EASTERN KENTUCKY UNIVERSITY

REPORT ON AUDIT OF INSTITUTION OF HIGHER EDUCATION IN ACCORDANCE WITH UNIFORM GUIDANCE

June 30, 2018

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Crowe LLP
Independent Member Crowe Global

INDEPENDENT AUDITOR'S REPORT

Board of Regents
Eastern Kentucky University and
The 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 the discretely presented component unit of the Eastern Kentucky University ("the University" or "University"), a component unit of the Commonwealth of Kentucky, as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the University's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of Eastern Kentucky University Foundation, Inc., which represents the entire discretely presented component unit of the University. Those financial statements were audited by other auditors whose report thereon has been furnished to us, and our opinion, insofar as it relates to the amounts included for Eastern Kentucky University Foundation, Inc., is based solely on the report of other auditors. We conducted our audit 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 the Eastern Kentucky University 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.

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

Opinions

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

Emphasis of Matter

As discussed in Note 1 to the financial statements, during the year ended June 30, 2018, the University adopted new accounting guidance, GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits other than Pensions*, which resulted in a restatement of the University's July 1, 2017 net position of $(61,358,662). Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis on pages 3 through 18, the Schedule of the University's Proportionate Share of the Net Pension Liability on page 80, the Schedule of the University's Pension Contributions on page 81, the Schedule of the University's Proportionate Share of the Net OPEB Liability on page 84, and the Schedule of the University's OPEB Contributions on page 85 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.

Supplementary Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the University's basic financial statements. The accompanying schedule of expenditures of federal awards as required by Title 2 U.S. Code of Federal Regulations (CFR) Part 200*, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The schedule of expenditures of federal awards is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the 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 expenditures of federal awards is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards,* we have also issued our report dated October 18, 2018 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

Crowe LLP

Louisville, Kentucky
October 18, 2018

Introduction

Eastern Kentucky University ("EKU" or the "University") is a public institution of higher learning located in central Kentucky and serving primarily the eastern region of the Commonwealth. Many EKU students are the first among their families to attend college.

EKU is in the midst of the most comprehensive revitalization in its history, with several new residence halls, academic facilities and other buildings opening in recent years or in the near future on the main campus. The University, which also boasts regional campuses in Corbin and Manchester, offers a diverse range of degree programs at the associate, baccalaureate, master's and doctoral levels. The University's prominent programs include Aviation, Criminal Justice, Education, Environmental Health Science, Forensic Science, Game Design, Homeland Security, Nursing, Occupational Therapy, and PGA Golf Management. The nationally prominent Honors Program consistently leads the nation in the number of student presenters at the National Collegiate Honors Council. The institution offers four doctoral programs: Educational Leadership and Policy Studies, Nursing Practice, Occupational Therapy, and Clinical Psychology.

Nearly 90 percent of EKU graduates are Kentucky residents, and 76 percent of the University's degree holders are employed in Kentucky after graduation, giving EKU the title of "Kentucky's University." In Fall 2018, the University welcomed approximately 16,600 students, with a growing number attracted to EKU Online programs, often ranked among the nation's most affordable. The University's four-year graduation rate has more than doubled in the last eight years, and recent freshman classes are the best-prepared academically in the institution's history.

The University has consistently ranked in the top tier of Regional Universities in the South as published by *U.S. News & World Report* for the past seven years. In addition, *Forbes Magazine* has rated the University among "America's Best Colleges" for 10 consecutive years. EKU is home to almost 1,200 military affiliated students and their dependents, and has been ranked no lower than 17th nationally seven of the past eight years in the annual "Best for Vets" survey by Military Times *EDGE* magazine.

EKU has also received the Minority Access Diversity Institution Award for seven consecutive years, and was the only regional university in Kentucky to receive the 2017 Higher Education Excellence in Diversity (HEED) Award from *Insight into Diversity* magazine. The University also earned national distinction among the "Great Colleges to Work For" five of the last 10 years, according to the annual report on the academic workplace by the *Chronicle of Higher Education.*

The University has generated record amounts of private support in recent years and is well ahead of pace as it nears the public phase of its current capital campaign. EKU has been recognized for five consecutive years for Contributions to the Public Good from *Washington Monthly* magazine and was ranked second by the magazine among public universities in Kentucky in its 2017 "Best Bang for the Buck" survey.

The audited financial statements for the fiscal year 2018 for Eastern Kentucky University, and the statements for the Eastern Kentucky University Foundation, Inc. (the "Foundation"), an affiliated organization and component unit of the University, are included in this report. This section, Management's Discussion and Analysis ("MD&A"), is intended to provide an overview of the University's financial position at June 30, 2018, with selected comparative information for the year ended June 30, 2017. The MD&A should be read in conjunction with the accompanying financial statements and notes.

(Continued)

Financial Highlights

At June 30, 2018, Eastern Kentucky University's financial position decreased as reflected in the Statement of Net Position.

- Total assets increased by $30.9 million to $653.9 million at June 30, 2018, compared to $623.0 million at June 30, 2017. The major factors affecting this increase include an increase in net capital assets of $72.4 million and an increase in restricted cash of $5.5 million, along with a decrease in capital assets not depreciated of $45.7 million.

- Deferred outflows decreased by $25.1 million to $101.7 million at June 30, 2018, compared to $126.8 million at June 30, 2017. The decrease is attributed to a decrease in deferred outflows related to pensions, and an offsetting increase related to OPEB, now required to be recorded with the implementation of GASB Statement No. 75 during 2018.

- Overall liabilities decreased by $10.0 million to $716.8 million at June 30, 2018, compared to a $726.8 million at June 30, 2017. This decrease is primarily the result of a $126.5 million decrease in Net Pension Liability, which was offset with the Net OPEB Liability, now required to be recorded with the implementation of GASB Statement No. 75 during 2018.

- Deferred inflows increased by $104.2 million to $191.4 million at June 30, 2018, compared to $87.2 million at June 30, 2017. The increase is attributed to an increase in KERS/KTRS pensions.

- Total net position at June 30, 2018 decreased $27.0 million to $(152.6) million. The greatest factor affecting this decrease was an increase in deferred inflows.

Using the Annual Report

This annual report consists of a series of financial statements that have been prepared in accordance with Governmental Accounting Standards Board ("GASB") Statement No. 35, *Basic Financial Statements and Management's Discussion and Analysis – for Public Colleges and Universities*. The financial statements consist of Statements of Net Position as of June 30, 2018 and 2017, the Statements of Revenues, Expenses, and Changes in Net Position, and the Statements of Cash Flows for the fiscal years then ended. These statements reflect both the financial position of the University as of the end of the 2017 and 2016 fiscal years, as well as the results of operating and nonoperating activities and cash flows. Also included are the financial statements for the Foundation, which are presented in this report in accordance with GASB Statement No. 39, *Determining Whether Certain Organizations are Component Units – an amendment of GASB Statement No. 14*.

Reporting Entity

The University is a component unit of the Commonwealth of Kentucky (the "Commonwealth").

Statement of Net Position

The Statement of Net Position provides a snapshot of the financial position of the University at the end of the fiscal year. In this statement, assets and liabilities are segregated into their current and noncurrent components with net position reported as capital, restricted, or unrestricted. Unrestricted net position is further designated for specific purposes as noted in this discussion and in the notes to the financial statements.

(Continued)

Assets – Total assets at June 30, 2018, were $653.9 million compared to $623.0 million at June 30, 2017, an increase of $30.9 million.

Cash and Cash Equivalents – Total cash and cash equivalents at June 30, 2018, totaled $107.3 million; $6.2 million more than the June 30, 2017, level of $101.1 million. This increase is attributable primarily to an increase of restricted cash and cash equivalents from bond issues of $5.5 million.

Investments – The Foundation holds and manages investments owned by the University. At June 30, 2018, the market value of investments held by the Foundation on behalf of the University was $20.1 million compared to $19.4 million at June 30, 2017, an increase of $700 thousand.

Capital Assets – The historical cost, less accumulated depreciation, of the University's capitalized assets was $498.1 million as of June 30, 2018, a net increase after depreciation of $26.8 million from the $471.3 million balance at June 30, 2017. Depreciation expense for the fiscal year totaled $20.0 million.

Other Asset Categories – The balances in the various other asset categories were essentially unchanged at June 30, 2018, compared to June 30, 2017, with the exception of accounts receivable (net of allowance) which decreased in total by $2.1 million; loans to students, which decreased in total by $532 thousand; and prepaid interest, which decreased in total by $229 thousand.

Deferred Outflows –The deferred outflows for the year ended June 30, 2018, totaled $101.7 million and represent the unamortized deferred refunding balance of bonds, as well as the contributions to the KTRS and KERS pension and KTRS and KERS OPEB. This is a decrease of $25.1 million under the June 30, 2017 balance of $126.8 million.

Liabilities – Total liabilities at June 30, 2018, were $716.8 million compared to $726.8 million at June 30, 2017. This decrease of $10.0 million is primarily attributable to a decrease in Net Pension Liability from fiscal year 2017 of $126.5 million, offset by an increase in unearned revenue of $31.6 million from the Case Dining Hall agreement.

Bonds Payable and Capital Lease Obligations – In total, bonds payable and capital lease obligations increased by $9.4 million as of June 30, 2018, compared to June 30, 2017. At June 30, 2018, the total bonds payable and capital lease obligations were $150.9 million versus $141.5 million at June 30, 2017. This increase is attributable primarily to the acquisition of the 2018 Series Bonds, offset by the principal payments made on the bonds and capital leases. During fiscal year 2018, the University and the Department of Criminal Justice Training (DOCJT) entered into a formal lease and Memorandum of Agreement that more clearly outlines this long-standing and mutually beneficial relationship, and clarifies the services provided to DOCJT by the University. As a result, the debt related to DOCJT leases have been retired.

Other Liability Categories – At June 30, 2018, the balances in various other liability categories increased by $33.0 million to $60.9 million compared to $27.9 million at June 30, 2017. The majority of the balances in this category are comprised of accounts payable, interest payable, payroll/benefits liabilities, external contracts and grants, and unearned revenues associated with tuition and fees billed in June 2018, for summer school classes, as well as a $31.6 increase in unearned revenues associated with the Case Dining Hall agreement.

Deferred Inflows –The deferred inflows for the year ended June 30, 2018, totaled $191.5 million and represent the KTRS and KERS pension, KTRS and KERS OPEB, as well as a Service Concession for Housing projects constructed as part of the P3 initiative on campus. This is an increase of $104.3 million primarily attributed to KTRS and KERS pension, compared to the June 30, 2017 deferred inflows balance of $87.2 million.

(Continued)

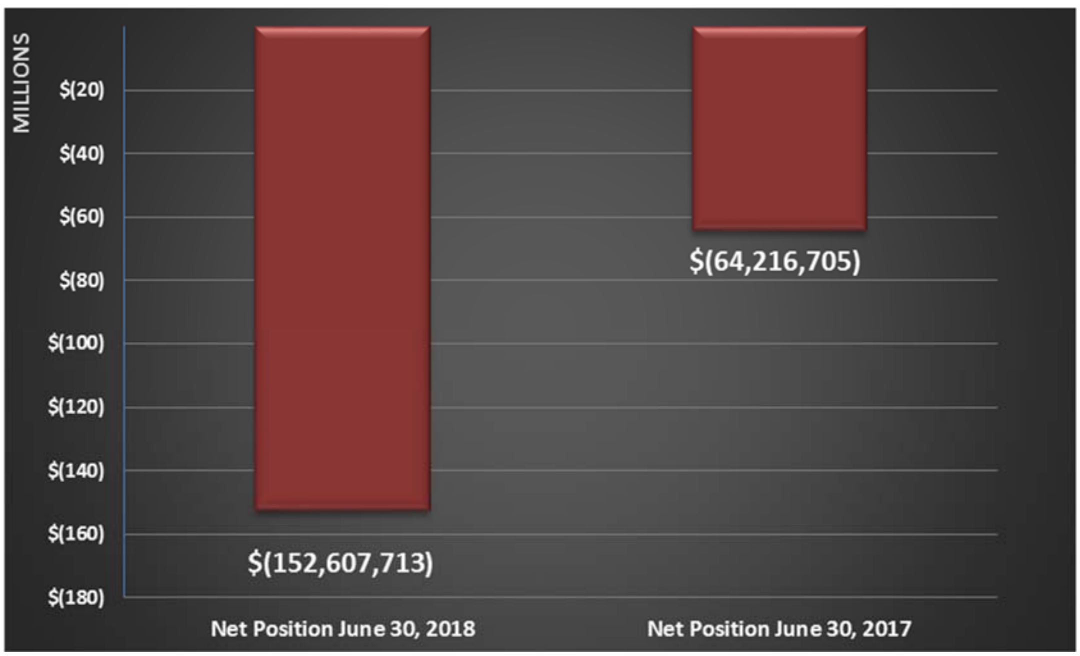
Net Position – Total Net Position at June 30, 2018, was $(152.6) million; a decrease of $88.4 million from June 30, 2017. This includes a restatement to July 1, 2017 net position in the amount of $(61.4) million due to the implementation of GASB Statement No. 75.

Net Investment in Capital Assets – Net position invested in capital assets decreased by $18.6 million as of June 30, 2018, to $235.4 million compared to the June 30, 2017, level of $254.0 million. The primary contributing factor to this decrease was the unearned revenue attributable to the construction of Case Dining Hall.

Restricted Net Position – In total, restricted net position increased by $6.3 million to $85.3 million at June 30, 2018, compared to $79.0 million at June 30, 2017. The net increase is primarily attributable to the increase in restricted expendable for capital projects of $6.3 million.

Unrestricted Net Position – Unrestricted net position decreased by $76.1 million to $(473.3) million at June 30, 2018, compared to the June 30, 2017 unrestricted net position of $(397.2) million, which includes the restatement to July 1, 2017 net position in the amount of $(61.4) million. This decrease is primarily attributable to the KTRS and KERS pension expense adjustments and the addition of the KTRS and KERS OPEB expense adjustments.

The chart below illustrates the net position for the years ended June 30, 2018 and 2017:



Unrestricted Net Position

A portion of net position is considered unrestricted. The unrestricted net position may be designated for certain uses, but does not have formal governmental, donor, or other restrictions. The balances for unrestricted net position at June 30 are shown below with the respective designations indicated.

	2018	2017
Inventories	$ 278	$ 267
Outstanding encumbrances	2,844	3,045
Departmental commitments	9,832	15,440
Designated projects and contingency reserves	12,304	6,784
Health care self-insurance reserve	3,000	3,000
Auxiliary working capital	4,792	6,065
University capital projects	11,199	10,106
KTRS Pension	(255,822)	(275,002)
KERS Pension	(197,481)	(166,919)
KTRS OPEB	(27,287)	-
KERS OPEB	(36,999)	-
Total unrestricted	$ (473,340)	$ (397,214)

The following are the major components reflected in the Statements of Net Position:

	2018	2017
ASSETS		
Current assets	$ 67,408	$ 69,021
Capital assets – net	498,085	471,326
Other noncurrent assets	88,396	82,680
Total assets	$ 653,889	$ 623,027
DEFERRED OUTFLOWS		
Unamortized deferred refunding balance	$ 395	$ 556
KTRS/KERS Pensions	91,212	126,261
KTRS/KERS OPEB	10,133	-
Total deferred outflows	$ 101,740	$ 126,817
LIABILITIES		
Current liabilities	$ 42,076	$ 37,851
Noncurrent liabilities	674,702	688,968
Total liabilities	$ 716,778	$ 726,819
DEFERRED INFLOWS		
Service Concession - Housing	$ 68,737	$ 71,108
Other Deferred Inflows	7,650	5,318
KTRS/KERS Pensions	113,676	10,816
KTRS/KERS OPEB	1,396	-
Total deferred inflows	$ 191,459	$ 87,242

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	2018	2017
NET POSITION		
Net investment in capital assets	$ 235,410	$ 254,001
Restricted – expendable	72,989	66,663
Restricted – nonexpendable	12,333	12,333
Unrestricted	(473,340)	(397,214)
Total net position	$ (152,608)	$ (64,217)

Statements of Revenues, Expenses, and Changes in Net Position

The Statements of Revenues, Expenses, and Changes in Net Position reflect the operating, nonoperating, and capital revenues and expenses of the University. The increase in total net position is a result of these activities.

Operating Results – As indicated in the Statement of Revenues, Expenses, and Changes in Net Position, there was a net loss of $128.3 million from operations for the fiscal year ended June 30, 2018, prior to consideration of state appropriations and other net nonoperating revenues. This is compared to a loss of $151.3 million from operations for the fiscal year ended June 30, 2017.

Operating Revenues

Below is a summary of operating revenues for fiscal year 2018 as compared to fiscal year 2017:

	Year ended June 30, 2018	Year ended June 30, 2017
Tuition and fees	$ 157,426	$ 155,399
Scholarships and discounts	(64,922)	(60,456)
Net tuition and fees	92,504	94,943
Grants and contracts	49,048	50,022
Other revenues	25,942	20,304
Total education and general fund	167,494	165,269
Auxiliaries	25,414	29,209
Scholarships and discounts	(12,610)	(10,581)
Net auxiliaries	12,804	18,628
Total operating revenues	$ 180,298	$ 183,897

Tuition and Fees – Income from student tuition and fee assessments, shown net of the tuition discount, was $92.5 million for the fiscal year ended June 30, 2018, compared to $94.9 million for the fiscal year ended June 30, 2017. The decrease of $2.4 million in net tuition and fees reflects principally an increase in scholarships during the year ended June 30, 2018.

Grants and Contracts – For the fiscal year ended June 30, 2018, there was $49.0 million recognized revenue from all grants and contracts compared to $50.0 million for the year ended June 30, 2017; a slight decrease of $974 thousand. Revenues recognized from external grants and contracts can vary significantly from one fiscal year to the next given variations in new awards, awards ending their grant cycle, and amounts recognized for activities occurring in a given year.

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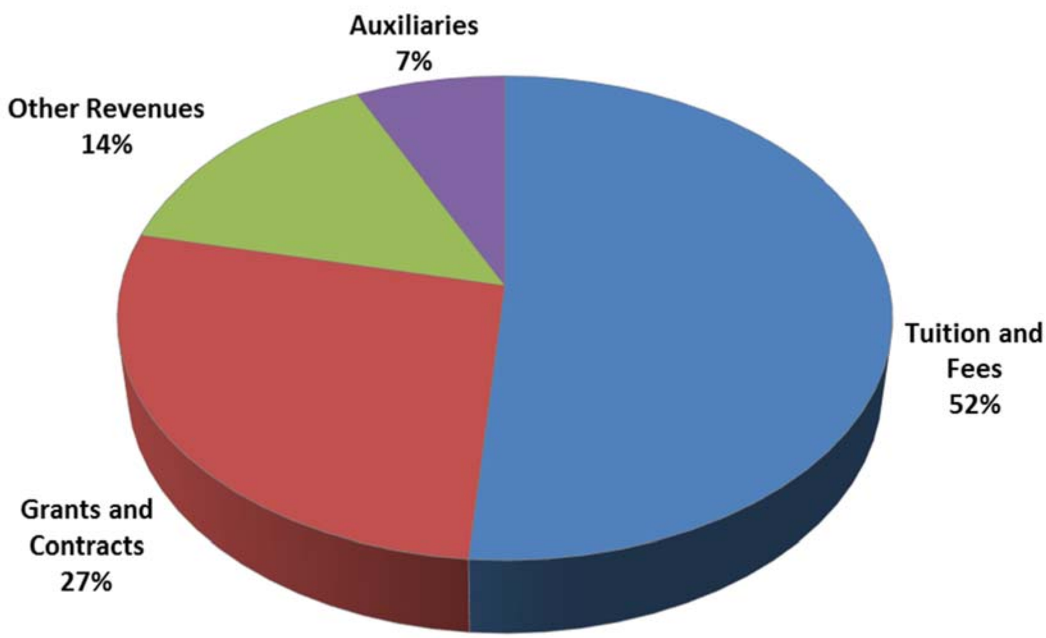
Auxiliaries – Auxiliary enterprises consist of University functions provided for the academic and physical well-being of students. While these functions are not directly related to providing educational services, they are important for student convenience and support. Like tuition and fees, housing revenues are reported net of scholarships and financial aid that directly offset these costs to students. In the Statements of Revenues, Expenses, and Changes in Net Position, $12.8 million is reported for net auxiliary revenues for the year ended June 30, 2018, compared to $18.6 million for the year ended June 30, 2017. The majority of auxiliary revenues for both fiscal years is attributable to student residence hall fees.

Other Operating Revenues – Revenues in the various categories that make up other operating revenues can vary widely from year to year when unexpected revenues come into the University. For the fiscal year ended June 30, 2018, total other operating revenues were $25.9 million compared to $20.3 million for June 30, 2017, an increase of $5.6 million.

Source of Operating Revenues – Fiscal Year 2018



Operating Expenses

Educational and General – Educational and general expenses are those expenditures associated with both academic instruction and support of the educational mission of the University. These include expenditures related to both operational activities and those activities where funding is restricted for specific purposes, such as external contracts and grants. Educational and general expenditures include instructional costs, expenditures related to public service, academic support services such as libraries, student services including health services and student activities, administrative costs for the University, the maintenance and operation of the University's physical facilities, financial and scholarship expenses not directly related to tuition or housing, and debt service expenditures. For the fiscal year ended June 30, 2018, educational and general expenditures totaled $272.5 million compared to $271.9 million for the fiscal year ended June 30, 2017; an increase of $600 thousand.

Auxiliaries – As indicated above, auxiliary enterprises are essential student service activities that do not directly impact educational and general operations. The total auxiliary expenditures for the year ended June 30, 2018, were $21.8 million, compared to $20.7 million for the year ended June 30, 2017.

Below is a summary of operating expenditures for fiscal year 2018, compared to fiscal year 2017:

	Year ended June 30, 2018	2017
Instruction, academic support and libraries	$ 117,860	$ 119,193
Research and public service	43,985	44,730
Student services	20,100	21,334
Institutional support and operations and maintenance of plant	54,865	50,269
Student financial aid	14,443	15,865
Depreciation	19,991	18,706
Other operation expenses	1,302	1,867
Total educational and general expenses	272,546	271,964
Auxiliaries	21,796	20,679
Pension expense adjustments	11,382	42,559
OPEB expense adjustments	2,927	-
Total operating expenses	$ 308,651	$ 335,202

Instruction, Academic Support, and Libraries – The total expenditures of these three areas, which directly relate to teaching, academic, and faculty support, decreased $1.3 million to $117.9 million for the year ended June 30, 2018, compared to $119.2 million for the year ended June 30, 2017.

Research and Public Service – Expenditures in these categories are primarily related to external contracts and grants activity. These activities can vary significantly from year to year due to both timing of awards and project completions. For the fiscal year ended June 30, 2018, total expenditures related to research and public service was $44.0 million, compared to $44.7 million for the fiscal year ended June 30, 2017; a decrease of $745 thousand.

Student Services – Expenditures for student services for fiscal year 2018 decreased by $1.2 million to $20.1 million compared to $21.3 million in fiscal year 2017. The student services function includes expenditures for many activities contributing to student development outside the instructional setting.

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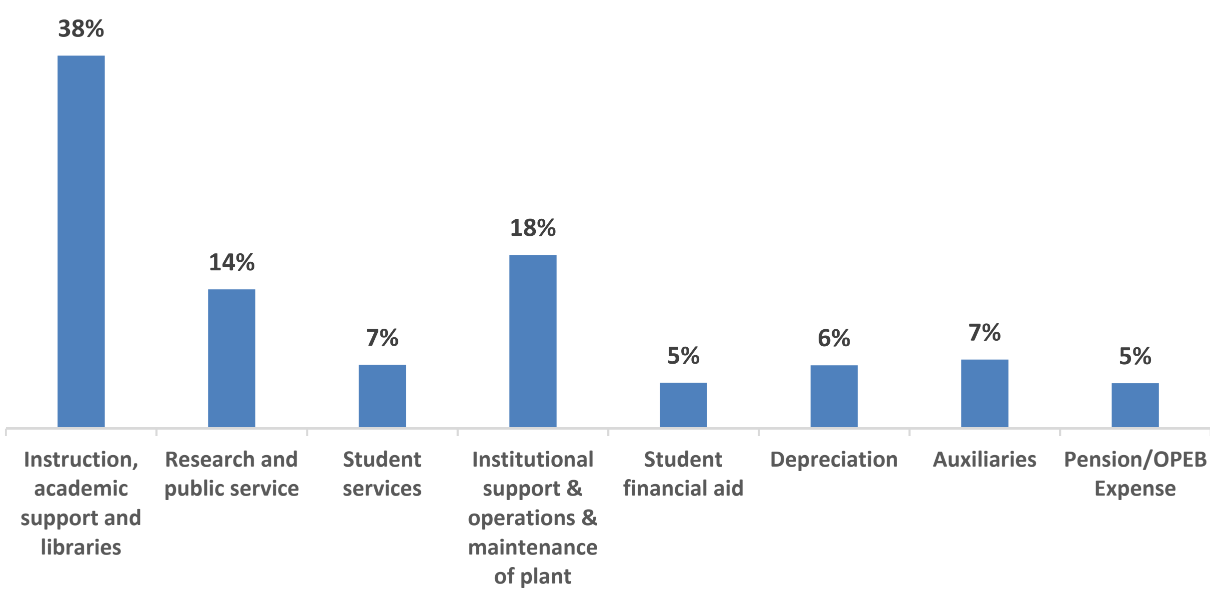
Institutional Support and Operations and Maintenance of Plant – These functions provide physical and administrative support for the University and include administrative offices, physical plant operations, noncapital maintenance expenses, utility expenses, technology support, legal, property and liability insurance, and other similar operational support costs. For the fiscal year ended June 30, 2018, the expenditures for these areas totaled $54.8 million compared to $50.3 million for the year ended June 30, 2017; an increase of $3.5 million.

Student Financial Aid – Tuition and fees, as well as certain auxiliary revenues, are shown net of financial aid from all sources directly awarded to fund those respective areas. As a result, the financial aid expense shown on the Statement of Revenues, Expenses, and Changes in Net Position for the fiscal years highlighted is relatively low in relationship to the total amounts expended for financial aid both from governmental sources and institutional sources. For fiscal year 2018, the total financial aid expenditure was $92.0 million compared to $86.9 million for fiscal year 2017, an increase of $5.1 million as shown in the table on the following page.

Pension Expense Adjustments – Upon adoption of GASB Statement No. 68 Accounting and Financial Reporting for Pensions, the University reports Pension Expense on the Statement of Revenues, Expenses, and Changes in Net Position. For the fiscal year ending June 30, 2018, the University recorded $11.4 million of Pension Expense Adjustments. This is a $31.2 million decrease from the fiscal year ending June 30, 2017 Pension Expense Adjustments of $42.6 million. These expense adjustments do not include actual contributions to the plan.

OPEB Expense Adjustments – Upon adoption of GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions,* the University reports OPEB Expense on the Statement of Revenues, Expenses, and Changes in Net Position. For the fiscal year ending June 30, 2018, the University recorded $2.9 million of OPEB Expense Adjustments. There was no OPEB Expense Adjustments reported for the fiscal year ending June 30, 2017. These expense adjustments do not include actual contributions to the plan.

Major Areas of Operating Expense – Fiscal Year 2018



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Net student financial aid reported on the Statement of Revenues, Expenses, and Changes in Net Position reflect the residual financial aid paid directly to the students. The net student financial aid for the year ended June 30, 2018, was $14.4 million, a decrease of $1.5 million compared to $15.9 million for the year ended June 30, 2017.

The information below shows the gross dollars associated with financial aid support:

	Year ended June 30, 2018	Year ended June 30, 2017
Tuition and fee discount	$ 64,922	$ 60,456
Auxiliary enterprises discount	12,610	10,581
Student financial aid expense	14,443	15,865
Student financial aid expense	$ 91,975	$ 86,902

Non-Operating Revenues/Expenses

State Appropriations – Funding from state appropriations for operations and debt service for the fiscal year ended June 30, 2018 was $64.4 million. This was a decrease of $500 thousand from the prior year ending June 30, 2017 amount of $64.9 million.

Investment Income – Total investment income for the fiscal years ended June 30, 2018 and 2017, was $2.0 million and $2.9 million, respectively; a decrease of $900 thousand.

Federal and State Grants and Contracts – Total federal and state grant revenue for the fiscal year ended June 30, 2018, was $44.5 million, compared to $42.6 million from fiscal year 2017. This was an increase from prior year revenue of $1.9 million.

Other Non-Operating Revenues – Other Non-Operating revenues totaled $9.8 million for the year ended June 30, 2018, an increase of $7.7 million compared to $2.1 million from the prior year ended June 30, 2017. This increase is due primarily to the retirement of the DOCJT lease agreements. During fiscal year 2018, the University entered into an agreement where the Department of Criminal Justice Training assumed ownership of the DOCJT training complex. As a result of the transaction the University retired all capital lease agreements with the Commonwealth of Kentucky State Property and Buildings Commission resulting in a recognition of $6.3 million of Non-Operating Revenue and roughly a $25.0 million Non-Operating Expense on the disposition of the buildings.

Other Non-Operating Expenses – Other Non-Operating expenses totaled $25.7 million for the year ended June 30, 2018, an increase of $25.0 million compared to $758 thousand from the prior year ended June 30, 2017. The increase in Non-Operating Expenses is primarily due to the transfer of the DOCJT Training Complex to the Department of Criminal Justice Training. The NBV of the buildings at the time of transfer was approximately $25.0 million.

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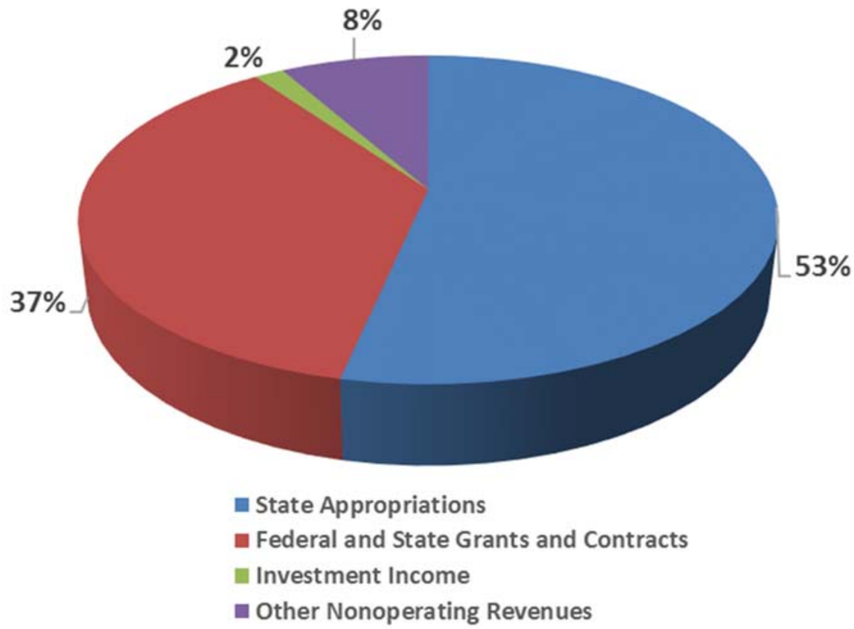
Major Sources of Non-Operating Revenues – Fiscal Year 2018



Capital Support – For the year ended June 30, 2018, the University received funds from the Commonwealth totaling $10.6 million for new capital projects, compared to fiscal year 2017 when the University received funds from the Commonwealth totaling $22.9 million for new capital projects.

The following is summary information from the Statements of Revenues, Expenses, and Changes in Net Position.

	Year ended June 30, 2018	2017
Operating revenues	$ 180,299	$ 183,897
Operating expenses	308,651	335,202
Operating loss	(128,352)	(151,305)
Nonoperating revenues – net	90,686	107,043
Loss before capital appropriations	(37,666)	(44,262)
Capital appropriations	10,633	22,898
Decrease in net position	(27,033)	(21,364)
Net position – beginning of year	(64,217)	(42,853)
Restatement for GASB 75 implementation	(61,358)	-
Net position – beginning of year, as restated	(125,575)	(42,853)
Net position – end of year	$ (152,608)	$ (64,217)

Statements of Cash Flows

The Statements of Cash Flows provides information related to cash sources and uses during the fiscal year. The Statement focuses on three areas: cash generated and utilized from operations; noncapital and capital financing activities; and investing activities. Additionally, there is a reconciliation section in the Statement whereby the net cash used in operations is reconciled to the loss from operations reflected in the Statements of Revenues, Expenses, and Changes in Net Position.

The following is summary information from the Statements of Cash Flows:

	Year ended June 30, 2018	2017
Cash provided by (used in)		
Operating activities	$ (88,549)	$ (90,436)
Noncapital financing activities	108,833	107,525
Capital and related financing activities	(15,265)	13,817
Investing activities	1,205	212
Net change in cash and cash equivalents	6,224	31,118
Cash and cash equivalents – beginning of year	101,055	69,937
Cash and cash equivalents – end of year	$ 107,279	$ 101,055

(Continued)

Capital Asset and Debt Administration

During fiscal years 2018 and 2017, the following projects were completed by the University:

	Year ended June 30, 2018	2017
Coates Cooling Tower Unit	$ 96	$ -
Swine Gestation Barn Upgrade Electrical – Farm	19	-
Ramsey Building Gate/Curtain for Coal Blinds	25	-
RCF 1452 Barnes Mill/Lancaster Rd Traffic Lights – EKU funded	38	-
RCF 1452 Barnes Mill/Lancaster Rd Traffic Lights – Grant funded	150	-
RCF 1575 Moberly Lower Gym	1,130	-
RCF 1631 Perkins Bldg Natural Gas Generator	320	-
RCF 1652 Roy Kidd Statue	109	-
RCF 1669 Lancaster Rd/Hall Dr Crosswalk – EKU Funded 20%	46	-
RCF 1669 Lancaster Rd/Hall Dr Crosswalk – Grant 453208 Funded 80%	176	-
Arlington IT Infrastructure	90	-
RCF 1821 Baseball/Softball Dugout Renovation	44	-
RCF 1868 Keene Hall EKU Logo Sign	31	-
RCF 1945 Intramural Fields Parking Lot	27	-
New Hall B Construction	31,425	-
New Martin Hall Construction	39,683	-
RCF 1833 McGregor Hall Bathroom Renovations	43	-
Parking Garage	6,690	-
Ashland Addition	243	-
Ramsey Heat Plant Renovation	-	147
Model Gym Floor	-	149
Adams Tennis Center Roof	-	262
Sullivan Hall Hot Water Tank	-	30
Elite 100 Colonel Club Stadium Box	-	31
C6E6-Ramsey Heat Plant Renovate HVAC Systems	-	1,444
Sidewalk Project – Grant funded	-	453
Sidewalk Project – EKU funded	-	117
RCF 1556 EMS Renovation (EKU Police Department)	-	206
RCF 1450 Perkins 3rd Flr Fire System	-	173
RCF 1482 Commonwealth Hall 2nd Flr Lobby	-	53
RCF 1700 Vickers Dr Parking Lot	-	144
RCF 1699 Summit St (Madison) Parking Lot	-	85
RCF 1698 Carloftis Garden	-	210
RCF 1116 McGregor Hall Cooling Tower Replacement	-	120
RCF 1117 Walters Hall Boiler Replacement	-	258
RCF 1361 Telford Hall Deaerator	-	117
RCF 1625 McGregor Hall Shower Partitions	-	256
RCF 1515 Sullivan Hall Bathroom Renovations	-	98
RCF 1615 Burnham Sullivan Temp AC Cooling Tower/Chiller	-	247
Carloftis Garden	-	1,108
Renovate HVAC Systems – Steam lines for Org 510662	-	2,984
Ramsey Heat Plant Renovate HVAC Systems	-	3,001
Total	$ 80,385	$ 11,693

(Continued)

The following projects were still in process at June 30, 2018:

	Total Expenditures Through June 30, 2018	Estimated Cost to Complete at June 30, 2018
Begley Bldg Sewer Lift Station	$ 28	$ -
Stratton Sewer Pump Station	6	153
Martin Parking Lot	164	5
Loading Dock/Truck Driveway Center for Arts	18	22
NSB Phase 2 AV/IT Infrastructure	632	-
Coates Bldg – Façade Repairs	16	-
RCF 1622 Student Rec & Wellness Center	9,379	30,437
RCF 1604 Summit St Parking Lot (tiered)	442	35
RCF 1623 Powell Bldg Student Center	4,797	22,003
RCF 1711 Bypass Pedway	312	2,688
RCF 1733 Donovan Annex Boiler	179	108
RCF 1791 Softball Hitting/Pitching Facility	1,535	33
RCF 1791 Baseball Hitting/Pitching Facility	1,631	36
RCF 1817 Elmwood Estate Renovation	12	8
RCF 1847 Commonwealth 13th Flr Renovation	75	579
RCF 1858 Robotic Milker Meadowbrook Farm – Grant 50%	179	154
RCF 1858 Robotic Milker Meadowbrook Farm – EKU 50%	200	181
RCF 1869 NSB Solar Panel System (Roof)	25	67
RCF 1944 Arlington HVAC	16	108
RCF 1982 Ramsey Heat Plant Boiler #4	74	27
Relocate Underground Utilities for Student Rec Center	91	67
Replace Steam Lines between manholes 35 & 36	347	30
Coates Exterior Repairs	25	1,335
A.B Carter HVAC upgrade	78	13
RCF 1987 Begley Bldg Sewer Lift Station	29	271
RCF 1972 HVAC KSP Digital Forensics Memorial Hall	77	67
HVAC Controls Upgrade Foster Bldg	44	-
RCF 1606 Telford Hall AC Equipment	4,756	8
RCF 1778 Student Rec Center Site Prep (Raze Dupree & Todd Halls)	1,060	-
RCF 1763 Telford Air Handling Units (2) Lobby Area	278	421
RCF 1800 Telford Makeup Air Handling Unit	660	14
RCF 1793 Clay Hall Chiller	215	69
RCF 1866 Emergency Generator McGregor Hall	11	-
Science Complex-(phase II expenses)	1,021	-
Student Athletic Support Facility – Baseball	211	9
Student Athletic Support Facility - Softball	89	4
Student Athletic Support Facility - Football	438	20
Renovate/Improve Athletic Facilities – Baseball	4,268	7
Renovate/Improve Athletic Facilities – Softball	1,801	3
Renovate/Improve Athletic Facilities – Football	8,867	16
Science Building-Phase 2 and 3	57,795	2,820
Design Student Recreation and Wellness Center	184	-
Total	$ 102,065	$ 61,818

(Continued)

Long-term debt at June 30, 2018, was $150.9 million compared to $141.5 million at June 30, 2017. The $9.4 million increase is the result of the 2018 series bond issue in fiscal year 2018, as well as a decrease to bonds payable for payments of principal owed on bonds in fiscal year 2018 and the retirement of debt on the DOCJT capital leases.

Economic and Other Factors Impacting Future Periods

The following is a brief discussion of economic and other factors that could have an impact on the University in the future:

- The level of state-appropriated funds received by the University will continue to be a major factor in the future of the University. Presently, state-appropriated funds represent approximately 26 percent of the University's education and general budget. The remaining 74 percent of the education and general budget must come from other sources, primarily student tuition revenue. The Council on Postsecondary Education (CPE) determines a ceiling on annual tuition increases at state universities, which may limit the ability of the University to generate additional tuition revenues. Improving the affordability of a college education for our students remains vitally important to the University; with every tuition increase, there must be a corresponding focus and analysis of financial aid available to our students.

- The University feels strongly that ongoing campus facility improvements will continue to enhance student success. The various facility improvement projects are part of a larger Center for Student Life initiative, designed to transform the living and learning experience of our students. The new Student Recreation & Wellness Center, the renovations to the Powell Student Center, and the addition of a pedway across the bypass are the facility improvements that are currently underway or in the planning stages, and round out the major projects in this initiative.

- The University's top general fund capital construction priorities remain a new Model Laboratory School/College of Education complex, renovation of the Moore Building and a new aviation facility at the Madison Airport.

- The Performance Based Funding model has been implemented in Kentucky. Going forward, the University's entire state appropriation will be incorporated into the performance-funding model, with receipt of any/all state funds contingent upon performance. This transition will certainly present challenges from a budgetary and financial perspective.

- Make No Little Plans: A Vision for 2020, the University's Strategic Plan, details priorities related to academic excellence, student success, institutional distinction, financial strength, campus revitalization, and service to communities and region.

- Given the ongoing and often conflicting pressures for revenue generation, the goal of maximizing affordability for our students, and the goal of continually strengthening our core educational mission, the University must continue to seek additional revenue from other sources. Other sources include unrestricted annual gifts, the Eastern Kentucky University Foundation, and funds generated through University research activities. The University remains committed to continuing to seek more and better ways to operate as efficiently as possible and continually reduce expenses.

- The Commonwealth's economic health is inextricably linked with the national and international economy. While the current U.S. economic outlook remains healthy, because of the state's current pension obligations the forecast for the Commonwealth is more uncertain.

(Continued)

Requests for Information

This financial report is designed to provide a general overview of Eastern Kentucky University's finances. Questions concerning any of the information provided in this report or requests for additional information should be addressed to the Vice President of Finance and Administration, Eastern Kentucky University, Coates CPO 35A, 521 Lancaster Avenue, Richmond, KY 40475.

EASTERN KENTUCKY UNIVERSITY
STATEMENT OF NET POSITION
June 30, 2018

ASSETS	
Current Assets	
Cash and cash equivalents	$ 43,191,684
Accounts receivable – net of allowance of $2,966,658	22,603,401
Loans to students – net of allowance of $1,079	560,271
Inventories	277,519
Prepaid expenses	774,884
Total current assets	67,407,759
Noncurrent Assets	
Restricted cash and cash equivalents	64,087,717
Investments	20,127,991
Loans to students – net of allowance of $8,053	4,180,269
Capital assets – net of accumulated depreciation of $265,575,347	384,186,774
Capital assets not being depreciated	113,898,377
Total noncurrent assets	586,481,128
Total Assets	653,888,887
Deferred Outflows	
Unamortized deferred refunding loss balance	395,174
KTRS/KERS pension	91,212,421
KTRS/KERS OPEB	10,131,979
Total deferred outflows	101,739,574
Total Assets and Deferred Outflows	$ 755,628,461

(Continued)

EASTERN KENTUCKY UNIVERSITY
STATEMENT OF NET POSITION
June 30, 2018

LIABILITIES AND NET POSITION	
Current Liabilities	
Accounts payable	$ 11,470,068
Accrued interest	1,177,718
Accrued salaries and benefits	4,554,963
Accrued compensated absences	3,262,392
Payroll withholding payable	965,405
Refundable deposits	40,650
Assets held for others	326,385
Unearned revenue	11,266,483
Bonds payable	9,011,987
Total current liabilities	42,076,051
Noncurrent Liabilities	
Unearned revenue	28,954,838
Bonds payable, noncurrent portion	116,385,059
Leases payable, noncurrent portion	25,500,000
Net pension liability	430,839,830
Net OPEB liability	73,021,894
Total noncurrent liabilities	674,701,621
Total liabilities	716,777,672
Deferred Inflows	
Service concession – housing	68,737,256
Other deferred inflows	7,649,834
KTRS/KERS pension	113,675,739
KTRS/KERS OPEB	1,395,673
Total deferred inflows	191,458,502
Net Position	
Net investment in capital assets	235,409,533
Restricted	
Expendable for capital projects	63,050,460
Expendable for loans to students	4,071,593
Expendable for scholarships	2,925,994
Expendable for institutional support	2,941,937
Unexpendable for permanent endowment	12,332,772
Unrestricted	(473,340,002)
Total net position	(152,607,713)
Total Liabilities, Deferred Inflows and Net Position	$ 755,628,461

See accompanying notes to financial statements.

EASTERN KENTUCKY UNIVERSITY FOUNDATION, INC.
STATEMENT OF FINANCIAL POSITION
June 30, 2018

ASSETS	
Current assets	
Cash and cash equivalents	$ 2,840,864
Pledges receivable – net	787,163
Cash surrender value of life insurance	186,807
Total current assets	3,814,834
Noncurrent assets	
Investments	73,209,275
Pledges receivable – net	1,813,529
Property and equipment – net	717,273
Other noncurrent assets	50,937
Total noncurrent assets	75,791,014
Total Assets	$ 79,605,848
LIABILITIES AND NET ASSETS	
Current liabilities	
Accounts payable	$ 25,675
Due to University	222,375
Total current liabilities	248,050
Noncurrent liabilities	
Deferred gift liabilities	368,709
Assets held for others	20,127,990
Total noncurrent liabilities	20,496,699
Total Liabilities	20,744,749
Net assets	
Unrestricted	
Board designated endowment	7,541,872
Undesignated	(2,709,592)
	4,832,280
Temporarily restricted	23,381,653
Permanently restricted	30,647,166
Total net assets	58,861,099
Total Liabilities and Net Assets	$ 79,605,848

See accompanying notes to financial statements.

EASTERN KENTUCKY UNIVERSITY
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
Year ended June 30, 2018

OPERATING REVENUES	
Tuition and fees – net	$ 92,504,337
Federal grants and contracts	23,855,127
State grants and contracts	21,019,232
Nongovernmental grants, contracts, and gifts	4,174,124
Sales and services of educational activities	6,204,504
Auxiliary enterprises – housing	7,640,515
Auxiliary enterprises – other	5,163,675
Other operating revenues	19,737,435
Total operating revenues	180,298,949
OPERATING EXPENSES	
Educational and general	
Instruction	92,786,050
Research	942,341
Public service	43,043,104
Libraries	4,271,382
Academic support	20,802,536
Student services	20,099,947
Institutional support	28,244,741
Operations and maintenance of plant	26,619,872
Depreciation	16,585,051
Student financial aid	14,443,064
Auxiliary enterprises	
Housing and other auxiliaries	21,795,858
Depreciation	3,406,192
Pension expense adjustments	11,382,080
OPEB expense adjustments	2,926,926
Other operating expenses	1,301,783
Total operating expenses	308,650,927
Operating loss	(128,351,978)
NONOPERATING REVENUES (EXPENSES)	
State appropriations	64,394,700
Federal and state grants and contracts	44,438,024
Investment income	1,965,829
Interest expense	(4,266,304)
Other nonoperating revenues	9,880,219
Other nonoperating expenses	(25,726,213)
Net nonoperating revenues	90,686,255
Loss before capital appropriations	(37,665,723)
Capital appropriations	10,633,377
Change in net position	(27,032,346)
Net position – beginning of year	(64,216,705)
Restatement for GASB 75 implementation	(61,358,662)
Net position – beginning of year, as restated	(125,575,367)
Net position – end of year	$ (152,607,713)

See accompanying notes to financial statements.

EASTERN KENTUCKY UNIVERSITY FOUNDATION, INC.
STATEMENT OF ACTIVITIES
Year ended June 30, 2018

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
REVENUES AND GAINS, (LOSSES), AND OTHER SUPPORT				
Contributions	$ 142,107	$ 1,915,574	$ 1,044,309	$ 3,101,990
Investment returns – net of investment expenses of $206,555	195,609	1,381,338	-	1,576,947
Net realized and unrealized gains on investments	405,075	2,366,665	-	2,771,740
Other income – net	66,039	19,021	-	85,060
	808,830	5,682,598	1,044,309	7,535,737
Net assets released from restrictions	3,614,437	(3,614,437)	-	-
Total revenues, gains and other support	4,423,267	2,068,161	1,044,309	7,535,737
EXPENSES				
Support for the University	4,047,758	-	-	4,047,758
Management and general	145,945	-	-	145,945
Interest	14,124	-	-	14,124
Total expenses	4,207,827	-	-	4,207,827
Change in net assets	215,440	2,068,161	1,044,309	3,327,910
Net assets – beginning of year	4,616,840	21,313,492	29,602,857	55,533,189
Net assets – end of year	$ 4,832,280	$ 23,381,653	$ 30,647,166	$ 58,861,099

See accompanying notes to financial statements.

OPERATING ACTIVITIES	
Tuition and fees	$ 93,139,705
Grants, contracts and gifts	50,894,658
Payments to suppliers	(68,876,865)
Payments for utilities	(8,694,156)
Payments to employees	(130,579,764)
Payments for benefits	(51,521,697)
Payments to students	(12,090,134)
Loans issued to students and employees	(471,243)
Collections of loans to students and employees	1,003,163
Auxiliary enterprise charges	
Residence halls	7,609,764
Other	5,163,675
Sales and services of educational activities	6,204,504
Other receipts	19,669,879
Net cash used in operating activities	(88,548,511)
NONCAPITAL FINANCING ACTIVITIES	
State appropriations	64,394,700
Other nonoperating revenues – grants and contracts	44,438,024
Net cash provided by noncapital financing activities	108,832,724
CAPITAL AND RELATED FINANCING ACTIVITIES	
Purchase of capital assets	(33,376,626)
Principal paid on bonds payable and capital leases	(9,190,000)
Interest paid on bonds payable and capital leases	(7,327,568)
Proceeds on issuance of bonds payable	21,860,000
State reimbursement of capital lease payments	2,136,106
Capital appropriations	10,633,377
Net cash used in capital and related financing activities	(15,264,711)
INVESTING ACTIVITIES	
Interest on investments	1,204,611
Net cash provided by investing activities	1,204,611
Increase in cash and cash equivalents	6,224,113
Cash and cash equivalents – beginning of year	101,055,288
Cash and cash equivalents – end of year	$ 107,279,401

(Continued)

RECONCILIATION OF OPERATING LOSS TO NET CASH USED IN OPERATING ACTIVITIES	
Operating loss	$ (128,351,978)
Depreciation expense	19,991,243
Changes in operating assets and liabilities	
Accounts receivable – net	2,133,051
Loans to students – net	531,920
Inventories	(10,104)
Prepaid expenses	228,506
Accounts payable	3,785,350
Accrued liabilities	(1,460,868)
Refundable deposits	(25,450)
Assets held for others	45,178
Unearned revenue	275,973
Deferred outflows – KTRS/KERS pension	35,048,169
Deferred outflows – KTRS/KERS OPEB	(6,062,979)
Deferred inflows – KTRS/KERS pension	102,859,295
Deferred inflows – KTRS/KERS OPEB	1,395,673
Net pension liability	(126,525,384)
Net OPEB liability	7,593,894
Net cash flows used in operating activities	$ (88,548,511)
Supplemental cash flows information	
Capital assets acquired through construction agreements	$ 32,574,192
Capital asset acquisitions in accounts payable	4,469,175
Capital leases payable extinguished (see Note 6)	4,410,000

See accompanying notes to financial statements.

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

Nature of Operations – Eastern Kentucky University (the "University") is a regional, coeducational, public institution of higher education offering general and liberal arts programs, pre-professional and professional training in education and various other fields at both the undergraduate and graduate levels. Located in Richmond, Kentucky, the University has a distinguished record of over eleven decades of educational service to the Commonwealth of Kentucky (the "Commonwealth").

Reporting Entity – The University is a component unit of the Commonwealth and is included in the basic financial statements of the Commonwealth. The University's financial statements, as defined by Statement No. 14 and amended by Statement No. 61 of the Governmental Accounting Standards Board ("GASB"), include the financial operations and financial position of Eastern Kentucky University Foundation, Inc. (the "Foundation"), which is a corporation formed for educational, charitable and public purposes in accordance with the provisions of KRS 273.010 and a discretely presented component unit of the University. Specifically, it was founded to cooperate with the University and with the Board of Regents of the University (the "Board") in the promotion of the educational, civic, and charitable purpose of the University and Board in any lawful manner deemed appropriate by the Board. This purpose includes the encouragement of scholarship and research, the promotion of the prestige, expansion, and development of the University, including the development of its physical plant, its faculty and the assistance of its students and alumni. Certain officers of the Foundation are also officers of the University. The Foundation is included in the University's financial statements as a component unit as it is organized exclusively to benefit the University by generating funding and performing the University's development activities. The separate financial statements of the Foundation can be obtained by written request to the Eastern Kentucky University Foundation, Jones 324 Coates CPO 19A, 521 Lancaster Avenue, Richmond, Kentucky 40475.

Basis of Accounting and Presentation – The financial statements of the University have been prepared using the economic resources measurement focus and 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 nonexchange transactions (principally federal and state grants and state appropriations) are recognized when all applicable eligibility requirements are met. Internal activity and balances are eliminated in the preparation of the financial statements. Operating revenues and expenses include exchange transactions and program-specific, government-mandated nonexchange transactions. Investment income and interest expense from government-mandated nonexchange transactions that are not program specific (such as state appropriations) are included in nonoperating revenues and expenses.

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 the 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 Equivalents – The University considers all liquid investments with original maturities of three months or less to be cash equivalents. Funds held by the Commonwealth are considered cash equivalents and are carried at cost, which approximates market value.

Restricted Cash and Cash Equivalents – Restricted cash is restricted for the purchase of capital assets.

(Continued)

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

Investments and Investment Income – Investments in equity and debt securities are carried at fair value determined using quoted market prices. Investments in nonnegotiable certificates of deposit, money market accounts, and repurchase agreements are carried at cost, which approximates market value. Amounts due for debt service in the upcoming year represent short-term investments; all other investments are classified as long-term.

The University's investments held with the Foundation are governed by the Foundation's investment policies that determine permissible investments by category. The holdings include U.S. and foreign equity securities as well as alternative investments.

Investment income consists of interest and dividend income, realized gains and the net change for the year in the fair value of investments carried at fair value.

Accounts Receivable – Accounts receivable consist primarily of tuition and fee charges to students, charges for auxiliary enterprise services provided to students, faculty and staff and receivables from federal, state and private agencies for grants and contracts. Accounts receivable are recorded net of estimated uncollectible amounts. Estimated uncollectible amounts are determined by considering a number of factors, including the length of time accounts receivable are past due, previous loss history and the condition of the general economy and the industry as a whole.

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.

Inventories – Inventories are stated at the lower of cost or market determined on the first-in, first-out method.

Capital Assets – Capital assets are recorded at cost at the date of acquisition. Gifts are recorded at acquisition value at the date of donation. The University's capitalization policy includes all items with a unit cost of $5,000 or more and an estimated useful life of greater than one year. Renovations to buildings, infrastructure and land improvements that significantly increase the value or extend the useful life of the structure are capitalized. Routine repairs and maintenance are charged to operating expense in the year in which the expenses are incurred.

Depreciation of capital assets is computed on a straight-line basis over the estimated useful lives of the assets; generally, 40 years for buildings, 15–20 years for land improvements, 25 years for infrastructure, 10 years for library books, and 3–15 years for equipment.

Costs incurred during the construction of capital assets are recorded as construction in progress and are not depreciated until placed into service. The University capitalizes interest as a component of capital assets constructed for its own use. Total interest incurred for the year ended June 30, 2018 was $6,385,744, of which $2,119,440 was capitalized.

Compensated Absences – University employees begin to accumulate annual vacation allocations from the beginning date of employment; however, accrued vacation is not granted until three months of employment have been completed. The maximum accumulation of vacation leave is limited to the number of days that can be accumulated in one year, based on the length of service. Employees are paid their accumulated vacation upon termination, subject to certain limitations.

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

University policy permits most employees to accumulate vacation that may be realized 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 realized. Compensated absence liabilities are computed using the regular pay in effect and related benefit costs at the Statement of Net Position date.

Unearned Revenue – Unearned revenue represents student fees, advances on grants and contract awards for which the University has not met all of the applicable eligibility requirements, and construction costs for a building provided by the University's dining partner.

Pensions and Other Postemployment Benefits (OPEB) – For purposes of measuring the net pension and OPEB liabilities, deferred outflows and inflows of resources related to pensions and OPEB, and pension and OPEB expense, information about the fiduciary net position of the Kentucky Teachers' Retirement system (KTRS) and the Kentucky Employees Retirement System (KERS) and additions to /deductions from KTRS' and KERS' fiduciary net position have been determined on the same basis as they are reported by KTRS and 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.

Deferred Outflows and Inflows of Resources – Deferred outflows represent the consumption of resources that are applicable to a future reporting period, but do not require any further exchange of goods or services. Deferred outflows of resources in the University's financial statements consist of the unamortized deferred refunding loss balance and pension and OPEB related unamortized balances. Deferred inflows consist of the KTRS and KERS pension and OPEB related unamortized balances as well as amounts related to service concession arrangements.

Net Position – Under the provisions of GASB Statement No. 63, resources of the University are classified for accounting and reporting purposes into the following net position categories:

Net investment in Capital Assets: Represents the University's investment in capital assets, net of accumulated depreciation and outstanding debt obligations related to the acquisition, construction, or improvement of those assets.

Restricted – Expendable: Represents resources the University is legally or contractually obligated to spend in accordance with restrictions imposed by external third parties.

Restricted – Unexpendable: Represents resources the University is legally or contractually obligated to retain in perpetuity.

Unrestricted: The unrestricted component of net position represents assets, deferred outflows, liabilities and deferred inflows whose use by the University is not subject to externally imposed stipulations. Unrestricted net position may be designated for specific purposes by action of management or the Board. Substantially all unrestricted resources are designated for academic and research programs and initiatives, capital projects and operating reserves.

(Continued)

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

Operating and Nonoperating Revenues and Expenses – Operating activities as reported on the Statements of Revenues, Expenses and Changes in Net Position are those activities that generally result from exchange transactions, such as payments received for providing services and payments made for services or goods received. Primarily all of the University's expenses are from exchange transactions. Certain revenue streams are recorded as nonoperating revenues, as required by GASB standards, including state appropriations, federal Pell grant revenue, gifts and investment income. In addition, interest expense is shown as a nonoperating expense.

Release of Restricted Resources – When an expense or outlay is incurred for which both restricted and unrestricted resources are available, the University's policy is to allow each departmental unit the flexibility to determine whether to first apply restricted or unrestricted resources based on the most advantageous application of resources in the particular circumstances.

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 government grants, such as Pell grants, and other federal, state, or nongovernmental programs, are recorded as either operating or nonoperating revenues in the University's financial statements. To the extent that revenues from such programs are used to satisfy tuition and fees and other student charges, the University has recorded a scholarship allowance. The scholarship allowances on tuition and fees and on housing for the year ended June 30, 2018 were $64,921,885 and $11,205,680, respectively. Payments made directly to students are presented as student financial aid expenses in the Statements of Revenues, Expenses, and Changes in Net Position.

Adoption of New Accounting Pronouncements – During fiscal year 2018, the University adopted the following accounting pronouncements:

- GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. The primary objective of this statement is to improve accounting and financial reporting by state and local governments for postemployment benefits other than pensions (other postemployment benefits or OPEB). This Statement establishes standards for recognizing and measuring liabilities, deferred outflows of resources, deferred inflows of resources, and expenses.

  Adoption of GASB Statement No. 75 had a significant impact the University's financial position. As a result, the University recorded a prior period adjustment in the amount of $(61,358,662) to restate the July 1, 2017 net position from $(64,216,705) to $(125,575,367).

- GASB Statement No. 81, *Irrevocable Split-Interest Agreements*. The objective of this Statement is to improve accounting and financial reporting for irrevocable split-interest agreements by providing recognition and measurement guidance for situations in which a government is a beneficiary of the agreement.

- GASB Statement No. 85, *Omnibus 2017*. The objective of this Statement is to address practice issues that have been identified during implementation and application of certain GASB Statements. This Statement addresses a variety of topics including issues related to blending component units, goodwill, fair value measurement and application, and postemployment benefits.

(Continued)

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

- GASB Statement No. 86, *Certain Debt Extinguishment Issues* The primary objective of this Statement is to improve consistency in accounting and financial reporting for in-substance defeasance of debt by providing guidance for transactions in which cash and other monetary assets acquired with only existing resources—resources other than the proceeds of refunding debt—are placed in an irrevocable trust for the sole purpose of extinguishing debt. This Statement also improves accounting and financial reporting for prepaid insurance on debt that is extinguished and notes to financial statements for debt that is defeased in substance.

Adoption of GASB Statements No. 81, 85 and 86 did not have a significant impact on the University's financial position or results of operations

Recent Accounting Pronouncements - As of June 30, 2018, the GASB has issued the following statements not yet implemented by the University.

- GASB Statement No. 83, *Certain Asset Retirement Obligations*, effective for periods beginning after June 15, 2018.

- GASB Statement No. 84, *Fiduciary Activities*, effective for periods beginning after December 15, 2018.

- GASB Statement No. 87, *Leases*, effective for periods beginning after December 15, 2019.

- GASB Statement No. 88, *Certain Disclosures Related to Debt, including Direct Borrowings and Direct Placements*, effective for periods beginning after June 15, 2018.

- GASB Statement No. 89, *Accounting for Interest Cost Incurred before the End of a Construction Period,* effective for periods beginning after December 15, 2019.

- GASB Statement No. 90, *Majority Equity Interests, an amendment of GASB Statements No. 14 and No. 61*, effective for reporting periods beginning after December 15, 2018.

The University's management has not yet determined the effect these statements will have on the University's financial statements.

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

NOTE 2 – DEPOSITS, INVESTMENTS AND INVESTMENT RETURN

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

The University requires that balances on deposits with financial institutions to be insured by the FDIC or collateralized by securities held by the cognizant Federal Reserve Bank, in the University's name.

Custodial credit risk for deposits is the risk that, in the event of a bank failure, the University's deposits may not be returned to the University. As a means of limiting its exposure to losses from custodial credit risk, the University's deposits and investments are held by the Commonwealth treasurer, collateralized by securities in the University's name, and insured by the FDIC or in the University's name.

Deposits as of June 30, 2018 consisted of:

Depository accounts	
Local bank deposits – collateral held as a pledge in the University's name	$ 36,974,687
Cash on hand	23,200
State investment pool – uninsured and uncollateralized	70,281,514
Total deposits	$ 107,279,401

Deposits at June 30, 2018 as presented on the Statement of Net Position include:

Cash and cash equivalents	$ 43,191,684
Restricted cash and cash equivalents	64,087,717
Total deposits	$ 107,279,401

Investments at June 30, 2018 consisted of:

Restricted assets held by the Foundation	$ 20,127,991
Total investments	$ 20,127,991

(Continued)

NOTE 2 – DEPOSITS, INVESTMENTS AND INVESTMENT RETURN (Continued)

Investments in U.S. government securities and the collateral for repurchase agreements are registered in the name of Eastern Kentucky University or held in the University's name by its agents and trustees. The University may legally invest in direct obligations of, and other obligations guaranteed as to principal, the U.S. Treasury and U.S. agencies, and instrumentalities and in bank repurchase agreements. It may also invest to a limited extent in equity securities.

University investments held by the Eastern Kentucky University Foundation, Inc. are comprised of the Regional University Excellence Trust Fund and Programs of Distinction endowments (see Note 9). Assets held by the Foundation are invested primarily in an investment pool managed by the Foundation and are carried at fair value.

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

Percentage of pool invested in:	
Cash equivalents – trustee	1%
Registered investment companies equity funds	73
Registered investment companies fixed income funds	23
Alternative investments	3
Total	100%

The University categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the 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. Investments that are measured at fair value using the net asset value per share (or its equivalent) as a practical expedient are not classified in the fair value hierarchy below. Refer to Note 15 B. for a description of those investments.

The fair value of financial instruments as of June 30, 2018 is as follows:

		Fair Value Measurements at June 30, 2018 Using:		
	Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Eastern Kentucky University Foundation, Inc. Investment fund at net asset value per share	$ 20,127,991	$ -	$ -	$ -
Total investments	$ 20,127,991	$ -	$ -	$ -

(Continued)

NOTE 2 – DEPOSITS, INVESTMENTS AND INVESTMENT RETURN (Continued)

Interest Rate Risk – Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. The University does not have a formal policy to specifically limit investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates. The money market mutual funds are presented as an investment with a maturity of less than one year because they are redeemable in full immediately.

Credit Risk – Credit risk is the risk that the issuer or other counterparty to an investment will not fulfill its obligations. Credit quality ratings provide information about the investment's credit risk. The University does not have a formal policy that would limit its investment choices. However, investments are required to be in compliance with Commonwealth statute.

Concentration of Credit Risk – Concentration of credit risk is the risk of loss attributed to the magnitude of an investment in a single issuer. The University does not have a formal policy for concentration of credit risk.

Investment Income – Investment income for the year ended June 30, 2018 was $1,965,829, consisting primarily of an unrealized gains and loss of investments.

NOTE 3 – ACCOUNTS RECEIVABLE

Accounts receivable are recorded net of estimated uncollectible amounts and consist of the following at June 30, 2018:

Student tuition and fees	$ 8,189,494
Auxiliary enterprises	1,096,851
Federal, state and private grants and contracts	13,508,182
Other state agencies	145,741
Other	2,629,791
Total	25,570,059
Less allowance for uncollectible accounts	(2,966,658)
Accounts receivable – net	$ 22,603,401

(Continued)

NOTE 4 – CAPITAL ASSETS

Capital assets activity for the year ended June 30, 2018, is as follows:

	Balance - June 30, 2017	Additions	Reductions	Transfers	Balance – June 30, 2018
Capital assets not being depreciated					
Land	$ 8,186,328	$ -	$ -	$ -	$ 8,186,328
Works of art	183,117	16,019	-	109,356	308,492
Livestock for educational purposes	531,300	-	(140,273)	-	391,027
Construction in progress	150,669,312	34,727,831	-	(80,384,613)	105,012,530
Total capital assets not being depreciated	159,570,057	34,743,850	(140,273)	(80,275,257)	113,898,377
Other capital assets					
Land improvements	61,123,486	-	-	26,600	61,150,086
Buildings	441,228,378	32,686,296	(42,173,049)	80,248,657	511,990,282
Leasehold improvements	556,987	-	-	-	556,987
Equipment	27,929,117	3,470,846	(2,293,451)	-	29,106,512
Library books	45,672,231	1,466,897	(180,874)	-	46,958,254
Total other capital assets	576,510,199	37,624,039	(44,647,374)	80,275,257	649,762,121
Less accumulated depreciation for					
Land improvements	(30,900,641)	(3,530,347)	-	-	(34,430,988)
Buildings	(173,481,899)	(13,187,754)	16,784,433	-	(169,885,220)
Leasehold improvements	(484,109)	(26,581)	-	-	(510,690)
Equipment	(20,853,836)	(1,928,368)	2,204,927	-	(20,577,277)
Library books	(39,033,853)	(1,318,193)	180,874	-	(40,171,172)
Total accumulated depreciation	(264,754,338)	(19,991,243)	19,170,234	-	(265,575,347)
Other capital assets – net	311,755,861	17,632,796	(25,477,140)	80,275,257	384,186,774
Total capital assets – net	$ 471,325,918	$ 52,376,646	$ (25,617,413)	$ -	$ 498,085,151

NOTE 5 – UNEARNED REVENUE

Unearned revenue as of June 30, 2018 is as follows:

Unearned summer school revenue and activity fees	$ 3,335,869
Unearned grants and contracts revenue, current	7,930,614
Unearned grants and contracts revenue, noncurrent	28,954,838
Total	$ 40,221,321

(Continued)

NOTE 6 – BONDS PAYABLE AND CAPITAL LEASE OBLIGATIONS

Long-term liabilities as of June 30, 2018, and long-term activity for the year ended June 30, 2018 are summarized as follows:

	Balance - July 1, 2017	Additions	Reductions	Refunding	Balance - June 30, 2018	Balance Due Within One Year
Revenue bonds payable	$ 84,360,000	$ 21,860,000	$ (4,165,000)	$ -	$ 102,055,000	$ 4,505,000
General receipts refunding bonds	20,950,000	-	(3,180,000)	-	17,770,000	3,765,000
Capitalized lease obligations	31,755,000	-	(6,255,000)	-	25,500,000	-
Unamortized bond premium	4,390,392	1,926,283	(744,629)	-	5,572,046	741,987
	$ 141,455,392	$ 23,786,283	$ (14,344,629)	$ -	$ 150,897,046	$ 9,011,987

General Receipts Revenue Bonds – On August 2, 2007, the University sold $12,920,000 of Eastern Kentucky University General Receipts and Refunding Bonds, Series 2007A, with a net interest rate of 4.41%. The proceeds of this bond issue provided funding for the renovation of the Sidney Clay Residence Hall and the refunding of the Eastern Kentucky University Housing System Revenue Bonds. The bonds mature in varying amounts through May 1, 2027. All of the revenues of the University, except federal and state grants and contracts, RUETF endowment matching grants, POD endowment, capital appropriations, and federal capital support are pledged for debt service on these bonds. During fiscal year 2018, $525,000 of principal and $ 26,512 of interest was paid on the bonds. Total outstanding principal at June 30, 2018 was $105,000. These bonds were partially refunded during fiscal year 2017. See Series 2016A paragraph in this footnote.

On April 1, 2009, the University sold $12,095,000 of Eastern Kentucky University General Receipt Bonds, Series 2009A, at a net interest cost of 3.98%. The proceeds of this bond issue provided funding for the renovation of the Walters Residence Hall and the construction of intramural fields. The bonds mature in varying amounts through May 1, 2028. During fiscal year 2018, $705,000 of principal and $281,654 of interest were paid on the bonds. Total outstanding principal at June 30, 2018 was $6,430,000.

On December 8, 2011, the University sold $21,480,000 of Eastern Kentucky University General Receipt Bonds, Series 2011A, at a net interest cost of 3.74%. The proceeds of this bond issue provided funding for a new residence hall. The bonds mature in varying amounts through October 1, 2031. During fiscal year 2018, $910,000 of principal and $591,750 of interest were paid on the bonds. Total outstanding principal at June 30, 2018 was $16,295,000.

On July 3, 2012, the University sold $27,700,000 of Eastern Kentucky University General Receipts Refunding Bonds, 2012 Series A bonds, at an effective interest rate of 3.49% to advance refund Consolidated Education Revenue Bonds Series V (June 1, 2004, which refinanced outstanding Housing Revenue Series bonds and provided additional funding for the replacement of the campus underground electrical system) of $8,790,000 and a master lease (September 25, 2008 for an energy savings performance contract) of $21,863,227. The 2012 Series A bond agreement includes certain covenants and guidelines related to the University's indebtedness.

NOTE 6 – BONDS PAYABLE AND CAPITAL LEASE OBLIGATIONS (Continued)

The net proceeds of $31,350,000 (including the Original Issuer's Premium) of the 2012 Series A Bonds were used (after payment of underwriting fees, insurance, and other issuance costs) to purchase U.S. government securities. Those securities were deposited to an irrevocable trust with an escrow agent to provide for all future debt service payments on those Series V bonds and the energy savings lease. As a result, the Series V bonds and energy savings lease are considered to be defeased and the liabilities for these obligations have been removed from the statement of Net Position. The advance refunding resulted in a difference between the reacquisition price and the net carrying amount of the old debt of $1,407,906. This difference, reported under GASB 65 (see Note 1) as a deferred outflow, is being charged to operations through the year 2024 using the effective-interest method. The University completed the advance refunding to reduce its total debt service payments over the next 12 years. The resulting savings on a present value basis is approximately $2.35 million.

During fiscal years 2018, $2,745,000 of principal and $763,250 of interest were paid on the bonds. The outstanding principal at June 30, 2018 is $12,520,000.

On April 7, 2015, the University sold $14,280,000 of Eastern Kentucky University General Receipt Bonds, Series 2015A, at a net interest cost of 3.26%. The proceeds of this bond issue provided funding for various athletic projects. The bonds mature in varying amounts through April 1, 2035. During fiscal year 2018, $525,000 of principal and $498,194 of interest were paid on the bonds. Total outstanding principal at June 30, 2018 was $12,725,000.

On March 2, 2016, the University sold $5,825,000 of Eastern Kentucky University General Receipt Bonds, Series 2016A, at a net interest cost of 2.15% to refund a portion of the 2007 Series A Bonds (August 2, 2007, which refinanced outstanding Housing Revenue Series bonds).

The refunding resulted in a gross savings between the reacquisition price and the net carrying amount of the old debt. The University completed the refunding to reduce its total debt service payments over the next 11 years. The resulting savings on a present value basis is approximately $438,507. As of June 30, 2018, the refinanced bonds had been defeased. The University has removed the defeased amount from its accounts. This refunding was a noncash transaction and therefore is excluded from the statement of cash flows.

During fiscal year 2018, $435,000 of principal and $122,338 of interest were paid on the bonds. Total outstanding principal at June 30, 2018 was $5,250,000.

On April 5, 2017, the University sold $46,140,000 of Eastern Kentucky University General Receipt Bonds, Series 2017A, at an adjusted true interest cost of 3.43%. The bonds mature in varying amounts through April 1, 2037. During fiscal year 2018, $1,500,000 of principal and $1,863,659 of interest were paid on the bonds. Total outstanding principal at June 30, 2018 was $44,640,000.

On January 23, 2018, the University sold $21,860,000 of Eastern Kentucky University General Receipt Bonds, Series 2018A, at an adjusted true interest cost of 3.03%. The bonds mature in varying amounts through October 1, 2037. During fiscal year 2018, no principal payments and $155,154 of interest were paid on the bonds. Total outstanding principal at June 30, 2018 was $21,860,000.

The proceeds of the Eastern Kentucky University General Receipt Bonds, Series 2017A and Series 2018A, provide funding for the project listed in the Budget Act *Construct Student Life Facilities*. The project includes (i) the construction of a new student recreation facility with a fitness center and other amenities, (ii) the construction of a pedway over the Robert Martin Bypass connecting north and south campus, and (iii) renovations of the Powell Student Union building.

(Continued)

NOTE 6 – BONDS PAYABLE AND CAPITAL LEASE OBLIGATIONS (Continued)

Capital Lease Obligations – The University has capitalized certain buildings and equipment under various capital lease agreements. In June 2000, the University entered into a financing/lease agreement with the Commonwealth of Kentucky State Property and Buildings Commission to finance the Law Enforcement Basic Training Complex ("Project #66") in the amount of $20,350,000. During the 2002 fiscal year, the University entered into a second financing/lease agreement to finance the Law Enforcement Physical Skills Training Facility ("Project #75") in the amount of $7,075,000. In October 2003, the University entered into a $12,990,000 lease agreement with the Commonwealth of Kentucky State Property and Buildings Commission ("Project #80"), the proceeds of which were used primarily to retire $12,655,000 in lease payments due on the Project #66 lease agreement. During fiscal year 2018, all the capital lease agreements with the Commonwealth of Kentucky State Property and Buildings Commission were retired, and the State assumed ownership of the associated buildings and related debt.

During fiscal year 2016, the University modified the previous Grand Campus lease as part of a value added benefit for the public private partnership residence hall project. The lease is extended to a total of 31.5 years with lease payments totaling $115,580,549 over that period, with the University taking ownership at the end of the term. Grand Campus is an approximately 16-acre property adjacent to campus that holds 2 separate student housing dormitories containing a total of 512 bedrooms. The dormitories also have separate bathrooms, common areas, swimming pool, clubhouse, and parking lot among other amenities.

During fiscal year 2018, $2,136,106 of principal and $3,025,058 of interest were paid on the capital leases.

The principal maturities and interest repayment requirements on bonds and capital leases are as follows:

	Principal	Interest	Total
Years ending June 30,			
2019	$ 9,011,987	$ 7,576,347	$ 16,588,334
2020	9,055,494	7,281,227	16,336,721
2021	9,059,440	6,978,565	16,038,005
2022	7,723,436	6,665,741	14,389,177
2023	6,503,540	6,409,902	12,913,442
2024-2028	32,264,261	28,978,278	61,242,539
2029-2033	30,417,583	23,995,979	54,413,562
2034-2038	25,546,582	17,607,166	43,153,748
2039-2043	8,540,954	13,023,330	21,564,284
2044-2048	12,773,769	7,314,734	20,088,503
	$ 150,897,046	$ 125,831,269	$ 276,728,315

Assets under capital leases at original cost totaled $25,500,000 with accumulated depreciation of $2,496,875 at June 30, 2018. This includes only Grand Campus Properties.

(Continued)

NOTE 7 – SERVICE CONCESSION ARRANGEMENT

On February 8, 2016, the University entered into an agreement with a third party that qualifies for treatment as a service concession arrangement as defined in GASB 60, *Accounting and Financial Reporting for Service Concession Arrangements*. Under the terms of the agreement, the University leases land to the third party and the third party constructed student housing, whereby the University is the owner of the constructed building with no obligation for construction costs. Once construction of the building was complete and ready for use, the University leased it back to the third party and entered into a manage and maintain agreement for cost and revenue sharing. Due to the age and condition of the current housing stock, the University entered the agreement with the expectation of attracting more students and to retain current students. The buildings were completed in July 2017 and recorded as a capital asset with a book value of $ 71,107,507, and a useful life of 40 years. As of June 30, 2018, the buildings had a net book value of $69,477,959 and the service concession had a carrying balance of $68,737,256.

NOTE 8 – DESIGNATIONS OF UNRESTRICTED NET POSITION

Unrestricted Net Position is designated for specific purposes by action of the Board or University management or may otherwise be limited by contractual agreements. Commitments for the use of Unrestricted Net Position at June 30, 2018 are as follows:

Inventories	$ 277,519
Outstanding encumbrances	2,844,019
Departmental commitments	9,832,474
Designated projects and contingency reserves	12,303,660
Health care self-insurance reserve	3,000,000
Auxiliary working capital	4,792,254
University capital projects	11,198,807
KTRS Pension	(255,821,928)
KERS Pension	(197,481,219)
KTRS OPEB	(27,286,719)
KERS OPEB	(36,998,869)
Total	$ (473,340,002)

NOTE 9 – ASSETS HELD BY OTHERS

The Regional University Excellence Trust Fund (“RUETF”) was created by the Kentucky General Assembly with the passage of the Postsecondary Education Improvement Act of 1997 (“House Bill 1”). The RUETF Endowment Match Program, also known as “Bucks for Brains”, provides state funds on a dollar-for-dollar match basis. Funds are endowed for the purposes of supporting endowed chairs and professorships. House Bill 1 also established two Eastern Kentucky University endowments for the support of nationally recognized Programs of Distinction (“PODs”) for the College of Justice and Safety and for potential future additional Programs of Distinction. The College of Justice and Safety POD was liquidated in 2010 to fund an addition to the Stratton Building.

The total fair market value of the Eastern Kentucky University RUETF and POD endowment as of June 30, 2018 was $20,127,991.

(Continued)

NOTE 9 – ASSETS HELD BY OTHERS (Continued)

The portion of the RUETF endowment representing the value of the funding received from the Kentucky General Assembly, plus unexpended earnings thereon, was $18,200,703 as of June 30, 2018, and is included in restricted assets held by the Foundation (see Note 2).

The fair market value of the Eastern Kentucky University POD endowments as of June 30, 2018 was $1,927,288, and is included in restricted assets held by the Foundation (see Note 2).

NOTE 10 – RELATED-PARTY TRANSACTIONS

The University and the Foundation are related parties. The University authorizes the Foundation to solicit contributions on its behalf. In the absence of donor restrictions, the Foundation has discretionary control over the amounts and timing of its distributions to the University. In addition, the Foundation incurs expenses for salaries of certain University staff; however, the salaries are paid by the University.

	2018
Funds disbursed by the University on behalf of the Foundation:	
For employee salaries and benefits	$ 122,591
For scholarships	1,345,200
Funds held by the Foundation on behalf of or for the benefit of the University as of June 30	20,127,991
Funds due to the University by the Foundation	222,375

NOTE 11 – PENSION AND OTHER POSTEMPLOYMENT BENEFIT (OPEB) PLANS

Kentucky Teachers' Retirement System

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

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

(Continued)

NOTE 11 – PENSION AND OTHER POSTEMPLOYMENT BENEFIT (OPEB) PLANS (Continued)

Kentucky Teachers' Retirement System (Continued)

***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:

	Tier 1 Participation Prior to July 1, 2008	**Tier 2** Participation on or After July 1, 2008
Covered Employees:	University faculty and professional staff that do not choose the Optional Retirement Plan (Deferred Contribution)	University faculty and professional staff that do not choose the Optional Retirement Plan (Deferred Contribution)
Benefit Formula:	Final Compensation X Benefit Factor X Years of Service	
Final Compensation:	Average of the highest 5 annual salaries reduced 5% per year from the earlier of age 60 or the date 27 years of service would have been completed. Average of the highest 3 annual salaries if age 55 with 27 or more years of service. The minimum annual service allowance for all members is $440 multiplied by credited service.	Average of the highest 5 annual salaries reduced 6% per year from the earlier of age 60 or the date 27 years of service would have been completed. Average of the highest 3 annual salaries if age 55 with 27 or more years of service. The minimum annual service allowance for all members is $440 multiplied by credited service.

NOTE 11 – PENSION AND OTHER POSTEMPLOYMENT BENEFIT (OPEB) PLANS (Continued)

	Tier 1 Participation Prior to July 1, 2008	**Tier 2** Participation on or After July 1, 2008
Benefit Factor:	Non-University members: 2.00% for service prior to 7/1/1983; 2.50% for service after 7/1/1983; 2.00% if participation after 7/1/2002 and less than 10 years; 2.50% if participation after 7/1/2002 and more than 10 years; 3.00% if retire after 7/1/2004 with more than 30 years. University members: 2.0% for each year of service.	Non-University members: 1.70% if less than 10 years; 2.00% if greater than 10 years, but no more than 20 years; 2.30% if greater than 20 years, but no more than 26 years; 2.50% if greater than 26 years, but no more than 30 years; 3.00% for service greater than 30 years. University members: 1.50% if less than 10 years; 1.70% if greater than 10 years, but less than 20 years; 1.85% if greater than 20 years, but less than 27 years; 2.00% if greater than 27 years.
Cost of Living Adjustment (COLA):	1.5% annually additional ad hoc increases must be authorized by the General Assembly.	
Unreduced Retirement Benefit:	Any age with 27 years of Kentucky service. Age 55 with 5 years of Kentucky service.	Any age with 27 years of Kentucky service. Age 60 with 5 years of Kentucky service. Age 55 with 10 years of Kentucky service.
Reduced Retirement Benefit:	Must be retired for service or disability to be eligible. Retired members are given a supplement based upon a contribution supplement table approved by the KTRS Board of Trustees. The retired member pays premiums in excess of the monthly supplement.	

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, 2018 and 2017, University employees were required to contribute 7.625% of their annual covered salary for retirement benefits. The University was contractually required to contribute 15.87% (14.06% allocated to pension, 1.78% allocated to medical insurance and .03% allocated to life insurance) of covered payroll for the fiscal years ended June 30, 2018 and 2017. 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, 2018 and 2017. Total current year contributions recognized by the Plan were $10,143,559 ($8,612,279 related to pension and $1,531,281 related to OPEB) for the year ended June 30, 2018. The OPEB contributions amount does not include the implicit subsidy. 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 $7,187,273 for the year ending June 30, 2018.

(Continued)

NOTE 11 – PENSION AND OTHER POSTEMPLOYMENT BENEFIT (OPEB) PLANS (Continued)

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

University's proportionate share of the net pension liability	$ 193,364,393
Commonwealth of Kentucky's proportionate share of the net pension liability associated with the University	154,107,781
	$ 347,472,174

The net pension liability was measured as of June 30, 2017. The University's proportion of the net pension liability was based on actual contributions to the pension plan during the measurement period. At June 30, 2018 and 2017, University's proportion was 0.68% and 1.13%, respectively, and the Commonwealth of Kentucky's proportion associated with the University was 0.55% and 0.11%, respectively.

For the year ended June 30, 2018, the University was allocated pension expense of $(530,192) and revenue of $9,832,747. At June 30, 2018, the University reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Net difference between projected and actual earnings on investments	$ -	$ 1,496,101
Change in assumptions	23,940,619	13,423,668
Differences between expected an actual experience	1,114,890	4,089,520
Changes in proportionate share of contributions	10,466,077	87,634,380
	35,521,586	106,643,669
Contributions subsequent to the measurement date	8,612,279	-
	$ 44,133,865	$ 106,643,669

At June 30, 2018, the University reported $8,612,279 as deferred outflows of resources related to pensions resulting from University contributions subsequent to the measurement date that will be recognized as a reduction of the net pension liability in the following fiscal year. Deferred outflows and deferred inflows of resources at June 30, 2018, related to pensions will be recognized in pension expense as follows:

Year ended June 30:	
2019	$ (21,616,008)
2020	(18,940,974)
2021	(22,688,953)
2022	(7,876,148)
	$ (71,122,083)

NOTE 11 – PENSION AND OTHER POSTEMPLOYMENT BENEFIT (OPEB) PLANS (Continued)

Actuarial assumptions - The total pension liability ("TPL") was determined by actuarial valuations as of June 30, 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, 2017 valuation were based on the results of an actuarial experience study for the period July 1, 2010 - June 30, 2015 adopted by the Board on September 19, 2016.

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

Asset Class	Target Allocation	Long-Term Nominal Rate of Return
U.S. Equity	42.0%	4.4%
Non U.S. Equity	20.0	5.3
Fixed Income	16.0	1.5
Additional Categories*	9.0	3.6
Real Estate	5.0	4.4
Private Equity	6.0	6.7
Cash	2.0	0.8
Total	100.0%	

*Includes hedge funds, high yield and non U.S. developed bonds

Changes in Assumptions and Benefit Terms Since Prior Measurement Date - The total pension liability as of June 30, 2017 reflects that the assumed municipal bond index rate increased from 3.01% to 3.56%, resulting in a change in the Single Equivalent Interest Rate (SEIR) from 4.20% to 4.49%. The change in the discount rate is considered a change in actuarial assumptions under GASB 68.

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

NOTE 11 – PENSION AND OTHER POSTEMPLOYMENT BENEFIT (OPEB) PLANS (Continued)

Discount rate - The discount rate used to measure the total pension liability at June 30, 2017 was 4.49%. 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 pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members until the 2038 plan year. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments through 2037 and a municipal bond index rate of 3.56% was applied to all periods of projected benefit payments after 2037. The SEIR that discounts the entire projected benefit stream to the same amount as the sum of the present values of the two separate benefit payments streams was used to determine the total pension liability.

The total pension liability as of June 30, 2017 reflects that the assumed municipal bond index rate increased from 3.01% to 3.56%, resulting in a change in the SEIR from 4.20% to 4.49%. The impact of this change in the discount rate is a change in assumptions that is added to the expected total pension liability to determine the final total pension liability as of June 30, 2017.

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, 2018, calculated using the discount rate of 4.49%, 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 (3.49%) or 1-percentage-point higher (5.49%) than the current rate:

	1% Decrease (3.49)	Current Discount Rate (4.49%)	1% Increase (5.49%)
Proportionate share of the Collective Net Pension Liability *(in thousands)*	$ 239,691	$ 193,364	$ 155,342

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.

(Continued)

NOTE 11 – PENSION AND OTHER POSTEMPLOYMENT BENEFIT (OPEB) PLANS (Continued)

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, 2018, the University reported a liability of $28,232,000 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, 2017. The University's proportion of the net OPEB liability was based on actual contributions to the OPEB plan during the measurement period. At June 30, 2017, the University's proportion was .79% and the Commonwealth of Kentucky's proportion associated with the University was .36%.

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 that was associated with the University were as follows:

University's proportionate share of the net OPEB liability	$ 28,232,000
State's proportionate share of the net OPEB liability associated with the University	12,803,000
Total	$ 41,035,000

For the year ended June 30, 2018, the University was allocated OPEB expense of $2,670,000 and revenue of $833,000 for support provided by the State. At June 30, 2018, the University reported deferred outflows of resources and deferred inflows of resources related to OPEBs from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between expected and actual experience	$ -	$ -
Changes of assumptions	-	-
Net difference between projected and actual earnings on OPEB plan investments	-	291,000
Changes in proportion and differences between University contributions and proportionate share of contributions	-	-
	-	291,000
University contributions subsequent to the measurement date	1,512,099	-
Total	$ 1,512,099	$ 291,000

(Continued)

NOTE 11 – PENSION AND OTHER POSTEMPLOYMENT BENEFIT (OPEB) PLANS (Continued)

Of the total amount reported as deferred outflows of resources related to OPEB, $1,512,099 resulting from University contributions subsequent to the measurement date and before the end of the fiscal year will be included as a reduction of the collective net OPEB liability in the year ended June 30, 2019. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized in the University's OPEB expense as follows:

Year ended June 30:	
2019	$ (73,000)
2020	(73,000)
2021	(73,000)
2022	(72,000)
	$ (291,000)

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

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

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

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

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

NOTE 11 – PENSION AND OTHER POSTEMPLOYMENT BENEFIT (OPEB) PLANS (Continued)

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

Asset Class	Target Allocation	Long-Term Nominal Rate of Return
Global Equity	60.0%	5.1%
Fixed Income	9.0	1.2
Real Estate	4.5	4.0
Private Equity	5.5	6.6
High Yield	10.0	4.3
Other Additional Categories*	10.0	3.3
Cash (LIBOR)	1.0	0.4
Total	100.0%	

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

Discount Rate - The discount rate used to measure the total OPEB liability was 8.00%. The projection of cash flows used to determine the discount rate assumed that the employer contributions will contribute the Actuarially Determined Contribution (ADC) in accordance with the MIF'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 OPEB plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on OPEB plan investments was applied to all periods of projected benefit payments to determine the total OPEB liability.

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

	1% Decrease (7.00%)	Current Discount Rate (8.00%)	1% Increase (9.00%)
University's net OPEB liability (MI) *(in thousands)*	$ 32,876	$ 28,232	$ 24,365

NOTE 11 – PENSION AND OTHER POSTEMPLOYMENT BENEFIT (OPEB) PLANS (Continued)

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

	1% Decrease	Current Trend Rate	1% Increase
University's net OPEB liability *(in thousands)*	$ 23,643	$ 28,232	$ 33,896

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 – With the passage of House Bill 471, the eligibility for non-single subsidies (NSS) for the KEHP-participating members who retired prior to July 1, 2010 is restored, but the state will only finance, via its KEHP "Shared Responsibility" contributions, the costs of the NSS related to those KEHP-participating members who retired on or after July 1, 2010.

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

Valuation date	June 30, 2016
Actuarial cost method	Entry Age Normal
Amortization method	Level Percent of Payroll
Amortization period	30 years, Open
Asset valuation method	Five-year smoothed value
Inflation	3.00%
Real wage growth	0.50%
Wage inflation	3.50%
Salary increases, including wage inflation	3.50% - 7.20%
Discount rate	8.00%
Health care cost trends	
Under 65	7.75% for FY 2017 decreasing to an ultimate rate of 5.00% by FY 2023
Ages 65 and older	5.75% for FY 2017 decreasing to an ultimate rate of 5.00% by FY 2020
Medicare Part B premiums	1.02% for FY 2017 with an ultimate rate of 5.00% by 2029
Under age 65 claims	the current premium charged by KEHP is used as the base cost and is projected forward using only the health care trend assumption (no implicit rate subsidy is recognized).

(Continued)

NOTE 11 – PENSION AND OTHER POSTEMPLOYMENT BENEFIT (OPEB) PLANS (Continued)

Life Insurance Plan

Plan Description – Life Insurance Plan – 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. 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.

OPEB Liabilities, OPEB Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEBs: At June 30, 2018, the University reported a liability of $373,000 for its proportionate share of the collective net OPEB liability. The collective net OPEB liability was measured as of June 30, 2017. The University's proportion of the net OPEB liability was based on actual contributions to the OPEB plan during the measurement period. At June 30, 2017, the University's proportion was 1.70%.

For the year ended June 30, 2018, the University was allocated OPEB expense of $55,000. At June 30, 2018, the University reported deferred outflows of resources and deferred inflows of resources related to OPEBs from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between expected and actual experience	$ -	$ -
Changes of assumptions	-	-
Net difference between projected and actual earnings on OPEB plan investments	78,000	-
Changes in proportion and differences between University contributions and proportionate share of contributions	-	-
	78,000	-
University contributions subsequent to the measurement date	19,181	-
Total	$ 97,181	$ -

NOTE 11 – PENSION AND OTHER POSTEMPLOYMENT BENEFIT (OPEB) PLANS (Continued)

Of the total amount reported as deferred outflows of resources related to OPEB, $19,181 resulting from University contributions subsequent to the measurement date and before the end of the fiscal year will be included as a reduction of the collective net OPEB liability in the year ended June 30, 2019. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized in the University's OPEB expense as follows:

Year ended June 30:	
2019	$ 20,000
2020	20,000
2021	20,000
2022	18,000
	$ 78,000

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

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

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

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

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

(Continued)

NOTE 11 – PENSION AND OTHER POSTEMPLOYMENT BENEFIT (OPEB) PLANS (Continued)

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

Asset Class	Target Allocation	Long-Term Nominal Rate of Return
U.S. Large Cap Equity	38.4%	4.3%
U.S. Small Cap Equity	2.6	4.8
Developed International Equity	15.8	5.2
Emerging Markets Equity	4.2	5.4
Fixed Income – Inv. Grade	16.0	1.2
Real Estate	6.0	4.0
Private Equity	7.0	6.6
High Yield	2.0	4.3
Other Additional Categories**	7.0	3.3
Cash (LIBOR)	1.0	0.5
Total	100.0%	

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

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

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 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 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:

	1% Decrease (6.50%)	Current Discount Rate (7.50%)	1% Increase (8.50%)
University's net OPEB (LI) liability *(in thousands)*	$ 619	$ 373	$ 171

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

(Continued)

NOTE 11 – PENSION AND OTHER POSTEMPLOYMENT BENEFIT (OPEB) PLANS (Continued)

Kentucky Employees Retirement System

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

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

Basis of Accounting: For purposes of measuring the net pension and OPEB liabilities, deferred outflow of resources and deferred inflow of resources related to pensions and OPEB, pension and OPEB expense, information about the fiduciary net position of KERS and additions to/deductions from KERS's fiduciary net position have been determined on the same basis as they are reported by KERS. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

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

NOTE 11 – PENSION AND OTHER POSTEMPLOYMENT BENEFIT (OPEB) PLANS (Continued)

Non-Hazardous

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

Hazardous

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

(Continued)

NOTE 11 – PENSION AND OTHER POSTEMPLOYMENT BENEFIT (OPEB) PLANS (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, 2018 and 2017, participating employers in the Nonhazardous plan contributed 49.47% (41.06% allocated to pension and 8.41% allocated to OPEB) and 48.59% (40.24% allocated to pension and 8.35% allocated to OPEB) as set by KRS, respectively, of each Nonhazardous employee's creditable compensation. For the fiscal years ended June 30, 2018 and 2017, participating employers in the Hazardous plan contributed 23.70% (21.44% allocated to pension and 2.26% allocated to OPEB) and 23.82% (21.08% allocated to pension and 2.74% 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. The University met 100% of the contribution funding requirement for the fiscal years ended June 30, 2018 and 2017. Total current year contributions recognized by the Plan were $11,232,867 ($9,342,135 related to pension and $1,890,732 related to OPEB) for the year ended June 30, 2018. The OPEB contributions amount does not include the implicit subsidy reported in the amount of $346,486.

(Continued)

NOTE 11 – PENSION AND OTHER POSTEMPLOYMENT BENEFIT (OPEB) PLANS (Continued)

Members whose participation began before 9/1/2008:

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

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

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

Members whose participation on or after 1/1/2014

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

Pension Information

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

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

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, 2017 valuation were based on the results of an actuarial experience study for the period July 1, 2008 – June 30, 2013.

Discount rate assumptions:

(a) **Discount Rate**: The discount rate used to measure the total pension liability was 5.25% (Non-hazardous) and 6.25% (Hazardous), which was reduced from the 6.75% (Non-hazardous) and 7.50% (Hazardous) discount rates used in the prior year.

NOTE 11 – PENSION AND OTHER POSTEMPLOYMENT BENEFIT (OPEB) PLANS (Continued)

(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 return on plan assets is reviewed as part of the regular experience studies prepared every five years for the System. The most recent analysis, performed for the period covering fiscal years 2008 through 2013 is outlined in a report dated April 30, 2014. However, the Board of KRS has the authority to review the assumptions on a more frequent basis and adopt new assumptions prior to the next scheduled experience study. 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.

(f) **Assumed Asset Allocation:** The target asset allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

Non-hazardous

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
US Equity	17.50%	5.75%
International Equity	17.5	7.38
Global Bonds	10.0	2.63
Global Credit	17.0	3.63
High Yield	0.0	5.75
Emerging Market Debt	0.0	5.50
Private Credit	0.0	8.75
Real Estate	5.0	6.63
Absolute Return	10.0	5.63
Real Return	10.0	5.13
Private Equity	10.0	8.25
Cash	3.0	1.88
Total	100.0%	5.46%

NOTE 11 – PENSION AND OTHER POSTEMPLOYMENT BENEFIT (OPEB) PLANS (Continued)

Hazardous

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
US Equity	17.5%	5.97%
International Equity	17.5	7.85
Global Bonds	4.0	2.63
Global Credit	2.0	3.63
High Yield	7.0	5.75
Emerging Market Debt	5.0	5.50
Private Credit	10.0	8.75
Real Estate	5.0	7.63
Absolute Return	10.0	5.63
Real Return	10.0	6.13
Private Equity	10.0	8.25
Cash	2.0	1.88
Total	100.0%	6.56%

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

(g) **Sensitivity Analysis:** This paragraph requires disclosure of the sensitivity of the net pension liability to changes in the discount rate. The following presents the University's allocated portion of the Non-hazardous net pension liability ("NPL") of the System, calculated using the discount rate of 5.25%, 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%) or 1 percentage-point higher (6.25%) than the current rate:

	1% Decrease (4.25%)	Current Discount Rate (5.25%)	1% Increase (6.25%)
The University's net pension liability - Non-hazardous *(in thousands)*	$ 267,506	$ 234,290	$ 206,673

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%, 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%) or 1 percentage-point higher (7.25%) than the current rate:

	1% Decrease (5.25%)	Current Discount Rate (6.25%)	1% Increase (7.25%)
The University's net pension liability – Hazardous *(in thousands)*	$ 4,052	$ 3,185	$ 2,466

(Continued)

NOTE 11 – PENSION AND OTHER POSTEMPLOYMENT BENEFIT (OPEB) PLANS (Continued)

Employer's Portion of the Collective Net Pension Liability: The University's proportionate share of the Non-hazardous net pension liability, as indicated in the prior table, is $234,290,133, or approximately 1.75%. The University's proportionate share of the Hazardous net pension liability, as indicated in the prior table, is $3,185,338, or approximately .64%. The net pension liabilities were distributed based on 2017 actual employer contributions to the plan.

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

Changes in Assumptions and Benefit Terms: Since the prior measurement date, the demographic and economic assumptions that affect the measurement of the total pension liability have been updated as follows:

- The assumed investment rate of return was decreased from 6.75% to 5.25% (Non-hazardous) and 7.50% to 6.25% (Hazardous).
- The assumed rate of inflation was reduced from 3.25% to 2.30%.
- Salary growth assumption was reduced from 4.00% to 3.05%.
- Payroll growth assumption was reduced from 4.00% to 0.00% (Non-hazardous) and 4.00% to 2.00% (Hazardous).

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 $38,929,681 related to the KERS Non-Hazardous and $1,241,623 related to the KERS Hazardous for the year ending June 30, 2018.

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

Non-hazardous	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between expected and actual experience	$ 41,673	$ 1,508,719
Change of assumptions	29,725,363	-
Changes in proportion and differences between employer contributions and proportionate shares of contributions	4,982,491	5,523,351
Differences between expected and actual investment earning on plan investments	918,805	-
	35,668,332	7,032,070
Contributions subsequent to the measurement date	9,038,230	-
Total	$ 44,706,562	$ 7,032,070

NOTE 11 – PENSION AND OTHER POSTEMPLOYMENT BENEFIT (OPEB) PLANS (Continued)

Deferred outflows of resources resulting from employer contributions subsequent to the measurement date of $9,038,230 will be recognized as a reduction of net pension liability in the year ending June 30, 2019. The remainder of the deferred outflows and deferred inflows of resources are amortized over three to five years with remaining amortization as follows:

Year ending June 30:	
2019	$ 19,060,472
2020	9,580,645
2021	317,797
2022	(322,652)
	$ 28,636,262

Hazardous

	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between expected and actual experience	$ 120,449	$ -
Change of assumptions	585,322	-
Changes in proportion and differences between employer contributions and proportionate shares of contributions	1,326,985	-
Differences between expected and actual investment earning on plan investments	35,333	-
	2,068,089	-
Contributions subsequent to the measurement date	303,905	-
Total	$ 2,371,994	$ -

Deferred outflows of resources resulting from employer contributions subsequent to the measurement date of $303,905 will be recognized as a reduction of net pension liability in the year ending June 30, 2019. The remainder of the deferred outflows and deferred inflows of resources are amortized over three to five years with remaining amortization as follows:

Year ending June 30:	
2019	$ 1,008,329
2020	975,717
2021	124,158
2022	(40,115)
	$ 2,068,089

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

(Continued)

NOTE 11 – PENSION AND OTHER POSTEMPLOYMENT BENEFIT (OPEB) PLANS (Continued)

OPEB Information

Total OPEB Liability: The total other postemployment benefits plan ("OPEB") was determined by an actuarial valuation as of June 30, 2017, using the following actuarial assumptions, applied to all periods included in the measurement:

Price inflation	2.30 percent
Payroll growth rate	2.00 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 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, 2017 valuation were based on the results of an actuarial experience study for the period July 1, 2008 – June 30, 2013.

Discount rate assumptions:

(a) **Discount Rate:** The discount rate used to measure the total Non-hazardous OPEB liability was 5.83%, which was reduced from the 6.90% discount rate used in the prior year. The discount rate used to measure the total Hazardous OPEB liability was 5.87%, which was reduced from the 7.20% discount rate used in the prior year.

(b) **Projected Cash Flows:** The projection of cash flows used to determine the discount rate assumed the local employers and plan members would contribute the actuarially determined contribution rate of projected compensation over the remaining 26-year amortization period of the unfunded actuarial accrued liability.

(c) **Long-Term Rate of Return:** The long-term expected return on plan assets is reviewed as part of the regular experience studies prepared every five years for the System. The most recent analysis, performed for the period covering fiscal years 2008 through 2013 is outlined in a report dated April 30, 2014. However, the Board of KRS has the authority to review the assumptions on a more frequent basis and adopt new assumptions prior to the next scheduled experience study. 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.

(Continued)

NOTE 11 – PENSION AND OTHER POSTEMPLOYMENT BENEFIT (OPEB) PLANS (Continued)

(d) **Municipal Bond Rate**: The discount rate determination used a municipal bond rate of 3.56% as reported in Fidelity Index's "20 – Year Municipal GO AA Index" as of June 30, 2017.

(e) **Period of Projected Benefit Payments:** Current assets, future contributions, and investment earnings are projected to be sufficient to pay the projected benefit payments from the retirement system. However, the cost associated with the implicit employer subsidy is not currently being included in the calculation of the system's actuarial determined contributions, and it is the actuary's understanding that any cost associated with the implicit subsidy will not be paid out of the system's trust. Therefore, the municipal bond rate was applied to future expected benefit payments associated with the implicit subsidy.

(f) **Assumed Asset Allocations**: The target asset allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

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

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.

NOTE 11 – PENSION AND OTHER POSTEMPLOYMENT BENEFIT (OPEB) PLANS (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 5.83%, 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 (4.83%) or 1-percentage-point higher (6.83%) than the current rate for Non-hazardous:

	1% Decrease (4.83%)	Current Discount Rate (5.83%)	1% Increase (6.83%)
The University's Net OPEB liability – Non-hazardous *(in thousands)*	$ 51,884	$ 44,378	$ 38,141

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 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:

	1% Decrease	Current Healthcare Cost Trend Rate	1% Increase
The University's Net OPEB liability – Non-hazardous *(in thousands)*	$ 37,707	$ 44,378	$ 52,755

Hazardous

The following presents The University's allocated portion of the Hazardous net OPEB liability of the System, calculated using the discount rate of 5.87%, 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 (4.87%) or 1-percentage-point higher (6.87%) than the current rate for Hazardous:

	1% Decrease (4.83%)	Current Discount Rate (5.83%)	1% Increase (6.83%)
The University's Net OPEB liability – Hazardous *(in thousands)*	$ 471	$ 39	$ (315)

(Continued)

NOTE 11 – PENSION AND OTHER POSTEMPLOYMENT BENEFIT (OPEB) PLANS (Continued)

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:

	1% Decrease	Current Healthcare Cost Trend Rate	1% Increase
The University's Net OPEB liability – Hazardous *(in thousands)*	$ (319)	$ 39	$ 482

Employer's Portion of the Collective OPEB Liability: The University's proportionate share of the Non-hazardous net OPEB liability, as indicated in the prior table, is $44,378,249, or approximately 1.75%. The University's proportionate share of the Hazardous net OPEB liability, as indicated in the prior table, is $38,645, or approximately .64%. The net pension liabilities were distributed based on 2017 actual employer contributions to the plan.

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

Changes in Assumptions and Benefit Terms: Since the prior measurement date, the demographic and economic assumptions that affect the measurement of the total OPEB liability have been updated as follows:

- The assumed investment rate of return was decreased from 7.50% to 6.25%.
- The assumed rate of inflation was reduced from 3.25% to 2.30%.
- Payroll growth assumption was reduced from 4.00% to 3.05%.

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 $4,402,364 related to the KERS Non-Hazardous and $68,888 related to the KERS Hazardous for the year ending June 30, 2018.

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:

(Continued)

NOTE 11 – PENSION AND OTHER POSTEMPLOYMENT BENEFIT (OPEB) PLANS (Continued)

Non-hazardous

	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between expected and actual experience	$ -	$ 54,917
Change of assumptions	5,810,453	-
Changes in proportion and differences between employer contributions and proportionate shares of contributions	-	325,676
Differences between expected and actual investment earning on plan investments	-	-
	-	574,390
	5,810,453	954,983
Contributions subsequent to the measurement date	2,196,803	-
Total	$ 8,007,256	$ 954,983

Deferred outflows of resources resulting from employer contributions subsequent to the measurement date of $2,196,803, which includes the implicit subsidy reported of $345,573, will be recognized as a reduction of net OPEB liability in the year ending June 30, 2019. The remainder of the deferred outflows and deferred inflows of resources are amortized over three to five years with remaining amortization as follows:

Year ending June 30:	
2019	$ 1,210,482
2020	1,210,482
2021	1,210,482
2022	1,210,482
2023	13,542
	$ 4,855,470

Hazardous

	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between expected and actual experience	$ -	$ 5,546
Change of assumptions	481,792	
Changes in proportion and differences between employer contributions and proportionate shares of contributions	-	5,747
Differences between expected and actual investment earning on plan investments	-	138,397
	481,792	149,690
Contributions subsequent to the measurement date	33,660	-
Total	$ 515,452	$ 149,690

(Continued)

NOTE 11 – PENSION AND OTHER POSTEMPLOYMENT BENEFIT (OPEB) PLANS (Continued)

Deferred outflows of resources resulting from employer contributions subsequent to the measurement date of $33,660, which include the implicit subsidy reported of $913, will be recognized as a reduction of net OPEB liability in the year ending June 30, 2019. The remainder of the deferred outflows and deferred inflows of resources are amortized over three to five years with remaining amortization as follows:

Year ending June 30:	
2019	$ 54,342
2020	54,342
2021	54,342
2022	54,342
2023	88,942
Thereafter	25,792
	$ 332,102

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

Summary Pension Plan Information:

Summary Pension Plan Information as of June 30, 2018:

	KERS	KTRS	Total
Net pension liability	$ 237,475,471	$ 193,364,393	$ 430,839,864
Deferred outflows of resources	47,078,556	44,133,865	91,212,421
Deferred inflows of resources	7,032,070	106,643,669	113,675,739
Pension expense adjustments	30,561,860	(19,179,780)	11,382,080

Summary OPEB Plan Information:

Summary OPEB Plan Information as of June 30, 2018:

	KERS	KTRS	Total
Net OPEB liability	$ 44,416,894	$ 28,605,000	$ 73,021,894
Deferred outflows of resources	8,522,708	1,609,281	10,131,989
Deferred inflows of resources	1,104,673	291,000	1,395,673
OPEB expense adjustments	2,284,178	642,739	2,926,917

(Continued)

NOTE 12 – RISK MANAGEMENT

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

The University maintains a self-insurance program for employee's health insurance. Under this plan, the University pays premiums based on estimated claims. The University pays approximately 75% of the expenses of the plan for permanent full-time employees and their families. Expenses incurred to cover claims paid by the University under the plan for year ended June 30, 2018 totaled $17,354,929. Administrative fees incurred for the year ended June 30, 2018 was $769,882.

Changes in the liability for self-insurance at June 30, 2018 and 2017 are as follows:

	2018	2017
Liability – beginning of year	$ 2,308,423	$ 1,837,455
Accruals for current year claims and changes in estimate	14,692,795	16,422,499
Claims paid	(17,354,929)	(15,167,289)
Other costs	1,853,711	(784,242)
Liability – end of year	$ 1,500,000	$ 2,308,423

NOTE 13 – COMMITMENTS AND CONTINGENCIES

Construction Commitments – The estimated cost to complete construction projects under contract at June 30, 2018, is approximately $61.8 million. The projects are to be financed principally by appropriations from the Commonwealth, proceeds from bonds, internal funds and gifts.

Claims and Litigation – The University is subject to various litigation and other claims in the ordinary course of business. University officials are of the opinion, based upon the advice of legal counsel, that the ultimate resolution of these matters will not have a material adverse effect on the University's financial position or results of operations.

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. University management believes disallowances, if any, will not have a material adverse effect on the University's financial statements. Upon notification of final approval by the granting department or agency, the grants are considered closed.

(Continued)

NOTE 14 – OPERATING EXPENSES BY NATURAL CLASSIFICATION

Operating expenses by natural classification for the years ended June 30, 2018 are as follows:

Salaries and wages	$ 130,429,112
Employee benefits	50,211,481
Supplies and other services	66,910,812
Travel	4,636,935
Depreciation	19,991,243
Student scholarships and financial aid	12,090,134
Utilities	8,694,156
Pension expense adjustments	11,382,080
OPEB expense adjustments	2,926,926
Other operating expenses	1,378,048
Total	$ 308,650,927

(Continued)

NOTE 15 – EASTERN KENTUCKY UNIVERSITY FOUNDATION, INC.

A. NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

Basis of Presentation - The financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America (U.S. GAAP). Under financial reporting standards for not-for-profit organizations, net assets, revenues, expenses, and gains (losses) are classified based on the existence or absence of donor-imposed restrictions.

Use of Estimates - The preparation of financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Cash and Cash Equivalents - With the exception of short-term debt instruments which have been designated for investment purposes, the Foundation considers all highly liquid instruments with original maturities of three months or less to be cash equivalents. Throughout the year, the Foundation's cash and cash equivalents balances typically exceed the amount insured by the Federal Deposit Insurance Corporation.

Investments - Investments in equity securities having a readily determinable market value and all debt securities are carried at fair value. Income from investments consists of dividends and interest income net of related investment expenses. Income from investments which is initially restricted by donor stipulation and for which the restriction will be satisfied in the same fiscal year is included in unrestricted net assets. Other income from investments is reflected on the accompanying statements of activities as unrestricted, temporarily restricted, or permanently restricted based upon the existence and nature of any donor or legally imposed restrictions.

Alternative investments, consisting of limited partnerships, are carried at estimated fair value provided by the management of the alternative investment funds as of year-end. Because alternative investments are not readily marketable, the estimated value is subject to uncertainty and, therefore, may differ from the value that would have been used had a ready market for the investment existed. The estimated fair value of the Foundation's alternative investments total approximately $1,797,000 as of June 30, 2018 and.

The Foundation invests endowment matching funds for the Regional University Endowment Trust Fund (see Note 15H) on behalf of the University. In addition, the Foundation also invests Programs of Distinction (see Note 15H) related endowment funds on behalf of the University. Dividends and interest income and realized and unrealized gains and losses on investments are allocated between the Foundation and the University based on the percentage of investments owned.

(Continued)

NOTE 15 – EASTERN KENTUCKY UNIVERSITY FOUNDATION, INC. (Continued)

A. NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

The Foundation previously adopted the Uniform Prudent Management of Institutional Funds Act (UPMIFA). Under UPMIFA, net appreciation (depreciation) on endowment fund investments, whose income is otherwise unrestricted as to use, is reported as temporarily restricted net assets until appropriated for expenditure by the Foundation, unless the donor has permanently restricted such net appreciation (depreciation). In cases where the donor has placed temporary restrictions on the use of the income from endowed gifts, related net appreciation (depreciation) is subject to those restrictions and is reported as a part of temporarily restricted net assets until the restriction has been met.

Property and Equipment - Property and equipment is stated at cost and is depreciated on the straight-line method over the estimated useful lives of the assets as follows: 40-50 years for buildings and building improvements and 15-20 years for land improvements. The Foundation's capitalization policy includes all items with a unit cost of $5,000 or more and an estimated useful life greater than one year. Renovations to buildings and infrastructure and/or land improvements that significantly increase the value or extend the useful life of the asset are capitalized. Routine repairs and maintenance are charged to operating expense in the year in which the expenses are incurred.

The Foundation reviews for the impairment of long-lived assets subject to depreciation whenever events or changes in circumstances indicate that the carrying amount of such assets may not be recoverable. No such impairment losses have been recognized with respect to the year ended June 30, 2018.

Deferred Gift Liabilities - The carrying amount for deferred gift liabilities 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.

Temporarily and Permanently Restricted Net Assets - Temporarily restricted net assets are those whose use by the Foundation has been limited by donors to a specific time period or purpose. Permanently restricted net assets have been restricted by donors to be maintained by the Foundation in perpetuity.

Contributions - Gifts of cash and other assets received without donor stipulations are reported as unrestricted revenue and net assets. Gifts received with donor stipulations that limit their use are reported as temporarily or permanently restricted revenue and net assets. Contributions, which impose restrictions that are met in the same fiscal year the contributions are received, are included in unrestricted revenues. When a donor stipulated time restriction ends or the purpose of the restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported on the accompanying statements of activities as net assets released from restrictions.

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

(Continued)

NOTE 15 – EASTERN KENTUCKY UNIVERSITY FOUNDATION, INC. (Continued)

A. NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Unconditional promises to give expected to be collected within one year are reported at their net realizable value. Unconditional promises to give expected to be collected in future years are recorded at the present value of estimated future cash flows. The resulting discount is computed using a risk-free interest rate applicable to the years in which the unconditional promises are received (discount rates ranging from 1.43% to 3.44%). Amortization using the level-yield method is included in contribution revenue. Conditional promises to give are not included as support until the conditions are substantially met.

Income Taxes - The Internal Revenue Service (IRS) has determined the Foundation is exempt from income taxes under Section 501 of the Internal Revenue Code (Code). The Foundation is however subject to federal income tax on any unrelated business taxable income. Additionally, the Foundation has been determined by the IRS not to be a private foundation within the context of Section 509(a) of the Code.

U.S. GAAP prescribes recognition thresholds and measurement attributes for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. Tax benefits or liabilities will be recognized only if the tax position is more-likely-than-not sustained in a tax examination, with a tax examination being presumed to occur. The amount recognized will be the largest amount of tax benefit or liability that is greater than 50% likely of being realized on examination. For tax positions not meeting the more-likely-than-not test, no tax benefit or liability will be recorded. Management is not aware of any tax benefits or liabilities, which would warrant recognition as of June 30, 2018 (nor does management expect this to change in the next 12 months).

The Foundation would recognize interest and penalties related to uncertain tax positions in interest and income tax expense, respectively. The Foundation has no amounts accrued for interest or penalties as of June 30, 2018.

Foreign Currency Risk - Foreign currency risk is the risk that changes in exchange rates will adversely affect the fair value of an investment or deposit. The Foundation's exposure to foreign currency risk derives from pooled non-U.S. equities investments with a fair value totaling approximately $18,900,000 as of June 30, 2018. The Foundation's endowment investment policy allows managers to invest a portion of funds in non-U.S. securities in accordance with the guidelines established in the investment policy.

Recently Issued Accounting Standards Updates - In August 2016, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2016-14, *Presentation of Financial Statements of Not-for-Profit Entities* (ASU 2016-14). ASU 2016-14 changes presentation and disclosure requirements for not-for-profit organizations to provide more relevant information about their resources (and the changes in those resources) to donors, grantors, creditors, and other users of the financial statements. This standard includes qualitative and quantitative requirements in the following areas: 1) net asset classes, 2) investment return, 3) expenses, 4) liquidity and the availability of resources, and 5) presentation of operating cash flows. The provisions of ASU 2016-14 are effective for the year ending June 30, 2019.

(Continued)

NOTE 15 – EASTERN KENTUCKY UNIVERSITY FOUNDATION, INC. (Continued)

A. NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

In June 2018, the FASB issued ASU 2018-08, Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made (ASU 2018-08). ASU 2018-08 should assist entities in 1) evaluating whether transactions should be accounted for as contributions (non-reciprocal transactions) within the scope of Topic 958, Not-for-Profit Entities, or as exchange (reciprocal) transactions subject to other guidance and 2) determining whether a contribution is conditional. The provisions of ASU 2018-08 are effective for the year ending June 30, 2020.

In June 2016, the FASB issued ASU 2016-13, Financial Instruments - Credit Losses (ASU 2016-13). ASU 2016-13 requires a financial asset (including "trade" receivables) measured at amortized cost basis to be presented at the net amount expected to be collected. Thus, the statement of activities will reflect the measurement of credit losses for newly-recognized financial assets as well as the expected increases or decreases of expected credit losses that have taken place during the period. The provisions of ASU 2016-13 are effective for the year ending June 30, 2022.

The Foundation is currently evaluating these three ASUs and their related impact on the Foundation's financial statements.

Subsequent Events - Management has performed an analysis of the activities and transactions subsequent to year-end to determine the need for any adjustments to and/or discussions within the accompanying financial statements as of and for the year ended June 30, 2018. Management has performed its analysis through the date of the Independent Auditor's Report, the date the financial statements were available to be issued.

B. FAIR VALUE OF FINANCIAL INSTRUMENTS

U.S. GAAP defines fair value as the price that would be received for an asset or paid to transfer a liability (an exit price) in the Foundation's principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. This guidance also establishes a fair value hierarchy which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value.

The three levels of inputs that may be used to measure fair value are as follows:

- Level 1 - Quoted prices (unadjusted) in active markets that are accessible at the measurement date for identical assets or liabilities.
- Level 2 - Significant other 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.
- Level 3 - Significant unobservable inputs that reflect a reporting entity's own assumptions about the assumptions that market participants would use in pricing an asset or liability.

NOTE 15 – EASTERN KENTUCKY UNIVERSITY FOUNDATION, INC. (Continued)

B. FAIR VALUE OF FINANCIAL INSTRUMENTS (Continued)

The fair value of financial instruments as of June 30, 2018 is as follows:

	Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Money market funds	$ 966,154	$ 966,154	$ -	$ -
Banker's acceptances	3,519,545	-	3,519,545	-
Equities	50,779,749	50,666,629	-	113,120
Fixed income	16,146,617	16,146,617	-	-
Alternatives:				
Limited partnerships	1,797,210	-	-	1,797,210
	$ 73,209,275	$ 67,779,400	$ 3,519,545	$ 1,910,330

The fair values of money market funds, equity investments, and fixed income investments are generally determined using quoted market prices and are classified as Level 1 financial instruments, with the exception of a specific equity investment in a closely-held bank holding company, which has been classified as a Level 3 financial instrument. The predominance of market inputs are actively quoted and can be validated through external sources, including brokers, market transactions, and third-party pricing services.

The Foundation is also invested in banker's acceptances, which have been valued using a yield curve matrix derived from quoted prices for similar assets in active markets. The fair value of this investment has been classified as a Level 2 financial instrument. The maturity dates of the banker's acceptances generally range from approximately 60 to 180 days. Each of the respective banker's acceptances may however be redeemed by the Foundation at a discount upon demand.

(Continued)

NOTE 15 – EASTERN KENTUCKY UNIVERSITY FOUNDATION, INC. (Continued)

B. FAIR VALUE OF FINANCIAL INSTRUMENTS (Continued)

For alternative investments, which consist of investments in limited partnerships, for which there is no active market, the fair values are initially based on valuations determined by the respective investment managers using net asset values (NAVs) as of their most recent statements, adjusted for cash receipts, cash disbursements, and other anticipated income or loss through year-end. The NAVs of the funds are determined on the accrual basis of accounting in conformity with U.S. GAAP. In certain instances, secondary investments require reporting other than U.S. GAAP such as International Financial Reporting Standards or Tax Basis accounting, in which case the investment managers adjust values to more accurately comply with U.S. GAAP. The managers utilize standard valuation procedures and policies to assess the fair value of the underlying investment holdings to derive NAV. For holdings in marketable securities listed on national securities exchanges, the values represent the publicly traded values. Holdings in private securities are generally valued using the mark-to-market method, which attempts to apply a fair value standard by referring to meaningful third-party transactions, comparable public market valuations, appraisals, and/or the income approach. Pursuant to U.S. GAAP, management has considered redemption restrictions to assess classification of fair value inputs. For alternative investments with redemption periods of 90 days or less, the assets are considered a Level 2 fair value measurement. Investments that are redeemable in greater than 90 days are considered a Level 3 fair value measurement due to the inability to redeem the asset at NAV in the near term.

Management has performed an independent review of valuations reported by investment managers and determined that NAV is a reasonable and prudent estimate of fair value. Alternative investments are not readily marketable and their estimated value is subject to uncertainty. Therefore, there may be a material difference between their estimated value and the value that would have been used had a readily determinable fair value for such investments existed.

The following table provides additional information as of June 30, 2018 relative to alternative investments:

	Fair Value	Unfunded Commitments	Redemption Frequency	Redemption Notice Period
Limited partnerships	$ 1,797,210	$ 724,321	Funds Dissolved	N/A

The respective limited partnerships have incorporation dates ranging from 2005 to 2008. Each of the limited partnerships have a term of fifteen years, provided, however, that the fund manager, in its sole discretion, may elect to extend such term for up to three one-year periods if it believes such extensions are necessary or desirable in order to effect an orderly liquidation of the limited partnership investments. The fund manager may, in its sole discretion, elect to terminate the limited partnership prior to the end of the term or any extension period.

(Continued)

NOTE 15 – EASTERN KENTUCKY UNIVERSITY FOUNDATION, INC. (Continued)

B. FAIR VALUE OF FINANCIAL INSTRUMENTS (Continued)

The year ended June 30, 2018 activity with respect to the investments reflected as Level 3 is as follows:

Beginning of year	$ 2,300,640
Net realized and unrealized gains (losses) on investments included in the change in net assets	34,321
Net purchases (sales) of investments	(424,631)
End of year	$ 1,910,330

See also Note 15G with respect to deferred gift liabilities (Level 3 fair value measurement).

C. ENDOWMENT

The Foundation's endowment consists of approximately 450 individual funds established for a variety of purposes. The endowment includes both donor restricted endowment funds and funds designated by the Foundation's Board Directors to function as endowments (Board designated endowment funds). As required by U.S. GAAP, net assets associated with endowment funds, including funds designated by the Foundation's Board of Directors to function as endowments, are classified and reported based on the existence or absence of donor-imposed restrictions.

In 2010, the *Uniform Prudent Management of Institutional Funds Act* (UPMIFA) was adopted by the Commonwealth of Kentucky. The Foundation interprets UPMIFA as requiring the preservation of the fair value of the original gift as of the gift date of the donor restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, the Foundation classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the Foundation in a manner consistent with the standard of prudence prescribed by UPMIFA.

NOTE 15 – EASTERN KENTUCKY UNIVERSITY FOUNDATION, INC. (Continued)

C. ENDOWMENT (Continued)

In accordance with UPMIFA, the Foundation considers the following factors in making a determination to appropriate or accumulate donor restricted endowment funds:

- The purposes of the endowment fund
- The duration and preservation of the endowment fund
- General economic conditions
- The possible effect of inflation and deflation
- The expected total return from income and the appreciation of investments
- Other resources of the Foundation
- The investment policies of the Foundation

Funds with Deficiencies - From time to time, the fair value of assets associated with individual donor restricted endowment funds may fall below the "historic dollar value" level the Foundation is required to preserve as a fund of perpetual duration. In accordance with U.S. GAAP, deficiencies of this nature are to be reported in unrestricted net assets. There are no such funds with deficiencies at June 30, 2018.

At June 30, 2018, endowment funds consist of the following:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Board designated	$ 7,541,872	$ -	$ -	$ 7,541,872
Donor restricted	-	16,382,693	29,521,775	45,904,468
	$ 7,541,872	$ 16,382,693	$ 29,521,775	$ 53,446,340

Changes in endowment funds for the year ended June 30, 2018 are as follows:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Beginning of year	$ 6,740,926	$ 15,202,853	$ 28,289,180	$ 50,232,959
Contributions	69,237	56,533	1,232,595	1,358,365
Investment return				
Net investment income	193,354	1,364,566	-	1,557,920
Net unrealized and realized depreciation	589,142	2,106,908	-	2,696,050
Appropriation of endowment assets for expenditure	(50,787)	(2,348,167)	-	(2,398,954)
End of year	$ 7,541,872	$ 16,382,693	$ 29,521,775	$ 53,446,340

NOTE 15 – EASTERN KENTUCKY UNIVERSITY FOUNDATION, INC. (Continued)

C. ENDOWMENT (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 endowment while over time seeking to maintain the purchasing power of the endowment assets. Endowment assets include those assets of donor restricted funds that the Foundation must hold in perpetuity or for a donor specified period(s), as well as Board designated funds. Under the Foundation's policies, endowment assets are invested in a manner that emphasizes total return. Specifically, the primary objective is to emphasize long-term growth of principal while avoiding excessive risk, to achieve a balanced return of current income and modest growth of principal, and to achieve a rate of return equal to or higher than the Endowment and Foundation Index or other benchmarks as determined by the Foundation's Board of Directors.

Strategies Employed for Achieving 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 (dividends and interest). The Foundation targets a diversified asset allocation that places a greater emphasis on equity-based investments to achieve its long-term return objectives within prudent risk constraints. The endowment assets of the Foundation are invested in a broad range of equities and debt securities, thereby generally limiting the market risk exposure in any single investment manager or individual investment.

Spending Policy and How the Investment Objectives Relate to the Spending Policy - The Foundation has a policy of appropriating for distribution each year up to 5.0% of a three-year rolling average of the fund's value. Likewise, it is the policy of the Foundation that, annually, up to 1.5% of a three-year rolling average of the fund's value be designated for unrestricted use by the Foundation in furtherance of its singular mission to provide support for the advancement of the University. The policies are monitored by the Executive Committee of the Foundation's Board of Directors and may be amended in accordance with market conditions. Earnings above the annually designated portions are reinvested in the corpus to insure long-term growth and stability.

(Continued)

D. PLEDGES RECEIVABLE

At June 30, 2018, net pledges receivable consist of the following:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Current pledges receivable:				
Estimated to be collected in less than one year	$ 20,000	$ 440,436	$ 343,727	$ 804,163
Less allowance	-	(10,000)	(7,000)	(17,000)
	20,000	430,436	336,727	787,163
Long-term pledges receivable:				
Estimated to be collected in one to five years	80,000	776,164	840,664	1,696,828
Estimated to be collected thereafter	-	259,701	-	259,701
Less allowance	-	(21,000)	(17,000)	(38,000)
Less discounts to net present value	(3,000)	(67,000)	(35,000)	(105,000)
	77,000	947,865	788,664	1,813,529
	$ 97,000	$ 1,378,301	$ 1,125,391	$ 2,600,692

E. PROPERTY AND EQUIPMENT

At June 30, 2018, net property and equipment consists of the following:

Land	$ 250,000
Buildings and building improvements	600,000
	850,000
Less accumulated depreciation	(132,727)
	$ 717,273

Depreciation expense for the year ended June 30, 2018 totaled $14,124.

F. NET ASSETS

Temporarily Restricted Net Assets - Temporarily restricted net assets are available for scholarships and other University program support.

Permanently Restricted Net Assets - Permanently restricted net assets consist of restricted endowments requiring the principal to be invested in perpetuity. The income thereon is available for scholarships, chairs, and other University program support.

(Continued)

F. NET ASSETS (Continued)

Net Assets Released from Restrictions - Net assets were released from donor restrictions by incurring expenses satisfying the restricted purposes or by the occurrence of other events as specified by the donors. Net assets released from restrictions consist of the following for the year ended June 30, 2018:

Purposes restrictions satisfied/time restrictions expired:	
Scholarships program	$ 1,310,637
Academic programs	493,018
Capital projects	143,205
Other support for the University	1,667,577
	$ 3,614,437

G. DEFERRED GIFT LIABILITIES

Over time, the Foundation has been the recipient of several gift annuities, which require future payments to the donor or their named beneficiaries. The assets received from the donor are recorded at fair value.

The accompanying statements of financial position reflect a liability at June 30, 2018 totaling $368,709, which represents the estimated present value of the future annuity obligations calculated using discount rates ranging from 5.5% to 8.4%. The actuarial related assumptions used in calculating the respective present values include the beneficiary's age and life expectancy, 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 (represents the discount rate at the date of the contribution determined in accordance with the Internal Revenue Code). The carrying amount of the deferred gift liabilities estimates fair value and is calculated using Level 3 inputs (see also Note 15B).

The year ended June 30, 2018 activity with respect to deferred gift liabilities is as follows:

Beginning of year	$ 390,446
New deferred gifts	-
Payment obligations	(59,297)
Net actuarial loss	37,560
End of year	$ 368,709

At June 30, 2018, investments relative to such deferred gift liabilities total $804,752.

H. ASSETS HELD FOR OTHERS

Assets held for others represent resources in the possession of, but not under the control of, the Foundation. At June 30, 2018, assets held for others consist of the following:

Regional University Endowment Trust Fund	$ 18,200,702
Programs of Distinction	1,927,288
	$ 20,127,990

I. RELATED PARTY TRANSACTIONS

Eastern Kentucky University - The University provides various administrative services to the Foundation. In addition, during the year ended June 30, 2018, the University expended $1,345,200 and $122,591 on behalf of the Foundation with respect to scholarships and employee salaries/related benefits, respectively. Such amounts are ultimately reimbursed by the Foundation. At June 30, 2018, the amount due to the University on the accompanying statements of financial position totals $222,375.

Other - At June 30, 2018, outstanding gross pledges receivable due from related parties (members of the University's Board of Regents, the Foundation's Board of Directors, or employees of the University) total $1,039,309. Such gross pledges receivable amounts are included in the amounts reflected in Note 15D.

At June 30, 2018, the cash surrender value of life insurance includes $3,060, with respect to a policy under which the insured is a member of the Foundation's Board of Directors.

REQUIRED SUPPLEMENTARY INFORMATION

EASTERN KENTUCKY UNIVERSITY
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF THE UNIVERSITY'S PROPORTIONATE SHARE OF THE NET PENSION LIABILITY
(in thousands)
June 30, 2018, 2017, 2016 and 2015

KERS – Non-Hazardous	2018	2017	2016	2015
University's proportion of the net pension liability	1.75%	1.82%	1.71%	1.61%
University's proportionate share of the net pension liability	$ 234,290	$ 207,489	$ 171,780	$ 144,048
University's covered payroll	$ 26,630	$ 29,378	$ 27,312	$ 27,301
University's proportionate share of the net pension liability as a percentage of its covered payroll	879.80%	706.27%	628.95%	527.63%
Plan fiduciary net position as a percentage of the total pension liability	13.30%	14.80%	22.32%	22.32%
KERS – Hazardous				
University's proportion of the net pension liability	.64%	.07%	-%	-%
University's proportionate share of the net pension liability	$ 3,185	$ 275	$ -	$ -
University's covered payroll	$ 518	$ -	$ -	$ -
University's proportionate share of the net pension liability as a percentage of its covered payroll	614.93%	-%	-%	-%
Plan fiduciary net position as a percentage of the total pension liability	54.80%	57.41%	-%	-%
KTRS				
University's proportion of the net pension liability	0.68%	1.13%	1.12%	1.10%
University's proportionate share of the net pension liability	$ 193,364	$ 349,600	$ 274,717	$ 237,056
State's proportionate share of the net pension liability associated with the University	154,108	32,949	27,936	26,899
Total	$ 347,472	$ 382,549	$ 302,653	$ 263,955
University's covered payroll	$ 89,975	$ 89,598	$ 87,589	$ 83,276
University's proportionate share of the net pension liability as a percentage of its covered payroll	214.91%	390.19%	313.64%	284.66%
Plan fiduciary net position as a percentage of the total pension liability	39.83%	35.22%	42.49%	45.59%

* 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.

EASTERN KENTUCKY UNIVERSITY
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF THE UNIVERSITY'S PENSION CONTRIBUTIONS
(in thousands)
June 30, 2018, 2017, 2016 and 2015

	2018	2017	2016	2015
KERS – Non-Hazardous				
Contractually required contribution	$ 9,038	$ 10,658	$ 9,072	$ 8,774
Contributions in relation to the contractually required contribution	(9,038)	(10,658)	(9,072)	(8,774)
Contribution deficiency (excess)	$ -	$ -	$ -	$ -
University's covered payroll	$ 24,966	$ 26,630	$ 29,378	$ 27,312
Contributions as a percentage of covered payroll	36.20%	40.02%	30.88%	32.13%
KERS – Hazardous				
Contractually required contribution	$ 311	$ 159	$ -	$ -
Contributions in relation to the contractually required contribution	(311)	(159)	-	-
Contribution deficiency (excess)	$ -	$ -	$ -	$ -
University's covered payroll	$ 1,079	$ 518	$ -	$ -
Contributions as a percentage of covered payroll	28.82%	30.69%	-	-
KTRS				
Contractually required contribution	$ 8,612	$ 8,814	$ 8,843	$ 7,235
Contributions in relation to the contractually required contribution	(8,612)	(8,814)	(8,843)	(7,235)
Contribution deficiency (excess)	$ -	$ -	$ -	$ -
University's covered payroll	$ 88,822	$ 89,975	$ 89,598	$ 87,589
Contributions as a percentage of covered payroll	9.70%	9.80%	9.87%	8.26%

* 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.

Changes of benefit terms and assumptions:

KERS

Changes of benefit terms: The following changes were made by the Kentucky Legislature and reflected in the valuation performed as of June 30 listed below:

2015:
- The assumed investment rate of return was decreased from 7.75% to 7.50%.
- The assumed rate of inflation was reduced from 3.50% to 3.25%.
- The assumed rate of wage inflation was reduced from 1.00% to 0.75%.
- Payroll growth assumption was reduced from 4.50% to 4.00%.
- 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 assumed rates of Retirement, Withdrawal and Disability were updated to more accurately reflect experience.

2016: The assumed investment rate of return was decreased from 7.50% to 6.75%.

2017:
Changes in Assumptions and Benefit Terms: Since the prior measurement date, the demographic and economic assumptions that affect the measurement of the total pension liability have been updated as follows:

- The assumed investment rate of return was decreased from 6.75% to 5.25% (Non-hazardous) and 7.50% to 6.25% (Hazardous).
- The assumed rate of inflation was reduced from 3.25% to 2.30%.
- Salary growth assumption was reduced from 4.00% to 3.05%.
- Payroll growth assumption was reduced from 4.00% to 0.00% (Non-hazardous) and 4.00% to 2.00% (Hazardous).

KTRS

2015: *Changes of benefit terms:* None

Changes of assumptions: In the 2011 valuation and later, the expectation of retired life mortality was changed to the RP-2000 Mortality Tables rather than the 1994 Group Annuity Mortality Table, which was used prior to 2011. In the 2011 valuation, rates of withdrawal, retirement, disability and mortality were adjusted to more closely reflect actual experience. In the 2011 valuation, the Board adopted an interest smoothing methodology to calculate liabilities for purposes of determining the actuarially determined contributions.

2016: Since the previous valuation, various economic and demographic assumptions have been revised to reflect the results of the experience investigation for the five-year period ending June 30, 2015. The changes adopted by the Board on September 19, 2016, include various demographic and economic assumptions summarized below:

- Price inflation changed assumed rate from 3.50% to 3.00%.
- Wage inflation changed assumed rate from 4.00% to 3.50%.
- Assumed salary scale adjusted to reflect a decrease of 0.25% in merit and promotion for all ages.
- Assumed rates of withdrawal, disability, retirement, and mortality have been adjusted to more closely reflect experience.
- The discount rate was changed from 4.88% to 4.20%.

2017:
Changes in Assumptions and Benefit Terms Since Prior Measurement Date - The total pension liability as of June 30, 2017 reflects that the assumed municipal bond index rate increased from 3.01% to 3.56%, resulting in a change in the Single Equivalent Interest Rate (SEIR) from 4.20% to 4.49%. The change in the discount rate is considered a change in actuarial assumptions under GASB 68.

EASTERN KENTUCKY UNIVERSITY
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF THE UNIVERSITY'S PROPORTIONATE SHARE OF THE NET OPEB LIABILITY
(in thousands)
June 30, 2018

KERS – Non-Hazardous

University's proportion of the net OPEB liability	1.75%
University's proportionate share of the net OPEB liability	$ 44,378
University's covered payroll	$ 26,630
University's proportionate share of the net OPEB liability as a percentage of its covered payroll	166.65%
Plan fiduciary net position as a percentage of the total OPEB liability	24.40%

KERS – Hazardous

University's proportion of the net OPEB liability	0.64%
University's proportionate share of the net OPEB liability	$ 39
University's covered payroll	$ 518
University's proportionate share of the net OPEB liability as a percentage of its covered payroll	7.46%
Plan fiduciary net position as a percentage of the total OPEB liability	98.80%

KTRS – Medical Insurance

University's proportion of the net OPEB liability	0.79%
University's proportionate share of the net OPEB liability	$ 28,232
State's proportionate share of the net OPEB liability associated with the University	12,803
Total	$ 41,035
University's covered payroll	$ 89,975
University's proportionate share of the net OPEB liability as a percentage of its covered payroll	31.38%
Plan fiduciary net position as a percentage of the total OPEB liability	21.18%

KTRS – Life Insurance

University's proportion of the net OPEB liability	1.70%
University's proportionate share of the net OPEB liability	$ 373
University's covered payroll	$ 89,975
University's proportionate share of the net OPEB liability as a percentage of its covered payroll	0.41%
Plan fiduciary net position as a percentage of the total OPEB liability	79.99%

* 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.

EASTERN KENTUCKY UNIVERSITY
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF THE UNIVERSITY'S OPEB CONTRIBUTIONS
June 30, 2018

KERS – Non-Hazardous

Contractually required contribution	$ 1,851
Contributions in relation to the contractually required contribution	(1,851)
Contribution deficiency (excess)	$ -
University's covered payroll	$ 24,966
Contributions as a percentage of covered payroll	7.41%

KERS – Hazardous

Contractually required contribution	$ 33
Contributions in relation to the contractually required contribution	(33)
Contribution deficiency (excess)	$ -
University's covered payroll	$ 1,079
Contributions as a percentage of covered payroll	3.06%

KTRS – Medical Insurance

Contractually required contribution	$ 1,512
Contributions in relation to the contractually required contribution	(1,512)
Contribution deficiency (excess)	$ -
University's covered payroll	$ 88,822
Contributions as a percentage of covered payroll	17.02%

KTRS – Life Insurance

Contractually required contribution	$ 19
Contributions in relation to the contractually required contribution	(19)
Contribution deficiency (excess)	$ -
University's covered payroll	$ 88,822
Contributions as a percentage of covered payroll	0.02%

* 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.

KERS

Changes in Assumptions and Benefit Terms: Since the prior measurement date, the demographic and economic assumptions that affect the measurement of the total OPEB liability have been updated as follows:

2017:

- The assumed investment rate of return was decreased from 7.50% to 6.25%.
- The assumed rate of inflation was reduced from 3.25% to 2.30%.
- The salary increase assumption was reduced from 4.00% to 3.05%.
- The payroll growth assumption was reduced from 4.00% to 2.00%.

KTRS

2017:
Changes to benefit terms: Medical Insurance: 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.

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*

Board of Regents
Eastern Kentucky University and
The Secretary of Finance and Administration
Cabinet of the Commonwealth of 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 discretely presented component unit of Eastern Kentucky University ("the University" or "University") as of and for the year ended June 30, 2018, 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 18, 2018. Our report includes a reference to other auditors who audited the financial statements of Eastern Kentucky University Foundation, Inc., as described in our report on the University's financial statements. The financial statements of Eastern Kentucky University Foundation, Inc. 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.

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 University'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.

Crowe LLP

Crowe LLP

Louisville, Kentucky
October 18, 2018

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM; REPORT ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH UNIFORM GUIDANCE

Board of Regents
Eastern Kentucky University and
The Secretary of Finance and Administration
Cabinet of the Commonwealth of Kentucky

Report on Compliance for Each Major Federal Program

We have audited Eastern Kentucky University's ("the University" or "University") compliance with the types of 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, 2018. 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 Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the University's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

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

Opinion on Each Major Federal Program

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

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 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 Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

Crowe LLP
Crowe LLP

Louisville, Kentucky
October 18, 2018

EASTERN KENTUCKY UNIVERSITY
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
Year ended June 30, 2018

Federal Grant/Program Title	Pass-Through Number	Federal CFDA	Federal Expenditures	Provided to Subrecipients
U.S. DEPARTMENT OF EDUCATION				
Direct Programs –				
Student Financial Aid Cluster				
Federal Pell Grant Program		84.063	$ 25,414,455	$ -
Federal Supplemental Educational Opportunity Grant		84.007	659,728	-
Federal Work Study Program		84.033	752,643	-
Federal Work Study Service Tutors		84.033	19,275	-
Federal Work Study Job Location/ Development		84.033	46,986	-
Federal Perkins Loan Program		84.038	5,705,821	-
Teach Grant		84.379	19,097	-
Federal Direct Student Loan - PLUS		84.268	74,994,692	-
Federal Direct Student Loan		84.268	11,072,684	-
Total Student Financial Aid Cluster			118,685,381	-
TRIO Cluster				
NOVA Student Support Services FY 16		84.042	91	-
NOVA Student Support Services FY 17		84.042	51,053	-
NOVA Student Support Services FY 18		84.042A	277,189	-
Educational Talent Search FY 15		84.044	(681)	-
Educational Talent Search FY 17		84.044	65,079	-
Educational Talent Search FY 18		84.044A	289,310	
Upward Bound FY 18		84.047	445,468	-
Upward Bound FY 19		84.047	88,450	-
Ronald McNair Post Baccalaureate Program FY 16		84.217	3,284	-
Ronald McNair Post Baccalaureate Program FY 17		84.217	79,175	-
Ronald McNair Post Baccalaureate Program FY 18		84.217A	149,505	-
Total TRIO Cluster			1,447,923	-
PREPaRE FY 14		84.325	239,529	108,936
			120,372,833	108,936
Pass-Through Programs –				
Berea College				
Promise Summer Camp	P0027045	84.215N	8,967	-
Science and Math Camp	P0027129	84.334	365	-
			9,332	-
Kentucky Cabinet for Health and Family Services				
University Training Consortium FY 18	PON2 736 1500001287 1	84.412A	292,394	-
University Training Consortium FY 17	PON2 736 1600001294 2	84.412A	970	-
			293,364	-

See accompanying notes to schedule of expenditures of federal awards.

Federal Grant/Program Title	Pass-Through Number	Federal CFDA	Federal Expenditures	Provided to Subrecipients
U.S. DEPARTMENT OF EDUCATION (Continued)				
Pass-Through Programs (Continued) –				
Kentucky Department of Education				
Migrant Education Regional Center FY 18	PON2 540 1500000380 1	84.011	$ 346,030	$ 67,186
21st Century Community Learning FY 18	PON2 540 1700002715 1	84.287	334,460	-
Kentucky Center for Instructional Discipline FY 17	PON2 540 1600002922 1	84.027	(3,140)	-
Kentucky Center for Instructional Discipline FY 18	PON2 540 1700002269 1	84.027	597,639	-
Interpreter Training Program FY 18	PON2 540 1700002145 1	84.027	471,329	-
Southern Migrant Education Regional Center Recruit	PON2 540 1600002675 1	84.011	28,934	-
Southern Migrant Education Regional Center	PON2 540 1600003023 1	84.011	101,020	9,277
Making Algebraic Connections 4-6	PON2 540 1700002891 1	84.366B	51,799	4,961
Making Algebraic Connections FY 18	PON2 540 1800000747 1	84.366B	115,762	19,234
			2,043,833	100,658
Kentucky Department of Juvenile Justice				
JJTC FY Title I	PON2 523 1700002136 1	84.013	65,339	-
Kentucky Department for Technical Education				
PD Teacher Educators	PON2 540 1700002911 1	84.048A	15,382	-
Field-Based Teacher Education FY 18	PON2 540 1700002911 1	84.048A	61,806	-
Perkins Grant FY 18 – Administration	PON2 540 1700002880 1	84.048A	81,385	-
Curri Dev For Engine Tech Edu	PON2 540 1700002911 2	84.048A	27,319	-
			185,892	-
Kentucky Department of Vocational Rehabilitation				
Vocational Rehabilitation Interpreting Services FY 18	PON2 531 1600003515 1	84.126	442,224	-
Kentucky Council on Postsecondary Education				
Madison County Adult Education FY 18	PO2 415 1700001424	84.002A	77,685	-
Madison County Adult Education FY 18	PO2 415 1700001424	84.002	13,970	-
Clay County Adult Education FY 18	PO2 415 1700001424	84.002A	75,222	-
Clay County Adult Education FY 18	PO2 415 1700001424	84.002	4,931	-
Garrad County Adult Education FY 18	PO2 415 1700001424	84.002A	29,095	-

Federal Grant/Program Title	Pass-Through Number	Federal CFDA	Federal Expenditures	Provided to Subrecipients
U.S. DEPARTMENT OF EDUCATION (Continued)				
Pass-Through Programs (Continued) –				
Kentucky Council on Postsecondary Education				
Garrad County Adult Education FY 18	PO2 415 1700001424	84.002	$ 1,302	$ -
Gear Up Statewide eMentoring Legacy	PO2 415 1200006940 1	84.334S	7,082	-
Promoting Project Based Assignments	PO2 415 1700004405 1	84.367	93,734	6,738
Supp. Student Transition Algebra 2	PO2 415 1700005922 1	84.367	24,393	2,670
			327,414	9,408
Madison County Board of Education				
Individuals with Disabilities Education Act (IDEA)	3810002-16	84.027	19,923	-
IDEA Model Funds FY 18	H027A160032	84.027A	69,679	-
			89,602	-
Office of the Governor of Kentucky				
Early Childhood Training Standards FY 17	PON2 135 1600002551 1	84.412	77,255	-
University of Louisville Research Foundation				
EKU ASSESS	ULRF-17-0030-01	84.366	3,786	-
EKU ASSESS FY 18	ULRF-17-0030A-01	84.366	21,868	-
			25,654	-
			3,559,909	110,066
Total U.S. Department of Education			123,932,742	219,002
RESEARCH AND DEVELOPMENT				
Direct Programs –				
Department of Agriculture				
Wetland and Forest Monitoring in the Daniel Boone National Forest		10.U01	4,342	-
USDA – EKU Archaeology Field School		10.xxx	1,845	-
RHELM Program – Student Internships		10.xxx	30,703	-
			36,890	-
Department of the Interior				
Long-Term Evaluation of the Interacting Effect of Fire and White-Nose Syndrome on Endangered Bats		15.232	58,295	17,932

Federal Grant/Program Title	Pass-Through Number	Federal CFDA	Federal Expenditures	Provided to Subrecipients
RESEARCH AND DEVELOPMENT (Continued)				
Direct Programs (Continued) –				
National Science Foundation				
REU: Disturbance Ecology in Ctrl Appal		47.074	$ 106,791	$ -
Efficient Mathematical Framework		47.049	45,569	-
Building and Sustaining a Research Database for a Global Biodiversity Hotspot		47.074	11,812	4,991
RET Supplement Disturb		47.074	14,662	-
Collaborative Research RUI SG		47.074	14,712	-
			193,546	4,991
			288,731	22,923
Pass-Through Programs –				
Kentucky Waterways Alliance				
Population Dynamics of Buck Darter	F15AC00372	15.U01	17,325	-
Environmental DNA Protection	Letter of Agreement	15.625	6,404	-
			23,729	-
Kentucky Department of Fish & Wildlife Resources				
Assess Reproductive & Roost of Bats	PON2 660 1800001024 1	15.615	14,164	-
Population Dynamics of: Buck Darter CRD	PON2 660 1700001277 1	15.615	9,940	-
Bird Response to HWA Invasion	PON2 660 1800001163 1	15.634	7,499	-
Louisville Crayfish Complex	PON2 660 1800001164 1	15.634	2,158	-
			33,761	-
Arkansas Game and Fish Commission				
DNA Barcode Reference Library eDNA	Letter of Agreement	15.634	8,936	-
Department of Defense				
Kentucky Department of Military Affairs				
Development of Habitat Models	PO20951500001763 1	12.401	16,285	-
Department of Health and Human Services				
University of Louisville				
Lead Faculty Award KBRIN FY 18	ULRF-13-1493C-04	93.959	23,724	-
Effect of p75NTR on Oxidative Stress	ULRF-13-1493C-04	93.959	48,930	-
Effect of p75NTR on Oxidative	ULRF-13-1493D-04	93.859	8,605	-
			81,259	-

Federal Grant/Program Title	Pass-Through Number	Federal CFDA	Federal Expenditures	Provided to Subrecipients
RESEARCH AND DEVELOPMENT (Continued)				
Pass-Through Programs (Continued) –				
Department of Health and Human Services				
University of Kentucky Research Foundation				
MRSA Asmnt. Kentucky Cattle Workers	3210000764-18-284	93.262	$ 1,789	$ -
Environmental Protection Agency				
Kentucky Division of Water				
Survey of Kentucky Wetlands: NWCA FY17	PO2 129 16000004617 1	66.461	65,608	-
Cont. Validation Infrastructure	PO2 129 1800003686 1	66.461	18,702	-
			84,310	-
National Science Foundation				
University of Kentucky Research Foundation, Inc.				
Gluthatione as a Protectant Against Oxidation	3200000271-16-038	47.083	62,396	-
Sex Specific Gene Control Cardiac	3200000271-18-064	47.083	10,649	-
Powering the Kentucky Bioeconomy for a Sustainable Future	3048111570-15-022			-
Satellite Data Fusion	NNX15AR69H	43.008	2,872	-
Math and Science Summer Camp	3200000271-18-276	47.079	8,181	-
			84,098	-
Murray State University				
Size Structure on Trophic Cascades	DEB-1354787	47.074	22,968	-
REU Supplement: Effects of Size Structure	2017-023	47.074	4,500	-
			27,468	-
American Astrononical Society				
Events for the Solar Eclipse	Letter of Agreement	47.076	4,835	-
			366,470	-
Total Research and Development			655,201	22,923
DEPARTMENT OF DEFENSE				
Direct Programs –				
Defense Intelligence Agency				
Bluegrass State Intelligence FY 17		12.598	55,236	21,161
Bluegrass State Intelligence FY 18		12.598	221,053	46,671
			276,289	67,832

See accompanying notes to schedule of expenditures of federal awards.

Federal Grant/Program Title	Pass-Through Number	Federal CFDA	Federal Expenditures	Provided to Subrecipients
DEPARTMENT OF DEFENSE (Continued)				
Pass-Through Programs –				
U.S. Department of Education				
Blue Grass Army Depot				
Running Buffalo Clover 2017-2018	W22G1F-17-P-0046	12.xxx	$ 8,016	$ -
Total Department of Defense			284,305	67,832
DEPARTMENT OF AGRICULTURE				
Pass-Through Programs –				
USDA Forest Service				
Daniel Boone National Forest Visitor Use Monitor	16-PA-11080200-010	10.U03	$ 31,876	$ -
Forest Inventory and Monitoring DBNF	17-PA-11080200-005	10.U04	3,620	-
Partn for Forest Inventory and Man	17-PA-11080200-005	10.xxx	4,802	-
US Forestry Service London Ranger District Student Internship	17-PA-11080200-008	10.U05	1,483	-
			41,781	-
Kentucky Department of Education				
Upward Bound Summer Food Program 2017	Letter of Agreement	10.559	12,410	-
Kentucky Cabinet for Health and Family Services				
University Training Consortium FY 18	PON2 736 150000 1287 1	10.561	694,455	68,713
University Training Consortium FY 17	PON2 736 160000 1294 2	10.561	16,140	3,465
			710,595	72,178
Kentucky Council on Postsecondary Education				
Path 2 Promise Adult Education FY 18	PO2 415 1800001180 1	10.596	31,116	-
Total Department of Agriculture			795,902	72,178
ENVIRONMENTAL PROTECTION AGENCY				
Pass-Through Programs –				
Earth Force, Inc.				
Earth Force Green Schools Connect	Letter of Agreement	66.951	798	-
Kentucky Association of Environmental Education				
Addressing Climate Statewide	Letter of Agreement	66.951	3,754	-

See accompanying notes to schedule of expenditures of federal awards.

Federal Grant/Program Title	Pass-Through Number	Federal CFDA	Federal Expenditures	Provided to Subrecipients
ENVIRONMENTAL PROTECTION AGENCY (Continued)				
Pass-Through Programs (Continued) –				
University of Kentucky – Survey Research Center				
Ecological Import Perched Aquifers	3200000437-18-002	66.436	$ 5,000	$ -
Total Environmental Protection Agency			9,552	-
FEDERAL COMMUNICATION COMMISSION				
Direct Programs -				
Federal Communication Commissions				
Deablind Equipment District Program		32.U01	93,789	-
Total Federal Communication Commission			93,789	-
DEPARTMENT OF HEALTH AND HUMAN SERVICES				
Direct Programs –				
Health Resources and Service Administration				
BCHC – Quality Improvement FY 17		93.527	69,925	-
BCHC FY 18		93.224	2,240,607	-
Access Increase Mental Health Services		93.224	82,814	-
BCHC – Quality Improvement FY 17/18		93.527	17,650	-
BCHC FY 19		93.527	666,719	-
EKU Safe FY 17		93.243	27,194	-
EKU Safe FY 18		93.243	79,655	-
			3,184,564	-
Pass-Through Programs –				
Kentucky Cabinet for Health and Family Services				
Medicaid Cluster:				
Medicaid Managed Care Forums FY 17	PON2 746 1400001181 1	93.778	26,231	-
Medicaid Waiver Management App FY 17	PO2 746 1600005311 1	93.778	(5)	-
Medicaid Waiver Management App. FY 18	PO2 746 1500004917 1	93.778	6,129	-
Total Medicaid Cluster			32,355	-

See accompanying notes to schedule of expenditures of federal awards.

Federal Grant/Program Title	Pass-Through Number	Federal CFDA	Federal Expenditures	Provided to Subrecipients
DEPARTMENT OF HEALTH AND HUMAN SERVICES (Continued)				
Pass-Through Programs (Continued) – Kentucky Cabinet for Health and Family Services				
DBHDID FY 17	PON2 729 1600001704 1	93.243	$ (6,572)	$ -
DBHDID FY 18	PON2 729 1700001624 2	93.243	161,893	-
DBHDID FY 18	PON2 729 1600001624 2	93.958	8,384	-
DBHDID FY 18	PON2 729 1600001624 2	93.959	274,374	-
University Training Consortium FY 18	PON2 736 1500001287 1	93.087	240,616	54,919
University Training Consortium FY 18	PON2 736 1500001287 1	93.556	317,434	28,524
University Training Consortium FY 18	PON2 736 1500001287 1	93.558	310,545	-
University Training Consortium FY 18	PON2 736 1500001287 1	93.590	469,885	-
University Training Consortium FY 18	PON2 736 1500001287 1	93.603	610,748	309,019
University Training Consortium FY 18	PON2 736 1500001287 1	93.658	6,578,519	1,859,084
University Training Consortium FY 18	PON2 736 1500001287 1	93.669	188,918	-
University Training Consortium FY 18	PON2 736 1500001287 1	93.674	648,120	86,790
University Training Consortium FY 18	PON2 736 1500001287 1	93.575	75,290	-
University Training Consortium FY 18	PON2 736 1500001287 1	93.667	3,773	-
University Training Consortium FY 18	PON2 736 1500001287 1	93.778	39,836	-
University Training Consortium FY 17	PON2 736 1600001294 2	93.087	3,592	-
University Training Consortium FY 17	PON2 736 1600001294 2	93.556	10,780	5,789
University Training Consortium FY 17	PON2 736 1600001294 2	93.558	3,590	-
University Training Consortium FY 17	PON2 736 1600001294 2	93.575	2,556	-
University Training Consortium FY 17	PON2 736 1600001294 2	93.590	4,944	-
University Training Consortium FY 17	PON2 736 1600001294 2	93.603	27,859	20,694
University Training Consortium FY 17	PON2 736 1600001294 2	93.658	302,703	221,773
University Training Consortium FY 17	PON2 736 1600001294 2	93.667	251	-
University Training Consortium FY 17	PON2 736 1600001294 2	93.669	1,983	-
University Training Consortium FY 17	PON2 736 1600001294 2	93.674	44,685	43,395

Federal Grant/Program Title	Pass-Through Number	Federal CFDA	Federal Expenditures	Provided to Subrecipients
DEPARTMENT OF HEALTH AND HUMAN SERVICES (Continued)				
Pass-Through Programs (Continued) –				
Kentucky Cabinet for Health and Family Services				
Inst. for Exclinc Bhvrl Health	PON2 729 1700001718 1	93.958	$ 118,786	$ -
Inst. for Exclinc Bhvrl Health	PON2 729 1700001718 1	93.243	86,505	-
Inst. for Exclinc Bhvrl Health	PON2 729 1700001718 1	93.959	53,068	-
Family Planning FY 17/18	PO2 728 1600005324 1	93.217	23,421	-
Education Pays Center FY 17/18	PO2 736 1600004558 1	93.558	336,839	-
EKU Mosquito Surveillance	PON2 728 1800000526 1	93.067	7,929	-
			10,951,254	2,629,987
University of Louisville Research Foundation				
Project SAFESPACE FY 18	ULRF-14-0146E-05	93.652	2,559	-
University of Kentucky				
Bridging the GAP	3200000656-13-130	93.859	158,070	-
Central Appalachian Reg Ed	3200001419-18-051	93.262	115,540	-
			273,610	-
			11,259,778	2,629,987
Total Department of Health and Human Services			14,444,342	2,629,987
DEPARTMENT OF HOMELAND SECURITY				
Pass-Through Programs –				
Center for Rural Development				
Rural Domestic Preparedness Consortium FY 14: Task 1	FY14-00092-03-EKU	97.005	19,600	-
Rural Domestic Preparedness Consortium FY 15: Task 1	FY15-00190-03-EKU	97.005	1,520	-
Rural Domestic Preparedness Consortium FY 15: Task 2	FY15-00190-03-EKU	97.005	28,073	-
Rural Domestic Preparednes Consortium FY 16: Task 1	EMW-2016-CA-0097-SO1	97.005	33,640	-
Rural Domestic Preparedness Consortium FY 16: Task 2	EMW-2016-CA-0097-S01	97.005	309,085	-
Rural Domestic Preparedness Consortium FY 17: Task 2	FY17-00052-201-EKU	97.005	10,640	-
Total Department of Homeland Security			402,558	-
DEPARTMENT AERONAUTICS AND SPACE ADMINISTRATION				
Pass-Through Programs –				
University of Kentucky Research Foundation				
Out-of-This-World Thursdays	3200000161-17-91	43.008	175	-
Total National Aeronautics and Space Administration			175	-

See accompanying notes to schedule of expenditures of federal awards.

Federal Grant/Program Title	Pass-Through Number	Federal CFDA	Federal Expenditures	Provided to Subrecipients
DEPARTMENT OF TRANSPORTATION				
Pass-Through Programs –				
Kentucky Transportation Cabinet				
Lancaster Avenue Lighting	1600003905	20.205	$ 130,881	$ -
Total Department of Transportation			130,881	-
APPALACHIAN REGIONAL COMMISION				
Pass-Through Programs –				
Berea College				
Promise Zone Profiles	Memorandum of Agreement	23.002	5,374	-
Total Appalachian Regional Commission			5,374	-
SMALL BUSINESS TRANSPORTATION				
Pass-Through Programs -				
University of Kentucky Research Foundation				
Small Business Development Center FY 17	3200001037-17-137	59.037	20,226	-
Total Small Business Administration			20,226	-
SMITHSONIAN INSTITUTE				
Direct Programs –				
Teacher InResidence – Smithsonian Museum		85.601	12,460	-
Total Smithsonian Institute			12,460	-
CORPORATION FOR NATIONAL COMMUNITY SERVICE				
Pass-Through Programs –				
Kentucky Commission of Community Volunteerism & Service				
Kentucky READY Corps FY 17	PON2 730 1700000376 1	94.006	2,599	-
Kentucky READY Corps FY 18	PON2 730 1700000303 1	94.006	50,966	-
Total Corporation for National Community Service			53,565	-
Total Federal Expenditures			$ 140,841,072	$ 3,011,922

See accompanying notes to schedule of expenditures of federal awards.

Grant/Program Title	Federal CFDA	Federal Expenditures
Subtotals of Multiple Awards/CFDA Numbers		
University Training Consortium Program	10.561	$ 710,595
Bluegrass State Intelligence	12.598	276,289
Environmental Education Grants	66.951	4,552
Adult Education Grants to States	84.002	202,205
Migrant Education Program	84.011	475,984
Vocational Education Basic Grants to States	84.048	185,892
Science and Math Camp	84.334	7,447
Mathematics and Science Partnerships	84.366	193,215
Improving Teacher Quality State Grants	84.367	118,127
Race to the Top Early Learning Challenge	84.412	370,619
University Training Consortium Program	93.087	244,208
Substance Abuse and Mental Health	93.243	348,675
University Training Consortium Program	93.556	328,214
University Training Consortium Program	93.590	474,829
University Training Consortium Program	93.603	638,607
University Training Consortium Program	93.658	6,881,222
University Training Consortium Program	93.667	4,024
University Training Consortium Program	93.669	190,901
University Training Consortium Program	93.674	692,805
Block Grants for Community Mental Health Services	93.958	127,170
Prevention and Treatment of Substance Abuse	93.959	327,442
AmeriCorps	94.006	53,565
State and Local Homeland Security National Training Program	97.005	402,558
Special Education Cluster		1,155,430
TANF Cluster		650,974
CCDF Cluster		77,846
Health Center Program Cluster		3,077,715
Highway Planning and Construction Cluster		130,881

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation: The accompanying schedule of expenditures of federal awards (the "Schedule") includes the federal grant activity of Eastern Kentucky University (the "University") under programs of the federal government for the year ended June 30, 2018, 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). Such expenditures are recognized following the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement. Therefore, some amounts presented in this schedule may differ from amounts presented in or used in the preparation of the basic financial statements. 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.

NOTE 2 – LOANS

The University disbursed funds under the Federal Direct Loan Programs (including Direct Loans, Direct Unsubsidized Loans, Direct Plus Loans and Direct Consolidation Loans) during the current year.

Eastern Kentucky University had the following loan balances outstanding at June 30, 2018. Loans made during the year are included in federal expenditures presented in the schedule.

Cluster/Program Title	Amount Outstanding
Student Financial Aid – Federal Perkins Loan Program	$ 4,741,609

NOTE 3 – INDIRECT COST

Predetermined indirect cost rates have been approved for the period from July 1, 2014 through June 30, 2018. The rate for on-campus activities ranges from 40.0% to 52.5% and the rate for off-campus activities ranges from 22.0% to 26.0% for the approved period. The University has elected not to use the 10-percent de minimis indirect cost rate allowed under the Uniform Guidance.

PART I: SUMMARY OF AUDITORS' RESULTS

Financial Statements

Type of auditors' report issued	Unmodified			
Internal control over financial reporting:				
Material weakness(es) identified?		Yes	X	No
Significant deficiency(ies) identified?		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?		Yes	X	None Reported
Type of auditors' report issued on compliance for major programs	Unmodified			
Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a)?		Yes	X	None Reported

Identification of major programs:

CFDA Number(s)	Name of Federal Program or Cluster Number
	Total Student Financial Aid Cluster (consisting of):
84.063	Federal Pell Grant Program
84.007	Federal Supplemental Educational Opportunity Grant Program
84.033	Federal Work Study Program
84.038	Federal Perkins Loan Program
84.379	TEACH Grant
84.268	Federal Direct Loan Program
84.027	Special Education Grants to States
93.658	University Training Consortium Program

Dollar threshold used to distinguish between
Type A and Type B programs $ 750,000

Auditee qualified as low-risk auditee? X Yes ____ No

PART II – FINANCIAL STATEMENT FINDINGS

None

PART III – FEDERAL AWARDS FINDINGS AND QUESTIONED COSTS

None