

**WESTERN KENTUCKY UNIVERSITY**  
(A Component Unit of the Commonwealth of Kentucky)  
Bowling Green, Kentucky

**REPORT ON AUDIT OF INSTITUTION  
OF HIGHER EDUCATION  
IN ACCORDANCE WITH UNIFORM GUIDANCE**  
June 30, 2020 and 2019

WESTERN KENTUCKY UNIVERSITY  
Bowling Green, Kentucky

REPORT ON AUDIT OF INSTITUTION  
OF HIGHER EDUCATION  
IN ACCORDANCE WITH UNIFORM GUIDANCE  
June 30, 2020 and 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, 2020 and 2019, and the related notes to the financial statements, which collectively comprise the University's basic financial statements as listed in the table of contents.

### ***Management's Responsibility for the Financial Statements***

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

### ***Auditor's Responsibility***

Our responsibility is to express 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, 2020 and 2019, 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, 2020 and 2019, 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 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, 2020 and 2019, 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 4 through 13, the Schedules of the University's Proportionate Share of the Net Pension Liability on pages 141 and 142, the Schedules of the University's Pension Contributions on pages 143 and 144, the Schedules of the University's Proportionate Share of the Net OPEB Liability on pages 145 and 146, and the Schedules of the University's OPEB Contributions on pages 147 and 148, 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 2, 2020, on our consideration of the University's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on 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 2, 2020

WESTERN KENTUCKY UNIVERSITY  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
June 30, 2020 and 2019

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**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, 2020 and 2019. 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, 2020 and 2019, 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, 2020 and 2019

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***Fiscal Year 2020 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 2019</u>	<u>Fall 2018</u>	<u>Fall 2017</u>
<b><u>Enrollment Base (Headcount)</u></b>			
Undergraduate applications	9,634	9,250	9,804
Undergraduate enrollment (including returning students)	15,906	17,030	17,656
First-time freshmen	2,714	2,934	3,116
Total graduate enrollment	2,277	2,426	2,601
Total enrollment	18,183	19,456	20,257

The following data, with a comparison between the 2019/2020, 2018/2019, and 2017/2018 school years, is provided to help assess the financial viability of the University:

	<u>June 30, 2020</u>	<u>June 30, 2019</u>	<u>June 30, 2018</u>
<b><u>Supporting Foundations</u></b>			
Endowments	\$191.2 million	\$185.7 million	\$180.9 million
Total cash receipts	\$ 21.9 million	\$ 23.2 million	\$ 32.1 million
<b><u>State Appropriations</u></b>			
General non-operating revenue	\$ 73,723,300	\$ 73,783,400	\$ 73,907,300
Capital appropriation	<u>1,085,678</u>	<u>8,212,116</u>	<u>12,323,775</u>
Total	<u>\$ 74,808,978</u>	<u>\$ 81,995,516</u>	<u>\$ 86,231,075</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.

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WESTERN KENTUCKY UNIVERSITY  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
June 30, 2020 and 2019

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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, 2020, 2019 and 2018, is as follows:

**Condensed Statement of Net Position (in Thousands)**

	<u>2020</u>	<u>2019</u>	<u>2018</u>
<b>ASSETS</b>			
Current and non-current other assets	\$ 146,430	\$ 135,464	\$ 122,952
Capital assets, net	<u>449,912</u>	<u>457,479</u>	<u>469,714</u>
Total assets	<u>596,342</u>	<u>592,943</u>	<u>592,666</u>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>			
Deferred loss on bond refunding	3,240	3,761	4,282
Deferred pension and OPEB outflows	<u>37,621</u>	<u>54,559</u>	<u>79,010</u>
Total deferred outflows of resources	<u>40,861</u>	<u>58,320</u>	<u>83,292</u>
Total assets and deferred outflows of resources	<u>\$ 637,203</u>	<u>\$ 651,263</u>	<u>\$ 675,958</u>
<b>LIABILITIES</b>			
Long-term obligations (current and non-current)	\$ 146,627	\$ 163,100	\$ 177,289
Net pension liability	242,963	279,540	383,922
Net OPEB liability	45,564	55,312	61,303
Other liabilities	18,502	19,005	15,865
Unearned revenue	<u>35,549</u>	<u>18,976</u>	<u>19,080</u>
Total liabilities	<u>489,205</u>	<u>535,933</u>	<u>657,459</u>
<b>DEFERRED INFLOWS OF RESOURCES</b>			
Deferred pension and OPEB inflows	152,282	177,937	128,007
<b>NET POSITION</b>			
Net investment in capital assets	305,361	299,454	298,367
Restricted			
Non-expendable	16,289	15,592	16,238
Expendable	27,738	16,121	17,354
Unrestricted	<u>(353,672)</u>	<u>(393,774)</u>	<u>(441,467)</u>
Total net position	<u>(4,284)</u>	<u>(62,607)</u>	<u>(109,508)</u>
Total liabilities, deferred inflows of resources and net position	<u>\$ 637,203</u>	<u>\$ 651,263</u>	<u>\$ 675,958</u>

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WESTERN KENTUCKY UNIVERSITY  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
June 30, 2020 and 2019

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Liabilities include pledges payable to the city of Bowling Green ("City") in the amount of \$15,406,280 for the Diddle Arena Improvements Project. Bonds payable for educational buildings total \$115,128,983 with final payments on the bonds scheduled for fiscal year 2036. Additionally, the university's net pension and OPEB liability was \$288,526,911, \$334,851,781, and \$445,224,347, as of June 30, 2020, 2019, and 2018, 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 \$(79,892,202), \$(91,047,715), and \$(131,424,344), for fiscal years 2020, 2019 and 2018, respectively.

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WESTERN KENTUCKY UNIVERSITY  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
June 30, 2020 and 2019

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A summary of the University's activities for the years ended June 30, 2020, 2019 and 2018 is as follows:

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

	<u>2020</u>	<u>2019</u>	<u>2018</u>
<b>Operating revenues</b>			
Net tuition and fees	\$ 120,036	\$ 126,640	\$ 133,757
Grants and contracts	261	230	457
Sales and services of educational departments	16,104	17,518	13,769
Auxiliary enterprises	19,846	22,500	22,543
Other	<u>18,792</u>	<u>22,074</u>	<u>21,472</u>
Total operating revenues	<u>175,039</u>	<u>188,962</u>	<u>191,998</u>
<b>Operating expenses</b>	<u>254,931</u>	<u>280,010</u>	<u>323,422</u>
<b>Operating loss</b>	<u>(79,892)</u>	<u>(91,048)</u>	<u>(131,424)</u>
<b>Non-operating revenues (expenses)</b>			
State appropriations	73,723	73,783	73,907
Grants and contracts	64,430	61,364	63,826
Investment income, net	2,014	382	1,744
Interest on capital asset-related debt	(5,615)	(6,012)	(6,335)
Other	<u>2,577</u>	<u>220</u>	<u>215</u>
Net non-operating revenues	<u>137,129</u>	<u>129,737</u>	<u>133,357</u>
<b>Gain (loss) before capital contributions</b>	57,237	38,689	1,933
State capital appropriation	<u>1,086</u>	<u>8,212</u>	<u>12,324</u>
<b>Increase in net position</b>	58,323	46,901	14,257
<b>Net position, beginning of year</b>	<u>(62,607)</u>	<u>(109,508)</u>	<u>(123,765)</u>
<b>Net position, end of year</b>	<u>\$ (4,284)</u>	<u>\$ (62,607)</u>	<u>\$ (109,508)</u>

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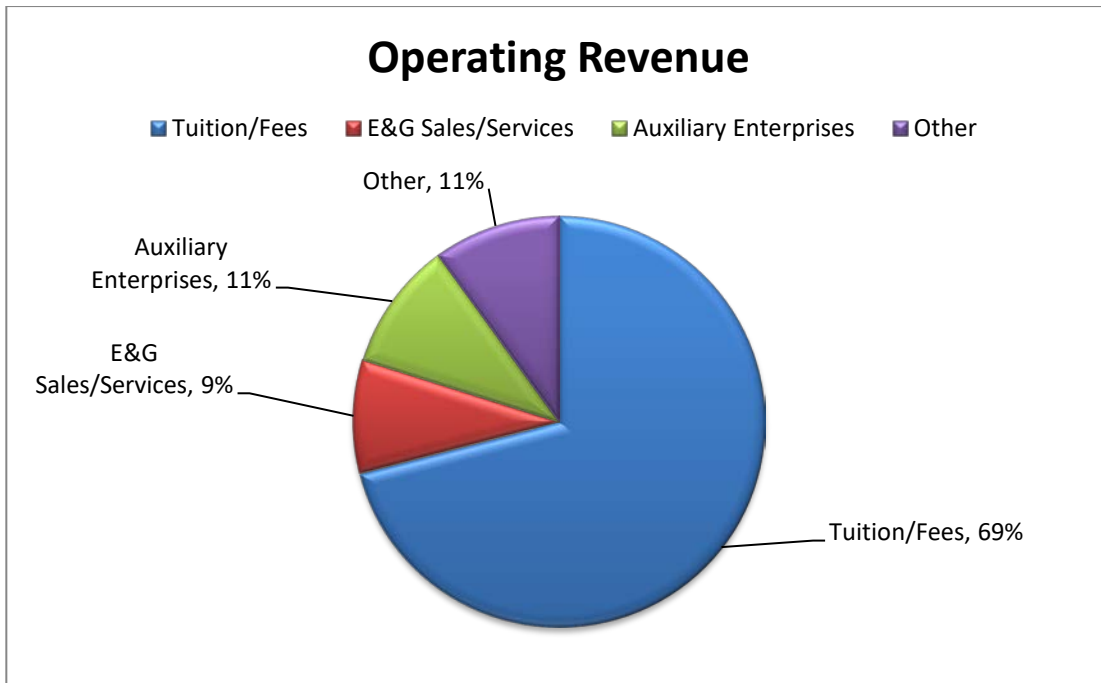
**Operating Revenues**

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 6.5% between fall 2018 (19,456 students) and fall 2019 (18,183 students). As of fall 2019, approximately 77.0% of students enrolled at the University were Kentucky residents. An additional 10.0% 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, 2020 and 2019, were approximately 64.5% and 64.4%, respectively of the gross tuition and fees with approximately \$66.2 million and \$70.0 million, respectively, being recorded as scholarship allowance.

The distribution of FY 2020 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  
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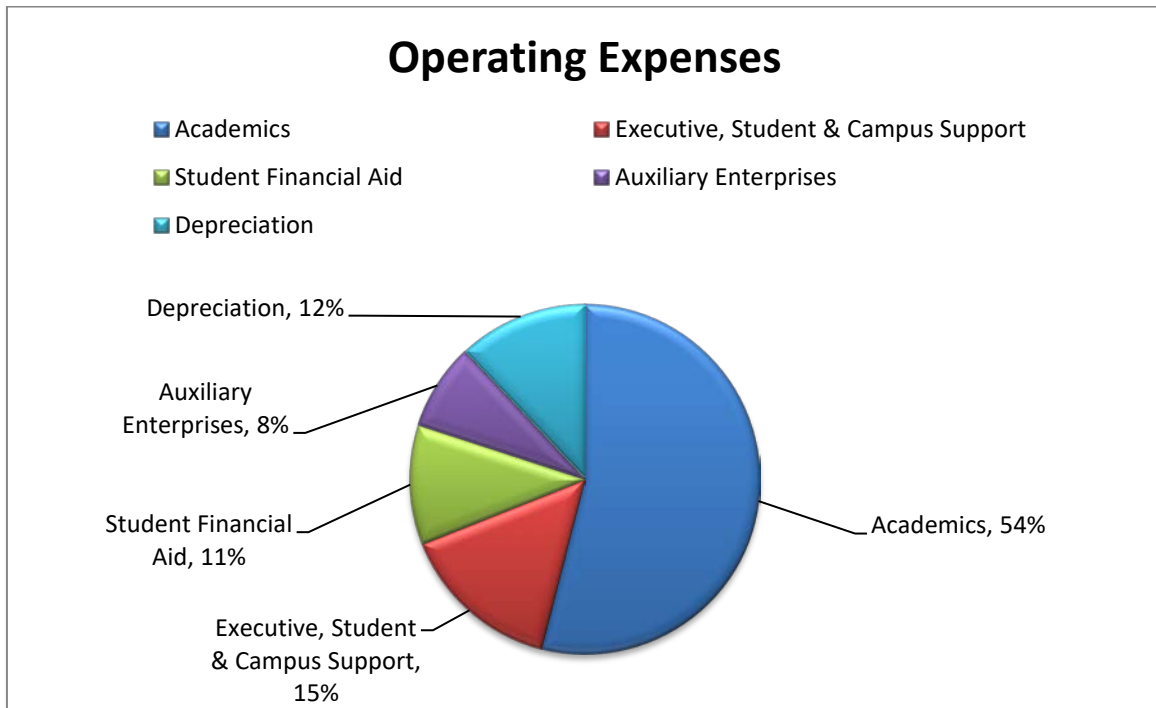
The grant and contract awards received in a given year are frequently multiyear awards for which only the current year activity related to the award will be recorded, *i.e.*, any cash received in excess of expenses incurred will be recorded as unearned revenue. Additionally, awards related to future 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 2020, 2019 and 2018.

**Grants and Contracts Awards (Excluding Financial Aid)**

	<u>2020</u>	<u>2019</u>	<u>2018</u>
Federal	\$ 17,419,498	\$ 12,861,236	\$ 9,620,339
State	1,659,392	2,460,090	988,290
Other	<u>2,875,472</u>	<u>2,598,870</u>	<u>5,494,941</u>
 Total	 <u>\$ 21,954,362</u>	 <u>\$ 17,920,196</u>	 <u>\$ 16,103,570</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.



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WESTERN KENTUCKY UNIVERSITY  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
June 30, 2020 and 2019

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**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, 2020, 2019 and 2018 is comprised of the following:

	<u>2020</u>	<u>2019</u>	<u>2018</u>
Investment income	\$ 2,014,514	\$ 1,030,673	\$ 753,838
Net change for the year in the fair value of investments	<u>(314)</u>	<u>(648,237)</u>	<u>990,094</u>
	<u>\$ 2,014,200</u>	<u>\$ 382,436</u>	<u>\$ 1,743,932</u>

State appropriations were \$73,723,300, \$73,783,400, and \$73,907,300, for 2020, 2019 and 2018, respectively.

**Change in Net Position**

For the years ended June 30, 2020, 2019 and 2018, the University's net position increased by \$58,322,886, \$46,900,930, and \$14,256,827, respectively. The year-end net position for June 30, 2020, 2019 and 2018 were \$(4,284,085), \$(62,606,971), and \$(109,507,901), 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

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(Continued)

WESTERN KENTUCKY UNIVERSITY  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
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The major sources of cash received for operating activities are tuition and fees of \$122,428,943 and \$126,327,294 and auxiliary enterprises of \$19,846,452 and \$22,499,800 at June 30, 2020 and 2019, respectively. Major uses of cash for operating activities were payments to employees for salaries and benefits of \$178,376,311 and \$187,354,863 and to suppliers and contractors of \$90,421,799 and \$93,692,000 at June 30, 2020 and 2019, 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 and interest receipts.

The Statements of Cash Flows are summarized as follows:

**Condensed Statements of Cash Flows (in thousands)**

	<u>2020</u>	<u>2019</u>	<u>2018</u>
<b>Cash Provided By (Used In)</b>			
Operating activities	\$ (88,565)	\$ (92,906)	\$ (106,998)
Non-capital financing activities	137,163	135,072	136,070
Capital and related financing activities	(39,271)	(27,084)	(26,184)
Investing activities	<u>2,141</u>	<u>1,006</u>	<u>4,074</u>
Net increase (decrease) in cash and cash equivalents	11,468	16,088	6,962
<b>Cash and cash equivalents, beginning of year</b>	<u>92,230</u>	<u>76,142</u>	<u>69,180</u>
<b>Cash and cash equivalents, end of year</b>	<u>\$ 103,698</u>	<u>\$ 92,230</u>	<u>\$ 76,142</u>

**Capital Asset and Long-term Obligations**

**Capital Assets**

As of June 30, 2020, 2019 and 2018, the University had \$449.9 million, \$457.5 million, and \$469.7 million invested in capital assets, net of accumulated depreciation of \$438.1 million, \$412.6 million, and \$384.5 million, respectively. Capital assets at June 30, 2020, 2019 and 2018 are summarized below:

	<u>2020</u>	<u>2019</u>	<u>2018</u>
Land	\$ 14,962,881	\$ 12,924,788	\$ 12,627,736
Buildings and improvements	630,466,373	617,391,617	615,787,092
Infrastructure	70,950,519	69,740,734	68,706,566
Furniture, fixtures and equipment	92,555,820	90,776,239	89,415,048
Library materials	63,828,613	64,013,663	61,654,966
Construction in progress	<u>15,221,720</u>	<u>15,267,561</u>	<u>6,064,732</u>
Total capital assets	887,985,926	870,114,602	854,256,140
Less accumulated depreciation	<u>(438,074,314)</u>	<u>(412,635,935)</u>	<u>(384,541,687)</u>
Capital assets, net	<u>\$ 449,911,612</u>	<u>\$ 457,478,667</u>	<u>\$ 469,714,453</u>

The major construction project in progress, as of June 30, 2020, consisted of the renovation/construction of the WKU Commons.

(Continued)

WESTERN KENTUCKY UNIVERSITY  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
June 30, 2020 and 2019

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**Long-Term Obligations**

As of June 30, 2020, 2019, and 2018, the University had \$148.8 million, \$163.1 million, and \$177.3 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>2020</u>	<u>2019</u>	<u>2018</u>
Pledges to the City	\$ 15,406,280	\$ 17,757,327	\$ 19,953,372
General receipts bonds	115,128,983	125,472,702	135,681,421
Capital leases	13,601,590	16,467,440	17,147,426
Other long-term obligations	<u>2,490,031</u>	<u>3,402,906</u>	<u>4,506,877</u>
Total	<u>\$ 146,626,884</u>	<u>\$ 163,100,375</u>	<u>\$ 177,289,096</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 2019 total enrollment of 18,183 continued a trend of fewer nontraditional students. Enrollment of international undergraduate and graduate students decreased by 30 percent from fall 2018. 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 72.9 percent for fall 2019 from 71.5 percent for fall 2018. 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, 2019 meeting, CPE approved a resident, undergraduate tuition and mandatory fee ceiling for academic year 2019-18 and 2020-19. 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 \$100 per semester (1.89%) in fiscal year 2019-20, and a modest \$200 per semester (3.90%) in fiscal year 2018-19. CPE gives each institution more flexibility in determining nonresident, online and graduate tuition rates based on individual market variables.
- House Bill 352, the Executive Branch Budget, was enacted by the 2020 Kentucky General Assembly. In response to the COVID-19 global pandemic, this bill provides only a one-year state expenditure plan for the 2020-2021 fiscal year, instead of the usual biennium budget. The enacted budget reflected a reduction in base operating support of approximately 0.5 percent. Additionally, WKU's Postsecondary Education Performance Pool allocation decreased to \$757,900 for 2020-2021, compared to \$4,379,100 for 2019-2020, due to a smaller overall pool of allocable resources at the state level.

- 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. This new model became operational on July 1, 2020 for 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.
- In March 2020, the global COVID-19 health crisis transformed operations at the University within a matter of days. The entire campus community rallied together to ensure the safety of students, faculty, and staff while closing residence halls and supporting 100% online learning for the remainder of the Spring 2020 semester and all Summer 2020 classes. While the University's top priority remained the health and well-being of our campus and extended communities, the following financial strategies were enacted immediately to emphasize efficient and cost-conscious administrative operations during this time of fiscal uncertainty:
  - Reduction or elimination of any non-strategic capital renewal projects, renovations, deferred and routine maintenance, and equipment purchases.
  - Reduction of travel expenses to a minimal level.
  - Consolidation of purchasing decisions to leverage buying power.
  - A pause in hiring of any new employees throughout campus.

Due to the quick implementation of the above strategies, the University was able to immediately reduce spending to an acceptable level for the last few months of fiscal year 2020. These financial strategies, along with tiered salary reductions, will continue into fiscal year 2021 as the University begins to determine the impact caused by COVID-19.

### ***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, 2020 and 2019

	<u>2020</u>	<u>2019</u>
<b>ASSETS</b>		
Current assets		
Cash and cash equivalents	\$ 103,408,994	\$ 91,948,964
Accounts receivable, net of allowance of \$2,898,454 and \$2,939,537 for 2020 and 2019, respectively	10,578,548	13,420,200
Federal and state grants receivable	4,736,212	3,541,062
Inventories	112,359	702,043
Loans to students	215,692	274,080
Lease receivable	-	280,000
Prepaid expenses and other	<u>6,441,280</u>	<u>3,842,101</u>
 Total current assets	 <u>125,493,085</u>	 <u>114,008,450</u>
Noncurrent assets		
Restricted cash and cash equivalents	289,108	281,515
Loans to students, net of allowance of \$548,366 each year	1,443,477	1,834,226
Assets held in trust	19,204,919	19,340,218
Capital assets – non-depreciable	30,184,601	28,192,348
Capital assets – depreciable	857,801,325	841,922,254
Accumulated depreciation	<u>(438,074,314)</u>	<u>(412,635,935)</u>
 Total noncurrent assets	 <u>470,849,116</u>	 <u>478,934,626</u>
 Total assets	 <u>596,342,201</u>	 <u>592,943,076</u>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>		
Deferred loss on bond refunding	3,239,977	3,760,967
Deferred outflows – KTRS Pension	17,097,797	30,827,684
Deferred outflows – KERS Non-Hazardous Pension	12,221,063	15,891,765
Deferred outflows – KERS Hazardous Pension	963,427	920,046
Deferred outflows – KERS OPEB	5,453,017	5,224,580
Deferred outflows – KTRS OPEB	<u>1,885,776</u>	<u>1,694,592</u>
 Total deferred outflows of resources	 <u>40,861,057</u>	 <u>58,319,634</u>
 <b>Total assets and deferred outflows of resources</b>	 <b><u>\$ 637,203,258</u></b>	 <b><u>\$ 651,262,710</u></b>

(Continued)

WESTERN KENTUCKY UNIVERSITY  
STATEMENTS OF NET POSITION  
June 30, 2020 and 2019

	<u>2020</u>	<u>2019</u>
<b>LIABILITIES</b>		
Current liabilities		
Accounts payable	\$ 7,319,795	\$ 8,053,043
Self-insured health liability	1,131,863	1,012,412
Self-insured workers' compensation liability	165,595	212,311
Accrued payroll and withholdings	4,107,966	4,058,603
Accrued compensated absences	3,453,813	2,793,454
Accrued interest	1,195,135	1,277,241
Unearned revenue	35,549,207	18,976,444
Long-term obligations - current	14,433,104	14,327,091
Deposits held in custody for others	<u>1,128,118</u>	<u>1,597,152</u>
Total current liabilities	<u>68,484,596</u>	<u>52,307,751</u>
Non-current liabilities		
Long-term obligations	132,193,780	148,773,284
Net pension liability – KTRS	79,900,958	105,246,128
Net pension liability – KERS Non-Hazardous	159,267,355	171,121,072
Net pension liability – KERS Hazardous	3,794,750	3,172,598
Net OPEB liability – KERS	24,881,848	29,588,983
Net OPEB liability – KTRS	<u>20,682,000</u>	<u>25,723,000</u>
Total non-current liabilities	<u>420,720,691</u>	<u>483,625,065</u>
Total liabilities	<u>489,205,287</u>	<u>535,932,816</u>
<b>DEFERRED INFLOWS OF RESOURCES</b>		
Deferred inflows – KTRS Pension	122,008,131	162,210,881
Deferred inflows – KERS Non-Hazardous Pension	14,377,025	8,533,350
Deferred inflows – KERS Hazardous Pension	88,124	213,506
Deferred inflows – KERS OPEB	8,338,776	3,868,128
Deferred inflows – KTRS OPEB	<u>7,470,000</u>	<u>3,111,000</u>
Total deferred inflows	<u>152,282,056</u>	<u>177,936,865</u>
<b>NET POSITION</b>		
Net investment in capital assets	305,361,480	299,454,319
Restricted		
Non-expendable - endowments	16,289,113	15,592,110
Expendable		
Loans	2,176,419	2,980,323
Capital projects	25,561,308	13,140,171
Unrestricted	<u>(353,672,405)</u>	<u>(393,773,894)</u>
Total net position	<u>(4,284,085)</u>	<u>(62,606,971)</u>
<b>Total liabilities, deferred inflows and net position</b>	<u>\$ 637,203,258</u>	<u>\$ 651,262,710</u>

See accompanying notes to financial statements.

WESTERN KENTUCKY UNIVERSITY  
WESTERN KENTUCKY UNIVERSITY FOUNDATION, INC.  
STATEMENTS OF FINANCIAL POSITION  
December 31, 2019 and 2018

	<u>2019</u>	<u>2018</u>
<b>ASSETS</b>		
Cash and cash equivalents	\$ 17,023,563	\$ 8,849,272
Investments	66,182,584	67,348,392
Pledges receivable, net	2,726,066	5,518,998
Due from WKU Alumni Association, net of allowance of \$60,147	483,536	-
Other receivables	15,387	11,030
Prepaid expenses and other assets	118,668	103,525
Property, net	1,046,718	9,904,906
Assets held for others	22,477,398	18,479,410
Assets held for sale	<u>-</u>	<u>1,400,000</u>
<b>Total assets</b>	<b><u>\$ 110,073,920</u></b>	<b><u>\$ 111,615,533</u></b>
 <b>LIABILITIES AND NET ASSETS</b>		
Liabilities		
Accounts payable	\$ 37,872	\$ 108,214
Due to Western Kentucky University	-	129,306
Deferred gift liabilities	917,533	878,074
Capital lease obligation	-	554,459
Liability for assets held for others	<u>22,477,398</u>	<u>18,479,410</u>
Total liabilities	<u>23,432,803</u>	<u>20,149,463</u>
Net Assets		
Without donor restrictions	4,762,532	5,824,867
With donor restrictions	<u>81,878,585</u>	<u>85,641,203</u>
Total net assets	<u>86,641,117</u>	<u>91,466,070</u>
<b>Total liabilities and net assets</b>	<b><u>\$ 110,073,920</u></b>	<b><u>\$ 111,615,533</u></b>

See accompanying notes to financial statements.

WESTERN KENTUCKY UNIVERSITY  
 WKU STUDENT LIFE FOUNDATION, INC.  
 STATEMENTS OF FINANCIAL POSITION  
 June 30, 2020 and 2019

	<u>2020</u>	<u>2019</u>
<b>ASSETS</b>		
Cash and cash equivalents	\$ 12,713,178	\$ 13,772,586
Accounts receivable - Western Kentucky University	835,762	527,118
Accounts receivable - students - net of allowance of \$246,250 and \$322,564 for 2020 and 2019, respectively	377,623	505,748
Accounts receivable – other	15,529	9,659
Net investment in direct financing lease - related party	1,569,464	1,655,979
Prepaid expenses	185,513	175,551
Assets limited as to use	39,640,487	5,644,622
Assets held for others - student deposits	450,807	483,410
Assets held by others - student deposits - cash	293,043	296,290
Derivative instruments, at fair value	389,659	486,436
Property and equipment, net	<u>125,186,829</u>	<u>114,038,781</u>
<b>Total assets</b>	<b><u>\$ 181,657,894</u></b>	<b><u>\$ 137,596,180</u></b>
 <b>LIABILITIES AND NET ASSETS</b>		
Liabilities		
Accounts payable	\$ 4,524,119	\$ 2,820,514
Accrued expenses	479,802	347,174
Student deposits	743,850	779,700
Asset retirement obligation	794,269	794,269
Deferred revenue – Hilltopper Hub	2,882,353	-
Long-term debt, net of unamortized debt issue costs	<u>128,713,710</u>	<u>92,403,359</u>
Total liabilities	138,138,103	97,145,016
Net Assets		
Without donor restrictions	<u>43,519,791</u>	<u>40,451,164</u>
<b>Total liabilities and net assets</b>	<b><u>\$ 181,657,894</u></b>	<b><u>\$ 137,596,180</u></b>

See accompanying notes to financial statements.

WESTERN KENTUCKY UNIVERSITY  
COLLEGE HEIGHTS FOUNDATION, INC.  
STATEMENTS OF FINANCIAL POSITION  
December 31, 2019 and 2018

	<u>2019</u>	<u>2018</u>
<b>ASSETS</b>		
Cash and cash equivalents	\$ 4,447,629	\$ 2,510,477
Interest and dividends receivable	67,420	67,420
Investments	75,097,293	62,833,930
Beneficial interest in third-party trusts	5,946,063	4,991,229
Assets held for others	2,946,249	2,481,929
Fixed assets, net of depreciation	2,076,905	1,385,241
Other assets	<u>750</u>	<u>-</u>
<b>Total assets</b>	<b><u>\$ 90,582,309</u></b>	<b><u>\$ 74,270,226</u></b>
 <b>LIABILITIES AND NET ASSETS</b>		
Liabilities		
Accounts payable	\$ -	\$ 1,467,790
Refundable advances and gift annuity liabilities	2,756,827	2,502,545
Liability for assets held for others	<u>2,946,249</u>	<u>2,481,929</u>
 Total liabilities	 5,703,076	 6,452,264
Net assets		
Without donor restrictions	12,541,945	974,819
With donor restrictions	<u>72,337,288</u>	<u>66,843,143</u>
 Total net assets	 <u>84,879,233</u>	 <u>67,817,962</u>
<b>Total liabilities and net assets</b>	<b><u>\$ 90,582,309</u></b>	<b><u>\$ 74,270,226</u></b>

See accompanying notes to financial statements.

WESTERN KENTUCKY UNIVERSITY  
STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION  
Years ended June 30, 2020 and 2019

	<u>2020</u>	<u>2019</u>
<b>REVENUES</b>		
Operating revenues		
Tuition and fees, net of discounts and allowances of \$66,165,773 and \$69,995,972	\$ 120,036,095	\$ 126,640,269
Federal grants and contracts	24,488	19,647
State grants and contracts	77,892	43,185
Local and private grants and contracts	158,282	167,565
Sales and services of educational activities	16,103,935	17,517,863
Auxiliary enterprise revenues, net of discounts and allowances of \$1,696,558 and \$1,794,769	19,846,452	22,499,800
Other operating revenues	<u>18,791,799</u>	<u>22,073,543</u>
Total operating revenues	<u>175,038,943</u>	<u>188,961,872</u>
 <b>EXPENSES</b>		
Operating expenses		
Education and general		
Instruction	94,455,517	104,742,858
Research	5,850,344	6,561,110
Public service	14,851,848	14,291,717
Libraries	4,563,210	5,314,868
Academic support	19,409,881	19,253,822
Student services	31,132,377	31,399,709
Institutional support	35,020,789	35,256,409
Operation and maintenance of plant	26,432,173	28,942,208
Student financial aid	28,814,399	20,413,878
Pension and OPEB expense	(55,042,091)	(35,991,288)
Depreciation	29,549,530	29,191,922
Auxiliary enterprises	<u>19,893,168</u>	<u>20,632,374</u>
Total operating expenses	<u>254,931,145</u>	<u>280,009,587</u>
 <b>Operating loss</b>	 <u>(79,892,202)</u>	 <u>(91,047,715)</u>
 Non-operating revenues (expenses)		
State appropriations	69,344,200	70,034,800
State appropriations – Performance Funding	4,379,100	3,748,600
Federal grants and contracts	39,815,267	34,872,753
State grants and contracts	20,409,541	20,795,936
Local and private grants and contracts	4,205,030	5,695,345
Net investment income	2,014,200	382,436
Interest on capital asset-related debt	(5,615,164)	(6,012,236)
Gain on disposal of capital assets	77,914	29,797
Gain on exchange of capital asset	2,240,546	-
Expense on sale of investments	-	(69,678)
Other non-operating expenses	<u>258,776</u>	<u>258,776</u>
Net non-operating revenues	<u>137,129,410</u>	<u>129,736,529</u>
 <b>Gain/(Loss) before other capital contributions</b>	 57,237,208	 38,688,814
State capital appropriation	<u>1,085,678</u>	<u>8,212,116</u>
 <b>Increase in net position</b>	 58,322,886	 46,900,930
 <b>Net position, beginning of year</b>	 <u>(62,606,971)</u>	 <u>(109,507,901)</u>
 <b>Net position, end of year</b>	 <u>\$ (4,284,085)</u>	 <u>\$ (62,606,971)</u>

See accompanying notes to financial statements.

WESTERN KENTUCKY UNIVERSITY  
WESTERN KENTUCKY UNIVERSITY FOUNDATION, INC.  
STATEMENT OF ACTIVITIES  
Year ended December 31, 2019

	Without Donor Restrictions	With Donor Restrictions	Total
Revenues, gains (losses) and other support:			
Contributions	\$ 118,852	\$ 4,350,123	\$ 4,468,975
Non-charitable contributions	189,526	922,408	1,111,934
Investment income	44,258	1,925,282	1,969,540
Net unrealized and realized gain on investments	244,680	10,325,261	10,569,941
Management fees	9,987	-	9,987
Net actuarial loss from deferred gift liabilities	-	(154,472)	(154,472)
Rental and royalty income	<u>52,986</u>	<u>808,240</u>	<u>861,226</u>
	660,289	18,176,842	18,837,131
Net assets released from restriction	<u>21,939,460</u>	<u>(21,939,460)</u>	<u>-</u>
Total revenues, gains (losses) and other support	<u>22,599,749</u>	<u>(3,762,618)</u>	<u>18,837,131</u>
Expenses:			
Expenses on behalf of WKU programs			
Public service	4,823,123	-	4,823,123
Construction	484,005	-	484,005
Other	<u>6,165,249</u>	<u>-</u>	<u>6,165,249</u>
Total program expenses	11,472,377	-	11,472,377
Management and general	936,468	-	936,468
Fundraising	<u>100,746</u>	<u>-</u>	<u>100,746</u>
Total expenses	<u>12,509,591</u>	<u>-</u>	<u>12,509,591</u>
Transfers to assets held for others	(1,652,884)	-	(1,652,884)
Transfers to WKU Alumni Association	<u>(9,499,609)</u>	<u>-</u>	<u>(9,499,609)</u>
Change in net assets	(1,062,335)	(3,762,618)	(4,824,953)
Net asset, beginning of year	<u>5,824,867</u>	<u>85,641,203</u>	<u>91,466,070</u>
Net assets, end of year	<u>\$ 4,762,532</u>	<u>\$ 81,878,585</u>	<u>\$ 86,641,117</u>

See accompanying notes to financial statements.

WESTERN KENTUCKY UNIVERSITY  
WESTERN KENTUCKY UNIVERSITY 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 (losses) and other support:			
Contributions	\$ 259,182	\$ 4,484,060	\$ 4,743,242
Non-charitable contributions	1,753,167	1,816,891	3,570,058
Investment income	53,363	1,767,680	1,821,043
Net unrealized and realized loss on investments	(127,103)	(6,163,106)	(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>
	2,094,237	1,930,006	4,024,243
Net assets released from restriction	<u>6,685,181</u>	<u>(6,685,181)</u>	<u>-</u>
Total revenues, gains (losses) and other support	<u>8,779,418</u>	<u>(4,755,175)</u>	<u>4,024,243</u>
Expenses:			
Expenses on behalf of WKU programs			
Public service	615,466	-	615,466
Construction	938,620	-	938,620
Other	<u>4,037,182</u>	<u>-</u>	<u>4,037,182</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	2,185,139	(4,755,175)	(2,570,036)
Net asset, beginning of year	<u>3,639,728</u>	<u>90,396,378</u>	<u>94,036,106</u>
Net assets, end of year	<u>\$ 5,824,867</u>	<u>\$ 85,641,203</u>	<u>\$ 91,466,070</u>

See accompanying notes to financial statements.



WESTERN KENTUCKY UNIVERSITY  
 WKU STUDENT LIFE FOUNDATION, INC.  
 STATEMENTS OF ACTIVITIES  
 Years ended June 30, 2020 and 2019

	<u>2020</u>	<u>2019</u>
<b>OPERATING REVENUES</b>		
Student housing revenue	\$ 23,625,825	\$ 23,125,989
Contributions – WKU CARES funding	3,903,711	-
Interest income – direct financing lease	107,634	113,139
Hilltopper Hub prepaid lease revenue	117,647	-
Other	<u>858,734</u>	<u>846,028</u>
Total operating revenues	<u>28,613,551</u>	<u>24,085,156</u>
<b>OPERATING EXPENSES</b>		
Salaries, benefits and related expenses	6,009,426	6,288,549
Utilities	2,441,199	2,755,519
Repairs, maintenance and supplies	1,633,381	2,407,547
Management fees	84,200	84,200
Professional fees	86,607	173,057
Insurance	608,674	574,629
Depreciation and amortization	5,762,005	5,504,167
Bad debt expense	163,744	244,713
Long-lived asset impairment	1,037,739	2,541,444
Student housing refunds due to COVID closures	3,903,711	-
Other	<u>390,513</u>	<u>531,658</u>
Total operating expenses	<u>22,121,199</u>	<u>21,105,483</u>
Change in net assets from operations	<u>6,492,352</u>	<u>2,979,673</u>
<b>NONOPERATING REVENUES (EXPENSES)</b>		
Interest income	676,234	410,360
Interest expense, fees, and bond issuance costs	(4,003,182)	(3,073,358)
Change in fair value of derivative instruments - forward sale agreement	<u>(96,777)</u>	<u>(125,281)</u>
Total non-operating expenses	<u>(3,423,725)</u>	<u>(2,788,279)</u>
Change in net assets without donor restrictions	3,068,627	191,394
Net assets without donor restrictions, beginning of year	<u>40,451,164</u>	<u>40,259,770</u>
<b>Net assets without donor restrictions, end of year</b>	<u>\$ 43,519,791</u>	<u>\$ 40,451,164</u>

See accompanying notes to financial statements.

WESTERN KENTUCKY UNIVERSITY  
COLLEGE HEIGHTS FOUNDATION, INC.  
STATEMENT OF ACTIVITIES  
Year ended December 31, 2019

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
<b>REVENUES, GAINS AND OTHER SUPPORT</b>			
Contributions	\$ 658,339	\$ 8,959,325	\$ 9,617,664
Event registration fees	-	-	-
Net investment income	380,345	1,945,889	2,326,234
Net realized and unrealized gains on investments	409,063	10,686,334	11,095,397
Change in value of split-interest agreements	-	925,612	925,612
Net assets released from restrictions:			
Satisfaction of program restrictions	16,993,709	(16,993,709)	-
Loss on exchange of assets	<u>-</u>	<u>(29,306)</u>	<u>(29,306)</u>
Total revenues, gains and other support	<u>18,441,456</u>	<u>5,494,145</u>	<u>23,935,601</u>
<b>EXPENSES</b>			
Program services	6,062,243	-	6,062,243
Supporting services			
Management and general	788,708	-	788,708
Fundraising	<u>23,379</u>	<u>-</u>	<u>23,379</u>
Total supporting services	<u>812,087</u>	<u>-</u>	<u>812,087</u>
Total expenses	<u>6,874,330</u>	<u>-</u>	<u>6,874,330</u>
<b>CHANGE IN NET ASSETS</b>	11,567,126	5,494,145	17,061,271
<b>NET ASSETS, BEGINNING OF YEAR</b>	<u>974,819</u>	<u>66,843,143</u>	<u>67,817,962</u>
<b>NET ASSETS, END OF YEAR</b>	<u>\$ 12,541,945</u>	<u>\$ 72,337,288</u>	<u>\$ 84,879,233</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>
<b>REVENUES, GAINS AND OTHER SUPPORT</b>			
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 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)	-
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>
<b>EXPENSES</b>			
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>
<b>CHANGE IN NET ASSETS</b>	(5,590,139)	2,150,579	(3,439,560)
<b>NET ASSETS, BEGINNING OF YEAR</b>	<u>6,564,958</u>	<u>64,692,564</u>	<u>71,257,522</u>
<b>NET ASSETS, END OF YEAR</b>	<u>\$ 974,819</u>	<u>\$ 66,843,143</u>	<u>\$ 67,817,962</u>

See accompanying notes to financial statements.

WESTERN KENTUCKY UNIVERSITY  
WESTERN KENTUCKY UNIVERSITY FOUNDATION, INC.  
STATEMENT OF FUNCTIONAL EXPENSES  
Year ended December 31, 2019

	WKU Program Services						Fundraising	Total Expenses
	Public Service	Construction	Other	Total WKU Program Services	Management and General			
Salaries/wages, payroll taxes, and benefits	\$ 121,029	\$ -	\$ 1,295,046	\$ 1,416,075	\$ 383,853	\$ 64,294	\$ 1,864,222	
Scholarships and honorariums	2,504	-	865,370	867,874	-	-	867,874	
Professional fees and other services	382,117	-	185,033	567,150	521,810	14,982	1,103,942	
Travel, meals, and entertainment	64,365	-	990,108	1,054,473	3,521	16,691	1,074,685	
Printing, supplies, and other office expenses	107,491	-	212,888	320,379	23,845	662	344,886	
Other miscellaneous expenses	1,075	-	225,472	226,547	3,439	4,117	234,103	
Gifts and donations	4,106,623	-	1,883,635	5,990,258	-	-	5,990,258	
Capital expenditures	34,399	484,005	341,828	860,232	-	-	860,232	
Dues/subscriptions and registrations	-	-	132,124	132,124	-	-	132,124	
Equipment rentals and maintenance	3,520	-	15,578	19,098	-	-	19,098	
Interest expense	-	-	18,167	18,167	-	-	18,167	
<b>Total expenses</b>	<b><u>\$ 4,823,123</u></b>	<b><u>\$ 484,005</u></b>	<b><u>\$ 6,165,249</u></b>	<b><u>\$ 11,472,377</u></b>	<b><u>\$ 936,468</u></b>	<b><u>\$ 100,746</u></b>	<b><u>\$ 12,509,591</u></b>	

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 Expenses
	Public Service	Construction	Other	Total WKU Program Services	Management and General	Fundraising	
Salaries/wages, payroll taxes, and benefits	\$ 64,784	\$ -	\$ 1,074,464	\$ 1,139,248	\$ 356,214	\$ 70,571	\$ 1,566,033
Scholarships and honorariums	85	-	720,118	720,203	-	-	720,203
Professional fees and other services	370,232	-	139,772	510,004	382,800	9,150	901,954
Travel, meals, and entertainment	53,726	-	743,911	797,637	3,602	29,459	830,698
Printing, supplies, and other office expenses	79,930	-	274,873	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	45,586	-	302,259	347,845	-	11,944	359,789
Capital expenditures	92	938,620	522,762	1,461,474	-	-	1,461,474
Dues/subscriptions and registrations	-	-	136,783	136,783	-	-	136,783
Equipment rentals and maintenance	957	-	15,087	16,044	-	-	16,044
Interest expense	-	-	9,148	9,148	-	-	9,148
<b>Total expenses</b>	<b>\$ 615,466</b>	<b>\$ 938,620</b>	<b>\$ 4,037,182</b>	<b>\$ 5,591,268</b>	<b>\$ 867,237</b>	<b>\$ 135,774</b>	<b>\$ 6,594,279</b>

See accompanying notes to financial statements.

WESTERN KENTUCKY UNIVERSITY  
COLLEGE HEIGHTS FOUNDATION, INC.  
STATEMENT OF FUNCTIONAL EXPENSES  
Year ended December 31, 2019

	<u>Program Services</u>	<u>Supporting Services</u>		<u>Total</u>
		<u>Management and General</u>	<u>Fund Raising</u>	
Scholarships	\$ 5,757,259	\$ -	\$ -	\$ 5,757,259
Salaries and benefits	-	581,737	-	581,737
Other expenses	304,984	46,166	-	351,150
Professional fees	-	26,365	-	26,365
Equipment and furnishings	-	25,656	-	25,656
Fundraising	-	-	23,379	23,379
Real estate expenses	-	19,102	-	19,102
Renovation expenses	-	11,142	-	11,142
Scholarship celebration	-	11,001	-	11,001
Travel and transportation	-	9,054	-	9,054
Postage	-	8,733	-	8,733
Software	-	7,599	-	7,599
Memberships	-	3,660	-	3,660
Bank fees	-	3,203	-	3,203
Telephone	-	2,635	-	2,635
Office supplies	-	2,369	-	2,369
Sponsorships	-	2,050	-	2,050
Staff development	-	1,334	-	1,334
Gifts	-	856	-	856
<b>Total expenses before depreciation</b>	<b>6,062,243</b>	<b>762,662</b>	<b>23,379</b>	<b>6,848,284</b>
Depreciation	-	26,046	-	26,046
<b>Total expense</b>	<b>\$ 6,062,243</b>	<b>\$ 788,708</b>	<b>\$ 23,379</b>	<b>\$ 6,874,330</b>

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
<b>Total expenses before depreciation</b>	<b>6,016,188</b>	<b>728,448</b>	<b>21,058</b>	<b>6,765,694</b>
Depreciation	-	18,016	-	18,016
<b>Total expense</b>	<b>\$ 6,016,188</b>	<b>\$ 746,464</b>	<b>\$ 21,058</b>	<b>\$ 6,783,710</b>

See accompanying notes to financial statements.

WESTERN KENTUCKY UNIVERSITY  
STATEMENTS OF CASH FLOWS  
Years ended June 30, 2020 and 2019

	<u>2020</u>	<u>2019</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Tuition and fees	\$ 122,428,943	\$ 126,327,294
Grants and contracts	466,033	(695,567)
Payments to employees	(172,115,676)	(180,436,698)
Payments to suppliers	(75,232,551)	(80,172,908)
Loans issued to students, net of collection	107,590	418,253
Collection of loans to students	341,547	-
Sales and services of educational departments	16,103,935	17,517,863
Other operating revenues	18,791,799	22,073,543
Auxiliary enterprise revenues	19,846,452	22,499,800
Auxiliary enterprise payments		
Payments to employees	(6,260,635)	(6,918,165)
Payments to suppliers	<u>(13,042,848)</u>	<u>(13,519,092)</u>
Net cash used in operating activities	<u>(88,565,411)</u>	<u>(92,905,677)</u>
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>		
State appropriations	69,344,200	70,034,800
State appropriations – Performance Funding	4,379,100	3,748,600
Grants and contracts receipts	64,429,838	61,364,034
Student organization agency receipts (disbursements) - net	(469,034)	(74,798)
Other nonoperating revenues (expenses)	<u>(520,990)</u>	<u>-</u>
Net cash provided by noncapital financing activities	<u>137,163,114</u>	<u>135,072,636</u>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>		
Proceeds from sale of capital assets	160,403	133,551
Purchases of capital assets	(19,414,293)	(16,229,882)
Principal paid on capital debt and leases	(15,405,764)	(13,138,194)
Interest paid on capital debt and leases	(5,697,270)	(6,061,950)
State appropriations for capital acquisition	<u>1,085,678</u>	<u>8,212,116</u>
Net cash used in capital and related financing activities	<u>(39,271,246)</u>	<u>(27,084,359)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Proceeds from sales and maturities of investments	-	14,873
WKU Research Foundation assets held in trust	(107,834)	-
Loss on sale of investments	(788,520)	-
Investment income	<u>3,037,520</u>	<u>991,306</u>
Net cash provided by investing activities	<u>2,141,166</u>	<u>1,006,179</u>
<b>Net change in cash and cash equivalents</b>	11,467,623	16,088,779
Cash and cash equivalents, beginning of year	<u>92,230,479</u>	<u>76,141,700</u>
<b>Cash and cash equivalents, end of year</b>	<u>\$ 103,698,102</u>	<u>\$ 92,230,479</u>

(Continued)



WESTERN KENTUCKY UNIVERSITY  
STATEMENTS OF CASH FLOWS  
Years ended June 30, 2020 and 2019

	<u>2020</u>	<u>2019</u>
<b>Reconciliation of net operating loss to net cash used in operating activities</b>		
Operating loss	\$ (79,892,202)	\$ (91,047,715)
Depreciation expense	29,549,530	29,191,922
Changes in operating assets and liabilities		
Accounts receivable, net	2,841,652	63,755
Federal and state grants receivable	(1,195,150)	714,942
Assets held in trust	372	16,952
Inventories	589,684	195,117
Loans to students, net	449,137	418,253
Prepaid expenses and other	(2,599,179)	1,203,191
Accounts payable and other current liabilities	(1,143,373)	(211,745)
Health insurance liability	72,735	(4,188)
Accrued payroll and payroll withholdings	49,363	2,137,497
Accrued compensated absences	660,359	(9,592)
Deferred outflows – pension liability	17,721,936	24,972,015
Deferred inflows – pension liability	(25,918,168)	49,930,253
Net pension liability	(36,576,735)	(104,381,859)
Net OPEB liability	(9,748,135)	(5,990,707)
Unearned revenue	<u>16,572,763</u>	<u>(103,768)</u>
 Net cash used in operating activities	 <u>\$ (88,565,411)</u>	 <u>\$ (92,905,677)</u>
 <b>Supplemental cash flows information</b>		
Non-cash activities:		
Construction in process included in accounts payable	\$ (410,125)	\$ (830,008)
Donation of capital assets from related parties	(3,803,839)	(1,697,052)
Donation of capital assets to related parties	<u>-</u>	<u>1,400,000</u>
 Total non-cash activities	 <u>\$ (4,213,964)</u>	 <u>\$ (1,127,060)</u>
 <b>Reconciliation of cash and cash equivalents to the statement of net position</b>		
Cash and cash equivalents	\$ 103,408,994	\$ 91,948,964
Restricted cash and cash equivalents	<u>289,108</u>	<u>281,515</u>
 Total cash and cash equivalents	 <u>\$ 103,698,102</u>	 <u>\$ 92,230,479</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 18,200 and 19,500 in 2020 and 2019, 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, 2019 and 2018. 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, 2020 and 2019.

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(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.

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(Continued)

WESTERN KENTUCKY UNIVERSITY  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2020 and 2019

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**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, 2020 and 2019, no interest was capitalized.

	<u>2020</u>	<u>2019</u>
Interest capitalized	\$ -	\$ -
Interest charged to expense	<u>5,615,164</u>	<u>6,012,236</u>
Total interest incurred	<u>\$ 5,615,164</u>	<u>\$ 6,012,236</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.

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(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, 2020 (or June 30, 2019), 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 Plans' fiduciary net position have been determined on the same basis as they are reported by the Plans. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value, 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.

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(Continued)

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

*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.

*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.

*Reclassifications:* Certain amounts in the prior year financial statements have been reclassified to conform with the current year presentation. These reclassifications had no effect on the previously reported prior year change in net position or prior year total net position.

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(Continued)

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

Recent Accounting Pronouncements Adopted/Implemented:

- GASB Statement No. 95, *Postponement of the Effective Dates of Certain Authoritative Guidance*, issued May 2020 - The provisions of this Statement are effective immediately. The objective of this Statement is to provide temporary relief to governments and other stakeholders in light of the COVID-19 pandemic. That objective is accomplished by postponing the effective dates of certain provisions in Statements and Implementation Guides that first became effective or are scheduled to become effective for periods beginning after June 15, 2018, and later. The adoption of this Standard has no effect on the University's net position or changes in net position.

Recent Accounting Pronouncements: As of June 30, 2020, 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 were initially effective for periods beginning after December 15, 2018; however, GASB Statement No. 95, *Postponement of the Effective Dates of Certain Authoritative Guidance*, postponed the effective date by 12 months upon its issuance in May 2020. 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 were initially effective for periods beginning after December 15, 2019; however, GASB Statement No. 95, *Postponement of the Effective Dates of Certain Authoritative Guidance*, postponed the effective date by 18 months upon its issuance in May 2020. 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 were initially effective for reporting periods beginning after December 15, 2019; however, GASB Statement No. 95, *Postponement of the Effective Dates of Certain Authoritative Guidance*, postponed the effective date by 12 months upon its issuance in May 2020. 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.

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

- 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 were initially effective for reporting periods beginning after December 15, 2019; however, GASB Statement No. 95, *Postponement of the Effective Dates of Certain Authoritative Guidance*, postponed the effective date by 12 months upon its issuance in May 2020. 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.
- GASB Statement No. 91, *Conduit Debt Obligations*, issued May 2019 - The provisions of this Statement were initially effective for reporting periods beginning after December 15, 2020; however, GASB Statement No. 95, *Postponement of the Effective Dates of Certain Authoritative Guidance*, postponed the effective date by 12 months upon its issuance in May 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.
- GASB Statement No. 92, *Omnibus 2020*, issued January 2020 - The objectives of this Statement are to enhance comparability in accounting and financial reporting and to improve the consistency of authoritative literature by addressing practice issues that have been identified during implementation and application of certain GASB Statements. This Statement addresses a variety of topics. The University's management has not yet determined the effect this statement will have on the University's financial statements.
- GASB Statement No. 93, *Replacement of Interbank Offered Rates*, issued March 2020 - The provisions of this Statement were initially effective for reporting periods beginning after June 15, 2020; however, GASB Statement No. 95, *Postponement of the Effective Dates of Certain Authoritative Guidance*, postponed the effective date by 12 months upon its issuance in May 2020. The objective of this Statement is to address those and other accounting and financial reporting implications that result from the replacement of an interbank offered rate (IBOR)—most notably, the London Interbank Offered Rate (LIBOR). As a result of global reference rate reform, LIBOR is expected to cease to exist in its current form at the end of 2021, prompting governments to amend or replace financial instruments for the purpose of replacing LIBOR with other reference rates, by either changing the reference rate or adding or changing fallback provisions related to the reference rate. The University's management has not yet determined the effect this statement will have on the University's financial statements.

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

- GASB Statement No. 94, *Public-Private and Public-Public Partnerships and Availability Payment Arrangements*, issued March 2020 - The provisions of this Statement are effective for reporting periods beginning after June 15, 2022. The objective of this Statement is to improve financial reporting by addressing issues related to public-private and public-public partnership arrangements (PPPs). As used in this Statement, a PPP is an arrangement in which a government (the transferor) contracts with an operator (a governmental or nongovernmental entity) to provide public services by conveying control of the right to operate or use a nonfinancial asset, such as infrastructure or other capital asset (the underlying PPP asset), for a period of time in an exchange or exchange-like transaction. Some PPPs meet the definition of a service concession arrangement (SCA), which the Board defines in this Statement as a PPP in which (1) the operator collects and is compensated by fees from third parties; (2) the transferor determines or has the ability to modify or approve which services the operator is required to provide, to whom the operator is required to provide the services, and the prices or rates that can be charged for the services; and (3) the transferor is entitled to significant residual interest in the service utility of the underlying PPP asset at the end of the arrangement. The University's management has not yet determined the effect this statement will have on the University's financial statements.
  
- GASB Statement No. 96, *Subscription-Based Information Technology Arrangements*, issued May 2020 - The provisions of this Statement are effective for reporting periods beginning after June 15, 2022. The objective of this Statement is to provide guidance on the accounting and financial reporting for subscription-based information technology arrangements (SBITAs) for government end users (governments). This Statement (1) defines a SBITA; (2) establishes that a SBITA results in a right-to-use subscription asset—an intangible asset—and a corresponding subscription liability; (3) provides the capitalization criteria for outlays other than subscription payments, including implementation costs of a SBITA; and (4) requires note disclosures regarding a SBITA. To the extent relevant, the standards for SBITAs are based on the standards established in Statement No. 87, Leases, as amended. The University's management has not yet determined the effect this statement will have on the University's financial statements.
  
- GASB Statement No. 97, Certain Component Unit Criteria, and Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans – an amendment of GASB Statements No. 14 and No. 84, and a supersession of GASB Statement No. 32, issued June 2020 - The provisions of this Statement are effective for reporting periods beginning after June 15, 2021. The objectives of this Statement are to (1) increase consistency and comparability related to the reporting of fiduciary component units in circumstances in which a potential component unit does not have a governing board and the primary government performs the duties that a governing board typically would perform; (2) mitigate costs associated with the reporting of certain defined contribution pension plans, defined contribution other postemployment benefit (OPEB) plans, and employee benefit plans other than pension plans or OPEB plans (other employee benefit plans) as fiduciary component units in fiduciary fund financial statements; and (3) enhance the relevance, consistency, and comparability of the accounting and financial reporting for Internal Revenue Code (IRC) Section 457 deferred compensation plans (Section 457 plans) that meet the definition of a pension plan and for benefits provided through those plans. The University's management has not yet determined the effect this statement will have on the University's financial statements.

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(Continued)

WESTERN KENTUCKY UNIVERSITY  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2020 and 2019

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**NOTE 2 - ASSETS HELD IN TRUST**

Assets held in trust as of June 30, 2020 and 2019 consisted of:

	<u>2020</u>	<u>2019</u>
Cash equivalents	\$ 195,159	\$ 93,326
Common equity, common fixed income and mutual funds	<u>19,009,760</u>	<u>19,246,892</u>
Fair value of assets held in trust	<u>\$ 19,204,919</u>	<u>\$ 19,340,218</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 \$103,698,102 and \$92,230,479 at June 30, 2020 and 2019, while the bank balances were \$111,847,434 and \$97,851,225 at June 30, 2020 and 2019. 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**

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.

*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, 2020 and 2019:

- Assets held in trust of \$19,204,919 and \$19,340,218, 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.

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(Continued)

WESTERN KENTUCKY UNIVERSITY  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2020 and 2019

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**NOTE 3 - DEPOSITS AND INVESTMENTS (Continued)**

*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, 2020 and 2019. Therefore, the University is not considered to have credit risk.

*Custodial Credit Risk:* For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the University will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The University'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, 2020 and 2019.

Of the University's cash balance as of June 30, 2020 and 2019, \$500,000 is secured by FDIC insurance, and \$54,238,939 and \$89,445,316, respectively, is collateralized by the pledging institution. Additionally, as of June 30, 2020 and 2019, \$57,108,495 and \$7,905,909 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.

Investment income for the year ended June 30, 2020 and 2019 consisted of:

	<u>2020</u>	<u>2019</u>
Interest income, including interest earned on cash equivalents	\$ 2,014,514	\$ 1,030,673
Net change in fair value of investments and assets held in trust	<u>(314)</u>	<u>(648,237)</u>
	<u>\$ 2,014,200</u>	<u>\$ 382,436</u>

**NOTE 4 - ACCOUNTS RECEIVABLE**

Accounts receivable consist of the following as of June 30, 2020 and 2019:

	<u>2020</u>	<u>2019</u>
Tuition, fees, sales and services	\$ 12,401,701	\$ 12,730,224
Credit memos	-	617,560
Miscellaneous, other	<u>1,075,301</u>	<u>3,011,953</u>
	13,477,002	16,359,737
Less allowance for doubtful accounts	<u>(2,898,454)</u>	<u>(2,939,537)</u>
Accounts receivable, net	<u>\$ 10,578,548</u>	<u>\$ 13,420,200</u>

(Continued)

WESTERN KENTUCKY UNIVERSITY  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2020 and 2019

**NOTE 5 - CAPITAL ASSETS**

Changes in capital assets for the year ended June 30, 2020 are summarized as follows:

	Balance July 1, 2019	Additions	Disposals	Transfers	Balance June 30, 2020
Non-depreciable capital assets:					
Land	\$ 12,924,788	\$ 2,040,048	\$ (1,955)	\$ -	\$ 14,962,881
Construction in progress	<u>15,267,560</u>	<u>11,711,006</u>	<u>-</u>	<u>(11,756,846)</u>	<u>15,221,720</u>
	<u>28,192,348</u>	<u>13,751,054</u>	<u>(1,955)</u>	<u>(11,756,846)</u>	<u>30,184,601</u>
Depreciable capital assets:					
Buildings and improvements	617,391,617	3,383,839	-	9,690,917	630,466,373
Infrastructure	69,740,734	1,096,804	(829,342)	942,323	70,950,519
Furniture, fixtures and equipment	90,776,239	1,744,505	(1,088,530)	1,123,606	92,555,820
Library materials	<u>64,013,664</u>	<u>2,444,067</u>	<u>(2,629,118)</u>	<u>-</u>	<u>63,828,613</u>
	<u>841,922,254</u>	<u>8,669,215</u>	<u>(4,546,990)</u>	<u>11,756,846</u>	<u>857,801,325</u>
Less accumulated depreciation:					
Buildings and improvements	259,261,517	19,314,686	-	-	278,576,203
Infrastructure	33,606,994	3,159,988	(475,992)	-	36,290,990
Furniture, fixtures, and equipment	69,974,261	4,279,611	(1,006,041)	-	73,247,831
Library materials	<u>49,793,163</u>	<u>2,795,245</u>	<u>(2,629,118)</u>	<u>-</u>	<u>49,959,290</u>
	<u>412,635,935</u>	<u>29,549,530</u>	<u>(4,111,151)</u>	<u>-</u>	<u>438,074,314</u>
Net capital assets	<u>\$ 457,478,667</u>	<u>\$ (7,129,261)</u>	<u>\$ (437,794)</u>	<u>\$ -</u>	<u>\$ 449,911,612</u>

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>2,784,855</u>	<u>(426,157)</u>	<u>-</u>	<u>64,013,664</u>
	<u>835,563,671</u>	<u>4,572,282</u>	<u>(1,201,428)</u>	<u>2,987,729</u>	<u>841,922,254</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>\$ (10,732,031)</u>	<u>\$ (1,503,754)</u>	<u>\$ -</u>	<u>\$ 457,478,667</u>

(Continued)

WESTERN KENTUCKY UNIVERSITY  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2020 and 2019

**NOTE 5 - CAPITAL ASSETS (Continued)**

A summary of construction in progress at June 30, 2020 and 2019 is as follows:

	<u>2020</u>	<u>2019</u>
Science Campus – Phase IV	\$ -	\$ 8,878,406
WKU Commons - Helm	10,743,421	2,312,316
Other projects under \$1,000,000	<u>4,478,299</u>	<u>4,076,838</u>
	<u>\$ 15,221,720</u>	<u>\$ 15,267,560</u>

Contractual commitments in connection with all projects totaled \$22,338,128 and \$4,869,854 at June 30, 2020 and 2019.

**NOTE 6 - UNEARNED REVENUE**

Unearned revenue consisted of the following items as of June 30, 2020 and 2019:

	<u>2020</u>	<u>2019</u>
Aramark capital contract	\$ 24,094,766	\$ 8,512,105
Summer school tuition and fees	4,513,365	4,962,169
Grants and contracts	4,920,664	3,520,144
Advance sale of football tickets	602,470	886,873
Vehicle parking permits	470,425	360,105
University master plan	150,625	120,375
Miscellaneous	<u>796,892</u>	<u>614,673</u>
Total unearned revenue	<u>\$ 35,549,207</u>	<u>\$ 18,976,444</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, 2020:

	<u>Balance July 1, 2019</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance June 30, 2020</u>	<u>Current Portion</u>
Capital lease obligations	\$ 16,467,440	\$ -	\$ (2,865,850)	\$ 13,601,590	\$ 363,549
General receipts bonds payable, net of discounts	125,472,702	-	(10,343,719)	115,128,983	10,628,719
Other long-term debt	3,402,906	-	(912,875)	2,490,031	929,789
Pledges payable, net of discount premiums	<u>17,757,327</u>	<u>-</u>	<u>(2,351,047)</u>	<u>15,406,280</u>	<u>2,511,047</u>
Total bonds, pledges and capital leases	<u>\$ 163,100,375</u>	<u>\$ -</u>	<u>\$ (16,473,491)</u>	<u>\$ 146,626,884</u>	<u>\$ 14,433,104</u>

(Continued)

WESTERN KENTUCKY UNIVERSITY  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2020 and 2019

**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, 2019:

	Balance <u>July 1, 2018</u>	<u>Additions</u>	<u>Reductions</u>	Balance <u>June 30, 2019</u>	Current <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>

**General Receipts Bonds Payable**

Bonds payable as of June 30, 2020 and 2019, are composed of General Receipts Bonds, Series 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, 2020 and 2019 were as follows:

	<u>2020</u>	<u>2019</u>
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.	\$ 2,004,295	\$ 2,635,726
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.	24,242,541	25,910,587
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.	1,946,652	2,564,219
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.	27,704,017	29,236,568
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.	4,481,739	5,058,417

(Continued)

WESTERN KENTUCKY UNIVERSITY  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2020 and 2019

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**NOTE 7 - LONG-TERM OBLIGATIONS** (Continued)

	<u>2020</u>	<u>2019</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.	\$ 19,122,406	\$ 21,526,738
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.	8,546,508	8,907,787
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>27,080,825</u>	<u>29,632,660</u>
Total bonds payable	<u>\$ 115,128,983</u>	<u>\$ 125,472,702</u>

The debt service requirements for the bonds payable as of June 30, 2020 are as follows:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
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	9,950,000	2,595,410	12,545,410
2026-2030	41,240,000	7,469,539	48,709,539
2031-2035	16,715,000	1,686,341	18,401,341
2036-2037	<u>1,215,000</u>	<u>49,100</u>	<u>1,264,100</u>
	109,300,000	25,890,429	135,190,429
Add: unamortized premiums, net of discounts	<u>5,828,983</u>	-	<u>5,828,983</u>
	<u>\$ 115,128,983</u>	<u>\$ 25,890,429</u>	<u>\$ 141,019,412</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.

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.

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(Continued)

WESTERN KENTUCKY UNIVERSITY  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2020 and 2019

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**NOTE 7 - LONG-TERM OBLIGATIONS** (Continued)

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.

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(Continued)



WESTERN KENTUCKY UNIVERSITY  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2020 and 2019

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**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 \$3,758,648 and \$3,294,446 at June 30, 2020 and 2019, 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, 2020:

Year ending June 30	Total to be Paid	Present Value of Future Minimum Lease Payments	Interest Portion
2021	\$ 1,002,212	\$ 363,549	\$ 638,664
2022	1,019,112	399,214	619,898
2023	1,035,012	435,534	599,478
2024	1,049,912	472,551	577,361
2025	1,063,812	510,306	553,506
2026-2030	4,852,241	2,440,435	2,411,806
2031-2035	4,681,614	2,814,999	1,866,616
2036-2040	5,139,936	4,079,999	1,059,937
2041-2042	<u>2,191,130</u>	<u>2,085,003</u>	<u>106,125</u>
	<u>\$ 22,034,981</u>	<u>\$ 13,601,590</u>	<u>\$ 8,433,391</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 July 27, 2012, the Board of Regents authorized the University to acquire 340 E. 14<sup>th</sup> Street (now Alumni Avenue). 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 Charitable Remainder Annuity Trust held by the WKU Real Estate Corporation, to which this property once belonged. The future payments consist of monthly installments of \$15,575 through June 30, 2026.

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(Continued)

WESTERN KENTUCKY UNIVERSITY  
 NOTES TO FINANCIAL STATEMENTS  
 June 30, 2020 and 2019

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**NOTE 7 - LONG-TERM OBLIGATIONS** (Continued)

Debt service requirements on the other long-term debt at June 30, 2020, were as follows:

Year ending June 30	<u>Total to be Paid</u>	<u>Principal</u>	<u>Interest</u>
2021	\$ 968,301	\$ 929,789	\$ 38,512
2022	948,301	926,676	21,625
2023	596,548	590,441	6,107
2024	15,575	13,664	1,911
2025	15,575	14,363	1,212
2026	<u>15,575</u>	<u>15,098</u>	<u>477</u>
	<u>\$ 2,559,875</u>	<u>\$ 2,490,031</u>	<u>\$ 69,844</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.

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(Continued)

WESTERN KENTUCKY UNIVERSITY  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2020 and 2019

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**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:

	<u>Total to be Paid</u>	<u>Principal Series 2010</u>	<u>Interest Series 2010</u>
Year ending June 30			
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	2,833,475	2,625,000	208,475
2026	<u>2,861,756</u>	<u>2,755,000</u>	<u>106,756</u>
	17,399,446	15,340,000	2,059,446
Add unaccrued premiums	<u>66,280</u>	<u>66,280</u>	<u>-</u>
	<u>\$ 17,465,726</u>	<u>\$ 15,406,280</u>	<u>\$ 2,059,446</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, 2020, were:

2021	\$ 868,590
2022	844,447
2023	837,375
2024	837,375
2025	802,937
Thereafter through 2038	<u>18,663,165</u>
	<u>\$ 22,853,889</u>

Lease expense was \$950,331 and \$941,614 for the years ended June 30, 2020 and 2019.

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(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 years ended June 30, 2020 and 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.

Covered payroll totaled \$51,311,780 and \$49,273,607 for the years ended June 30, 2020 and 2019. The University's contributions to the Optional Retirement Program for the years ended June 30, 2020 and 2019 were \$4,484,652 and \$4,306,515, respectively. Employees' contributions to the Optional Retirement Program for the years ended June 30, 2020 and 2019 were \$3,160,805 and \$3,035,254, 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](http://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:

WESTERN KENTUCKY UNIVERSITY  
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**NOTE 9 - DEFINED BENEFIT PENSION AND OTHER POSTEMPLOYMENT BENEFITS PLANS**  
(Continued)

**Kentucky Employees Retirement System (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>
<b>Benefit Formula</b>	Final Compensation X Benefit Factor X Years of Service		Cash Balance Plan
<b>Final Compensation</b>	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
<b>Benefit Factor</b>	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.
<b>Cost of Living Adjustment (COLA)</b>	No COLA unless authorized by the Legislature. If authorized, the COLA is limited to 1.5%. This impacts all retirees regardless of Tier.		
<b>Unreduced Retirement Benefit</b>	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.	
<b>Reduced Retirement Benefit</b>	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>
<b>Benefit Formula</b>	Final Compensation X Benefit Factor X Years of Service		Cash Balance Plan
<b>Final Compensation</b>	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
<b>Benefit Factor</b>	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.
<b>Cost of Living Adjustment (COLA)</b>	No COLA unless authorized by the Legislature. If authorized, the COLA is limited to 1.5%. This impacts all retirees regardless of Tier.		
<b>Unreduced Retirement Benefit</b>	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.
<b>Reduced Retirement Benefit</b>	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 provides 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 months 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, 2020 and 2019, 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, 2020 and 2019, participating employers in the Hazardous plan contributed 36.85% (34.39% allocated to pension and 2.46% 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.

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(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, 2020 and 2019. Total contributions by the Plan were \$8,172,348 (\$6,826,979 related to pension and \$1,345,369 related to OPEB) and \$8,736,894 (\$7,300,009 related to pension and \$1,436,885 related to OPEB) for the years ended June 30, 2020 and 2019, respectively. The OPEB contributions amount does not include the implicit subsidy of \$311,410 and \$272,302 for the fiscal years ended June 30, 2020 and 2019, 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 measured as of June 30, 2019 and 2018, using the following actuarial assumptions, applied to all periods included in the measurement:

June 30, 2019:

Valuation date	June 30, 2018
Actuarial cost method	Entry Age Normal
Amortization method	Level percent of pay
Price inflation	2.30 percent
Salary increases	3.55 to 15.55 percent (Non-hazardous) and 3.55 to 19.55 (Hazardous), varies by service
Amortization period	26 years, closed
Investment rate of return	5.25 percent (Non-hazardous) and 6.25 percent (Hazardous)

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(Continued)

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

**Kentucky Employees Retirement System (Continued)**

June 30, 2018:

Valuation date	June 30, 2017
Actuarial cost method	Entry Age Normal
Amortization method	Level percent of pay
Price Inflation	2.30 percent
Salary increases	3.05 percent, average
Amortization period	27 years, closed
Investment rate of return	5.25 percent (Non-hazardous) and 6.25 percent (Hazardous)

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 actuarial 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 26-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.

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(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:

**2019 Non-hazardous**

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
Growth		
US Equity	15.75%	4.30%
Non-US Equity	15.75%	4.80%
Private Equity	7.00%	6.65%
Specialty Credit/High Yield	15.00%	2.60%
Liquidity		
Core Bonds	20.50%	1.35%
Cash	3.00%	0.20%
Diversifying Strategies		
Real Estate	5.00%	4.85%
Opportunistic/Absolute Return	3.00%	2.97%
Real Return	<u>15.00%</u>	4.10%
Total	<u>100.00%</u>	

**2018 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>	1.50%
Total	<u>100.00%</u>	

(Continued)

WESTERN KENTUCKY UNIVERSITY  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2020 and 2019

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

**Kentucky Employees Retirement System (Continued)**

**2019 Hazardous**

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
Growth		
US Equity	18.75%	4.30%
Non-US Equity	18.75%	4.80%
Private Equity	10.00%	6.65%
Specialty Credit/High Yield	15.00%	2.60%
Liquidity		
Core Bonds	13.50%	1.35%
Cash	1.00%	0.20%
Diversifying Strategies		
Real Estate	5.00%	4.85%
Opportunistic/Absolute Return	3.00%	2.97%
Real Return	<u>15.00%</u>	4.10%
Total	<u>100.00%</u>	

**2018 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>	1.50%
Total	<u>100.00%</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.

(Continued)

WESTERN KENTUCKY UNIVERSITY  
 NOTES TO FINANCIAL STATEMENTS  
 June 30, 2020 and 2019

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

**Kentucky Employees Retirement System (Continued)**

(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:

2019

	1% Decrease (4.25%)	Current Discount Rate (5.25%)	1% Increase (6.25%)
The University's net pension liability - Non-hazardous	\$ 182,578,887	\$ 159,267,355	\$ 140,002,489

2018

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

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:

2019

	1% Decrease (5.25%)	Current Discount Rate (6.25%)	1% Increase (7.25%)
The University's net pension liability – Hazardous	\$ 4,893,118	\$ 3,794,750	\$ 2,892,433

2018

	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

(Continued)

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

**Kentucky Employees Retirement System (Continued)**

**Employer's Portion of the Collective Net Pension Liability:** The University's proportionate share of the Non-hazardous net pension liability at June 30, 2020 and 2019 is \$159,267,355, or approximately 1.128%, and \$171,121,072, or approximately 1.258%, respectively. The University's proportionate share of the Hazardous net pension liability at June 30, 2020 and 2019 is \$3,794,750, or approximately 0.695%, and \$3,172,598, or approximately 0.628%, respectively. The net pension liabilities were distributed based on the employers' covered payroll provided for the measurement period ending June 30, 2019 and actual employer contributions to the plan for the measurement period ending June 30, 2018.

**Measurement Date:** June 30, 2018 and 2017 are the actuarial valuation dates and June 30, 2019 and 2018 are the measurement dates upon which the total pension liability is based.

**Changes in Assumptions and Benefit Terms:** There were several assumption changes resulting from the 2018 Actuarial Experience Study including slight changes in salary increase assumptions, a change in the mortality tables to reflect updated mortality experience, and nominal changes in retirement, termination/withdrawal, and disability incidence rates. The changes resulted in a less than 5% increase in the unfunded actuarial accrued liabilities and employer contribution rate, and a less than 5% decrease in the Plan's funded ratio.

During the 2019 special legislative session, House Bill 1 was enacted, which allows certain employers in the Non-hazardous plan to elect to cease participating in the System as of June 30, 2020. Since each employer's election is unknown at this time and the legislation was enacted after the June 30, 2019 measurement date, no adjustments were made to the Total Pension Liability to reflect this legislation.

House Bill 265, which passed during the 2018 legislative session, allowed certain employers within the KER non-hazardous system to contribute less than the actuarially determined contribution in the 2018/2019 fiscal year. Since this is not expected to be an ongoing contribution reduction, determining the KERS non-hazardous employers' proportionate share based on the employers' actual contributions would not be reflective of the employers' long-term contribution effort. Instead, the proportionate share calculations for employers of the KERS non-hazardous system were based on the employers' covered payroll provided for fiscal year ending June 30, 2019, which would result in the same proportionate share allocation if all participating employers contributed the same contribution rate.

**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 \$3,995,600 and \$14,993,475 related to the KERS Non-Hazardous and \$796,056 and \$334,795 related to the KERS Hazardous for the years ending June 30, 2020 and 2019.

**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 as 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:

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(Continued)

WESTERN KENTUCKY UNIVERSITY  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2020 and 2019

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

**Kentucky Employees Retirement System (Continued)**

<b><u>2019 Non-hazardous</u></b>	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between expected and actual experience	\$ 941,983	\$ -
Change of assumptions	4,849,342	-
Changes in proportion and differences between employer contributions and proportionate shares of contributions	-	14,052,499
Net differences between expected and actual investment earning on plan investments	-	<u>324,526</u>
	5,791,325	14,377,025
Contributions subsequent to the measurement date	<u>6,429,738</u>	<u>-</u>
Total	<u>\$ 12,221,063</u>	<u>\$ 14,377,025</u>
<b><u>2018 Non-hazardous</u></b>	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 \$6,429,738 will be recognized as a reduction of net pension liability in the year ending June 30, 2020. 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:	
2021	\$ (5,386,096)
2022	(3,086,351)
2023	(104,072)
2024	<u>(9,181)</u>
	<u>\$ (8,585,700)</u>

(Continued)

WESTERN KENTUCKY UNIVERSITY  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2020 and 2019

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

**Kentucky Employees Retirement System (Continued)**

<b><u>2019 Hazardous</u></b>	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between expected and actual experience	\$ 72,195	\$ -
Change of assumptions	265,957	-
Changes in proportion and differences between employer contributions and proportionate shares of contributions	228,034	22,876
Net differences between expected and actual investment earning on plan investments	-	65,248
	<u>566,186</u>	<u>88,124</u>
Contributions subsequent to the measurement date	<u>397,241</u>	<u>-</u>
Total	<u>\$ 963,427</u>	<u>\$ 88,124</u>

<b><u>2018 Hazardous</u></b>	Deferred Outflows of Resources	Deferred Inflows of Resources
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	(39,884)	-
	<u>487,651</u>	<u>213,506</u>
Contributions subsequent to the measurement date	<u>432,395</u>	<u>-</u>
Total	<u>\$ 920,046</u>	<u>\$ 213,506</u>

Deferred outflows of resources resulting from employer contributions subsequent to the measurement date of \$397,241 will be recognized as a reduction of net pension liability in the year ending June 30, 2020. 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:	
2021	\$ 332,231
2022	154,501
2023	(14,133)
2024	<u>5,463</u>
	<u>\$ 478,062</u>

(Continued)

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

**Kentucky Employees Retirement System (Continued)**

**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 measured as of June 30, 2019 and 2018, using the following actuarial assumptions, applied to all periods included in the measurement:

June 30, 2019:

Actuarial valuation date	June 30, 2018
Price inflation	2.30 percent
Payroll growth rate	0.00 percent
Salary increases	3.55 to 15.30 percent (Non-hazardous) and 3.55 to 19.55 percent (Hazardous), varies by service
Investment rate of return	6.25 percent
Healthcare trend rates:	
Pre-65	Initial trend starting at 7.00 percent at January 1, 2020 and gradually decreasing to an ultimate trend rate of 4.05 percent over a period of 12 years.
Post-65	Initial trend starting at 5.00 percent at January 1, 2020 and gradually decreasing to an ultimate trend rate of 4.05 percent over a period of 10 years.

June 30, 2018:

Actuarial valuation date	June 30, 2017
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.

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

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(Continued)

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

**Kentucky Employees Retirement System (Continued)**

Discount rate assumptions:

- 1) **Discount Rate:** The discount rate used to measure the total Non-hazardous OPEB liability was 5.73%, which was decreased from the 5.86% discount rate used in the prior year. The discount rate used to measure the total Hazardous OPEB liability was 5.66%, which was decreased from the 5.88% discount rate used in the prior year.
- 2) **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.
- 3) **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.
- 4) **Municipal Bond Rate:** The discount rate determination used a municipal bond rate of 3.13% as reported in Fidelity Index's "20-Year Municipal GO AA Index" as of June 28, 2019, which was decreased from the 3.56% municipal bond rate used in the prior year.
- 5) **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.
- 6) **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:

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(Continued)



WESTERN KENTUCKY UNIVERSITY  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2020 and 2019

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

**Kentucky Employees Retirement System (Continued)**

<u>2019 Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
Growth		
US Equity	18.75%	4.30%
Non-US Equity	18.75%	4.80%
Private Equity	10.00%	6.65%
Specialty Credit/High Yield	15.00%	2.60%
Liquidity		
Core Bonds	13.50%	1.35%
Cash	1.00%	0.20%
Diversifying Strategies		
Real Estate	5.00%	4.85%
Opportunistic/Absolute Return	3.00%	2.97%
Real Return	<u>15.00%</u>	4.10%
 Total	 <u>100.00%</u>	
 <u>2018 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>	1.50%
 Total	 <u>100.00%</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.

(Continued)

WESTERN KENTUCKY UNIVERSITY  
 NOTES TO FINANCIAL STATEMENTS  
 June 30, 2020 and 2019

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

**Kentucky Employees Retirement System (Continued)**

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 5.73 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 (4.73 percent) or 1-percentage-point higher (6.73 percent) than the current rate for Non-hazardous:

2019

	<u>1% Decrease</u> <u>(4.73%)</u>	<u>Current</u> <u>Discount Rate</u> <u>(5.73%)</u>	<u>1% Increase</u> <u>(6.73%)</u>
The University's Net OPEB liability – Non-hazardous	\$ 29,848,650	\$ 25,067,955	\$ 21,132,445

2018

	<u>1% Decrease</u> <u>(4.86%)</u>	<u>Current</u> <u>Discount Rate</u> <u>(5.86%)</u>	<u>1% Increase</u> <u>(6.73%)</u>
The University's Net OPEB liability – Non-hazardous	\$ 34,960,918	\$ 29,797,360	\$ 25,499,964

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:

2019

	<u>1% Decrease</u>	<u>Current Healthcare</u> <u>Cost Trend Rate</u>	<u>1% Increase</u>
The University's Net OPEB liability – Non-hazardous	\$ 21,296,916	\$ 25,067,955	\$ 29,629,631

2018

	<u>1% Decrease</u>	<u>Current Healthcare</u> <u>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

(Continued)

WESTERN KENTUCKY UNIVERSITY  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2020 and 2019

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

**Kentucky Employees Retirement System (Continued)**

**Hazardous**

The following presents The University's allocated portion of the Hazardous net OPEB liability of the System, calculated using the discount rate of 5.66% 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 (4.66 percent) or 1-percentage-point higher (6.66 percent) than the current rate for Hazardous:

<u>2019</u>	<u>1% Decrease</u> <u>(4.66%)</u>	<u>Current</u> <u>Discount Rate</u> <u>(5.66%)</u>	<u>1% Increase</u> <u>(6.66%)</u>
The University's Net OPEB liability – Hazardous	\$ 312,637	\$ (186,107)	\$ (589,618)

<u>2018</u>	<u>1% Decrease</u> <u>(4.88%)</u>	<u>Current</u> <u>Discount Rate</u> <u>(5.88%)</u>	<u>1% Increase</u> <u>(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>2019</u>	<u>1% Decrease</u>	<u>Current Healthcare</u> <u>Cost Trend Rate</u>	<u>1% Increase</u>
The University's Net OPEB liability – Hazardous	\$ (541,432)	\$ (186,107)	\$ 246,258

<u>2018</u>	<u>1% Decrease</u>	<u>Current Healthcare</u> <u>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, 2020 and 2019 is \$25,067,955, or approximately 1.128%, and \$29,797,360, or approximately 1.257%, respectively. The University's proportionate share of the Hazardous net OPEB (asset) liability at June 30, 2020 and 2019 is \$(186,107), or approximately 0.693%, and \$(208,377), or approximately 0.628%, respectively. The net OPEB liabilities were distributed based on the 2019 and 2018 actual employer contributions to the plan.

(Continued)

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

**Kentucky Employees Retirement System (Continued)**

**Measurement Date:** June 30, 2019 and 2018 is the measurement date upon which the total pension liability is based.

**Changes in Assumptions and Benefit Terms:** There were several assumption changes resulting from the 2018 Actuarial Experience Study including a change in the mortality tables to reflect updated mortality experience, and nominal changes in retirement, termination/withdrawal, and disability incidence rates. The changes resulted in an approximate 7% increase in the unfunded actuarial accrued liabilities and employer contribution rate, and a less than 5% decrease in the Plan's funded ratio. There were no benefit changes since the last actuarial report.

During the 2019 special legislative session, House Bill 1 was enacted, which allows certain employers in the Non-hazardous plan to elect to cease participating in the System as of June 30, 2020. Since each employer's election is unknown at this time and the legislation was enacted after the June 30, 2019 measurement date, no adjustments were made to the Total OPEB Liability to reflect this legislation.

House Bill 265, which passed during the 2018 legislative session, allowed certain employers within the KERS non-hazardous system to contribute less than the actuarially determined contribution in the 2018/2019 fiscal year. Since this is not expected to be an ongoing contribution reduction, determining the KERS non-hazardous employers' proportionate share based on the employers' actual contributions would not be reflective of the employers' long-term contribution effort. Instead, the proportionate share calculations for employers of the KERS non-hazardous system were based on the employers' covered payroll provided for fiscal year ending June 30, 2019, which would result in the same proportionate share allocation if all participating employers contributed the same contribution rate.

**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 \$1,095,877 and \$2,660,718 related to the KERS Non-Hazardous and \$55,362 and \$68,727 related to the KERS Hazardous for the years ending June 30, 2020 and 2019, 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:

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(Continued)

WESTERN KENTUCKY UNIVERSITY  
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**NOTE 9 - DEFINED BENEFIT PENSION AND OTHER POSTEMPLOYMENT BENEFITS PLANS**  
(Continued)

**Kentucky Employees Retirement System (Continued)**

**2019 Non-hazardous**

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Difference between expected and actual experience	\$ -	\$ 3,998,503
Change of assumptions	3,287,491	75,401
Changes in proportion and differences between employer contributions and proportionate shares of contributions	-	3,611,047
Net differences between expected and actual investment earning on plan investments	<u>-</u>	<u>164,410</u>
	3,287,491	7,849,361
Contributions subsequent to the measurement date	<u>1,619,133</u>	<u>-</u>
Total	<u>\$ 4,906,624</u>	<u>\$ 7,849,361</u>

**2018 Non-hazardous**

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
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>
	3,132,327	3,506,394
Contributions subsequent to the measurement date	<u>1,675,966</u>	<u>-</u>
Total	<u>\$ 4,808,293</u>	<u>\$ 3,506,394</u>

Deferred outflows of resources resulting from employer contributions subsequent to the measurement date of \$1,619,133 will be recognized as a reduction of net OPEB liability in the year ending June 30, 2020. 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:	
2021	\$ (996,673)
2022	(996,673)
2023	(1,719,785)
2024	<u>(848,741)</u>
	<u>\$ (4,561,872)</u>

(Continued)

WESTERN KENTUCKY UNIVERSITY  
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**NOTE 9 - DEFINED BENEFIT PENSION AND OTHER POSTEMPLOYMENT BENEFITS PLANS**  
(Continued)

**Kentucky Employees Retirement System (Continued)**

**2019 Hazardous**

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Difference between expected and actual experience	\$ -	\$ 332,268
Change of assumptions	508,747	2,757
Changes in proportion and differences between employer contributions and proportionate shares of contributions	-	46,573
Net differences between expected and actual investment earning on plan investments	<u>-</u>	<u>107,817</u>
	508,747	489,415
Contributions subsequent to the measurement date	<u>37,646</u>	<u>-</u>
Total	<u>\$ 546,393</u>	<u>\$ 489,415</u>

**2018 Hazardous**

	<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	<u>33,221</u>	<u>-</u>
Total	<u>\$ 416,287</u>	<u>\$ 361,734</u>

Deferred outflows of resources resulting from employer contributions subsequent to the measurement date of \$37,646 will be recognized as a reduction of net OPEB liability in the year ending June 30, 2020. 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:	
2021	\$ 3,480
2022	3,480
2023	40,907
2024	(9,777)
2025	(17,536)
Thereafter	<u>(1,223)</u>
	<u>\$ 19,331</u>

(Continued)

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

**Kentucky Teachers' Retirement System**

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

**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.

***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:

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(Continued)

WESTERN KENTUCKY UNIVERSITY  
 NOTES TO FINANCIAL STATEMENTS  
 June 30, 2020 and 2019

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

**Kentucky Teachers' Retirement System**

	<b>Tier 1</b> Participation Prior to <u>July 1, 2008</u>	<b>Tier 2</b> Participation on or After <u>July 1, 2008</u>
<b>Covered Employees:</b>	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)
<b>Benefit Formula:</b>	Final Compensation X Benefit Factor X Years of Service	
<b>Final Compensation:</b>	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.
<b>Benefit Factor:</b>	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.
<b>Cost of Living Adjustment (COLA):</b>	1.5% annually additional ad hoc increases must be authorized by the General Assembly.	
<b>Unreduced Retirement Benefit:</b>	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.
<b>Reduced Retirement Benefit:</b>	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.	

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(Continued)



WESTERN KENTUCKY UNIVERSITY  
 NOTES TO FINANCIAL STATEMENTS  
 June 30, 2020 and 2019

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**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, 2020 and 2019, University employees were required to contribute 8.185% of their annual covered salary for retirement benefits. The University was contractually required to contribute 15.865% (14.040% allocated to pension, 1.775% allocated to medical insurance and 0.05% allocated to life insurance) of covered payroll for the fiscal years ended June 30, 2020 and 2019. 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, 2020 and 2019. Total contributions by the Plan were \$7,414,307 (\$6,247,531 related to pension and \$1,166,776 related to OPEB) and \$7,762,578 (\$6,538,986 related to pension and \$1,223,592 related to OPEB) for the years ended June 30, 2020 and 2019, 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 \$7,086,818 and \$7,113,487 for the years ending June 30, 2020 and 2019.

**Pension liabilities, pension expense, and deferred outflows of resources and deferred inflows of resources related to pensions** - At June 30, 2020 and 2019, 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>2020</u>	<u>2019</u>
University's proportionate share of the net pension liability	\$ 79,900,958	\$ 105,246,128
Commonwealth of Kentucky's proportionate share of the net pension liability associated with the University	<u>86,580,480</u>	<u>78,302,284</u>
	<u>\$ 166,481,438</u>	<u>\$ 183,548,412</u>

The net pension liability was measured as of June 30, 2019 and 2018. 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, 2020 and 2019 University's proportion was 0.559% and 0.767%, respectively, and the Commonwealth of Kentucky's proportion associated with the University was 0.606% and 0.570%, respectively.

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(Continued)

WESTERN KENTUCKY UNIVERSITY  
 NOTES TO FINANCIAL STATEMENTS  
 June 30, 2020 and 2019

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

**Kentucky Teachers' Retirement System (Continued)**

For the years ended June 30, 2020 and 2019, the University recognized pension expense of \$(54,183,643) and \$(47,772,646), and revenue of \$(8,614,238) and \$(9,108,835), respectively. At June 30, 2020 and 2019, the University reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

<u>2020</u>	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected an actual experience	\$ 238,202	\$ 5,097,468
Change in assumptions	6,771,679	42,546,445
Net difference between projected and actual earnings on investments	-	670,264
Changes in proportionate share of contributions	<u>3,840,385</u>	<u>73,693,954</u>
	10,850,266	122,008,131
Contributions subsequent to the measurement date	<u>6,247,531</u>	<u>-</u>
	<u>\$ 17,097,797</u>	<u>\$ 122,008,131</u>
<u>2019</u>	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected an 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>-</u>
	<u>\$ 30,827,684</u>	<u>\$ 162,210,881</u>

At June 30, 2020, the University reported \$6,247,531 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, 2019, related to pensions will be recognized in pension expense as follows:

Year ended June 30:	
2021	\$ (53,896,133)
2022	(36,491,664)
2023	(17,838,075)
2024	<u>(2,931,993)</u>
	<u>\$ (111,157,865)</u>

(Continued)

WESTERN KENTUCKY UNIVERSITY  
 NOTES TO FINANCIAL STATEMENTS  
 June 30, 2020 and 2019

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

**Kentucky Teachers' Retirement System (Continued)**

**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 November 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.

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

<u>2019 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>	

<u>2018 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.

(Continued)

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

**Kentucky Teachers' Retirement System (Continued)**

**Changes in Assumptions and Benefit Terms Since Prior Measurement Date** - The total pension liability as of June 30, 2019 reflects that the assumed municipal bond index rate decreased from 3.89% to 3.50%, however, the Single Equivalent Interest Rate (SEIR) remained unchanged at 7.50%.

**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, 2019 and 2018 was 7.50%. 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, 2019 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, 2019 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 3.50% 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.

**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, 2020, 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:

<u>2020</u>	1% Decrease (6.50%)	Current Discount Rate (7.50%)	1% Increase (8.50%)
Proportionate share of the Collective Net Pension Liability ( <i>in thousands</i> )	\$ 101,949,442	\$ 79,900,958	\$ 61,241,808
<u>2019</u>	1% Decrease (6.50%)	Current Discount Rate (7.50%)	1% Increase (8.50%)
Proportionate share of the Collective Net Pension Liability ( <i>in thousands</i> )	\$ 134,914,645	\$ 105,246,128	\$ 80,295,506

(Continued)

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

**Kentucky Teachers' Retirement System (Continued)**

***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, 2020 and 2019, the University reported a liability of \$20,219,000 and \$25,269,000, 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, 2019, 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, 2019 and 2018, the University's proportion was .691% and 0.728%, 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, 2020 and 2019 that was associated with the University were as follows:

University's proportionate share of the net OPEB liability	\$ 20,219,000	\$ 25,269,000
State's proportionate share of the net OPEB liability associated with the University	<u>9,019,000</u>	<u>12,367,000</u>
Total	<u>\$ 29,238,000</u>	<u>\$ 37,636,000</u>

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(Continued)

WESTERN KENTUCKY UNIVERSITY  
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 June 30, 2020 and 2019

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

**Kentucky Teachers' Retirement System (Continued)**

For the years ended June 30, 2020 and 2019, the University recognized OPEB expense of \$727,000 and \$1,061,000, and revenue of \$512,000 and \$867,000, respectively, for support provided by the State. At June 30, 2020, the University reported deferred outflows of resources and deferred inflows of resources related to OPEBs from the following sources:

2020

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Difference between expected and actual experience	\$ -	\$ 4,894,000
Changes of assumptions	538,000	-
Net difference between projected and actual earnings on OPEB plan investments	86,000	-
Changes in proportion and differences between University contributions and proportionate share of contributions	<u>-</u>	<u>2,536,000</u>
	624,000	7,430,000
University contributions subsequent to the measurement date	<u>1,143,409</u>	<u>-</u>
Total	<u>\$ 1,767,409</u>	<u>\$ 7,430,000</u>

2019

	<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>

(Continued)

WESTERN KENTUCKY UNIVERSITY  
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 June 30, 2020 and 2019

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

**Kentucky Teachers' Retirement System (Continued)**

Of the total amount reported as deferred outflows of resources related to OPEB, \$1,143,409 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, 2020. 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:	
2021	\$(1,305,000)
2022	(1,305,000)
2023	(1,261,000)
2024	(1,269,000)
2025	(1,034,000)
Thereafter	<u>(632,000)</u>
	 <u><b>\$(6,806,000)</b></u>

**Actuarial Assumptions** - The total OPEB liability measured at June 30, 2019 and 2018 were determined using the following actuarial assumptions, applied to all periods included in the measurement:

June 30, 2019:

Actuarial valuation date	June 30, 2018
Investment rate of return	8.00%, net of OPEB plan investment expense, including inflation.
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	7.50% for FYE 2019 decreasing to an ultimate rate of 5.00% by FYE 2024
Ages 65 and Older	5.50% for FYE 2019 decreasing to an ultimate rate of 5.00% by FYE 2021
Medicare Part B Premiums	2.63% for FYE 2019 with an ultimate rate of 5.00% by 2031
Municipal Bond Index Rate	3.50 %
Single Equivalent Interest Rate	8.00%, net of OPEB plan investment expense, including inflation.

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(Continued)

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

**Kentucky Teachers' Retirement System (Continued)**

*June 30, 2018:*

Actuarial valuation date	June 30, 2017
Investment rate of return	8.00%, net of OPEB plan investment expense, including inflation.
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 FYE 2018 decreasing to an ultimate rate of 5.00% by FYE 2024
Ages 65 and Older	5.75% for FYE 2018 decreasing to an ultimate rate of 5.00% by FYE 2021
Medicare Part B Premiums	0.00% for FYE 2018 with an ultimate rate of 5.00% by 2030
Municipal Bond Index Rate	3.89%
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, 2018 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, 2018 valuation of the MIF were based on a review of recent plan experience done concurrently with the June 30, 2018 valuation. The health care cost trend rate assumption was updated for the June 30, 2018 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, 2019 valuation were based on a review of recent plan experience done concurrently with the June 30, 2018 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.

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(Continued)



WESTERN KENTUCKY UNIVERSITY  
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**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, as provided by TRS's investment consultant, are summarized in the following table:

<u>2019 Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Nominal Rate of Return</u>
Global Equity	58.0%	5.1%
Fixed Income	9.0	1.2
Real Estate	6.5	3.8
Private Equity	8.5	6.3
Other Additional Categories	17.0	3.2
Cash (LIBOR)	<u>1.0</u>	0.9
Total	<u><u>100%</u></u>	

<u>2018 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)	<u>1.0</u>	0.9
Total	<u><u>100%</u></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 rates** 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:

<u>2019</u>	1% Decrease <u>(7.00%)</u>	Current Discount <u>Rate (8.00%)</u>	1% Increase <u>(9.00%)</u>
University's net OPEB liability (MI)	\$ 23,952,000	\$ 20,219,000	\$ 17,093,000

(Continued)

WESTERN KENTUCKY UNIVERSITY  
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**NOTE 9 - DEFINED BENEFIT PENSION AND OTHER POSTEMPLOYMENT BENEFITS PLANS**  
 (Continued)

**Kentucky Teachers' Retirement System (Continued)**

<u>2018</u>	<u>1% Decrease</u> <u>(7.00%)</u>	<u>Current Discount</u> <u>Rate (8.00%)</u>	<u>1% Increase</u> <u>(9.00%)</u>
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:

<u>2019</u>	<u>1% Decrease</u>	<u>Current</u> <u>Trend Rate</u>	<u>1% Increase</u>
University's net OPEB liability (MI)	\$ 16,459,000	\$ 20,219,000	\$ 24,843,000

<u>2018</u>	<u>1% Decrease</u>	<u>Current</u> <u>Trend Rate</u>	<u>1% Increase</u>
University's net OPEB liability (MI)	\$ 20,953,000	\$ 25,269,000	\$ 30,593,000

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

**Changes of benefit terms** – There were no changes in benefit terms for the year ending June 30, 2020 and 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 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:

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(Continued)

WESTERN KENTUCKY UNIVERSITY  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2020 and 2019

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

**Kentucky Teachers' Retirement System (Continued)**

June 30, 2019:

Valuation date	June 30, 2018
Actuarial cost method	Entry Age Normal
Amortization method	Level Percent of Payroll
Amortization period	22 years
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	7.50% for FYE 2018 decreasing to an ultimate rate of 5.00% by FYE 2024
Ages 65 and Older	5.50% for FYE 2018 decreasing to an ultimate rate of 5.00% by FYE 2021
Medicare Part B Premiums	0.00% for FYE 2018 with an ultimate rate of 5.00% by 2030
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)

June 30, 2018:

Valuation date	June 30, 2017
Actuarial cost method	Entry Age Normal
Amortization method	Level Percent of Payroll
Amortization period	23 years
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 FYE 2018 decreasing to an ultimate rate of 5.00% by FYE 2024
Ages 65 and Older	5.75% for FYE 2018 decreasing to an ultimate rate of 5.00% by FYE 2024
Medicare Part B Premiums	0.00% for FYE 2018 with an ultimate rate of 5.00% by 2030
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)

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(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, 2020 and 2019, the University reported a liability of \$463,000 and \$454,000 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, 2019, 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, 2019 and 2018, the University's proportion was 1.489% and 1.609%, 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, 2020 and 2019 that was associated with the University were as follows:

University's proportionate share of the net OPEB liability	\$	463,000	\$	454,000
State's proportionate share of the net OPEB liability associated with the University		_____		_____
		-		-
Total	\$	<u>463,000</u>	\$	<u>454,000</u>

For the years ended June 30, 2020 and 2019, the University recognized OPEB expense of \$83,000 and \$74,000, and revenue of \$5,000 and \$0, respectively, for support provided by the State. At June 30, 2020, the University reported deferred outflows of resources and deferred inflows of resources related to OPEBs from the following sources:

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(Continued)

WESTERN KENTUCKY UNIVERSITY  
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**NOTE 9 - DEFINED BENEFIT PENSION AND OTHER POSTEMPLOYMENT BENEFITS PLANS**  
 (Continued)

**Kentucky Teachers' Retirement System (Continued)**

<u>2020:</u>	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Difference between expected and actual experience	\$ -	\$ 10,000
Changes of assumptions	-	-
Net difference between projected and actual earnings on OPEB plan investments	95,000	-
Changes in proportion and differences between University contributions and proportionate share of contributions	<u>-</u>	<u>30,000</u>
	95,000	40,000
Contributions subsequent to the measurement date	<u>23,367</u>	<u>-</u>
Total	<u>\$ 118,367</u>	<u>\$ 40,000</u>
<u>2019:</u>	<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	<u>-</u>	<u>10,000</u>
	124,000	20,000
Contributions subsequent to the measurement date	<u>19,571</u>	<u>-</u>
Total	<u>\$ 143,571</u>	<u>\$ 20,000</u>

Of the total amount reported as deferred outflows of resources related to OPEB, \$23,367 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, 2020. 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:	
2021	\$ 28,000
2022	28,000
2023	11,000
2024	(5,000)
2025	(5,000)
Thereafter	<u>(2,000)</u>
	<u>\$ 55,000</u>

(Continued)

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

**Kentucky Teachers' Retirement System (Continued)**

**Actuarial Assumptions** – The total OPEB liability measured at June 30, 2019 and 2018 were determined using the following actuarial assumptions, applied to all periods included in the measurement:

June 30, 2019:

Actuarial valuation date	June 30, 2018
Investment rate of return	7.50%, net of OPEB plan investment expense, including inflation.
Projected salary increases	3.50 – 7.45%, including inflation
Inflation rate	3.00%
Real Wage Growth	0.50%
Wage Inflation	3.50%
Municipal Bond Index Rate	3.50%
Single Equivalent Interest Rate	7.50%, net of OPEB plan investment expense, including inflation.

June 30, 2018:

Actuarial valuation date	June 30, 2017
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%
Single Equivalent Interest Rate	7.50%, 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, 2018 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, 2016.

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, 2015 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.

(Continued)

WESTERN KENTUCKY UNIVERSITY  
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**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, as provided by TRS's investment consultant, are summarized in the following table:

<u>2019 Asset Class*</u>	<u>Target Allocation</u>	<u>Long-Term Nominal Rate of Return</u>
U.S. Equity	40.0%	4.3%
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	3.2
Cash (LIBOR)	<u>2.0</u>	0.9
Total	<u>100.0%</u>	

<u>2018 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)	<u>2.0</u>	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.

**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:

<u>2019</u>	<u>1% Decrease (6.50%)</u>	<u>Current Discount Rate (7.50%)</u>	<u>1% Increase (8.50%)</u>
University's net OPEB liability (LI)	\$ 684,000	\$ 463,000	\$ 281,000

(Continued)

WESTERN KENTUCKY UNIVERSITY  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2020 and 2019

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

**Kentucky Teachers' Retirement System (Continued)**

<u>2018</u>	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:

June 30, 2019:

Valuation date	June 30, 2016
Actuarial cost method	Entry Age Normal
Amortization method	Level Percent of Payroll
Amortization period	30 years
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% - 7.45%
Discount rate	7.50%
Health care cost trends	
Under 65	7.50% for FYE 2019 decreasing to an ultimate rate of 5.00% by FYE 2024
Ages 65 and Older	5.50% for FYE 2018 decreasing to an ultimate rate of 5.00% by FYE 2021
Medicare Part B Premiums	0.00% for FY 2018 with an ultimate rate of 5.00% by 2030

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(Continued)



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

**Kentucky Teachers' Retirement System (Continued)**

June 30, 2018:

Valuation date	June 30, 2015
Actuarial cost method	Entry Age Normal
Amortization method	Level Percent of Payroll
Amortization period	30 years
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	7.50% for FY 2019 decreasing to an ultimate rate of 5.00% by FY 2024 (2019)
Ages 65 and Older	5.50% for FY 2019 decreasing to an ultimate rate of 5.00% by FY 2021 (2019)
Medicare Part B Premiums	0.00% for FY 2019 with an ultimate rate of 5.00% by 2030 (2019)

**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.

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(Continued)

WESTERN KENTUCKY UNIVERSITY  
 NOTES TO FINANCIAL STATEMENTS  
 June 30, 2020 and 2019

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**NOTE 11 - RISK MANAGEMENT (Continued)**

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 2020 and 2019, 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, 2020, 2019, and 2018 are summarized as follows:

	<u>2020</u>	<u>2019</u>	<u>2018</u>
Balance, beginning of year	\$ 1,012,412	\$ 1,057,653	\$ 1,314,118
Claims and changes in estimates	14,184,900	12,241,069	13,610,254
Claims payments	<u>(14,065,449)</u>	<u>(12,286,310)</u>	<u>(13,866,719)</u>
Balance, end of year	<u>\$ 1,131,863</u>	<u>\$ 1,012,412</u>	<u>\$ 1,057,653</u>

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, 2020, 2019, and 2018 are summarized as follows:

	<u>2020</u>	<u>2019</u>	<u>2018</u>
Balance, beginning of year	\$ 212,311	\$ 171,259	\$ 213,401
Claims and changes in estimates	116,473	159,924	194,271
Claims payments	<u>(163,189)</u>	<u>(118,872)</u>	<u>(236,413)</u>
Balance, end of year	<u>\$ 165,595</u>	<u>\$ 212,311</u>	<u>\$ 171,259</u>

Business Disruption

In March 2020, the World Health Organization declared the coronavirus (COVID-19) outbreak to be a pandemic. COVID-19 has impacted economic activity and financial markets globally and locally and has resulted in a decrease in tuition revenue and an increase in operating expenses. The continued spread of the disease represents a significant risk that operations could be disrupted in the near future. However, the University received federal CARES funding and created health and safety guidelines to help mitigate the impact of the disruption in operations for the year ended June 30, 2020 and the subsequent fiscal year.

The extent to which COVID-19 impacts the University will depend on future developments, which are still highly uncertain and cannot be predicted. As a result, the University has not yet determined the impact this disruption may have on its financial statements for the year ending June 30, 2021.

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(Continued)

WESTERN KENTUCKY UNIVERSITY  
 NOTES TO FINANCIAL STATEMENTS  
 June 30, 2020 and 2019

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**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).

Following is a summary of the funding for the RUETF as of June 30, 2020:

	CPE Funding <u>Received</u>	<u>External Matched Pledges</u>	
		<u>Received</u>	<u>Pledged</u>
Balance, July 1, 2019	\$ 14,211,209	\$ 16,333,145	\$ 60,028
New Pledges	-	-	-
Current year collections	-	<u>35,028</u>	<u>(35,028)</u>
Balance, June 30, 2020	<u>\$ 14,211,209</u>	<u>\$ 16,368,173</u>	<u>\$ 25,000</u>

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>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>

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

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(Continued)

WESTERN KENTUCKY UNIVERSITY  
NOTES TO FINANCIAL STATEMENTS  
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**NOTE 13 - NATURAL AND FUNCTIONAL CLASSIFICATIONS OF OPERATING EXPENSES**

The University's operating expenses by functional classification on June 30, 2020, were as follows:

Functional Classification	Compensation and Benefits	Supplies Contractual Services and Other	Utilities	Non Capitalized Property	Scholarships	Depreciation	Total
Instruction	\$ 86,591,182	\$ 7,528,905	\$ 2,584	\$ 332,846	\$ -	\$ -	\$ 94,455,517
Research	3,946,100	1,835,957	4,024	64,263	-	-	5,850,344
Public service	8,748,003	5,502,468	30,560	570,817	-	-	14,851,848
Libraries	4,085,745	396,881	-	80,584	-	-	4,563,210
Academic support	15,099,837	4,007,125	12,797	290,122	-	-	19,409,881
Student services	19,702,543	11,258,022	5,642	166,170	-	-	31,132,377
Institutional support	26,029,578	8,556,543	2,633	432,035	-	-	35,020,789
Operation and maintenance of plant	9,001,931	10,931,255	6,535,277	(36,290)	-	-	26,432,173
Student financial aid	141,469	1,029,849	-	2,067	27,641,014	-	28,814,399
Pension and OPEB	(55,042,091)	-	-	-	-	-	(55,042,091)
Depreciation	-	-	-	-	-	29,549,530	29,549,530
Auxiliary enterprise	6,260,635	11,494,145	2,097,115	41,273	-	-	19,893,168
<b>Total operating expenses</b>	<b>\$ 124,564,932</b>	<b>\$ 62,541,150</b>	<b>\$ 8,690,632</b>	<b>\$ 1,943,887</b>	<b>\$ 27,641,014</b>	<b>\$ 29,549,530</b>	<b>\$ 254,931,145</b>

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	26,013,634	8,746,741	3,573	492,461	-	-	35,256,409
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
Pension and OPEB	(35,991,288)	-	-	-	-	-	(35,991,288)
Depreciation	-	-	-	-	-	29,191,922	29,191,922
Auxiliary enterprise	6,918,165	11,105,068	2,541,925	67,216	-	-	20,632,374
<b>Total operating expenses</b>	<b>\$ 148,430,834</b>	<b>\$ 69,260,571</b>	<b>\$ 8,973,885</b>	<b>\$ 4,196,951</b>	<b>\$ 19,955,424</b>	<b>\$ 29,191,922</b>	<b>\$ 280,009,587</b>

(Continued)

WESTERN KENTUCKY UNIVERSITY  
NOTES TO FINANCIAL STATEMENTS  
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**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.

Transfers to WKU Alumni Association: Effective December 31, 2019, the Foundation transferred Augenstein Alumni Center (AAC) and corresponding related assets, liabilities, revenue, gains, expenses, and losses to the Alumni Association.

The transaction was accounted for as follows:

Cash	\$ (572,626)
Other payable	129,306
Due from WKU Alumni Association	483,536
Pledges receivable	(2,395,023)
Capital lease obligation	554,459
Property, net	(8,847,675)
Interest	18,166
Charitable contributions	743,090
Sponsorship	1,000,000
Gain on debt forgiveness	(129,306)
Revenue from WKU Alumni Association	<u>(483,536)</u>
Loss on transfer	<u>\$ (9,499,609)</u>

The AAC, related outstanding pledges receivable and assets held for others funds were transferred as part of this transaction. At the time of the transfer, the Foundation used proceeds from the sale of other real estate property to pay off the remaining lease liability related to the AAC on behalf of WKU. As a result, the Foundation recorded a receivable due from the Alumni Association for the remainder of funds owed to the Foundation for this lease liability that was paid on their behalf.

Adoption of New Accounting Standard: The Foundation has adopted Accounting Standards Update (ASU) 2018-08 *Not-for-Profit Entities: Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made (Topic 605)* as management believes the standard improves the usefulness and understandability of the Foundation's Financial Reporting. The Foundation adopted the new standard effective January 1, 2019, with no impact on recognition of revenue.

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(Continued)

WESTERN KENTUCKY UNIVERSITY  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2020 and 2019

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

Consolidation: The consolidated financial statements include the accounts of the WKU Foundation and its subsidiary, Alumni Square (collectively referred to as the Foundation). Significant intercompany transactions and accounts have been eliminated.

The following table summarizes the carrying amount of assets and liabilities of Alumni Square included in the Foundation's consolidated balance sheets:

	<u>2019</u>	<u>2018</u>
<b>Assets</b>		
Cash	\$ 202,274	\$ 206,744
Accounts receivable	15,387	11,030
Property and equipment, net	<u>1,046,718</u>	<u>1,057,231</u>
Total assets	<u>\$ 1,264,379</u>	<u>\$ 1,275,005</u>
<b>Liabilities</b>		
Equity	\$ 7,306	\$ 4,638
	<u>1,257,073</u>	<u>1,270,367</u>
Total liabilities and equity	<u>\$ 1,264,379</u>	<u>\$ 1,275,005</u>
<b>Revenues</b>		
Expenses	\$ 68,986	\$ 70,112
	<u>82,280</u>	<u>21,507</u>
Net (loss) income	<u>\$ (13,294)</u>	<u>\$ 48,605</u>

Alumni Square's equity of \$1,257,073 and \$1,270,367 as of December 31, 2019 and 2018, respectively, is included in net assets without donor restrictions.

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

Net assets without donor restrictions - net assets available for use in general operations and not subject to donor restrictions. The governing board has designated, from net assets without donor restrictions, net assets for an operating reserve and board-designated endowment.

Net assets with donor restrictions - net assets subject to donor-imposed restrictions. Some donor-imposed restrictions are temporary in time, such as those that will be met by the passage of time or other events specified by the donor. Other donor-imposed restrictions are perpetual in nature, where the donor stipulates that resources be maintained in perpetuity. Donor-imposed restrictions are released when a restriction expires, that is, when the stipulated time has elapsed, when the stipulated purpose for which the restricted has been fulfilled, or both. The investment return on net assets with donor restriction may be restricted or unrestricted according to the donor's wishes.

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.

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(Continued)

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

Investments: The Foundation's investments are generally administered as pools of commingled assets held in custodial investment accounts managed by professional investment advisors. The Foundation invests in a combination of cash equivalent funds (money market funds), certificates of deposit, mutual funds, fixed income securities, exchange traded funds, equity securities, and real estate and other alternative investments. Fixed income securities principally include U.S. government and government agency securities and corporate bonds/notes.

All investment securities are subject to the risks common to financial markets, including interest rate risk, credit risk, and overall market risk. Due to the level of risk associated with all 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 financial statements.

The Foundation carries its investments in marketable securities with readily determinable fair values and all investments in debt securities at their fair values, as determined by quoted market prices. Investments also consist of vested beneficial interests in various charitable remainder unitrusts and charitable remainder annuity trusts, all for which the Foundation acts as the trustee. Such vested beneficial interests, since the Foundation is the trustee, are included in investments at fair value. The Foundation is invested in real estate. Management considers the carrying value of real estate investments to approximate fair value.

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.

The Foundation's investments are commingled with certain investments held for WKU, the Research Foundation, LifeWorks, Alumni Association, Kentucky Institute for International Studies (KIIS), and HAF. Accordingly, investment income and unrealized and realized gains/losses are allocated between the respective organizations on a pro-rata basis.

Investment income includes both interest and dividend income. Interest income is recorded on the accrual basis. Dividends are recorded on the ex-dividend date. Net realized gains/losses represent the gains/losses on investments sold during the year. Net unrealized gains/losses represent the gains/losses on investments held during the year. Unrealized gains/losses are included in the change in net assets in the accompanying consolidated statements of activities.

Pledges Receivable: Pledges are recognized and recorded as support without donor restrictions or support with donor restrictions depending on the existence or nature of any donor restrictions when the donor makes a promise to give that is, in substance, unconditional. Pledges that are expected to be collected within one year are recorded at their net realizable value. Pledges that are expected to be collected in future years are recorded at the present value of the estimated future cash flows. The discounts on those amounts are computed using the risk-free interest rate applicable to the year in which the promise is received. Amortization of the discount is included in contribution revenue. Pledges receivable are reviewed annually to determine if an allowance for uncollectible contributions receivable is needed.

Conditional promises to give are not included as contributions until such time as the conditions are substantially met.

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(Continued)

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

Property: Property is recorded at cost if purchased or fair value at date of contribution if contributed. If the donors stipulate how long the assets must be used, the contributions of property are recorded as support with donor restrictions. In the absence of such stipulations, these contributions are recorded as support without donor restrictions. Depreciation is computed on a straight-line basis over the estimated useful lives of the respective assets.

Deferred Gift Liabilities: The carrying amount (estimated fair value) for deferred gift liabilities (split-interest annuity and trust agreements) is the actuarially determined 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.

Contributions: Contributions are recognized when cash, securities, other assets, and unconditional promises to give are received. All unconditional promises to give (contributions) are considered to be available for unrestricted use unless restricted by the donor. Conditional promises to give are not recognized until the conditions on which they depend have been substantially met. 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.

Functional Allocation of Expenses: The costs of providing the various programs and other activities of the Foundation are summarized on a functional basis in the accompanying consolidated statements of activities. The statements of functional expenses present the natural classification detail of expenses by function. Directly identifiable expenses are charged to the applicable program and supporting services. Expenses related to more than one function are allocated among the programs and supporting services benefited. Management and general expenses include those expenses that are not directly identifiable with any other specific function but provide for the overall support and direction of the Foundation.

Income Taxes: The Foundation, a not-for-profit organization operating under Section 501(c)(3) of the Internal Revenue Code, is generally exempt from federal, state and local income taxes. The Foundation's management does not believe the Foundation has any unrelated business income. Accordingly, no provision for income taxes is recorded in the financial statements.

Related Party Transactions: Accounts receivable from the Foundation and accounts payable to the Foundation as of the University's fiscal year ended June 30, 2020 and 2019 were insignificant.

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(Continued)



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

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.

The Foundation has a concentration of credit risk in that it periodically maintains bank accounts which, at times, may exceed the coverage provided by the Federal Deposit Insurance Corporation. The Foundation has not experienced any losses on such amounts. The Foundation believes it is not exposed to any significant credit risk on cash.

Reclassifications: Certain amounts for 2018 have been reclassified to conform with the 2019 presentation. These reclassifications had no effect on the previously reported 2018 change in net assets or total net assets as of December 31, 2018.

Upon further review by management, it was determined that net assets with donor restrictions were improperly included as net assets without donor restrictions in the endowment. The endowment rollforward below was adjusted to conform to the updated endowment amount. These changes have no effect on total net assets.

New Accounting Pronouncements: In February 2016, FASB issued ASU 2016-02, *Leases (Topic 842)*, requiring all leases to be recognized on the Foundation's statement of financial position as a right-of-use asset and a lease liability, unless the lease is a short-term lease (generally a lease with a term of twelve months or less). At the commencement date of the lease, the Foundation will recognize: 1) a lease liability for the Foundation's obligation to make payments under the lease agreement, measure on a discounted basis; and 2) a right-of-use asset that represents the Foundation's right to use, or control the use of, the specified asset for the lease term. The ASU originally required recognition and measurement of leases at the beginning of the earliest period presented using a modified retrospective transition method. In July 2018, the FASB issued ASU 2018-11, which provided an additional (and optional) transition method that permits application of the updated standard at the adoption date with recognition of a cumulative-effect adjustment to the opening balance of net assets in the period of adoption. The updated standard will be effective for the Foundation for the year ending December 31, 2021, with early adoption permitted. The Foundation has not yet selected a transition method and is currently evaluating the effect that the new standard will have on its financial statements.

**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>2019</u>	<u>2018</u>
Financial assets available to meet general expenditures over the next 12 months:		
Cash and equivalents	\$ 1,509,682	\$ 1,664,542
Investments not encumbered by donor or board restrictions	<u>2,694,239</u>	<u>1,486,653</u>
	<u>\$ 4,203,921</u>	<u>\$ 3,151,195</u>

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(Continued)

WESTERN KENTUCKY UNIVERSITY  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2020 and 2019

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

**Liquidity and Availability (Continued)**

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 \$1,458,891 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, 2019 and 2018, investments consist of the following:

	<u>2019</u>	<u>2018</u>
Certificates of deposit	\$ 4,154,581	\$ 754,543
Mutual funds	54,855,222	64,992,327
Exchange traded funds	5,129,723	1,568,067
Equity securities	9,163,359	401,318
Real estate and other alternative investments	<u>15,357,097</u>	<u>18,111,547</u>
	88,659,982	85,827,802
Less: investments included above which are held for WKU	18,463,620	16,364,854
Less: investments included above which are held for LifeWorks	50,289	-
Less: investments included above which are held for KIIS	605,969	-
Less: investments included above which are held for Alumni Association	437,785	-
Less: investments included above which are held for HAF	<u>2,919,735</u>	<u>2,114,556</u>
	<u>\$ 66,182,584</u>	<u>\$ 67,348,392</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 was \$1,610,000 as of December 31, 2018, which management determined was the approximate fair value. The real estate was transferred out of assets held for others during 2018, with a portion being classified as assets held for sale as of December 31, 2018. The Foundation sold all of the property during 2019.

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(Continued)

WESTERN KENTUCKY UNIVERSITY  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2020 and 2019

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**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 sold all of the property during 2019.

**Pledges Receivable**

As of December 31, 2019 and 2018, net pledges receivable consist of the following:

	<u>2019</u>	<u>2018</u>
Estimated to be collected in less than one year	\$ 986,741	\$ 1,436,415
Estimated to be collected in one to five years	1,918,084	3,974,100
Estimated to be collected thereafter	<u>933,873</u>	<u>1,514,623</u>
	3,838,698	6,925,138
Less: allowance for uncollectible pledges	<u>525,176</u>	<u>798,565</u>
	3,313,522	6,126,573
Less: discounts to net present value	<u>587,456</u>	<u>607,575</u>
	<u>\$ 2,726,066</u>	<u>\$ 5,518,998</u>

Discount rates on outstanding pledges due in more than one year range from 1.01% to 4.71%.

**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 down-payment and present value of the capital lease payments.

As of December 31, 2019 and 2018, property consists of the following:

	<u>2019</u>	<u>2018</u>
Land	\$ 663,000	\$ 1,148,500
Building	<u>410,000</u>	<u>10,013,556</u>
	1,073,000	11,162,056
Accumulated depreciation	<u>(26,282)</u>	<u>(1,257,150)</u>
	<u>\$ 1,046,718</u>	<u>\$ 9,904,906</u>

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(Continued)

WESTERN KENTUCKY UNIVERSITY  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2020 and 2019

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**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, 2019 and 2018, assets held for others consist of the following:

	<u>2019</u>	<u>2018</u>
WKU – Regional University Excellence Trust Fund	\$ 14,757,888	\$ 12,914,214
WKU – Self-insurance program funds	3,669,667	3,419,831
Hilltopper Athletic Foundation	2,919,735	2,114,556
Kentucky Institute for International Studies	605,969	-
Alumni Association Lifetime	437,785	-
LifeWorks	50,289	-
Green River	<u>36,065</u>	<u>30,809</u>
	<u>\$ 22,477,398</u>	<u>\$ 18,479,410</u>

Accordingly, the accompanying statements of financial position as of December 31, 2019 and 2018 reflect a liability for assets held for others in the amount of \$22,477,398 and \$18,479,410, respectively.

The accompanying statement of activities for the year ended December 31, 2019 reflects transfers to assets held for others in the amount of \$1,652,884. This amount represents investments, related contributions, and earnings that were previously held under the control of the Foundation but were transferred to assets held for others during 2019.

**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%. The Foundation paid off the remaining lease liability relating to this capital lease as part of the transferring of the corresponding building (AAC) to Alumni Association.

**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 \$183,488 and \$179,939 as of December 31, 2019 and 2018, 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, 2019 and 2018, cash, cash equivalents, and investments relative to charitable gift annuities total \$291,987 and \$233,926, respectively.

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(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 \$734,045 and \$698,135 as of December 31, 2019 and 2018, 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, 2019 and 2018, cash, cash equivalents, and investments relative to charitable remainder trusts total \$1,508,226 and \$1,498,090, 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, 2019 and 2018.

*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.

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(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:

*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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(Continued)

WESTERN KENTUCKY UNIVERSITY  
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**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, 2019:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Fair Value</u>
Certificates of deposit	\$ 4,154,581	\$ -	\$ -	\$ 4,154,581
Mutual funds				
Equities	40,699,239	-	-	40,699,239
Fixed income	14,110,890	-	-	14,110,890
Alternative investments	45,093	-	-	45,093
Exchange traded funds				
Fixed income	3,629,203	-	-	3,629,203
Equities	57,281	-	-	57,281
Alternative investments	1,443,239	-	-	1,443,239
Equity securities				
Consumer discretionary	810,744	-	-	810,744
Consumer staples	549,062	-	-	549,062
Energy	370,482	-	-	370,482
Financial	2,109,193	-	-	2,109,193
Health care	211,098	-	-	211,098
Industrials	1,640,701	-	-	1,640,701
Information technology	1,793,269	-	-	1,793,269
Materials	73,355	-	-	73,355
Telecommunication services	987,016	-	-	987,016
Exchange traded funds	110,838	-	-	110,838
Utilities	210,430	-	-	210,430
Other	297,171	-	-	297,171
Real estate and other alternative investments				
Marketable alternatives	-	12,964,718	-	12,964,718
Limited partnership – private equity	-	-	2,392,379	2,392,379
	<u>\$ 73,302,885</u>	<u>\$ 12,964,718</u>	<u>\$ 2,392,379</u>	<u>\$ 88,659,982</u>

(Continued)

WESTERN KENTUCKY UNIVERSITY  
NOTES TO FINANCIAL STATEMENTS  
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**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	-	-	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>

(Continued)



WESTERN KENTUCKY UNIVERSITY  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2020 and 2019

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

**Fair Value Measurements** (Continued)

The 2019 and 2018 activity with respect to the investments included above under Level 3 is as follows:

	<u>2019</u>	<u>2018</u>
Beginning of the year	\$ 1,237,759	\$ 2,706,303
Purchases	1,354,539	667,269
Sales	-	(633,619)
Transfer of real estate to WKU	-	(1,610,000)
Net unrealized and realized appreciation (depreciation)	<u>(199,919)</u>	<u>107,806</u>
End of the year	<u>\$ 2,392,379</u>	<u>\$ 1,237,759</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, 2019:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Charitable remainder trusts				
Unitrusts	\$ -	\$ -	\$ 349,959	\$ 349,959
Annuity trusts	-	-	384,086	384,086
Charitable gift annuities	<u>-</u>	<u>-</u>	<u>183,488</u>	<u>183,488</u>
	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 917,533</u>	<u>\$ 917,533</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 2019 and 2018 activity with respect to the deferred gift liabilities included above under Level 3 is as follows:

	<u>2019</u>	<u>2018</u>
Beginning of the year	\$ 878,074	\$ 977,524
New deferred gifts	50,000	50,000
Payments	(149,120)	(150,083)
Reduction attributable to death of donors	(15,893)	-
Net actuarial loss	<u>154,472</u>	<u>633</u>
End of year	<u>\$ 917,533</u>	<u>\$ 878,074</u>

(Continued)

WESTERN KENTUCKY UNIVERSITY  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2020 and 2019

**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, 2019 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	\$ 12,964,718	\$ -	Yearly	30 days
Limited partnership – private equity	486,307	1,034,103	N/A	N/A
Limited partnership – private equity	140,829	1,344,101	N/A	N/A
Limited partnership – private equity	98,701	-	N/A	N/A
Limited partnership – private Equity	618,645	-	N/A	N/A
Limited partnership – private Equity	457,374	550,000	N/A	N/A
Limited partnership – private equity	590,523	380,460	N/A	N/A

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

**Endowment Funds**

The Foundation's endowment consists of approximately 260 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.

(Continued)

WESTERN KENTUCKY UNIVERSITY  
 NOTES TO FINANCIAL STATEMENTS  
 June 30, 2020 and 2019

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

**Endowment Funds** (Continued)

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, 2019 and 2018, 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.

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, 2019 is as follows:

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
Donor-restricted endowment funds	\$ -	\$ 62,603,443	\$ 62,603,443
Board designated endowment funds	<u>1,458,891</u>	<u>-</u>	<u>1,458,891</u>
	<u>\$ 1,458,891</u>	<u>\$ 62,603,443</u>	<u>\$ 64,062,334</u>

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	\$ -	\$ 54,760,968	\$ 54,760,968
Board designated endowment funds	<u>2,928,423</u>	<u>-</u>	<u>2,928,423</u>
	<u>\$ 2,928,423</u>	<u>\$ 54,760,968</u>	<u>\$ 57,689,391</u>

(Continued)

WESTERN KENTUCKY UNIVERSITY  
 NOTES TO FINANCIAL STATEMENTS  
 June 30, 2020 and 2019

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**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, 2019 are as follows:

	Without Donor <u>Restrictions</u>	With Donor <u>Restrictions</u>	<u>Total</u>
Endowment net assets, beginning of the year	\$ 2,928,423	\$ 54,760,968	\$ 57,689,391
Contributions	-	588,373	588,373
Investment income	44,258	1,643,894	1,688,152
Realized and unrealized gains	228,680	9,544,804	9,773,484
Amounts appropriated for expenditure	<u>(1,742,470)</u>	<u>(3,934,596)</u>	<u>(5,677,066)</u>
Endowment net assets, end of year	<u>\$ 1,458,891</u>	<u>\$ 62,603,443</u>	<u>\$ 64,062,334</u>

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

	Without Donor <u>Restrictions</u>	With Donor <u>Restrictions</u>	<u>Total</u>
Endowment net assets, beginning of the year	\$ 1,150,396	\$ 59,925,195	\$ 61,075,591
Contributions	1,887,775	1,154,071	3,041,846
Investment income	53,352	1,475,783	1,529,135
Realized and unrealized losses	(127,103)	(5,261,065)	(5,388,168)
Amounts appropriated for expenditure	<u>(35,997)</u>	<u>(2,533,016)</u>	<u>(2,569,013)</u>
Endowment net assets, end of year	<u>\$ 2,928,423</u>	<u>\$ 54,760,968</u>	<u>\$ 57,689,391</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, 2019, funds with original gift values of \$565,179, fair values of \$503,754, and deficiencies of \$61,425 were reported in net assets with donor restrictions.

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(Continued)

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

**Endowment Funds** (Continued)

*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 7.44% 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.

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.

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(Continued)

WESTERN KENTUCKY UNIVERSITY  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2020 and 2019

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

**Net Assets With Donor Restrictions**

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

	<u>2019</u>	<u>2018</u>
Subject to expenditure for specified purpose:		
Academic support/WKU programs	\$ 10,831,130	\$ 16,981,517
Athletics	2,526,420	2,197,060
Public service	1,188,763	4,570,694
Professorships	773,813	646,676
Scholarship funds	130,691	142,535
Promises to give, the proceeds from which have been restricted by donors for:		
Academic support/WKU programs	2,333,955	2,915,519
Athletics	349,830	834,954
Public services	257,860	1,658,250
Professorships	-	80,000
Total subject to expenditure for specified purpose	<u>18,392,462</u>	<u>30,027,205</u>
Subject to passage of time:		
Assets held under split-interest agreements	882,680	853,030
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)	62,664,868	55,970,052
Underwater endowments	<u>(61,425)</u>	<u>(1,209,084)</u>
Total endowments	<u>62,603,443</u>	<u>54,760,968</u>
Total net assets with donor restriction	<u>\$ 81,878,585</u>	<u>\$ 85,641,203</u>

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, 2019 and 2018:

	<u>2019</u>	<u>2018</u>
Distributions (proceeds are not restricted by donors):		
Assets held under split-interest agreements	\$ 185,815	\$ 21,017
Restricted-purpose spending-rate distributions and appropriations:		
Academic support/WKU programs	13,927,119	3,869,657
Athletics	1,815,414	1,140,858
Public service	4,908,365	689,655
Professorships	896,234	743,819
Scholarship funds	<u>206,513</u>	<u>220,175</u>
Total	<u>\$ 21,939,460</u>	<u>\$ 6,685,181</u>

(Continued)

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

**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, 2019, 49.47% and 15.03% of annual covered payroll, respectively (49.47% and 15.87% as of December 31, 2018, respectively). Employer contributions made under KERS and KTRS on behalf of Foundation employees total approximately \$61,000 and \$60,000 for the years ended December 31, 2019 and 2018, respectively.

**Related Party Transactions**

Accounts payable as of December 31, 2019 and 2018 include approximately \$8,000 and \$11,000, respectively, which are payable to WKU.

The Foundation paid off the lease liability related to the AAC that was transferred to WKU as of the year-end. As such, there is an amount due from Alumni Association of \$483,536, net of allowance of \$60,147.

**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 \$1,000,000. 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.

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(Continued)

**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.

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

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, 2020 and 2019, cash equivalents consisted primarily of money market funds. At June 30, 2020 and 2019, the Student Life’s cash accounts exceeded federally insured limits by approximately \$53.2 million and \$19.5 million, respectively.

Assets Limited as to Use and Investment Return: Student Life has classified cash and investment deposits, designated for its bond fund and debt service reserve fund, as assets limited as to use.

Assets limited as to use consist of money market funds and commercial paper. These investments are stated at cost, plus accrued interest, which approximates market value. Investment return is primarily comprised of interest income less external and direct internal investment expenses.

Uninvested cash and cash equivalents included in assets limited as to use related to board-designated amounts for replacement, expansion or improvement of facilities and amounts held by trustees related to future capital projects are not considered to be cash and cash equivalents with respect to the statements of cash flows.

Uninvested cash and cash equivalents included in assets limited as to use held by trustee related to principal and interest payments on long-term debt and board designated for special uses are considered to be cash and cash equivalents with respect to the statements of cash flows.



WESTERN KENTUCKY UNIVERSITY  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2020 and 2019

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

Accounts Receivable: Accounts receivable are stated at the amounts billed. Student Life provides an allowance for doubtful accounts, which is based upon a review of outstanding receivables, historical collection information and existing economic conditions. Accounts past due for more than 120 days are considered delinquent. Delinquent receivables are written off based on individual credit evaluation and specific circumstances.

Food Services Building Leasing Arrangements: Student Life constructed a food service building to improve food service offerings located near its residence halls on the south end of the main campus. Student Life entered into a long-term capital lease arrangement with the University to operate this facility for 25 years beginning on July 1, 2008 and ending on June 20, 2033. The lease is an absolute net lease where the University assumes and agrees to pay and perform all payments, expenses, maintenance and operational costs in connection with the use of the premises. The revenue related to this direct financing lease is recognized over the lease term, using the effective interest method.

Assets Held for Others: Student Life holds certain deposits in cash, money market funds and corporate bonds on behalf of students to help reimburse the cost of damage incurred in rooms during the semester. Money market funds and investments in all debt securities are carried at fair value.

Property and Equipment: Property and equipment are stated at cost, less accumulated depreciation. Depreciation is charged to expense using the straight-line method over the estimated useful life of each asset. Assets under capital lease obligations and leasehold improvements are depreciated over the shorter of the lease term or their respected estimated useful lives.

The estimated useful lives for each major depreciable classification of property and equipment are as follows:

Furnishings and fixtures	5 years
Vehicles	5 years
Software	7 years
Building and improvements	7, 25, or 40 years

Student Life capitalizes interest costs as a component of construction in progress, based on either the weighted-average rates paid for long-term borrowing for other than tax-exempt debt or the interest costs of borrowing specifically for the project for tax-exempt debt. Total interest incurred each year was:

	<u>2020</u>	<u>2019</u>
Interest costs capitalized on tax-exempt debt	\$ 65,672	\$ 117,488
Interest costs charged to expense	<u>3,937,510</u>	<u>2,955,870</u>
Total interest incurred	<u>\$ 4,003,182</u>	<u>\$ 3,073,358</u>

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(Continued)

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

Long-Lived Asst Impairment: Student Life evaluates the recoverability of the carrying value of long-lived assets whenever events or circumstances indicate the carrying amount may not be recoverable. If a long-lived asset is tested for recoverability and the undiscounted estimated future cash flows expected to result from the use and eventual disposition of the asset is less than the carrying amount of the asset, the asset cost is adjusted to fair value and an impairment loss is recognized as the amount by which the carrying amount of a long-lived asset exceeds its fair value.

During the year ended June 30, 2020, Student Life recorded approximately \$1 million in long-lived asset impairment related to property and equipment where estimated cash flows are projected to be insufficient to support the value of the related assets. Asset impairment was recognized during the year ended June 30, 2019 in the amount of approximately \$2.5 million.

Derivative Instruments: All derivatives are recognized in the statements of financial position at their fair values. Changes in the fair values of derivatives are recognized in the statements of activities as nonoperating income or expense.

Deferred Revenue: Revenue from rental fees for Hilltopper Hub is deferred and recognized over the periods to which the fees relate.

Debt Issuance Costs: Debt issuance costs represent costs incurred in connection with the issuance of long-term debt. Such costs are being amortized over the term of the respective debt using the straight line method.

CARES Act Contribution Revenue: Contributions were provided to Student Life through the CARES Act in the amount of \$3,903,711 under the Higher Education Emergency Relief Fund (HEERF) student portion. Of these funds received, \$3,903,711 has been distributed to students as of June 30, 2020. Revenues and net assets are separately reported to reflect the nature of this contribution. The value recorded for this contribution is recognized as follows:

<u>Nature of the Gift</u>	<u>Value Recognized</u>
<i>Conditional gifts, with or without restriction</i>	
Gifts that depend on Student Life overcoming a donor-imposed barrier to be entitled to the funds	Not recognized until the gift becomes unconditional, <i>i.e.</i> the donor-imposed barrier is met

Conditional contributions having donor stipulations which are satisfied in the period the gift is received are recorded as revenue and net assets without donor restrictions.

100% percent of all contributions were received from one donor in 2020.

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(Continued)

WESTERN KENTUCKY UNIVERSITY  
 NOTES TO FINANCIAL STATEMENTS  
 June 30, 2020 and 2019

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

**Liquidity and Availability**

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

	<u>2020</u>	<u>2019</u>
Cash and cash equivalents	\$ 12,713,178	\$ 13,772,586
Accounts receivable – Western Kentucky University	835,762	527,118
Accounts receivable – students, net	377,623	505,748
Accounts receivable – other	<u>15,529</u>	<u>9,659</u>
	<u>\$ 13,942,092</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, 2020 and 2019:

	<u>2020</u>	<u>2019</u>
Total minimum lease payments to be received	\$ 1,553,199	\$ 1,747,348
Estimated residual value of building (unguaranteed)	873,095	873,095
Less: Unearned income	<u>856,830</u>	<u>964,464</u>
Net investment in direct financing lease	<u>\$ 1,569,464</u>	<u>\$ 1,655,979</u>

Future minimum lease payments to be received by Student Life are as follows:

2021	\$ 194,149	
2022	194,149	
2023	194,149	
2024	194,149	
2025	194,149	
Thereafter	<u>582,454</u>	
	<u>\$ 1,553,199</u>	

At June 30, 2020 and 2019, the carrying amount of the direct financing lease is a reasonable estimate of its fair value. Student Life annually reviews the unguaranteed residual value of the leased building.

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(Continued)

WESTERN KENTUCKY UNIVERSITY  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2020 and 2019

**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, 2020 and 2019, consisted of the following:

	<u>2020</u>	<u>2019</u>
Money market accounts	\$ 35,367,160	\$ 1,400,397
Commercial paper	<u>4,273,327</u>	<u>4,244,225</u>
Total	<u>\$ 39,640,487</u>	<u>\$ 5,644,622</u>
Assets limited as to use:		
Restricted by bond indenture	\$ 38,805,347	\$ 4,919,851
Internally restricted for debt principal and interest	<u>835,140</u>	<u>724,771</u>
Total	<u>\$ 39,640,487</u>	<u>\$ 5,644,622</u>

**Assets Held for Others – Student Deposits**

Student Life holds certain deposits in money market funds on behalf of students to help reimburse the cost of damage incurred in rooms during the semester. Money market funds are carried at fair value.

Assets held for others, which represent student deposits, at June 30, 2020 and 2019 consisted of the following:

	<u>2020</u>	<u>2019</u>
Money market accounts	<u>\$ 450,807</u>	<u>\$ 483,410</u>

**Property and Equipment**

Property and equipment at June 30, 2020 and 2019, consisted of:

	<u>2020</u>	<u>2019</u>
Land	\$ 6,654,844	\$ 4,058,993
Land improvements	1,331,637	1,331,637
Buildings	68,551,064	70,035,151
Building improvements	73,252,476	76,440,824
Vehicles	155,977	168,277
Furnishings and fixtures	13,136,483	12,802,403
Software for chill water plant	346,903	346,903
Housing Software	151,050	151,050
Construction in progress	<u>17,952,796</u>	<u>2,994,105</u>
	181,533,230	168,329,343
Less accumulated depreciation and amortization	<u>56,346,401</u>	<u>54,290,562</u>
	<u>\$ 125,186,829</u>	<u>\$ 114,038,781</u>

During 2019, a residence hall was demolished. In May 2020, Student Life approved the discontinuance of the use of the remaining residence hall, changing the useful life of this hall to zero as of May 31, 2020.

(Continued)

WESTERN KENTUCKY UNIVERSITY  
 NOTES TO FINANCIAL STATEMENTS  
 June 30, 2020 and 2019

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

**Asset Retirement Obligation**

Student Life 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. Student Life's conditional AROs primarily relates to asbestos contained in buildings Student Life owns. Environmental regulations exist in Kentucky requiring Student Life 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, 2020 and 2019. The balance remains \$794,269 as of June 30, 2020 and 2019.

**Long-Term Debt and Letter of Credit**

Long-term debt consisted of the following:

	<u>2020</u>	<u>2019</u>
Series 2017 A – Industrial Building Revenue Bonds - Tax-exempt fixed rate of 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, 2020 and 2019, were \$201,148 and \$210,726, respectively.	\$ 87,093,446	\$ 92,614,085
Series 2019 – Industrial Building Revenue Bonds – Tax-exempt fixed rate of 3.17%; 8 year lockout period payable in monthly installments of principal and interest; annual principal payments range from \$414,045 to \$5,653,476 through 2029; rate to be renegotiated in September 2029 when balance due will be \$26,027,325; collateralized by all real estate. Unamortized debt issuance costs as of June 30, 2020 and 2019 were \$178,588 and \$0, respectively.	<u>42,000,000</u> 129,093,446	<u>-</u> 92,614,085
Less unamortized bond issuance costs	<u>379,736</u>	<u>210,726</u>
	<u>\$ 128,713,710</u>	<u>\$ 92,403,359</u>

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(Continued)

WESTERN KENTUCKY UNIVERSITY  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2020 and 2019

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

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

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

2021		\$	5,755,739
2022			6,527,342
2023			6,751,723
2024			6,981,731
2025			7,219,684
Thereafter			95,857,227
			\$ 129,093,446

**Derivative Financial Instruments**

Student Life 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, Student Life entered into a forward sale agreement with a bank in conjunction with its Series 2000 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. In conjunction with the refunding of the Series 2015 Bonds and the issuance of the Series 2017 Bonds, the required balance of the debt service reserve fund was reduced from \$6,275,000 to \$4,145,000 during 2017. This agreement has a termination date of May 1, 2022. Balances of \$4,535,309, and \$4,506,343 were on deposit as of June 30, 2020 and 2019, respectively

The estimated fair value of these derivative arrangements at June 30, 2020 was:

<u>Type</u>	<u>Effective Date</u>	<u>Maturity Date</u>	<u>Underlying Index</u>	Fair Value June 30, <u>2020</u>	Fair Value June 30, <u>2019</u>
Forward-sale agreement	August 8, 2000	May 1, 2022	Return on underlying investments	\$ 389,659	\$ 486,436

The statements of activities reflect the change in fair value of the derivative agreement of \$(96,778) and \$(125,281) for the years ended June 30, 2020 and 2019, respectively.

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

	<u>2020</u>	<u>2019</u>
Fair value of derivative instruments	\$ 389,659	\$ 486,436
Statement of financial position location of fair value amount	Asset	Asset

(Continued)

WESTERN KENTUCKY UNIVERSITY  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2020 and 2019

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

**Related Party Transactions**

Student Life and University are related parties. The financial statements include the following amounts related to the University:

	<u>2020</u>	<u>2019</u>
Accounts receivable from WKU – student housing and related fees	\$ 377,623	\$ 505,748
Accounts receivable from WKU – other	835,762	527,118
Net investment in direct financing lease	1,569,464	1,655,979
Accounts payable – operating expenses	604,639	1,733,766
Interest income – direct financing lease	107,634	113,139
Hilltopper Hub lease	117,647	-
Operating lease income	48,045	47,103
Chilled water service fees	457,407	440,368
Management fees	84,200	84,200

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

Accounts receivable relate to student housing fees collected by the University, which are due to Student Life, 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 Student Life. Student Life reimburses the University on a monthly basis for all expenses incurred by the University on Student Life's behalf, which is represented by the accounts payable amounts noted above.

Student Life receives rent revenue from the University for the lease of retail space at one of the Student Life's residence halls. The lease was renewed in August 2017 with annual lease payments ranging from \$46,179 to \$49,986. The rent was \$48,045 and \$47,103 for the years ended June 30, 2020 and 2019, respectively. The revenue from this lease is included in other revenues.

Student Life received prepaid rent from WKU in the amount of approximately \$3 million during the year ended June 30, 2020, for WKU to provide a food service operation. The lease is for the period of November 1, 2019 through October 31, 2036 and subject to five-year renewal terms at the end of October 2036. The revenue from this lease is recorded in other income in the amount of \$117,647 and \$0 for the years ended June 30, 2020 and 2019, respectively.

Student Life receives fees from the University relating to chilled water services. The fees were \$457,407 and \$440,368 for the years ended June 30, 2020 and 2019, respectively. These fees are included in other revenues.

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(Continued)

WESTERN KENTUCKY UNIVERSITY  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2020 and 2019

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

A schedule of future rent revenue is presented below:

2021	\$ 225,479
2022	226,457
2023	176,471
2024	176,471
2025	176,471
Thereafter	<u>2,000,000</u>
	<u>\$ 2,981,349</u>

The University provides certain direct and indirect support to Student Life and Student Life 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, Student Life does provide an annual amount to the University to help offset such related costs. The management fees were \$84,200 for both years ended June 30, 2020 and 2019.

During the year ended June 30, 2020, Student Life purchased land and constructed a parking lot for approximately \$2.5M. Student Life then exchanged the constructed parking lot for existing land owned by the University in order to replace parking spots that were lost due to the construction of the First Year Village.

**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.

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(Continued)



WESTERN KENTUCKY UNIVERSITY  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2020 and 2019

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

**Disclosures about Fair Value of Financial Instruments** (Continued)

***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, 2020:

	Fair Value Measurements Using			
	<u>Fair Value</u>	Quoted Prices in Active Markets for Identical Assets ( <u>Level 1</u> )	Significant Other Observable Inputs ( <u>Level 2</u> )	Significant Unobservable Inputs ( <u>Level 3</u> )
Derivative instruments – Forward-sale agreement – 2017 bond series	\$ 389,659	\$ -	\$ -	\$ 389,659
Cash equivalents – money market accounts	\$ 11,567,803	\$ 11,567,803	\$ -	\$ -
Assets limited as to use – money market accounts	\$ 35,367,160	\$ 35,367,160	\$ -	\$ -
Assets limited as to use – commercial paper	\$ 4,273,327	\$ -	\$ 4,273,327	\$ -
Assets held for others – student deposits – money market accounts	\$ 450,807	\$ 450,807	\$ -	\$ -

(Continued)

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

**Disclosures about Fair Value of Financial Instruments (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, 2019:

	<u>Fair Value Measurements Using</u>			
	<u>Fair Value</u>	<u>Quoted Prices in Active Markets for Identical Assets (Level 1)</u>	<u>Significant Other Observable Inputs (Level 2)</u>	<u>Significant Unobservable Inputs (Level 3)</u>
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	\$ -	\$ -

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, 2020 and 2019. 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.

***Nonrecurring Measurements***

Certain long-lived assets were valued at fair value of \$0 at June 30, 2020 and 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.

**Pension Plans**

Student Life has no employees; however, the University has designated certain employees to work exclusively or partially for Student Life. 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 Student Life. Student Life reimburses the University for Student Life'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 \$483,963 and \$511,298 for the years ended June 30, 2020 and 2019, respectively.

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(Continued)

WESTERN KENTUCKY UNIVERSITY  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2020 and 2019

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

**Functional Allocation of Expense**

Costs have been allocated among the student housing program and management and general expenses as of June 30, 2020 as follows:

	<u>Program Services</u>	<u>Support Services</u>	
	Student Housing	Management and General	Total
Salaries and wages	\$ 4,469,642	\$ 294,120	\$ 4,763,762
Employee benefits	985,850	101,062	1,086,912
Payroll taxes	136,251	22,500	158,751
Utilities	2,319,139	122,059	2,441,198
Repairs and maintenance	1,551,712	81,669	1,633,381
Depreciation	5,746,368	-	5,746,368
Amortization	15,638	-	15,638
Professional fees and services	-	174,507	174,507
Advertising and promotion	4,543	239	4,782
Travel	11,546	608	12,154
Conferences, conventions and meetings	5,099	268	5,367
Insurance	456,507	152,169	608,676
Supplies and other	346,283	18,226	364,509
Long-lived asset impairment	1,037,739	-	1,037,739
Student housing refunds due			
To COVID closures	3,903,711	-	3,903,711
Bad debts	<u>163,744</u>	<u>-</u>	<u>163,744</u>
 Total	 <u>\$ 21,153,772</u>	 <u>\$ 967,427</u>	 <u>\$ 22,121,199</u>

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(Continued)

WESTERN KENTUCKY UNIVERSITY  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2020 and 2019

**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, 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	244,713	-	244,713
	<u>                  </u>	<u>                  </u>	<u>                  </u>
Total	<u>\$ 19,952,285</u>	<u>\$ 1,153,198</u>	<u>\$ 21,105,483</u>

**Commitments**

As of June 30, 2020, Student Life had ongoing commitments to improve all residence halls and begin demolition of an existing residence hall and continue construction of two new residence halls with the corresponding estimated costs:

	<u>Estimated Cost</u>
First Year Village – Building 1	\$ 7,992,774
First Year Village – Building 2	22,030,297
Barnes Campbell – demolition	<u>773,482</u>
	<u>\$ 30,796,553</u>

(Continued)

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

**Significant Estimates and Concentrations**

***Litigation***

Student Life is subject to claims and lawsuits that arose primarily in the ordinary course of its activities. It is the opinion of management the disposition or ultimate resolution of such claims and lawsuits will not have a material adverse effect on the financial position, change in net assets and cash flows of Student Life. Events could occur that would change this estimate materially in the near term.

***Asset Retirement Obligations***

Student Life has recorded a liability for its conditional asset retirement obligations related to the retirement of a tangible long-lived asset.

**Change in Accounting Principle**

During the year ended June 30, 2020, Student Life changed its method of accounting for restricted cash and restricted cash equivalents by adopting the provisions of Accounting Standards (ASU) 2016-18, *Statement of Cash Flows (Topic 230): Restricted Cash*. The new accounting guidance in ASU 2016-18 requires balances generally described as restricted cash or restricted cash equivalents to be included with cash and cash equivalents when reconciling beginning and end of period balances on the statement of cash flows. This change was applied retrospectively to all periods presented, which resulted in an increase of \$716,538 in cash and restricted cash, beginning of year.

**Future Changes in Accounting Principles**

***Recognition for Revenue***

The Financial Accounting Standards Board (FASB) amended its standards related to revenue recognition. This amendment replaces all existing revenue recognition guidance and provides a single, comprehensive revenue recognition model for all contracts with customers. The guidance provides a five-step analysis of transactions to determine when and how revenue is recognized. Other major provisions include capitalization of certain contract costs, consideration of the time value of money in the transaction price and allowing estimates of variable consideration to be recognized before contingencies are resolved in certain circumstances. The amendment also requires additional disclosure about the nature, amount, timing and uncertainty of revenue and cash flows arising from customer contracts, including significant judgments and changes in those judgments and assets recognized from costs incurred to fulfill a contract. The standard allows either full or modified retrospective adoption effective for nonpublic entities for annual periods beginning after December 15, 2019 (December 15, 2017, for not-for-profits that are conduit debt obligors), and any interim periods within annual reporting periods that begin after December 15, 2020 (December 15, 2018, for not-for-profits that are conduit debt obligors). Student Life is in the process of evaluating the effect the amendment will have on the financial statements.

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(Continued)

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

***Accounting for Leases***

FASB amended its standard related to the accounting for leases. Under the new standard, lessees will now be required to recognize substantially all leases on the balance sheet as both a right-of-use asset and a liability. The standard has two types of leases for income statement recognition purposes: operating leases and financing leases. Operating leases will result in the recognition of a single lease expense on a straight-line basis over the lease term similar to the treatment for operating leases under existing standards. Finance leases will result in an accelerated expense similar to the accounting for capital leases under existing standards. The determination of lease classification as operating or finance will be done in a manner similar to existing standards. The new standard also contains amended guidance regarding the identification of embedded leases in service contracts and the identification of lease and nonlease components in an arrangement. The new standard is effective for nonpublic entities for annual periods beginning after December 15, 2020 and any interim periods within annual reporting periods that begin after December 15, 2021. Student Life is evaluating the impact the standard will have on the financial statements.

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(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.

**Basis of Accounting**

The financial statements have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America (GAAP). Revenues and gains are recognized when they are earned, and expenses and losses are recognized when they are incurred. The Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) is the sole source of authoritative GAAP for non-governmental entities.

**Basis of Financial Statement Presentation**

College Heights reports information regarding its financial position and activities according to two classes of net assets that are based upon the existence or absence of restrictions on use that are placed by its donors: net assets without donor restrictions and net assets with donor restrictions. Net assets without donor restrictions are resources available to support operations and not subject to donor restrictions. Net assets with donor restrictions are resources that are subject to donor-imposed restrictions. Some restrictions are temporary in nature, such as those that are restricted by a donor for use for a particular purpose or in a future period. Other restrictions may be perpetual in nature, such as those that are restricted by a donor that the resources be maintained in perpetuity.

**Cash Equivalents**

College Heights considers all liquid investments with original maturities of three months or less to be cash equivalents. At December 31, 2019 and 2018, cash equivalents consisted primarily of money market accounts held at brokerage houses and checking accounts.



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

**Investments**

College Heights' investments are generally administered as pools of commingled assets held in custodial investment accounts managed by professional investment advisors. The investment objective for endowed assets is to achieve growth that will preserve and increase the purchasing power of such assets. The objective is to protect endowed assets against inflation and to produce current income to support the numerous programs and requirements of College Heights. In order to provide current support and ensure support in the future, College Heights and its Board of Directors have adopted a total return approach to investment management with a long-term investment horizon. Such a strategy will balance income and capital appreciation-oriented assets to generate desired returns. College Heights targets a diversified asset allocation that places a slightly greater emphasis on equity-based investments, allowing the respective investment advisors to take advantage of market opportunities to achieve long-term return objectives, while maintaining a prudent level of risk.

Investments in equity securities having a readily determinable fair value and all debt securities are carried at fair value as determined by quoted market prices. Investments also consist of vested beneficial interests in various charitable remainder unitrusts and gift annuities for which College Heights acts as the trustee. Such vested beneficial interests are included in investments at fair value. Investments in certificates of deposit are stated at cost, which approximates fair value. Investment in a real estate partnership is stated at estimated fair value. Investments in real estate are stated at cost, which management considers to approximate fair value.

College Heights' investments are commingled with certain investments held for the University and the WKU Foundation. Accordingly, investment income, unrealized and realized gains/losses, and advisory fees are allocated between the respective organizations on a pro-rata basis. Investment income, gains, and losses are reflected in the statements of activities as with or without donor restrictions based upon the existence and nature of any donor or legally imposed restrictions. Losses on investments of a donor-restricted endowment fund reduce net assets with donor restrictions to the extent that donor-imposed restrictions on net appreciation of the fund have not been met before the loss occurs. Any remaining loss reduces net assets without donor restrictions. In subsequent years, gains are restored to net assets without donor restrictions to restore the fair value of the assets with donor restrictions to the amount required by donor stipulations.

**Beneficial Interest in Third Party Trusts**

College Heights has a beneficial interest in some split-interest agreements in which College Heights is not the trustee. These interests are recorded and measured at the estimated fair market value.

**Fixed Assets**

Property and equipment are stated at cost or at an estimated fair value if received as a contribution. College Heights follows the practice of capitalizing all expenditures or contributions in excess of \$5,000 for property and equipment with a useful life of one or more years. Depreciation is computed using the straight-line method at rates based on the estimated useful lives below:

	<u>Years</u>
Building improvements	3
Building	39

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(Continued)

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

**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 College Heights is not the trustee are recognized in the period in which College Heights is notified of the gift's existence.

**Use of Estimates**

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Actual results could differ from those estimates.

**Functional Allocation of Expenses**

The costs of providing the various programs and other activities are summarized on a functional basis in the accompanying statements of activities. Directly identifiable expenses are charged to the applicable program and supporting services. Expenses related to more than one function are allocated among the programs and supporting services benefited. Management and general expenses include those expenses that are not directly identifiable with any other specific function.

**Income Taxes**

College Heights has received notification from the Internal Revenue Service that it qualifies as a Section 501(c)(3) tax exempt organization and is exempt from federal income taxes on related income pursuant to Section 501(a) of the Internal Revenue Code and a similar provision of state law. When applicable, College Heights recognizes uncertain income tax positions using a "more-likely-than-not" approach as defined in the ASC. No such uncertain tax positions have been reflected in the accompanying financial statements. College Heights' 2016 through 2019 tax years remain open and subject to examination.

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(Continued)

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

**Fundraising Expense**

Fundraising expenses totaled \$23,379 and \$21,058 for the years ended December 31, 2019 and 2018, respectively.

**Reclassifications**

Certain accounts in the prior year financial statements have been reclassified for comparative purposes to conform with the presentation in the current year financial statements.

**Liquidity and Availability**

The following reflects the College Heights' 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>2019</u>	<u>2018</u>
Financial assets at end of year	\$ 88,504,654	\$ 72,884,985
Less:		
Donor restricted to maintain as an endowment	(68,742,003)	(64,127,504)
Board designated quasi-endowment	(2,589,222)	(3,092,222)
Assets held for others	<u>(2,946,249)</u>	<u>(2,481,929)</u>
Financial assets available to meet cash needs for general expenditures within one year	<u>\$ 14,227,180</u>	<u>\$ 3,183,330</u>

As part of College Heights' 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, College Heights invests cash in excess of daily requirements in short-term investments. To help manage unanticipated liquidity needs, the College Heights has a line of credit based upon 60% of a single investment account. At December 31, 2019 and 2018, this amount equaled approximately \$8,100,000 and \$6,900,000, respectively. Although College Heights 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, 2019 and 2018, College Heights' uninsured cash balances totaled \$5,813,738 and \$3,562,405, respectively.

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(Continued)

WESTERN KENTUCKY UNIVERSITY  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2020 and 2019

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

**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.

Investments consist of the following at December 31, 2019 and 2018:

	<u>2019</u>	<u>2018</u>
Mutual funds	\$ 39,134,181	\$ 28,595,564
Equity securities	25,648,647	19,948,595
Exchange traded funds	6,609,178	9,218,948
Corporate bonds and other fixed income securities	4,916,846	4,683,811
Real estate	586,400	1,549,714
Certificates of deposit	1,050,962	1,040,879
Futures	97,285	149,483
U. S. government and government agency obligations	<u>43</u>	<u>73</u>
	78,043,542	65,187,067
Investments included above held for:		
University	<u>(2,946,249)</u>	<u>(2,353,137)</u>
	<u>\$ 75,097,293</u>	<u>\$ 62,833,930</u>

As indicated above, at year-end, College Heights 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, 2019 and 2018. 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, 2019 and 2018 were \$255,675 and \$249,880, respectively.

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(Continued)

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

**Assets Held In Trust, Gift Annuities and Refundable Advances**

College Heights is party to various split-interest agreements, which are gifts that are partially for College Heights' benefit and partially for the benefit of the respective donor or their designated beneficiaries. When College Heights is the trustee and upon acceptance of a split-interest agreement, College Heights records the contributed asset and the actuarially determined present value of the liability payable to the beneficiary. When College Heights 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, 2019 and 2018 reflect liabilities totaling \$1,796,347 and \$1,951,508, 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 College Heights acts as the trustee. At December 31, 2019 and 2018, investments relative to charitable gift annuities totaled \$4,069,385 and \$3,603,205, 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, College Heights 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, 2019 and 2018 reflect liabilities totaling \$575,199 and \$551,037, relative to the estimated present value of the future obligations calculated using discount rates ranging from 5.3% to 8%. At December 31, 2019 and 2018, investments relative to charitable remainder trusts totaled \$1,516,585 and \$1,406,106, respectively.

Trust assets are reported at fair value in the same manner as are all College Heights' 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, College Heights and represent funds received for investment by College Heights through the Commonwealth of Kentucky's Regional University Excellence Trust Fund. Assets held for others at December 31, 2019 and 2018 totaled \$2,946,249 and \$2,481,929, respectively. Accordingly, the statement of financial position reflects liabilities for assets held for others in these same amounts as of December 31, 2019 and 2018.

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(Continued)

WESTERN KENTUCKY UNIVERSITY  
 NOTES TO FINANCIAL STATEMENTS  
 June 30, 2020 and 2019

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

**Net Assets With Donor Restrictions**

At December 31, 2019 and 2018, net assets with donor restrictions consist of the following:

	<u>2019</u>	<u>2018</u>
Scholarship funds	\$ 57,347,752	\$ 56,548,916
Other program support	<u>14,989,536</u>	<u>10,294,227</u>
	<u>\$ 72,337,288</u>	<u>\$ 66,843,143</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, College Heights adopted the enacted state of Kentucky UPMIFA legislation for the year ending December 31, 2010.

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

At December 31, 2019, endowment net assets consist of the following:

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
Board designated endowment funds	\$ 2,589,222	\$ -	\$ 2,589,222
Donor restricted endowment funds	<u>-</u>	<u>68,742,003</u>	<u>68,742,003</u>
	<u>\$ 2,589,222</u>	<u>\$ 68,742,003</u>	<u>\$ 71,331,225</u>

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>

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(Continued)

WESTERN KENTUCKY UNIVERSITY  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2020 and 2019

**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, 2019 are as follows:

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
Beginning of the year	\$ 3,092,222	\$ 64,127,504	\$ 67,219,726
Contributions	658,339	4,614,499	5,272,838
Investment return			
Investment income	2,745	-	2,745
Net appreciation (unrealized and realized)	11,932	-	11,932
Appropriation of endowment assets for expenditure	<u>(1,176,016)</u>	<u>-</u>	<u>(1,176,016)</u>
	<u>\$ 2,589,222</u>	<u>\$ 68,742,003</u>	<u>\$ 71,331,225</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 depreciation (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>

*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 College Heights 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, 2019 and 2018.

*Return objectives and risk parameters:*

College Heights 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. College Heights' 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.

(Continued)

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

**Endowment Funds** (Continued)

*Strategies employed for achieving return objectives:*

To satisfy its long-term rate-of-return objectives, College Heights 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). College Heights 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:*

College Heights' 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 College Heights' Board of Directors grants prior approval to do so.

**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 College Heights' 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, 2019 and 2018.

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

*Mutual funds:* Valued at the quoted market price of the shares held by College Heights 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.

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(Continued)



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

**Fair Value Measurements (Continued)**

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

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

*Equity securities:* Valued at the quoted market price of the shares held by College Heights 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 College Heights at year-end.

*Futures:* Valued at the quoted market price of the shares held by College Heights 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 College Heights 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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(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, College Heights' assets (investments) at fair value at December 31, 2019:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Certificates of deposit	\$ 1,050,962	\$ -	\$ -	\$ 1,050,962
Mutual funds				
Equities	23,471,760	-	-	23,471,760
Fixed income	15,662,421	-	-	15,662,421
	<u>39,134,181</u>	<u>-</u>	<u>-</u>	<u>39,134,181</u>
U. S. government and government agency obligations - not rated	<u>-</u>	<u>43</u>	<u>-</u>	<u>43</u>
Corporate bonds/notes and other fixed income securities				
Rated Aaa	-	840,852	-	840,852
Rated Aa1 to Aa3	-	649,846	-	649,846
Rated A1 to A3	-	2,676,701	-	2,676,701
Rated Bbb1 to Bbb3	-	749,447	-	749,447
	<u>-</u>	<u>4,916,846</u>	<u>-</u>	<u>4,916,846</u>
Exchange traded funds	<u>6,609,178</u>	<u>-</u>	<u>-</u>	<u>6,609,178</u>
Equity securities				
Communications	1,937,163	-	-	1,937,163
Consumer discretionary	3,785,195	-	-	3,785,195
Consumer staples	155,187	-	-	155,187
Energy	222,606	-	-	222,606
Financial	6,567,093	-	-	6,567,093
Health care	1,685,680	-	-	1,685,680
Industrials	3,222,483	-	-	3,222,483
Information technology	6,657,643	-	-	6,657,643
Materials	362,803	-	-	362,803
Real estate	143,645	-	-	143,645
Services	761,615	-	-	761,615
Utilities	147,534	-	-	147,534
	<u>25,648,647</u>	<u>-</u>	<u>-</u>	<u>25,648,647</u>
Real estate	<u>-</u>	<u>-</u>	<u>586,400</u>	<u>586,400</u>
Futures	<u>97,285</u>	<u>-</u>	<u>-</u>	<u>97,285</u>
Total investments	<u>\$ 72,540,253</u>	<u>\$ 4,916,889</u>	<u>\$ 586,400</u>	<u>\$ 78,043,542</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, College Heights' 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	13,724,623	-	-	13,724,623
	<u>28,595,564</u>	<u>-</u>	<u>-</u>	<u>28,595,564</u>
U. S. government and government agency obligations - not rated	<u>-</u>	<u>73</u>	<u>-</u>	<u>73</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	-	2,481,186	-	2,481,186
Rated Bbb1 to Bbb3	-	749,003	-	749,003
	<u>-</u>	<u>4,683,811</u>	<u>-</u>	<u>4,683,811</u>
Exchange traded funds	<u>9,218,948</u>	<u>-</u>	<u>-</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>-</u>	<u>-</u>	<u>19,948,595</u>
Real estate	<u>-</u>	<u>-</u>	<u>1,549,714</u>	<u>1,549,714</u>
Futures	<u>149,483</u>	<u>-</u>	<u>-</u>	<u>149,483</u>
Total investments	<u>\$ 58,953,469</u>	<u>\$ 4,683,884</u>	<u>\$ 1,549,714</u>	<u>\$ 65,187,067</u>

(Continued)

WESTERN KENTUCKY UNIVERSITY  
 NOTES TO FINANCIAL STATEMENTS  
 June 30, 2020 and 2019

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

**Fair Value Measurements** (Continued)

At December 31, 2019 and 2018, investments included above under Level 3 represent College Heights investments in real estate. The 2019 and 2018 activity, with respect to the investments included above under Level 3, is as follows:

	<u>2019</u>	<u>2018</u>
Beginning of the year	\$ 1,549,714	\$ 1,549,714
Investments sold	<u>(963,314)</u>	<u>-</u>
End of the year	<u>\$ 586,400</u>	<u>\$ 1,549,714</u>

A realized loss on the sale of real estate totaled \$764,371 in 2019. 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, College Heights' beneficial interest in third party trusts at fair value at December 31, 2019:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Trusts held by third party	\$ <u>-</u>	\$ <u>-</u>	\$ <u>5,946,063</u>	\$ <u>5,946,063</u>

The following table sets forth by level within the fair value hierarchy, College Heights' 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	\$ <u>-</u>	\$ <u>-</u>	\$ <u>4,991,229</u>	\$ <u>4,991,229</u>

The 2019 and 2018 activity, with respect to the third-party trusts included above under Level 3, is as follows:

	<u>2019</u>	<u>2018</u>
Beginning of the year	\$ 4,991,229	\$ 5,018,908
New deferred gifts	-	217,397
Net actuarial gain (loss)	<u>954,834</u>	<u>(245,076)</u>
End of the year	<u>\$ 5,946,063</u>	<u>\$ 4,991,229</u>

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(Continued)

WESTERN KENTUCKY UNIVERSITY  
 NOTES TO FINANCIAL STATEMENTS  
 June 30, 2020 and 2019

**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, College Heights' liabilities (deferred gift liabilities) at fair value at December 31, 2019:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Charitable remainder unitrusts	\$ -	\$ -	\$ 575,198	\$ 575,198
Charitable gift annuities	<u>-</u>	<u>-</u>	<u>2,181,629</u>	<u>2,181,629</u>
	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 2,756,827</u>	<u>\$ 2,756,827</u>

The following table sets forth by level within the fair value hierarchy, College Heights' 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	<u>-</u>	<u>-</u>	<u>1,951,508</u>	<u>1,951,508</u>
	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 2,502,545</u>	<u>\$ 2,502,545</u>

The 2019 and 2018 activity, with respect to the liabilities (deferred gift liabilities) included above under Level 3, is as follows:

	<u>2019</u>	<u>2018</u>
Beginning of the year	\$ 2,502,545	\$ 2,827,511
New deferred gifts	57,754	18,263
Payment obligations	(378,483)	(497,670)
Net actuarial loss	<u>575,011</u>	<u>154,441</u>
End of the year	<u>\$ 2,756,827</u>	<u>\$ 2,502,545</u>

**Related Party Transactions**

Western Kentucky University provides the facilities in which College Heights offices are located and also processes College Heights' payroll. No rent or administrative expenses are charged to College Heights by the University and College Heights does not recognize revenue and expense related to these transactions, as the amounts thereof are immaterial. College Heights also owns a parking lot which is used by the University for which no rent is charged. At December 31, 2019 and 2018, the amounts payable to Western Kentucky University were \$0 and \$1,467,790, respectively.

(Continued)

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

**Employees' Retirement Plans**

Through the University, College Heights 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. College Heights is not represented on either of the boards of trustees. Both KERS and KTRS provide retirement, disability, and death benefits to College Heights' eligible employees. The service retirement benefit is a lifetime benefit. College Heights reimburses the University for College Heights' share of the contributions made on behalf of eligible College Heights 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 \$70,828 and \$66,187 in 2019 and 2018 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 College Heights chooses to stop participating in one of the multiple employer plans, it may be required to pay a withdrawal liability to the plan. College Heights has no plans to withdraw from its multiple employer retirement plans.

The following presents information about College Heights' 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, 2019	June 30, 2019		June 30, 2018	June 30, 2018	
KERS	61-0600439	\$2,877,927,000	\$17,962,622,000	16.3%	\$2,658,540,000	\$16,827,155,000	15.8%
KTRS	61-0600439	20,154,161,000	34,676,713,000	58.1%	19,496,056,000	33,795,671,000	57.7%

Pension Fund	EIN and Plan # (if available)	Foundation Contributions	Foundation Contributions	Surcharge Imposed	Funding Improvement Plan / Rehab Plan	Expiration of Collective Bargain Agreement
		2019	2018			
KERS	61-0600439	\$ 39,097	\$ 36,360	no	no	n/a
KTRS	61-0600439	31,731	29,827	no	no	n/a
		<u>\$ 70,828</u>	<u>\$ 66,187</u>			

Current year contributions under KERS made on behalf of eligible employees represent 49.47% of covered wages for January through December 2019. Employer contribution rates represent 49.47% of covered wages for January through December 2018. The employer contribution rate is expected to remain at 49.47% through June 30, 2020. 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, 2019 and 2018. 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.

(Continued)

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

**Employees' Retirement Plans** (Continued)

College Heights 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, College Heights did not contribute more than 5% of the total contributions to either plan.

**Additional Cash Flow Information**

	<u>2019</u>	<u>2018</u>
Noncash Investing and Financing Activities		
Gifts in kind	\$ 23,700	\$ 404,500
Investment securities received as contributions	<u>295,432</u>	<u>92,812</u>
	<u>\$ 319,132</u>	<u>\$ 497,312</u>

**Fixed Assets**

Land, building, and equipment consist of the following at December 31, 2019 and 2018:

	<u>2019</u>	<u>2018</u>
Building	\$ 1,907,471	\$ 1,352,962
Land and land improvements	109,688	-
Building improvements	54,048	54,048
Furniture and fixtures	53,513	-
Less: accumulated depreciation	<u>(47,815)</u>	<u>(21,769)</u>
	<u>\$ 2,076,905</u>	<u>\$ 1,385,241</u>

The amount of depreciation expense was \$26,046 and \$18,016 for the year ended December 31, 2019 and 2018, respectively.

**Line of Credit**

College Heights established a line of credit in September 2018, which is open ended without a maturity date. There have been no borrowings 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, 2019 and 2018, the available credit limit was \$8,134,121 and \$6,933,142, respectively.

WESTERN KENTUCKY UNIVERSITY  
REQUIRED SUPPLEMENTARY INFORMATION  
SCHEDULES OF THE UNIVERSITY'S PROPORTIONATE SHARE OF THE NET PENSION LIABILITY  
(in thousands)  
June 30, 2020 and 2019

**KERS – Non-Hazardous**

	<u>2020</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>
University's proportion of the net pension liability	1.13%	1.26%	1.29%	1.46%	1.47%
University's proportionate share of the net pension liability	\$ 159,267	\$ 171,121	\$ 173,895	\$ 166,399	\$ 147,109
University's covered payroll	\$ 18,246	\$ 19,527	\$ 20,402	\$ 23,985	\$ 22,769
University's proportionate share of the net pension liability as a percentage of its covered payroll	872.89%	876.33%	852.34%	693.76%	646.09%
Plan fiduciary net position as a percentage of the total pension liability	13.66%	12.84%	13.30%	14.80%	18.83%

**KERS – Hazardous**

University's proportion of the net pension liability	0.69%	0.63%	0.60%	0.78%	0.90%
University's proportionate share of the net pension liability	\$ 3,795	\$ 3,173	\$ 2,992	\$ 3,039	\$ 3,098
University's covered payroll	\$ 1,257	\$ 1,229	\$ 1,174	\$ 1,343	\$ 1,310
University's proportionate share of the net pension liability as a percentage of its covered payroll	331.23%	258.18%	254.86%	226.28%	236.49%
Plan fiduciary net position as a percentage of the total pension liability	55.49%	56.10%	54.75%	57.41%	61.70%

**KTRS**

University's proportion of the net pension liability	0.56%	0.77%	0.73%	1.21%	1.23%
University's proportionate share of the net pension liability	\$ 79,901	\$ 105,246	\$ 207,035	\$ 373,414	\$ 299,522
State's proportionate share of the net pension liability associated with the University	<u>86,580</u>	<u>78,302</u>	<u>165,003</u>	<u>35,194</u>	<u>30,458</u>
Total	<u>\$ 166,481</u>	<u>\$ 183,548</u>	<u>\$ 372,038</u>	<u>\$ 408,608</u>	<u>\$ 329,980</u>
University's covered payroll	\$ 50,972	\$ 54,430	\$ 55,655	\$ 56,509	\$ 56,089
University's proportionate share of the net pension liability as a percentage of its covered payroll	156.75%	193.36%	372.00%	660.80%	534.01%
Plan fiduciary net position as a percentage of the total pension liability	58.8%	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, 2020 and 2019

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Notes to the Schedule:

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

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

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

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

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

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

\*\* This 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, 2020 and 2019

**KERS – Non-Hazardous**

	<u>2020</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>
Contractually required contribution	\$ 6,430	\$ 6,868	\$ 8,018	\$ 8,210	\$ 7,397
Contributions in relation to the contractually required contribution	<u>(6,430)</u>	<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>	<u>\$ -</u>
University's covered payroll	\$ 17,013	\$ 18,246	\$ 19,527	\$ 20,402	\$ 23,985
Contributions as a percentage of covered payroll	37.79%	37.64%	41.06%	40.24%	30.84

**KERS – Hazardous**

Contractually required contribution	\$ 397	\$ 432	\$ 263	\$ 248	\$ 220
Contributions in relation to the contractually required contribution	<u>(397)</u>	<u>(432)</u>	<u>(263)</u>	<u>(248)</u>	<u>(220)</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
University's covered payroll	\$ 1,155	\$ 1,257	\$ 1,229	\$ 1,174	\$ 1,343
Contributions as a percentage of covered payroll	34.37%	34.37%	21.40%	21.12%	16.38

**KTRS**

Contractually required contribution	\$ 6,248	\$ 6,539	\$ 9,564	\$ 9,661	\$ 9,624
Contributions in relation to the contractually required contribution	<u>(6,248)</u>	<u>(6,539)</u>	<u>(9,564)</u>	<u>(9,661)</u>	<u>(9,624)</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
University's covered payroll	\$ 48,533	\$ 50,972	\$ 54,430	\$ 55,655	\$ 56,509
Contributions as a percentage of covered payroll	12.87%	12.83%	17.57%	17.36%	17.03%

WESTERN KENTUCKY UNIVERSITY  
REQUIRED SUPPLEMENTARY INFORMATION  
SCHEDULES OF THE UNIVERSITY'S PENSION CONTRIBUTIONS  
(in thousands)  
June 30, 2020 and 2019

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Notes to the Schedule:

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

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

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

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

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

\*\* 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, 2020 and 2019

<b>KERS – Non-Hazardous</b>	<u>2020</u>	<u>2019</u>	<u>2018</u>
University's proportion of the net OPEB liability	1.128%	1.257%	1.299%
University's proportionate share of the net OPEB liability	\$ 25,068	\$ 29,797	\$ 32,938
University's covered payroll	\$ 18,246	\$ 19,527	\$ 20,402
University's proportionate share of the net OPEB liability as a percentage of its covered payroll	137.39%	152.59%	161.44%
Plan fiduciary net position as a percentage of the total OPEB liability	30.92%	27.32%	24.40%
 <b>KERS – Hazardous</b>			
University's proportion of the net OPEB liability	0.693%	0.628%	0.602%
University's proportionate share of the net OPEB liability	\$ (186)	\$ (208)	\$ 36
University's covered payroll	\$ 1,257	\$ 1,229	\$ 1,174
University's proportionate share of the net OPEB liability as a percentage of its covered payroll	-14.80%	-16.92%	3.07%
Plan fiduciary net position as a percentage of the total OPEB liability	105.29%	106.83%	98.80%
 <b>KTRS – Medical Insurance</b>			
University's proportion of the net OPEB liability	0.691%	0.728%	0.784%
University's proportionate share of the net OPEB liability	\$ 20,219	\$ 25,269	\$ 27,960
University's covered payroll	\$ 50,972	\$ 54,430	\$ 55,655
University's proportionate share of the net OPEB liability as a percentage of its covered payroll	39.67%	46.42%	50.24%
Plan fiduciary net position as a percentage of the total OPEB liability	32.58%	25.50%	21.18%
 <b>KTRS – Life Insurance</b>			
University's proportion of the net OPEB liability	1.489%	1.609%	1.677%
University's proportionate share of the net OPEB liability	\$ 463	\$ 454	\$ 368
University's covered payroll	\$ 50,972	\$ 54,430	\$ 55,655
University's proportionate share of the net OPEB liability as a percentage of its covered payroll	0.91%	0.83%	0.66%
Plan fiduciary net position as a percentage of the total OPEB liability	73.40%	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, 2020 and 2019

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Notes to the Schedule:

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

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

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

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

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

\*\* This 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, 2020 and 2019

	<u>2020</u>	<u>2019</u>	<u>2018</u>
<b>KERS – Non-Hazardous</b>			
Contractually required contribution	\$ 1,317	\$ 1,406	\$ 1,642
Contributions in relation to the contractually required contribution	<u>(1,317)</u>	<u>(1,406)</u>	<u>(1,642)</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
University's covered payroll	\$ 17,013	\$ 18,246	\$ 19,527
Contributions as a percentage of covered payroll	7.74%	7.71%	8.41%
<b>KERS – Hazardous</b>			
Contractually required contribution	\$ 28	\$ 31	\$ 28
Contributions in relation to the contractually required contribution	<u>(28)</u>	<u>(31)</u>	<u>(28)</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
University's covered payroll	\$ 1,155	\$ 1,257	\$ 1,229
Contributions as a percentage of covered payroll	2.42%	2.47%	2.28%
<b>KTRS – Medical Insurance</b>			
Contractually required contribution	\$ 1,143	\$ 1,203	\$ 1,294
Contributions in relation to the contractually required contribution	<u>(1,143)</u>	<u>(1,203)</u>	<u>(1,294)</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
University's covered payroll	\$ 48,533	\$ 50,972	\$ 54,430
Contributions as a percentage of covered payroll	2.36%	2.36%	2.38%
<b>KTRS – Life Insurance</b>			
Contractually required contribution	\$ 23	\$ 20	\$ 16
Contributions in relation to the contractually required contribution	<u>(23)</u>	<u>(20)</u>	<u>(16)</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
University's covered payroll	\$ 48,533	\$ 50,972	\$ 54,430
Contributions as a percentage of covered payroll	0.05%	0.04%	0.03%

WESTERN KENTUCKY UNIVERSITY  
REQUIRED SUPPLEMENTARY INFORMATION  
SCHEDULES OF THE UNIVERSITY'S OPEB CONTRIBUTIONS  
(in thousands)  
June 30, 2020 and 2019

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Notes to the Schedule:

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

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

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

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

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

**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.

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(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.

Crowe LLP

Louisville, Kentucky  
October 2, 2020

**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, 2020. 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, 2020.

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

WESTERN KENTUCKY UNIVERSITY  
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
Year ended June 30, 2020

<u>Federal Agency Cluster/Program</u>	<u>Pass Through Number</u>	<u>CFDA No.</u>	<u>Amount Expended</u>
<b>Student Financial Aid Cluster</b>			
<b>U. S. Department of Education</b>			
Direct Programs			
Federal Supplemental Educational Opportunity Grants	n/a	84.007	\$ 354,780
Federal Work-Study Program	n/a	84.033	739,295
Federal Perkins Loan Program	n/a	84.038	2,619,408
Federal Pell Grant Program	n/a	84.063	21,279,497
Federal Direct Student Loans	n/a	84.268	76,307,242
TEACH Grants	n/a	84.379	24,488
Total U. S. Department of Education-Direct			<u>101,324,710</u>
<b>TOTAL STUDENT FINANCIAL AID CLUSTER</b>			<b><u>\$101,324,710</u></b>
<b>Research and Development Cluster</b>			
<b>U. S. Department of Agriculture</b>			
Direct Programs			
Agricultural Research Basic and Applied Research	n/a	10.001	412,579
Capacity Building for (NLGCA)	n/a	10.326	<u>17,298</u>
Total U. S. Department of Agriculture-Direct			429,877
<b>Total U.S. Department of Agriculture</b>			<u>429,877</u>
<b>U. S. Department of Commerce</b>			
Pass Through Programs			
Contract Synoptic Data Corp	PO17-00640/TASKS2017-0115	11.CON	39,502
Contract NOAA Small Business Innovation Research		11.021	24,396
Contract NOAA Sci Tech Mesonet		11.431	<u>82,541</u>
Total U. S. Department of Commerce-Pass Through			146,439
<b>Total U. S. Department of Commerce</b>			<u>146,439</u>
<b>U. S. Department of Defense</b>			
Direct Programs			
ONR – Basic and Applied Scientific Research	n/a	12.300	<u>14,278</u>
Total U. S. Department of Defense-Direct			14,278
Pass Through Programs			
Research & Technology Development – Center for Open Science	MOA Signed 1/22/20	12.910	<u>6,409</u>
Total U.S. Department of the Defense-Pass-Through			6,409
<b>Total U. S. Department of Defense</b>			<u>20,687</u>
<b>U. S. Department of Interior</b>			
Direct Programs			
U.S Geological Survey Research and Data Collection	n/a	15.808	2,722
Rivers, Trails, and Conservation Assistance	n/a	15.921	473
Cooperative Research & Training Programs - Resources of the National Park System	n/a	15.945	<u>27,591</u>
Total U. S. Department of Interior-Direct			30,786
Pass Through Programs			
Endangered Species Conservation – Recovery Implementation Funds	F15AC00293	15.657	6,828
Assistance to State Water Resources Research Institutes	3200000437-19-282	15.805	<u>7,109</u>
Total U.S. Department of the Interior-Pass-Through			13,937
<b>Total U. S. Department of Interior</b>			<u>44,723</u>

See accompanying notes to the schedule of expenditures of federal awards.

WESTERN KENTUCKY UNIVERSITY  
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
Year ended June 30, 2020

<u>Federal Agency Cluster/Program</u>	<u>Pass Through Number</u>	<u>CFDA No.</u>	<u>Amount Expended</u>
<b>Research and Development Cluster (Continued)</b>			
<b>U. S. Department of Transportation</b>			
Pass Through Programs			
Scott County Haz Mat	PON2 095 2000001287	20.703	\$ 26,663
Total U. S. Department of Transportation-Pass Through			26,663
<b>Total U. S. Department of Transportation</b>			<u>26,663</u>
<b>National Aeronautics and Space Administration</b>			
Direct Programs			
Science	n/a	43.001	167,692
Total National Aeronautics and Space Administration-Direct			167,692
Pass Through Programs			
Science	976	43.001	2,487
Education	3210000 183-19-160	43.008	3,264
Education	3210000 183-19-161	43.008	3,006
Total National Aeronautics and Space Administration-Pass Through			8,757
<b>Total National Aeronautics and Space Administration</b>			<u>176,449</u>
<b>National Endowment for the Arts</b>			
Direct Programs			
Promotion of the Arts Grants to Organizations & Indv.	n/a	45.024	7,851
Promotion of the Humanities Division of Preservation and Access	n/a	45.149	29,874
Total National Endowment for the Arts-Direct			37,725
<b>Total National Endowment for the Arts</b>			<u>37,725</u>
<b>National Science Foundation</b>			
Direct Programs			
Mathematical and Physical Sciences	n/a	47.049	377,689
Biological Sciences	n/a	47.074	474,903
Social, Behavioral, and Economic Sciences	n/a	47.075	144,636
Total National Science Foundation-Direct			997,228
Pass Through Programs			
University of Nebraska			
Geosciences	25-6238-0877-002	47.050	26,309
University of Kentucky Research Foundation			
Biological Sciences	3200001363-18-083	47.074	13,564
Education and Human Resources	2035	47.076	19,180
Education and Human Resources	32000002015-19-043	47.076	28,251
Office of International Science and Engineering	3200000271-19-135	47.079	(498)
Kentucky NSF EPSCoR			
Office of Integrative Activities	3200000271-16-072	47.083	1,283
Office of Integrative Activities	UKRF 3200002692-20-031	47.083	94,376
Office of Integrative Activities	UKRF 3200002692-20-127	47.083	10,860
Office of Integrative Activities	UKRF 3200002692-20-128	47.083	25,449
Office of Integrative Activities	UKRF 3200002692-20-130	47.083	41,793
Total National Science Foundation-Pass Through			260,567
<b>Total National Science Foundation</b>			<u>1,257,795</u>

See accompanying notes to the schedule of expenditures of federal awards.

WESTERN KENTUCKY UNIVERSITY  
 SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
 Year ended June 30, 2020

<u>Federal Agency Cluster/Program</u>	<u>Pass Through Number</u>	<u>CFDA No.</u>	<u>Amount Expended</u>
<b>U. S. Department of Energy</b>			
Pass Through Programs			
Fossil Energy Research and Development	543827-78001	81.089	\$ <u>69,759</u>
Total U. S. Department of Energy-Pass Through			69,759
<b>Total U. S. Department of Energy</b>			<u>69,759</u>
<b>U. S. Department of Education</b>			
Pass Through Programs			
Green River Regional Ed Co-Op			
Race to the Top-District Grants	AGREEMENT DATED 03/20/13	84.416	<u>53,983</u>
Total U. S. Department of Education-Pass Through			53,983
<b>Total U. S. Department of Education</b>			<u>53,983</u>
<b>U. S. Department of Health and Human Services</b>			
Direct Programs			
NIH-Mental Health Research Grants	n/a	93.242	127,284
NIH-Cancer Treatment Research	n/a	93.395	49,789
NIH-Biomedical Research and Research Training	n/a	93.242	100,385
NIA-National Institute of Aging Research Grant	n/a	93.866	<u>115,547</u>
Total U. S. Department of Health and Human Services-Direct			393,005
Pass Through Programs			
University of Louisville			
Biomedical Research & Research Training	ULRF-18-0975A-07	93.859	353,170
Biomedical Research & Research Training	ULRF 18-0680-03	93.859	1,783
Biomedical Research & Research Training	ULRF 18-0975S1	93.859	65,643
Biomedical Research & Research Training	ULRF	93.859	13,609
Biomedical Research & Research Training	ULRF	93.859	14,267
Biomedical Research & Research Training	ULRF	93.859	83,511
University of Wisconsin at Eau Claire			
Mental Health Research Grants	SUB# AAB4884	93.242	7,291
University of Kentucky Research Foundation			
Occupational Safety and Health Program	3210001070-19-128	93.262	2,487
Occupational Safety and Health Program	3200002746-20-102	93.262	<u>14,358</u>
Total U. S. Department of Health and Human Services-Pass Through			556,119
<b>Total U. S. Department of Health and Human Services</b>			<u>949,124</u>
<b>U. S. Department of Homeland Security</b>			
Pass Through Programs			
Homeland Security Advanced Research Projects	09-09 WKU	97.CON	4,353
Homeland Security Advanced Research Projects	3048108070-11-356	97.CON	(1)
Homeland Security Advanced Research Projects	HSHQDC07-3-00005	97.CON	47,063
Jackson Co. KEWS Tower Site	SC 095 2000001264	97.04	<u>4,199</u>
Total U. S. Department of Homeland Security-Pass Through			55,614
<b>Total U. S. Department of Homeland Security</b>			<u>55,614</u>
<b>TOTAL RESEARCH AND DEVELOPMENT CLUSTER</b>			<u>\$ 3,268,838</u>

See accompanying notes to the schedule of expenditures of federal awards.

WESTERN KENTUCKY UNIVERSITY  
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
Year ended June 30, 2020

<u>Federal Agency Cluster/Program</u>	<u>Pass Through Number</u>	<u>CFDA No.</u>	<u>Amount Expended</u>
<b>TRIO Cluster</b>			
<b>U. S. Department of Education</b>			
Direct Programs			
TRIO Student Support Services	P042A160657	84.042	\$ 358,105
TRIO Talent Search	P044A160304	84.044	398,606
TRIO Talent Search	P044A160554	84.044	251,901
TRIO Talent Search	P044A160564	84.044	254,850
TRIO Upward Bound	P047V1700096	84.047	292,177
TRIO Upward Bound	P047A170478	84.047	345,212
TRIO Educational Opportunity Centers	P066A170180	84.066	<u>262,100</u>
Total U. S. Department of Education-Direct			2,162,951
<b>TOTAL TRIO CLUSTER</b>			<b><u>\$ 2,162,951</u></b>
<b>OTHER FEDERAL</b>			
<b>U. S. Department of Agriculture</b>			
Direct Programs			
Agricultural Research Basic and Applied Research	n/a	10.001	\$ 2,432
Agricultural Research Basic and Applied Research	n/a	10.001	4,897
Agricultural Research Basic and Applied Research	n/a	10.001	<u>2,855</u>
Subtotal CFDA No. 10.001			10,184
Farmers Market Promotion Program	n/a	10.168	146,854
Partnership Agreements	n/a	10.699	<u>12,799</u>
Total U. S. Department of Agriculture-Direct			169,837
<b>Total U. S. Department of Agriculture</b>			<u>169,837</u>
<b>U.S. Department of Commerce</b>			
Direct Programs			
Manufacturing Extension Partnership	70NANB18H014	11.611	486,633
Manufacturing Extension Partnership	70NANB18H014 2	11.611	<u>637,802</u>
Total U. S. Department of Commerce-Direct			1,124,435
<b>Total U. S. Department of Commerce</b>			<u>1,124,435</u>
<b>U.S. Department of Defense</b>			
Pass Through Programs			
Institute of International Education			
The Language Flagship Grants to Institutions of Higher Education	#0054-WKU-21-SSC-280-P04	12.550	(58,398)
The Language Flagship Grants to Institutions of Higher Education	#0054-WKU-21-CHN-280-P01	12.550	241,106
The Language Flagship Grants to Institutions of Higher Education	#0054-WKU-21-SSC-280-P05	12.550	40,098
The Language Flagship Grants to Institutions of Higher Education	#0054-WKU-21-CHN-280-P07	12.550	<u>6,762</u>
Total U. S. Department of Defense-Pass Through			229,568
<b>Total U. S. Department of Defense</b>			<u>229,568</u>
<b>U. S. Department of Interior</b>			
Direct Programs			
Cooperative Research & Training Programs-Resources of the NPS	P16AC01652	15.945	<u>11,824</u>
Total U. S. Department of Interior-Direct			11,824
<b>U. S. Department of Interior</b>			<u>11,824</u>
<b>U.S. Department of Justice</b>			
Pass Through Programs			
Juvenile Justice and Delinquency Prevention	TITLE II 2015-JF-FX-0029-DMC	16.540	<u>8,889</u>
Total U. S. Department of Justice-Pass Through			8,889
<b>Total U. S. Department of Justice</b>			<u>8,889</u>

See accompanying notes to the schedule of expenditures of federal awards.



WESTERN KENTUCKY UNIVERSITY  
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
Year ended June 30, 2020

<u>Federal Agency Cluster/Program</u>	<u>Pass Through Number</u>	<u>CFDA No.</u>	<u>Amount Expended</u>
<b>U. S. Department of Transportation</b>			
Pass Through Programs			
Highway Planning and Construction Cluster	PO2 628 1100003434	20.205	\$ 397,113
Total U. S. Department of Transportation-Pass Through			397,113
<b>Total U. S. Department of Transportation</b>			<u>397,113</u>
<b>National Endowment for Arts</b>			
Direct Programs			
Promotion of the Arts Grants to Organizations And Individuals	n/a	45.024	4,006
Total National Endowment for Arts-Direct			4,006
Pass Through Programs			
Promotion of the Arts Partnership Agreements- KY Arts Council	9902	45.025	2,067
Total National Endowment for Arts-Pass Through			2,067
<b>Total National Endowment for Arts</b>			<u>6,073</u>
<b>National Science Foundation</b>			
Pass Through Programs			
University of Kentucky	3200002072	47.050	44,251
Total National Science Foundation-Pass Through			44,251
<b>Total National Science Foundation</b>			<u>44,251</u>
<b>Small Business Administration</b>			
Pass Through Programs			
University of Kentucky Research Foundation Small Business Development Centers	32000022992-19-146	59.037	23,844
Total Small Business Administration-Pass Through			23,844
<b>Total Small Business Administration</b>			<u>23,844</u>
<b>U. S. Department of Environmental Protection</b>			
Pass Through Programs			
FFSA: CH2M Hill	148008232	66.CON	10,532
Total U. S. Department of Environmental Protection-Pass Through			10,532
<b>Total U. S. Department of Environmental Protection</b>			<u>10,532</u>
<b>U. S. Department of Education</b>			
Direct Programs			
Undergraduate Intl Studies & Foreign Lang. Programs	n/a	84.016	58,867
Special Education – Personal Development to Improve Services and Results for Children with Disabilities	n/a	84.325	10,553
COVID-19 – Education Stabilization Fund - Institutional	n/a	84.425F	4,077,376
COVID-19 – Education Stabilization Fund - Student	n/a	84.425E	2,707,475
Subtotal CFDA No. 84.425			<u>6,784,851</u>
Total U. S. Department of Education-Direct			6,854,271
Pass Through Programs			
Education Professional Standards Board			
Career and Technical Ed.-Basic Grants to States	PON2 540 190000 1869	84.048	217
Career and Technical Ed.-Basic Grants to States	PON2 540 190000 1526 1	84.048	(4)
Career and Technical Ed.-Basic Grants to States	PON2 540 190000 4985	84.048	1,500
Career and Technical Ed.-Basic Grants to States	PON2 540 190000 4984	84.048	53,054
Subtotal CFDA No. 84.048			<u>54,767</u>
Kentucky Department of Education			
Javits Gifted and Talented Students Ed	PON2 540 1190000999	84.206	1,956
Title I Grants to Local Educational Agencies	PON2 540 1900004992	84.010	147,646
Total U. S. Department of Education-Pass Through			204,369
<b>Total U.S. Department of Education</b>			<u>7,058,640</u>

See accompanying notes to the schedule of expenditures of federal awards.

WESTERN KENTUCKY UNIVERSITY  
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
Year ended June 30, 2020

<u>Federal Agency Cluster/Program</u>	<u>Pass Through Number</u>	<u>CFDA No.</u>	<u>Amount Expended</u>
<b>U.S. Department of Health and Human Services</b>			
Direct Programs			
Advanced Education Nursing Traineeships	n/a	93.247	\$ 276,417
NIH-Occupational Safety and Health Program	n/a	93.262	<u>178,167</u>
Subtotal U. S. Department of Health and Human Services-Direct			454,584
Pass Through Programs			
University of Louisville			
Area Health Education Centers	ULRF 17-1164B-02	93.107	58,368
Area Health Education Centers	ULRF 17-1164A-02	93.107	11,011
Area Health Education Centers	ULRF 17-1164S1-02	93.107	<u>4,769</u>
Subtotal CFDA No. 93.107			74,148
PPHF Geriatric Education			
Eastern Kentucky University	ULRF 19-0740A1-04	93.969	4,925
Foster Care Title IV-E	453600-19-102	93.658	(425)
Foster Care Title IV-E	453768-20-111	93.658	246,714
Foster Care Title IV-E	453773-20-113	93.658	<u>8,077</u>
Subtotal CFDA No. 93.658			<u>254,366</u>
Subtotal U. S. Department of Health and Human Services-Pass Through			333,439
Direct Programs			
Head Start	04CH4776-05-00	93.600	796,659
Head Start	04CH011269-01-00	93.600	<u>1,065,094</u>
Subtotal Head Start Cluster-Direct			1,861,753
Pass Through Programs			
University of Louisville			
Head Start	04CH4761/05	93.600	35,018
Head Start	04CH011242-1	93.600	<u>173,925</u>
Subtotal CFDA No. 93.600 – Head Start Cluster			<u>2,070,696</u>
Subtotal Head Start Cluster-Pass Through			208,943
<b>Total U. S. Department of Health and Human Services</b>			<u>2,858,719</u>
<b>Executive Office of the President</b>			
Pass Through Programs			
High Intensity Drug Trafficking Areas Program	G19AP0001A	95.001	10,193
High Intensity Drug Trafficking Areas Program	G20AP0001A	95.001	<u>9,925</u>
Total Executive Office of the President-Pass Through			20,118
<b>Total Executive Office of the President</b>			<u>20,118</u>
<b>TOTAL OTHER FEDERAL</b>			<b><u>\$ 11,963,843</u></b>
<b>TOTAL FEDERAL EXPENDITURES</b>			<b><u>\$118,720,342</u></b>

See accompanying notes to the schedule of expenditures of federal awards.

WESTERN KENTUCKY UNIVERSITY  
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
Year ended June 30, 2020

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 2020</u> <u>Expenditures</u>
10.326 KY Farmers Market Pathogen Control	West Virginia University Research	\$ 9,678
10.168 Fresh App-Promote Farmers Markets	Community Farmers Market	2,713
10.168 Fresh App-Promote Farmers Markets	Foundation for Connecting Communities	36,587
10.168 Fresh App-Promote Farmers Markets	Need More Acres Farm	12,155
10.168 Fresh App-Promote Farmers Markets	SoKY Marketplace LLC	2,283
10.168 Fresh App-Promote Farmers Markets	Southern Kentucky Produce Association	770
93.859 INBRE: Pregnancy Mobile App	University of Kentucky	9,348
93.600 Head Start FY19	Audubon Area Community Services, Inc.	279,479
93.600 Head Start Training FY19	Audubon Area Community Services, Inc.	668
93.600 Head Start FY20	Audubon Area Community Services, Inc.	322,015
93.600 Head Start Training FY20	Audubon Area Community Services, Inc.	1,678
93.600 Head Start FY19	Murray Head Start	222,000
93.600 Head Start Training FY19	Murray Head Start	2,181
93.600 Head Start FY20	Murray Head Start	214,052
93.600 Head Start Training FY20	Murray Head Start	<u>2,308</u>
<b>Total Federal Awards Paid to Subrecipients</b>		<b><u>\$ 1,117,915</u></b>

See accompanying notes to the schedule of expenditures of federal awards.

WESTERN KENTUCKY UNIVERSITY  
NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
Year ended June 30, 2020

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**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 July 1, 2019 for which the government imposes continuing compliance requirements. No disbursements are allowed under this program subsequent to July 1, 2019. At June 30, 2020, the University had loans outstanding in the amount of \$2,204,365 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, 2020

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**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:

**CFDA Number(s)**

**Name of Federal Program or Cluster Number**

	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
	TRIO Cluster (consisting of):
84.042	TRIO Student Support Services
84.044	TRIO Talent Search
84.047	TRIO Upward bound
84.066	TRIO Education Opportunity Centers
11.611	Manufacturing Extension Partnership
	Education Stabilization Fund – HEERF (consisting of):
84.425E	COVID-19 – Student Aid Portion
84.425F	COVID-19 – Institutional Portion

Dollar threshold used to distinguish between Type A and Type B programs

750,000

Auditee qualified as low-risk auditee?

  X   Yes      \_\_\_\_\_ No

WESTERN KENTUCKY UNIVERSITY  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
June 30, 2020

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**PART II – FINANCIAL STATEMENT FINDINGS**

None

**PART III – FINDINGS AND QUESTIONED COSTS – MAJOR FEDERAL AWARDS**

None