronouncement provided guidance on the net asset classification of donor-restricted endowment funds for a not-for-profit organization that is subject to an enacted version of the Uniform Prudent Management of Institutional Funds Act of 2006 (UPMIFA). The pronouncement also improved disclosures about an organization's endowment funds, both donor restricted endowment funds and board designated endowment funds. In 2010, the state of Kentucky enacted UPMIFA legislation, the effective date of which was July 15, 2010. Accordingly, the Foundation adopted the enacted state of Kentucky UPMIFA legislation for the year ending December 31, 2010.

Currently, the Foundation classified as net assets with donor restrictions the original value of contributions to the permanent endowment and the original value of any such subsequent contributions.

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WESTERN KENTUCKY UNIVERSITY
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NOTE 16 - COLLEGE HEIGHTS FOUNDATION, INC. – ACCOUNTING POLICIES AND DISCLOSURES
(Continued)

Endowment Funds (Continued)

At December 31, 2018, endowment net assets consist of the following:

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
Board designated endowment funds	\$ 3,092,222	\$ -	\$ 3,092,222
Donor restricted endowment funds	<u>-</u>	<u>64,127,504</u>	<u>64,127,504</u>
	<u>\$ 3,092,222</u>	<u>\$ 64,127,504</u>	<u>\$ 67,219,726</u>

At December 31, 2017, endowment net assets consist of the following:

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
Board designated endowment funds	\$ 3,638,227	\$ -	\$ 3,638,227
Donor restricted endowment funds	<u>-</u>	<u>61,957,657</u>	<u>61,957,657</u>
	<u>\$ 3,638,227</u>	<u>\$ 61,957,657</u>	<u>\$ 65,595,884</u>

Changes in endowment net assets during the year ended December 31, 2018 are as follows:

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
Beginning of the year	\$ 3,638,227	\$ 61,957,657	\$ 65,595,884
Contributions	1,124,178	2,169,847	3,294,025
Investment return			
Investment income	306,301	-	306,301
Net appreciation (unrealized and realized)	(715,089)	-	(715,089)
Appropriation of endowment assets for expenditure	<u>(1,261,395)</u>	<u>-</u>	<u>(1,261,395)</u>
	<u>\$ 3,092,222</u>	<u>\$ 64,127,504</u>	<u>\$ 67,219,726</u>

(Continued)

WESTERN KENTUCKY UNIVERSITY
NOTES TO FINANCIAL STATEMENTS
June 30, 2019 and 2018

NOTE 16 - COLLEGE HEIGHTS FOUNDATION, INC. – ACCOUNTING POLICIES AND DISCLOSURES
(Continued)

Endowment Funds (Continued)

Changes in endowment net assets during the year ended December 31, 2017 are as follows:

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
Beginning of the year	\$ 3,764,872	\$ 55,764,373	\$ 59,529,245
Contributions	1,033,338	6,193,284	7,226,622
Investment return			
Investment income	(44,208)	-	(44,208)
Net appreciation (unrealized and realized)	(167,626)	-	(167,626)
Appropriation of endowment assets for expenditure	<u>(948,149)</u>	<u>-</u>	<u>(948,149)</u>
	<u>\$ 3,638,227</u>	<u>\$ 61,957,657</u>	<u>\$ 65,595,884</u>

Funds with deficiencies:

From time to time, the fair value of assets associated with individual donor restricted endowment funds may fall below the level that the donor or UPMIFA requires the Foundation to retain as a fund of perpetual duration. In accordance with GAAP, deficiencies of this nature are reported in unrestricted net assets when they occur. There are no such deficiencies as of December 31, 2018 and 2017.

Return objectives and risk parameters:

The Foundation has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowments while seeking to maintain the purchasing power of the endowment assets. The Foundation's spending and investment policies work together to achieve this objective. The investment policy establishes an achievable return objective through the diversification of asset classes. The current long-term return objective is to return 4.5% above CPI (consumer price index). Actual returns in any given year may vary from this objective.

Strategies employed for achieving return objectives:

To satisfy its long-term rate-of-return objectives, the Foundation relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). The Foundation targets a diversified asset allocation that places a greater emphasis on mutual funds and equity-based investments to achieve its long-term return objectives within prudent risk parameters.

Spending policy and how the investment objectives relate to the spending policy:

The Foundation's annual distribution target is 4% of the endowment fund's trailing three-year (twelve calendar quarters) moving market value average. The annual distribution from accumulated earnings may be made at any time during the fiscal year. Annual distributions may not be carried over between fiscal years unless the Foundation's Board of Directors grants prior approval to do so.

(Continued)

NOTE 16 - COLLEGE HEIGHTS FOUNDATION, INC. – ACCOUNTING POLICIES AND DISCLOSURES
(Continued)

Fair Value Measurements

FASB ASC 820-10 establishes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to measurements involving significant unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy are as follows:

- Level 1 - Quoted prices in active markets for identical assets or liabilities.
- Level 2 - Observable inputs such as quoted prices in active markets for similar assets or liabilities or quoted prices for identical or similar assets or liabilities in markets that are not active or unobservable inputs that are derived principally from or corroborated by observable market data.
- Level 3 - Unobservable inputs that are based on the Foundation's own assumptions as to how knowledgeable parties would price assets or liabilities that are not corroborated by market data.

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 at December 31, 2018 and 2017.

Certificates of deposit: Carried at cost, which approximates fair value.

Mutual funds: Valued at the quoted market price of the shares held by the Foundation at year-end.

U. S. government and government agency obligations: Valued using a yield curve matrix derived from quoted prices for similar assets in active markets.

Corporate bonds/notes and other fixed income securities: Valued using a yield curve matrix derived from quoted prices for similar assets in active markets.

Exchange traded funds: Valued at the quoted market price of the shares held by the Foundation at year-end.

Exchange traded notes: Valued at the quoted market price of the shares held by the Foundation at year-end.

Equity securities: Valued at the quoted market price of the shares held by the Foundation at year end.

Real estate: Valued at the carrying values of the respective real estate investments, which approximate fair value.

Real estate partnership interest: Valued at the carrying values of the respective real estate investments less any partnership liabilities, which approximate fair value.

Real estate investment trusts: Valued at the net asset value of the shares held by the Foundation at year-end.

(Continued)

NOTE 16 - COLLEGE HEIGHTS FOUNDATION, INC. – ACCOUNTING POLICIES AND DISCLOSURES
(Continued)

Fair Value Measurements (Continued)

Futures: Valued at the quoted market price of the shares held by the Foundation at year-end.

Beneficial interest in third party trusts: The estimated fair value is based on the present value of the income distributions or other payments to the donors or other designated beneficiaries during the terms of the respective split-interest agreements. The actuarial related assumptions used in calculating the respective present values include the beneficiary's age and life expectancy using the applicable mortality tables, the date of the gift, the fair value of the amount gifted, the estimated rate of return, the payout rate, the payment schedule, and the discount rate.

Deferred gift liabilities: The estimated fair value is based on the present value of the income distributions or other payments to the donors or other designated beneficiaries during the terms of the respective split-interest agreements. The actuarial related assumptions used in calculating the respective present values include the beneficiary's age and life expectancy using the applicable mortality tables, the date of the gift, the fair value of the amount gifted, the estimated rate of return, the payout rate, the payment schedule, and the discount rate.

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.

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WESTERN KENTUCKY UNIVERSITY
NOTES TO FINANCIAL STATEMENTS
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NOTE 16 - COLLEGE HEIGHTS FOUNDATION, INC. – ACCOUNTING POLICIES AND DISCLOSURES
(Continued)

Fair Value Measurements (Continued)

The following table sets forth by level within the fair value hierarchy, the Foundation's assets (investments) at fair value at December 31, 2018:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Certificates of deposit	\$ 1,040,879	\$ -	\$ -	\$ 1,040,879
Mutual funds				
Equities	14,870,941	-	-	14,870,941
Fixed income	<u>13,724,623</u>	-	-	<u>13,724,623</u>
	<u>28,595,564</u>	-	-	<u>28,595,564</u>
U. S. government and government agency obligations - not rated	-	<u>74</u>	-	<u>74</u>
Corporate bonds/notes and other fixed income securities				
Rated Aaa	-	793,964	-	793,964
Rated Aa1 to Aa3	-	659,658	-	659,658
Rated A1 to A3	-	2,481,185	-	2,481,185
Rated Bbb1 to Bbb3	-	<u>749,003</u>	-	<u>749,003</u>
	-	<u>4,683,810</u>	-	<u>4,683,810</u>
Exchange traded funds	<u>9,218,948</u>	-	-	<u>9,218,948</u>
Equity securities				
Communications	1,554,124	-	-	1,554,124
Consumer discretionary	2,871,715	-	-	2,871,715
Consumer staples	128,755	-	-	128,755
Energy	71,023	-	-	71,023
Financial	4,298,965	-	-	4,298,965
Health care	1,989,039	-	-	1,989,039
Industrials	2,555,077	-	-	2,555,077
Information technology	4,733,904	-	-	4,733,904
Materials	363,976	-	-	363,976
Real estate	271,943	-	-	271,943
Services	961,891	-	-	961,891
Utilities	148,183	-	-	148,183
	<u>19,948,595</u>	-	-	<u>19,948,595</u>
Real estate	-	-	<u>1,549,714</u>	<u>1,549,714</u>
Futures	<u>149,484</u>	-	-	<u>149,484</u>
Total investments	<u>\$ 58,953,470</u>	<u>\$ 4,683,884</u>	<u>\$ 1,549,714</u>	<u>\$ 65,187,068</u>

(Continued)

WESTERN KENTUCKY UNIVERSITY
NOTES TO FINANCIAL STATEMENTS
June 30, 2019 and 2018

NOTE 16 - COLLEGE HEIGHTS FOUNDATION, INC. – ACCOUNTING POLICIES AND DISCLOSURES
(Continued)

Fair Value Measurements (Continued)

The following table sets forth by level within the fair value hierarchy, the Foundation's assets (investments) at fair value at December 31, 2017:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Certificates of deposit	\$ 886,636	\$ -	\$ -	\$ 886,636
Mutual funds				
Equities	17,905,998	-	-	17,905,998
Fixed income	<u>14,681,024</u>	<u>-</u>	<u>-</u>	<u>14,681,024</u>
	<u>32,587,022</u>	<u>-</u>	<u>-</u>	<u>32,587,022</u>
U. S. government and government agency obligations - not rated	<u>-</u>	<u>125</u>	<u>-</u>	<u>125</u>
Corporate bonds/notes and other fixed income securities				
Rated Aaa	-	733,515	-	733,515
Rated Aa1 to Aa3	-	462,974	-	462,974
Rated A1 to A3	-	2,689,567	-	2,689,567
Rated Bbb1 to Bbb3	-	658,431	-	658,431
Rated Bb1 to Bb3	<u>-</u>	<u>15,331</u>	<u>-</u>	<u>15,331</u>
	<u>-</u>	<u>4,559,818</u>	<u>-</u>	<u>4,559,818</u>
Exchange traded funds	<u>9,849,380</u>	<u>-</u>	<u>-</u>	<u>9,849,380</u>
Equity securities				
Consumer discretionary	3,665,071	-	-	3,665,071
Consumer staples	579,267	-	-	579,267
Energy	374,157	-	-	374,157
Financial	4,430,117	-	-	4,430,117
Health care	1,640,929	-	-	1,640,929
Industrials	1,982,666	-	-	1,982,666
Information technology	4,972,326	-	-	4,972,326
Materials	409,153	-	-	409,153
Real estate	284,171	-	-	284,171
Services	1,016,661	-	-	1,016,661
Utilities	<u>193,191</u>	<u>-</u>	<u>-</u>	<u>193,191</u>
	<u>19,547,709</u>	<u>-</u>	<u>-</u>	<u>19,547,709</u>
Real estate	<u>-</u>	<u>-</u>	<u>1,549,714</u>	<u>1,549,714</u>
Real estate investment trusts	<u>226,618</u>	<u>-</u>	<u>-</u>	<u>226,618</u>
Futures	<u>86,900</u>	<u>-</u>	<u>-</u>	<u>86,900</u>
Total investments	<u>\$ 63,184,265</u>	<u>\$ 4,559,943</u>	<u>\$ 1,549,714</u>	<u>\$ 69,293,922</u>

(Continued)

WESTERN KENTUCKY UNIVERSITY
 NOTES TO FINANCIAL STATEMENTS
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NOTE 16 - COLLEGE HEIGHTS FOUNDATION, INC. – ACCOUNTING POLICIES AND DISCLOSURES
 (Continued)

Fair Value Measurements (Continued)

At December 31, 2018 and 2017, investments included above under Level 3 represent Foundation investments in real estate. The 2018 and 2017 activity, with respect to the investments included above under Level 3, is as follows:

	<u>2018</u>	<u>2017</u>
Beginning of the year	\$ 1,549,714	\$ 2,024,714
Additional investments	-	525,000
Investments sold	-	(1,000,000)
	-	-
End of the year	<u>\$ 1,549,714</u>	<u>\$ 1,549,714</u>

A realized gain on the sale of a real estate partnership totaled \$1,900 in 2017. This gain is reported in net realized and unrealized gains (losses) on investments in the statement of activities.

The following table sets forth by level within the fair value hierarchy, the Foundation's beneficial interest in third party trusts at fair value at December 31, 2018:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Trusts held by third party	\$ -	\$ -	\$ 4,991,229	\$ 4,991,229

The following table sets forth by level within the fair value hierarchy, the Foundation's beneficial interest in third party trusts at fair value at December 31, 2017:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Trusts held by third party	\$ -	\$ -	\$ 5,018,908	\$ 5,018,908

The 2018 and 2017 activity, with respect to the third party trusts included above under Level 3, is as follows:

	<u>2018</u>	<u>2017</u>
Beginning of the year	\$ 5,018,908	\$ 4,493,343
New deferred gifts	217,397	-
Net actuarial gain (loss)	(245,076)	525,565
	-	-
End of the year	<u>\$ 4,991,229</u>	<u>\$ 5,018,908</u>

(Continued)

WESTERN KENTUCKY UNIVERSITY
NOTES TO FINANCIAL STATEMENTS
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NOTE 16 - COLLEGE HEIGHTS FOUNDATION, INC. – ACCOUNTING POLICIES AND DISCLOSURES
(Continued)

Fair Value Measurements (Continued)

The following table sets forth by level within the fair value hierarchy, the Foundation's liabilities (deferred gift liabilities) at fair value at December 31, 2018:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Charitable remainder unitrusts	\$ -	\$ -	\$ 551,037	\$ 551,037
Charitable gift annuities	-	-	1,951,508	1,951,508
	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 2,502,545</u>	<u>\$ 2,502,545</u>

The following table sets forth by level within the fair value hierarchy, the Foundation's liabilities (deferred gift liabilities) at fair value at December 31, 2017:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Charitable remainder unitrusts	\$ -	\$ -	\$ 670,564	\$ 670,564
Charitable gift annuities	-	-	2,156,947	2,156,947
	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 2,827,511</u>	<u>\$ 2,827,511</u>

The 2018 and 2017 activity, with respect to the liabilities (deferred gift liabilities) included above under Level 3, is as follows:

	<u>2018</u>	<u>2017</u>
Beginning of the year	\$ 2,827,511	\$ 3,021,699
New deferred gifts	18,263	18,906
Payment obligations	(497,670)	(481,672)
Net actuarial loss	<u>154,441</u>	<u>268,578</u>
End of the year	<u>\$ 2,502,545</u>	<u>\$ 2,827,511</u>

Related Party Transactions

Western Kentucky University provides the facilities in which the Foundation offices are located and also processes the Foundation's payroll. No rent or administrative expenses are charged to the Foundation by the University and the Foundation does not recognize revenue and expense related to these transactions, as the amounts thereof are immaterial. The Foundation also owns a parking lot which is used by the University for which no rent is charged. At December 31, 2018 and 2017, the amounts payable to Western Kentucky University were \$1,467,790 and \$1,566, respectively.

During 2018 and 2017, the Foundation and Western Kentucky University Foundation, Inc. (WKUF), a separate WKU related foundation, exchanged the management and administrative responsibilities for certain scholarship and special project funds. The total funds gross asset fair value received by the Foundation from the WKUF was \$81,405 less than the total funds gross asset fair value transferred from the Foundation to the WKUF in 2018 and \$15,658 less than the total funds gross asset fair value transferred from the Foundation to the WKUF in 2017. These differences are reported as an unusual gain / (loss) in the statements of activities in accordance with FASB ASC 225-20-45-16.

(Continued)

WESTERN KENTUCKY UNIVERSITY
NOTES TO FINANCIAL STATEMENTS
June 30, 2019 and 2018

NOTE 16 - COLLEGE HEIGHTS FOUNDATION, INC. – ACCOUNTING POLICIES AND DISCLOSURES
(Continued)

Employees' Retirement Plans

Through the University, the Foundation participates in the Kentucky Employees' Retirement System (KERS) and the Kentucky Teachers Retirement System (KTRS), both of which are cost sharing, multiple-employer, defined benefit pension plans administered by the respective KERS and KTRS boards of trustees. The Foundation is not represented on either of the boards of trustees. Both KERS and KTRS provide retirement, disability, and death benefits to the Foundation's eligible employees. The service retirement benefit is a lifetime benefit. The Foundation reimburses the University for the Foundation's share of the contributions made on behalf of eligible Foundation employees. Both multiple employer plans pay a defined amount upon retirement based on the length of service and the final average salary of the employee, along with a retirement multiplier. Retirement eligibility is determined by the employee's age and years of service. Total contributions of \$66,187 and \$64,197 in 2018 and 2017 were expensed to salaries and benefits for ongoing participation in these plans.

The risks of participating in these multiple employer defined benefit pension plans are different from single-employer plans because: (a) assets contributed to the multiple employer plan by one employer may be used to provide benefits to employees of other participating employers, (b) if a participating employer stops contributing to the plan, the unfunded obligations of the plan may be required to be borne by the remaining participating employers, and (c) if the Foundation chooses to stop participating in one of the multiple employer plans, it may be required to pay a withdrawal liability to the plan. The Foundation has no plans to withdraw from its multiple employer retirement plans.

The following presents information about the Foundation's multiple employer plans as of the two most recently published comprehensive annual financial reports.

Pension Fund	EIN and Plan # (if available)	Total Plan Assets	Accum. Benefit Obligations	% Funded	Total Plan Assets	Accum. Benefit Obligations	% Funded
		June 30, 2018	June 30, 2018	2018	June 30, 2017	June 30, 2017	2017
KERS	61-0600439	\$2,658,540,000	\$16,827,155,000	15.8%	\$2,730,782,028	\$16,713,060,919	16.3%
KTRS	61-0600439	19,496,056,000	33,795,671,000	57.7%	18,514,638,000	32,819,886,000	56.4%

Pension Fund	EIN and Plan # (if available)	Foundation Contributions	Foundation Contributions	Surcharge Imposed	Funding Improvement Plan / Rehab Plan	Expiration of Collective Bargain Agreement
		2018	2017			
KERS	61-0600439	\$ 36,360	\$ 35,217	no	no	n/a
KTRS	61-0600439	29,827	28,980	no	no	n/a
		<u>\$ 66,187</u>	<u>\$ 64,197</u>			

Current year contributions under KERS made on behalf of eligible employees represent 49.47% of covered wages for January through December 2018. Employer contribution rates were 48.59% of covered wages for January through June 2017, and 49.47% of covered wages for July through December 2017. The employer contribution rate is expected to remain at 49.47% through June 30, 2019. The KERS participants contribute 5% of their covered wages if their participation date is prior to September 1, 2008 or 6% if the date is after September 1, 2008.

Current year contributions under KTRS made on behalf of these eligible employees represent 15.865% of covered wages for the years ended December 31, 2018 and 2017. The KTRS participants contribute 6.5% of their covered wages if their participation date is prior to July 1, 2008 or 7.16% if the date is after July 1, 2008.

WESTERN KENTUCKY UNIVERSITY
NOTES TO FINANCIAL STATEMENTS
June 30, 2019 and 2018

NOTE 16 - COLLEGE HEIGHTS FOUNDATION, INC. – ACCOUNTING POLICIES AND DISCLOSURES
(Continued)

Employees' Retirement Plans (Continued)

The Foundation is not obligated for any minimum contributions for either the KERS or KTRS plan. Based on the most recent annual financial report of each plan, the Foundation did not contribute more than 5% of the total contributions to either plan.

Additional Cash Flow Information

	<u>2018</u>	<u>2017</u>
Noncash Investing and Financing Activities		
Real estate received as contribution	\$ 404,500	\$ 525,000
Investment securities received as contributions	<u>92,812</u>	<u>1,927,406</u>
	<u>\$ 497,312</u>	<u>\$ 2,452,406</u>

Fixed Assets

Land, building, and equipment consist of the following at December 31, 2018 and 2017:

	<u>2018</u>	<u>2017</u>
Building	\$ 1,352,962	\$ 101,564
Building improvements	54,048	54,048
Less: accumulated depreciation	<u>(21,769)</u>	<u>(3,752)</u>
	<u>\$ 1,385,241</u>	<u>\$ 151,860</u>

The amount of depreciation expense was \$18,017 and \$3,752 for the year ended December 31, 2018 and 2017, respectively.

Line of Credit

The Foundation established a line of credit in September 2018, which is open ended without a maturity date. There were no borrowing on this line of credit since inception. Interest on any outstanding balance is due monthly at the rate of 4% off the prime rate. The line of credit is secured by a single fixed income investment account. The available credit is 60% of the balance in the investment account. At December 31, 2018, the available credit limit was \$6,933,142 based on a balance in the investment account of \$11,555,236.

WESTERN KENTUCKY UNIVERSITY
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULES OF THE UNIVERSITY'S PROPORTIONATE SHARE OF THE NET PENSION LIABILITY
(in thousands)
June 30, 2019 and 2018

KERS – Non-Hazardous

	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>
University's proportion of the net pension liability	1.26%	1.29%	1.46%	1.47%
University's proportionate share of the net pension liability	\$ 171,121	\$ 173,895	\$ 166,399	\$ 147,109
University's covered payroll	\$ 19,527	\$ 20,402	\$ 23,985	\$ 22,769
University's proportionate share of the net pension liability as a percentage of its covered payroll	876.33%	852.34%	693.76%	646.09%
Plan fiduciary net position as a percentage of the total pension liability	12.84%	13.30%	14.80%	18.83%

KERS – Hazardous

University's proportion of the net pension liability	0.63%	0.60%	0.78%	0.90%
University's proportionate share of the net pension liability	\$ 3,173	\$ 2,992	\$ 3,039	\$ 3,098
University's covered payroll	\$ 1,229	\$ 1,174	\$ 1,343	\$ 1,310
University's proportionate share of the net pension liability as a percentage of its covered payroll	258.18%	254.86%	226.28%	236.49%
Plan fiduciary net position as a percentage of the total pension liability	56.10%	54.75%	57.41%	61.70%

KTRS

University's proportion of the net pension liability	0.77%	0.73%	1.21%	1.23%
University's proportionate share of the net pension liability	\$ 105,246	\$ 207,035	\$ 373,414	\$ 299,522
State's proportionate share of the net pension liability associated with the University	<u>78,302</u>	<u>165,003</u>	<u>35,194</u>	<u>30,458</u>
Total	<u>\$ 183,548</u>	<u>\$ 372,038</u>	<u>\$ 408,608</u>	<u>\$ 329,980</u>
University's covered payroll	\$ 54,430	\$ 55,655	\$ 56,509	\$ 56,089
University's proportionate share of the net pension liability as a percentage of its covered payroll	193.36%	372.00%	660.80%	534.01%
Plan fiduciary net position as a percentage of the total pension liability	59.30%	39.83%	35.22%	42.49%

WESTERN KENTUCKY UNIVERSITY
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULES OF THE UNIVERSITY'S PROPORTIONATE SHARE OF THE NET PENSION LIABILITY
(in thousands)
June 30, 2019 and 2018

Notes to the Schedule:

Changes in assumptions – 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 is a 10-year schedule. However, the information in this schedule is not required to be presented retroactively. Years will be added to this schedule in future fiscal years until 10 years of information is available.

WESTERN KENTUCKY UNIVERSITY
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULES OF THE UNIVERSITY'S PENSION CONTRIBUTIONS
(in thousands)
June 30, 2019 and 2018

KERS – Non-Hazardous

	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>
Contractually required contribution	\$ 6,868	\$ 8,018	\$ 8,210	\$ 7,397
Contributions in relation to the contractually required contribution	<u>(6,868)</u>	<u>(8,018)</u>	<u>(8,210)</u>	<u>(7,397)</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
University's covered payroll	\$ 18,246	\$ 19,527	\$ 20,402	\$ 23,985
Contributions as a percentage of covered payroll	37.64%	41.06%	40.24%	30.84

KERS – Hazardous

Contractually required contribution	\$ 432	\$ 263	\$ 248	\$ 220
Contributions in relation to the contractually required contribution	<u>(432)</u>	<u>(263)</u>	<u>(248)</u>	<u>(220)</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
University's covered payroll	\$ 1,257	\$ 1,229	\$ 1,174	\$ 1,343
Contributions as a percentage of covered payroll	34.37%	21.40%	21.12%	16.38

KTRS

Contractually required contribution	\$ 9,561	\$ 9,564	\$ 9,661	\$ 9,624
Contributions in relation to the contractually required contribution	<u>(9,561)</u>	<u>(9,564)</u>	<u>(9,661)</u>	<u>(9,624)</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
University's covered payroll	\$ 50,972	\$ 54,430	\$ 55,655	\$ 56,509
Contributions as a percentage of covered payroll	18.76%	17.57%	17.36%	17.03%

WESTERN KENTUCKY UNIVERSITY
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULES OF THE UNIVERSITY'S PENSION CONTRIBUTIONS
(in thousands)
June 30, 2019 and 2018

Notes to the Schedule:

Changes in assumptions – 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%.

** This is a 10-year schedule. However, the information in this schedule is not required to be presented retroactively. Years will be added to this schedule in future fiscal years until 10 years of information is available.

WESTERN KENTUCKY UNIVERSITY
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULES OF THE UNIVERSITY'S PROPORTIONATE SHARE OF THE NET OPEB LIABILITY
(in thousands)
June 30, 2019 and 2018

KERS – Non-Hazardous	<u>2019</u>	<u>2018</u>
University's proportion of the net OPEB liability	1.257%	1.299%
University's proportionate share of the net OPEB liability	\$ 29,797	\$ 32,938
University's covered payroll	\$ 19,527	\$ 20,402
University's proportionate share of the net OPEB liability as a percentage of its covered payroll	152.59%	161.44%
Plan fiduciary net position as a percentage of the total OPEB liability	27.32%	24.40%
 KERS – Hazardous		
University's proportion of the net OPEB liability	0.628%	0.602%
University's proportionate share of the net OPEB liability	\$ (208)	\$ 36
University's covered payroll	\$ 1,229	\$ 1,174
University's proportionate share of the net OPEB liability as a percentage of its covered payroll	(16.92)%	3.07%
Plan fiduciary net position as a percentage of the total OPEB liability	106.83%	98.80%
 KTRS – Medical Insurance		
University's proportion of the net OPEB liability	0.728%	0.784%
University's proportionate share of the net OPEB liability	\$ 25,269	\$ 27,960
University's covered payroll	\$ 54,430	\$ 55,655
University's proportionate share of the net OPEB liability as a percentage of its covered payroll	46.42%	50.24%
Plan fiduciary net position as a percentage of the total OPEB liability	25.50%	21.18%
 KTRS – Life Insurance		
University's proportion of the net OPEB liability	1.609%	1.677%
University's proportionate share of the net OPEB liability	\$ 454	\$ 368
University's covered payroll	\$ 54,430	\$ 55,655
University's proportionate share of the net OPEB liability as a percentage of its covered payroll	0.83%	0.66%
Plan fiduciary net position as a percentage of the total OPEB liability	75.00%	79.99%

WESTERN KENTUCKY UNIVERSITY
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULES OF THE UNIVERSITY'S PROPORTIONATE SHARE OF THE NET OPEB LIABILITY
(in thousands)
June 30, 2019 and 2018

Notes to the Schedule:

Changes in assumptions – 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 is a ten-year schedule. However, the information in this schedule is not required to be presented retroactively. Years will be added to this schedule in future fiscal years until ten years of information is available.

WESTERN KENTUCKY UNIVERSITY
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULES OF THE UNIVERSITY'S OPEB CONTRIBUTIONS
(in thousands)
June 30, 2019 and 2018

	<u>2019</u>	<u>2018</u>
KERS – Non-Hazardous		
Contractually required contribution	\$ 1,406	\$ 1,642
Contributions in relation to the contractually required contribution	<u>(1,406)</u>	<u>(1,642)</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>
University's covered payroll	\$ 18,246	\$ 19,527
Contributions as a percentage of covered payroll	7.71%	8.41%
KERS – Hazardous		
Contractually required contribution	\$ 31	\$ 28
Contributions in relation to the contractually required contribution	<u>(31)</u>	<u>(28)</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>
University's covered payroll	\$ 1,257	\$ 1,229
Contributions as a percentage of covered payroll	2.47%	2.28%
KTRS – Medical Insurance		
Contractually required contribution	\$ 1,297	\$ 1,294
Contributions in relation to the contractually required contribution	<u>(1,297)</u>	<u>(1,294)</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>
University's covered payroll	\$ 50,972	\$ 54,430
Contributions as a percentage of covered payroll	2.54%	2.38%
KTRS – Life Insurance		
Contractually required contribution	\$ 16	\$ 16
Contributions in relation to the contractually required contribution	<u>(16)</u>	<u>(16)</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>
University's covered payroll	\$ 50,972	\$ 54,430
Contributions as a percentage of covered payroll	0.03%	0.03%

WESTERN KENTUCKY UNIVERSITY
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULES OF THE UNIVERSITY'S OPEB CONTRIBUTIONS
(in thousands)
June 30, 2019 and 2018

Notes to the Schedule:

Changes in assumptions – 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.

* This is a ten-year schedule. However, the information in this schedule is not required to be presented retroactively. Years will be added to this schedule in future fiscal years until ten years of information is available.

* Employer contributions do not include the expected implicit subsidy.

SUPPLEMENTAL INFORMATION

**INDEPENDENT AUDITOR'S 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**

President Timothy C. Caboni
and Board of Regents
Western Kentucky University
Bowling Green, Kentucky

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the business-type activities and the aggregate discretely presented component units of Western Kentucky University ("the University") as of and for the year ended June 30, 2019, and the related notes to the financial statements, which collectively comprise the University's basic financial statements, and have issued our report thereon dated October 4, 2019. Our report includes a reference to other auditors who audited the financial statements of Western Kentucky University Foundation, Inc., WKU Student Life Foundation, Inc. and College Heights Foundation, Inc. (discretely presented component units), as described in our report on the University's financial statements. The financial statements of the discretely presented component units were not audited in accordance with *Government Auditing Standards*. The financial statements of the Western Kentucky University Research Foundation, Inc. were not audited in accordance with *Government Auditing Standards*, and accordingly, this report does not include reporting on internal control over financial reporting or instances of reportable noncompliance associated with Western Kentucky University Research Foundation, Inc.

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 that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

(Continued)

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the University's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control over financial reporting 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.

A handwritten signature in black ink that reads "Crowe LLP". The letters are cursive and fluid, with the "C" and "L" being particularly large and stylized.

Crowe LLP

Louisville, Kentucky
October 4, 2019

**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM;
REPORT ON INTERNAL CONTROL OVER COMPLIANCE; AND REPORT ON THE SCHEDULE OF
EXPENDITURES OF FEDERAL AWARDS REQUIRED BY THE UNIFORM GUIDANCE**

President Timothy C. Caboni
and Board of Regents
Western Kentucky University
Bowling Green, Kentucky

Report on Compliance for Each Major Federal Program

We have audited Western Kentucky University's ("the University") compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of the University's major federal programs for the year ended June 30, 2019. The University's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

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

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of the University's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the University's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

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

Opinion on Each Major Federal Program

In our opinion, the University complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2019.

(Continued)

Report on Internal Control over Compliance

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

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

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

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

Report on Schedule of Expenditures of Federal Awards Required by the Uniform Guidance

We have audited the financial statements of the business-type activities and the aggregate discretely presented component units of the University as of and for the year ended June 30, 2019, and the related notes to the financial statements, which collectively comprise the University's basic financial statements. We issued our report thereon dated October 4, 2019, which contained unmodified opinions on those financial statements. Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by the Uniform Guidance and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditure of federal awards is fairly stated in all material respects in relation to the basic financial statements as a whole.



Crowe LLP

Louisville, Kentucky
October 4, 2019

WESTERN KENTUCKY UNIVERSITY
 SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
 Year ended June 30, 2019

<u>Federal Agency Cluster/Program</u>	<u>Pass Through Number</u>	<u>CFDA No.</u>	<u>Amount Expended</u>
Student Financial Aid Cluster			
U. S. Department of Education			
Direct Programs			
Federal Supplemental Educational Opportunity Grants	n/a	84.007	\$ 463,880
Federal Work Study	n/a	84.033	787,612
Federal Perkins Loan Program	n/a	84.038	3,071,755
Federal Pell Grant Program	n/a	84.063	22,666,009
Federal Direct Student Loans	n/a	84.268	83,950,081
TEACH Grants	n/a	84.379	<u>19,647</u>
Total U. S. Department of Education-Direct			110,958,984
TOTAL STUDENT FINANCIAL AID CLUSTER			<u>110,958,984</u>
Research and Development Cluster			
U. S. Department of Agriculture			
Direct Programs			
Agricultural Research Basic and Applied Research	n/a	10.001	517,236
Capacity Building for (NLGCA)	n/a	10.326	<u>145,949</u>
Total U. S. Department of Agriculture-Direct			663,186
Total U.S. Department of Agriculture			<u>663,186</u>
U. S. Department of Commerce			
Pass Through Programs			
Global Science & Technology Inc.	PO17-00640/TASKS2017-0115	11.CON	11,131
Contract (NOAA Sci Tech Mesonet)	SUBAWARD 00760	11.431	<u>57,272</u>
Total U. S. Department of Commerce-Pass Through			68,403
Total U. S. Department of Commerce			<u>68,403</u>
U. S. Department of Defense			
Direct Programs			
ONR – Basic and Applied Scientific Research	n/a	12.300	<u>88,445</u>
U. S. Department of Defense-Direct			88,445
Pass Through Programs			
Basic, Applied & Research in Science and Engineering - Adelphi	AGREEMENT DATED 01/23/19	12.630	<u>63,695</u>
Total U.S. Department of the Defense-Pass-Through			63,695
Total U. S. Department of Defense			<u>152,140</u>
U. S. Department of Interior			
Direct Programs			
U.S Geological Survey Research Data Collection	n/a	15.808	4,828
Rivers, Trails and Conservation Assistance	n/a	15.921	250
Cooperative Research & Training Programs	n/a	15.945	<u>27,488</u>
U. S. Department of Interior-Direct			32,565
Pass Through Programs			
Endangered Species Conservation – Recovery Implementation Funds	F15AC00293	15.657	6,426
Assistance to State Water Resources Research Institutes	3200000437-19-001	15.805	4,997
Assistance to State Water Resources Research Institutes	3200000437-19-001	15.805	<u>4,788</u>
Total U.S. Department of the Interior-Pass-Through			16,211
Total U. S. Department of Interior			<u>48,776</u>

(Continued)

WESTERN KENTUCKY UNIVERSITY
 SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
 Year ended June 30, 2019

<u>Federal Agency Cluster/Program</u>	<u>Pass Through Number</u>	<u>CFDA No.</u>	<u>Amount Expended</u>
Research and Development Cluster (Continued)			
U. S. Department of Transportation			
Pass Through Programs			
Interagency Hazard Materials Public-Sector	LETTER DATED 5/16/17	20.703	\$ 1,210
Interagency Hazard Materials Public-Sector	LETTER DATED 4/05/18	20.703	<u>24,846</u>
Total U. S. Department of Transportation-Pass Through			26,056
Total U. S. Department of Transportation			<u>26,056</u>
National Aeronautics and Space Administration			
Direct Programs			
Science	n/a	43.001	<u>170,919</u>
Total National Aeronautics and Space Administration-Direct			170,919
Total National Aeronautics and Space Administration			<u>170,919</u>
National Endowment for the Arts			
Direct Programs			
Promotion of the Arts Grants to Organizations & Individ.	n/a	45.024	<u>9,643</u>
Total National Endowment for the Arts-Direct			9,643
Total National Endowment for the Arts			<u>9,643</u>
National Science Foundation			
Direct Programs			
Mathematical and Physical Sciences	n/a	47.049	232,478
Geosciences	n/a	47.050	6,600
Biological Sciences	n/a	47.074	231,955
Social, Behavioral, and Economic Sciences	n/a	47.075	(956)
Education and Human Sciences	n/a	47.076	106,112
Office of International Science and Engineering	n/a	47.079	<u>7,980</u>
Total National Science Foundation-Direct			584,168
Pass Through Programs			
University of Nebraska			
Geosciences	25-6238-0877-002	47.050	24,268
University of Kentucky Research Foundation			
Biological Sciences	3200001363-18-083	47.074	11,688
Education and Human Resources	UKRF 3048111054-14-128	47.076	15,993
Education and Human Resources	2035	47.076	18,890
Education and Human Resources	32000002015-19-043	47.076	11,216
Office of International Science and Engineering	3200000271-18-067	47.079	742
Office of International Science and Engineering	3200000271-18-070	47.079	1,504
Office of International Science and Engineering	3200000271-18-278	47.079	1,874
Office of International Science and Engineering	3200000271-18-300	47.079	9,360
Office of International Science and Engineering	3200000271-18-300	47.079	52,358
KY NSF EPSCoR-UKRF			
Office of Integrative Activities	3200000271-16-072	47.083	26,714
Office of Integrative Activities	UKRF 3200000271-18-059	47.083	3,803
Office of Integrative Activities	3200000271-18-061	47.083	8,675
Office of Integrative Activities	3200000271-18-068	47.083	12,795
Office of Integrative Activities	3200000271-18-069	47.083	10,973
Office of Integrative Activities	3200000271-18-084	47.083	<u>10,206</u>
Total National Science Foundation-Pass Through			221,058
Total National Science Foundation			<u>805,225</u>

(Continued)

WESTERN KENTUCKY UNIVERSITY
 SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
 Year ended June 30, 2019

<u>Federal Agency Cluster/Program</u>	<u>Pass Through Number</u>	<u>CFDA No.</u>	<u>Amount Expended</u>
Research and Development Cluster (Continued)			
U. S. Department of Energy			
Pass Through Programs			
Fossil Energy Research and Development	543827-78001	81.089	\$ <u>92,678</u>
U. S. Department of Energy-Pass Through			92,678
Total U. S. Department of Energy			<u>92,678</u>
U. S. Department of Education			
Pass Through Programs			
Green River Regional Ed Coop			
Race to the Top-District Grants	AGREEMENT DATED 03/20/13	84.416	<u>128,706</u>
U. S. Department of Education-Pass Through			128,706
Total U. S. Department of Education			<u>128,706</u>
U. S. Department of Health and Human Services			
Direct Programs			
NIH-Cancer Treatment Research	n/a	93.395	59,709
NIH-Mental Health Research Grants	n/a	93.859	114,250
NIH-Biomedical Research and Research Training	n/a	93.242	88,789
NIA-National Institute of Aging Research Grant	n/a	93.866	<u>121,306</u>
U. S. Department of Health and Human Services-Direct			384,053
Pass Through Programs			
University of Kentucky Research Foundation			
Occupational Safety and Health Program	3210001070-19-128	93.262	10,717
University of Louisville			
Research on Healthcare Costs, Quality & Outcomes	ULRF-15-0351	93.226	10,237
Biomedical Research & Research Training	ULRF 18-0680-03	93.859	432
Biomedical Research & Research Training	ULRF 13-1493C-01	93.859	(142)
Biomedical Research & Research Training	ULRF 18-0975A-07	93.859	22,848
Biomedical Research & Research Training	ULRF 13-1493D-02	93.859	139,345
Biomedical Research & Research Training	ULRF 13-1493D-01	93.859	523,430
University of Wisconsin at Eau Claire			
Mental Health Research Grants	SUB# AAB4884	93.242	<u>18,748</u>
Total U. S. Department of Health and Human Services-Pass Through			725,614
Total U. S. Department of Health and Human Services			<u>1,109,668</u>
U. S. Department of Homeland Security			
Pass Through Programs			
Homeland Security Advanced Research Projects	06-07-WKU	97.065	995
Homeland Security Advanced Research Projects	09-09-WKU	97.CON	1,042
Homeland Security Advanced Research Projects	3048108070-11-356	97.CON	2,527
Homeland Security Advanced Research Projects	HSHQDC07-3-00005	97.CON	74,677
Homeland Security Advanced Research Projects	Subcontract 01-12-WKU	97.CON	<u>10,174</u>
Total U. S. Department of Homeland Security-Pass Through			89,415
Total U. S. Department of Homeland Security			<u>89,415</u>
TOTAL RESEARCH AND DEVELOPMENT CLUSTER			<u><u>3,364,816</u></u>

(Continued)

WESTERN KENTUCKY UNIVERSITY
 SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
 Year ended June 30, 2019

<u>Federal Agency Cluster/Program</u>	<u>Pass Through Number</u>	<u>CFDA No.</u>	<u>Amount Expended</u>
TRIO Cluster			
U. S. Department of Education			
Direct Programs			
TRIO Student Support Services	n/a	84.042	\$ 302,719
TRIO Talent Search	n/a	84.044	401,454
TRIO Talent Search	n/a	84.044	278,540
TRIO Talent Search	n/a	84.044	254,537
TRIO Upward Bound	n/a	84.047	285,938
TRIO Upward Bound	n/a	84.047	420,315
TRIO Educational Opportunity Centers	n/a	84.066	<u>235,213</u>
Total U. S. Department of Education-Direct			2,178,716
TOTAL TRIO CLUSTER			<u>2,178,716</u>
Head Start			
U. S. Department of Health and Human Services			
Direct Programs			
Head Start	n/a	93.600	1,054,193
Head Start	n/a	93.600	<u>1,001,455</u>
Total U. S. Department of Health and Human Services-Direct			2,055,647
Pass Through Programs			
Head Start	04CH4761/02	93.600	35,919
Head Start	04CH4761/05	93.600	<u>183,580</u>
Total U. S. Department of Health and Human Services-Pass Through			219,499
TOTAL HEAD START			<u>2,275,146</u>
OTHER FEDERAL			
U. S. Department of Agriculture			
Direct Programs			
Agricultural Research Basic and Applied Research	n/a	10.001	5,349
Agricultural Research Basic and Applied Research	n/a	10.001	<u>10,840</u>
Subtotal CFDA No. 10.001			16,189
Farmers Market Promotion Program	n/a	10.168	<u>71,366</u>
Total U. S. Department of Agriculture-Direct			87,555
Pass Through Programs			
Specialty Crop Block Grant Program	PON2 035 1700001216 1	10.170	<u>5,382</u>
Total U. S. Department of Agriculture – Pass Through			5,382
Total U. S. Department of Agriculture			<u>92,938</u>
U.S. Department of Commerce			
Direct Programs			
Manufacturing Extension Partnership	n/a	11.611	229,230
Manufacturing Extension Partnership	n/a	11.611	<u>319,816</u>
Total U. S. Department of Commerce-Direct			549,047
Total U. S. Department of Commerce			<u>549,047</u>

(Continued)

WESTERN KENTUCKY UNIVERSITY
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
Year ended June 30, 2019

<u>Federal Agency Cluster/Program</u>	<u>Pass Through Number</u>	<u>CFDA No.</u>	<u>Amount Expended</u>
Other Federal (continued)			
U.S. Department of Defense			
Pass Through Programs			
Protection, Clearing and Straightening Channels FFSA: AECOM-Fort Knox	100642	12.109	\$ 5,058
Institute of International Education			
The Language Flagship Grants to Institutions of Higher Education	#0054-WKU-21-CHN-280-PO1	12.550	10,154
The Language Flagship Grants to Institutions of Higher Education	#0054-WKU-21-SSC-280-PO2	12.550	1,100
The Language Flagship Grants to Institutions of Higher Education	#0054-WKU-21-CHN-280-PO1	12.550	(12,894)
The Language Flagship Grants to Institutions of Higher Education	#0054-WKU-21-SSC-280-PO3	12.550	(73,600)
The Language Flagship Grants to Institutions of Higher Education	#0054-WKU-21-CHN-280-PO1	12.550	238,989
The Language Flagship Grants to Institutions of Higher Education	#0054-WKU-21-SSC-280-PO4	12.550	<u>151,398</u>
Subtotal CFDA No. 12.550			<u>315,147</u>
Total U. S. Department of Defense-Pass Through			320,205
Total U. S. Department of Defense			<u>320,205</u>
U. S. Department of Interior			
Direct Programs			
Cooperative Research & Training Programs- Resources of the NPS	n/a	15.945	10,457
Cooperative Research & Training Programs- Resources of the NPS	n/a	15.945	<u>16,049</u>
Total U. S. Department of Interior-Direct			26,506
Total U. S. Department of Interior			<u>26,506</u>
U.S. Department of Justice			
Pass Through Programs			
Juvenile Justice and Delinquency Prevention	2013-MU-FX-0017	16.540	15,821
Juvenile Justice and Delinquency Prevention	TITLE II 2015-JF-FX-0029-DMC	16.540	<u>16,799</u>
Total U. S. Department of Justice-Pass Through			32,619
Total U. S. Department of Justice			<u>32,619</u>
National Aeronautics and Space Administration			
Pass Through Programs			
University of Kentucky Research Foundation			
Education	3200000 161-17-229	43.008	2,183
Education	3210000 183-19-160	43.008	1,746
Education	3210000 183-19-161	43.008	<u>2,536</u>
Total National Aeronautics and Space Administration-Pass Through			6,465
Total National Aeronautics and Space Administration			<u>6,465</u>
National Endowment for Arts			
Direct Programs			
Promotion of the Arts Grants to Organizations and Individuals	n/a	45.024	<u>4,163</u>
Total National Endowment for Arts-Direct			4,163
Total National Endowment for Arts			<u>4,163</u>

(Continued)

WESTERN KENTUCKY UNIVERSITY
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
Year ended June 30, 2019

<u>Federal Agency Cluster/Program</u>	<u>Pass Through Number</u>	<u>CFDA No.</u>	<u>Amount Expended</u>
National Endowment for Humanities			
Direct Programs			
Promotion of the Humanities Division of Preservation	n/a	45.149	20,126
Total National Endowment for Humanities-Direct			<u>20,126</u>
Total National Endowment for Humanities			<u>20,126</u>
Other Federal (continued)			
Small Business Administration			
Pass Through Programs			
University of Kentucky Research Foundation			
Small Business Centers	3200001644-18-231	59.037	\$ 19,533
Small Business Centers	32000022992-19-146	59.037	<u>60,171</u>
Small Business Administration-Pass Through			79,705
Total Small Business Administration			<u>79,705</u>
Environmental Protection Agency			
Pass Through Programs			
Kentucky Association for Environmental Ed			
Environmental Education Grants	Agreement Dated 8/30/16	66.951	<u>2,696</u>
Environmental Protection Agency-Pass Through			2,696
Total Environmental Protection Agency			<u>2,696</u>
U. S. Department of Education			
Direct Programs			
Undergraduate Intl Studies & Foreign Lang.	n/a	84.016	<u>4,994</u>
Total U. S. Department of Education-Direct			4,994
Pass Through Programs			
Education Professional Standards Board			
Career and Technical Ed.-Basic Grants to States	PON2 540 190000 1869	84.048	3,755
Career and Technical Ed.-Basic Grants to States	PON2 540 190000 1526 1	84.048	2,783
Career and Technical Ed.-Basic Grants to States	PON2 540 1700002886 1	84.048	628
Career and Technical Ed.-Basic Grants to States	PON2 540 190000 1526	84.048	<u>61,869</u>
Subtotal CFDA No. 84.048			69,035
Kentucky Department of Education			
Javits Gifted and Talented Students Ed	PON2 540 1190000999	84.206	14,569
Javits Gifted and Talented Students Ed	PON2 540 1800000073 1	84.206	<u>1,107</u>
Subtotal CFDA No. 84.206			15,676
Kentucky Department of Education			
Mathematics and Science Partnerships	PON2 540 1800000894 1	84.366	<u>(1,725)</u>
Total U. S. Department of Education-Pass Through			82,986
Total U.S. Department of Education			<u>87,980</u>
U.S. Department of Health and Human Services			
Direct Programs			
NIH-Occupational Safety and Health Program	n/a	93.262	51,186
Advanced Education Nursing Traineeships	n/a	93.247	<u>351,855</u>
U. S. Department of Health and Human Services-Direct			403,041
Pass Through Programs			
Environmental Public Health and Emergency Response	KPHI 303	93.070	6,614
University of Louisville			
Area Health Education Centers	ULRF 17-1164-02	93.107	(4,692)
Area Health Education Centers	ULRF 17-1164A-02	93.107	72,739
Area Health Education Centers	ULRF 17-1164S1-02	93.107	<u>16,068</u>
Subtotal CFDA No. 93.107			84,115

(Continued)

WESTERN KENTUCKY UNIVERSITY
 SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
 Year ended June 30, 2019

<u>Federal Agency Cluster/Program</u>	<u>Pass Through Number</u>	<u>CFDA No.</u>	<u>Amount Expended</u>
Other Federal (continued)			
Eastern Kentucky University			
Foster Care Title IV-E	453440-18-128	93.658	331
Foster Care Title IV-E	453445-18-129	93.658	(1)
Foster Care Title IV-E	453605-19-110	93.658	9,578
Foster Care Title IV-E	453600-19-102	93.658	<u>237,096</u>
Subtotal CFDA No. 93.658			<u>247,004</u>
U. S. Department of Health and Human Services-Pass Through			337,732
Total U. S. Department of Health and Human Services			<u>740,773</u>
Executive Office of the President			
Pass Through Programs			
High Intensity Drug Trafficking Areas Program	G18AP0001A	95.001	\$ 6,442
High Intensity Drug Trafficking Areas Program	G19AP0001A	95.001	<u>7,611</u>
Executive Office of the President-Pass Through			14,053
Total Executive Office of the President			<u>14,053</u>
TOTAL OTHER FEDERAL			<u>\$ 1,977,275</u>
TOTAL FEDERAL EXPENDITURES			<u>\$120,754,937</u>

Of the federal expenditures presented in the schedule, the University provided federal awards to the following subrecipients:

<u>CFDA Number/Federal Program</u>	<u>Subrecipient</u>	<u>Fiscal 2019 Expenditures</u>
10.326 Capacity Building for NLGCA	West Virginia University Research	\$ 71,540
10.168 Farmers Market Promotion Program	Foundation for Connecting Communities	24,756
10.168 Farmers Market Promotion Program	Need More Acres Farm	7,480
93.600 Head Start	Audubon Area Community Services Inc	857,857
93.600 Head Start	Murray Head Start	<u>367,946</u>
Total Federal Awards Paid to Subrecipients		<u>\$ 1,329,579</u>

WESTERN KENTUCKY UNIVERSITY
NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
Year ended June 30, 2019

NOTE 1 – BASIS OF ACCOUNTING

This schedule includes the federal awards activity of Western Kentucky University (the “University”) and is presented on the accrual basis of accounting. The information in this Schedule is presented in accordance with the requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of the financial statements.

The expenditures are recognized following, as applicable, either the cost principles in OMB Circular A-21, *Cost Principles for Educational Institutions* or the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement. Negative amounts shown on the Schedule represent adjustments or credits made in the normal course of business to amounts reported as expenditures in prior years. The University has elected not to use the 10-percent de minimis indirect cost rate allowed under the Uniform Guidance.

NOTE 2 – LOANS

The University participates in the Federal Direct Loan Programs (including Supplemental Loans for Students, and Parents Loans for Undergraduate Students).

The University administers the Federal Perkins Loan Program (CFDA Number 84.038). The amount presented on the schedule of expenditures of federal awards for the Federal Perkins Loan Program represents loan balances outstanding at June 30, 2018 for which the government imposes continuing compliance requirements. No disbursements are allowed under this program subsequent to June 30, 2018. At June 30, 2019, the University had loans outstanding in the amount of \$2,653,502 with an allowance for doubtful accounts of \$548,366.

NOTE 3 – FEDERAL INSURANCE

The University had no federal insurance in force during the year.

WESTERN KENTUCKY UNIVERSITY
 SCHEDULE OF FINDINGS AND QUESTIONED COSTS
 June 30, 2019

PART I – SUMMARY OF AUDITORS' RESULTS

Financial Statements

Type of report the auditor issued on whether the financial statements audited were prepared in accordance with GAAP:

Unmodified

Internal control over financial reporting:
 Material weakness(es) identified?

_____ Yes X No

Significant deficiency(ies) identified not considered to be material weaknesses?

_____ Yes X None Reported

Noncompliance material to financial statements noted?

_____ Yes X No

Federal Awards

Internal control over major programs:
 Material weakness(es) identified?

_____ Yes X No

Significant deficiency(ies) identified not considered to be material weakness(es)?

_____ Yes X None Reported

Type of auditors' report issued on compliance for major federal programs:

Unmodified

Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.200.516(a)?

_____ Yes X No

Identification of major programs:

<u>CFDA Number(s)</u>	<u>Name of Federal Program or Cluster Number</u>
	Federal Student Aid Cluster (consisting of):
84.007	Federal Supplemental Educational Opportunity Grants
84.033	Federal Work Study Program
84.038	Federal Perkins Loan Program
84.063	Federal Pell Grant Program
84.268	Federal Direct Student Loans
84.379	Teacher Education Assistance for College and Higher Education Grants
	Research and Development Cluster (consisting of):
10.001	Agricultural Research Basic and Applied Research
10.326	Capacity Building for Non-Land Grant Colleges of Agriculture (NLGCA)
11.431	Contract NOAA Sci Tech Mesonet
11.CON	Global Science & Technology Inc
12.300	ONR - Basic and Applied Scientific Research
12.630	Basic, Applied & Research in Science and Engineering – Adelphi
15.657	Endangered Species Conservation - Recovery Implementation Funds
15.805	Assistance to State Water Resources Research Institutes
15.808	U.S. Geological Survey Research and Data Collection
15.921	Rivers, Trails and Conservation Assistance
15.945	Coop Research/Training Programs - Resources of the National Park System
20.703	Interagency Hazardous Materials Public Sector Training and Planning Grants
43.001	Science
45.024	Promotion of the Arts - Grants to Organizations and Individuals
47.049	Mathematical and Physical Sciences
47.050	Geosciences
47.074	Biological Sciences
47.075	Social, Behavioral, and Economic Sciences
47.076	Education and Human Resources

WESTERN KENTUCKY UNIVERSITY
 SCHEDULE OF FINDINGS AND QUESTIONED COSTS
 June 30, 2019

Identification of major programs (continued):

<u>CFDA Number(s)</u>	<u>Name of Federal Program or Cluster Number</u>
47.079	Office of International Science and Engineering
47.083	Office of Integrative Activities
81.089	Fossil Energy Research and Development
84.366	Mathematics and Science Partnerships
84.416	Race to the Top - District Grants
93.226	Research on Healthcare Costs, Quality and Outcomes
93.242	NIH-Biomedical Research and Research Training
93.262	Occupational Safety and Health Program
93.395	NIH-Cancer Treatment Research
93.859	NIH-Mental Health Research Grants
93.866	NIA-National Institute of Aging Research Grant
97.065	Homeland Security Advanced Research Projects
97.CON	Homeland Security Advanced Research Projects

Dollar threshold used to distinguish between Type A and Type B programs 750,000

Auditee qualified as low-risk auditee? X Yes No

PART II – FINANCIAL STATEMENT FINDINGS

None

PART III – FINDINGS AND QUESTIONED COSTS – MAJOR FEDERAL AWARDS

None