

EASTERN KENTUCKY UNIVERSITY

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

June 30, 2019

EASTERN KENTUCKY UNIVERSITY
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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 years ended June 30, 2019 and 2018, and the related notes to the financial statements, which collectively comprise the University's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audits. We did not audit the financial statements of 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 audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement. The financial statements of 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 opinions.

Opinions

In our opinion, based on our audits 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, 2019 and 2018, and the respective changes in financial position and, where applicable, cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis on pages 3 through 17, the Schedule of the University's Proportionate Share of the Net Pension Liability on page 92, the Schedule of the University's Pension Contributions on page 93, the Schedule of the University's Proportionate Share of the Net OPEB Liability on page 96, and the Schedule of the University's OPEB Contributions on page 97 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 11, 2019 on our consideration of the University's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the University's internal control over financial reporting and compliance.


Crowe LLP

Louisville, Kentucky
October 11, 2019

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 in their families to attend college.

EKU is wrapping up 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 75 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 nearly 16,000 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 nine years. In addition, *Forbes Magazine* has rated Eastern among "America's Best Colleges" for 11 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 enters the public phase of its current comprehensive 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 2019 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, 2019, with selected comparative information for the years ended June 30, 2018 and 2017. The MD&A should be read in conjunction with the accompanying financial statements and notes.

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Financial Highlights

At June 30, 2019, Eastern Kentucky University's financial position decreased as reflected in the Statement of Net Position.

- Total assets decreased by \$695 thousand to \$653.2 million at June 30, 2019, compared to \$653.9 million at June 30, 2018. The major factors affecting this include an increase in net capital assets being depreciated of \$69.4 million and an increase in current assets of \$8.2 million, offset by a decrease in capital assets not being depreciated of \$54.3 million and a decrease in restricted cash of \$23.6 million.
- Deferred outflows decreased by \$41.4 million to \$60.3 million at June 30, 2019, compared to \$101.7 million at June 30, 2018. The decrease is attributed to a decrease in deferred outflows related to pensions and OPEB.
- Overall liabilities decreased by \$155.8 million to \$561.0 million at June 30, 2019, compared to a \$716.8 million at June 30, 2018. This decrease is primarily the result of a \$146.2 million decrease in Net Pension and OPEB Liability.
- Deferred inflows increased by \$70.5 million to \$261.9 million at June 30, 2019, compared to \$191.4 million at June 30, 2018. The increase is attributed to an increase in KERS/KTRS pensions.
- Total net position at June 30, 2019 increased \$43.3 million to \$(109.3) million. The greatest factor affecting this increase was a decrease in Net Pension Liability.

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, 2019 and 2018, 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 2019 and 2018 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.

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EASTERN KENTUCKY UNIVERSITY
MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2019, 2018 and 2017

Assets – Total assets at June 30, 2019, decreased to \$653.1 million compared to \$653.9 million at June 30, 2018.

Cash and Cash Equivalents – Total cash and cash equivalents at June 30, 2019, totaled \$85.8 million; \$21.5 million less than the June 30, 2018, level of \$107.3 million. This decrease is attributable primarily to a decrease of restricted cash and cash equivalents of \$23.6 million.

Investments – The Foundation holds and manages investments owned by the University. At June 30, 2019, the market value of investments held by the Foundation on behalf of the University was \$20.5 million compared to \$20.1 million at June 30, 2018, an increase of \$357 thousand.

Capital Assets – The historical cost, less accumulated depreciation, of the University's capitalized assets was \$513.2 million as of June 30, 2019, a net increase after depreciation of \$15.1 million from the \$498.1 million balance at June 30, 2018. Depreciation expense for the fiscal year totaled \$22.9 million.

Other Asset Categories – The balances in the various other asset categories were essentially unchanged at June 30, 2019, compared to June 30, 2018, with the exception of accounts receivable (net of allowance) which increased in total by \$5.5 million; loans to students, which decreased in total by \$43 thousand; and prepaid interest, which increased in total by \$620 thousand.

Deferred Outflows –The deferred outflows for the year ended June 30, 2019, totaled \$60.3 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 \$41.4 million under the June 30, 2018 balance of \$101.7 million.

Liabilities – Total liabilities at June 30, 2019, were \$561.0 million compared to \$716.8 million at June 30, 2018. This decrease of \$155.8 million is primarily attributable to a decrease in Net Pension and OPEB Liability from fiscal year 2019 of \$146.2 million.

Bonds Payable and Capital Lease Obligations – In total, bonds payable and capital lease obligations decreased by \$9 million as of June 30, 2019, compared to June 30, 2018. At June 30, 2019, the total bonds payable and capital lease obligations were \$141.9 million versus \$150.9 million at June 30, 2018. This decrease is attributable to the principal payments made on the bonds.

Other Liability Categories – At June 30, 2019, the balances in various other liability categories decreased by \$568 thousand to \$61.5 million compared to \$60.9 million at June 30, 2018. 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 2019, for summer school classes, as well as unearned revenues associated with the Case Dining Hall agreement.

Deferred Inflows –The deferred inflows for the year ended June 30, 2019, totaled \$261.9 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 \$70.5 million primarily attributed to KTRS and KERS pension, compared to the June 30, 2018 deferred inflows balance of \$191.4 million.

Net Position – Total Net Position at June 30, 2019, was \$(109.3) million; an increase of \$43.3 million from June 30, 2018.

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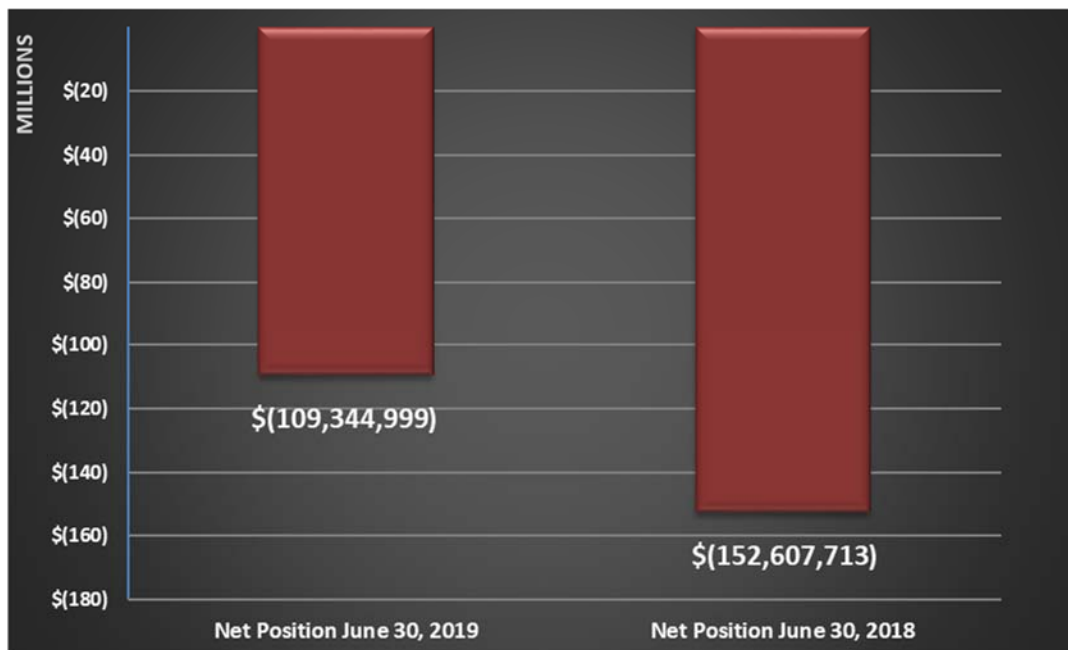
EASTERN KENTUCKY UNIVERSITY
MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2019, 2018 and 2017

Net Investment in Capital Assets – Net position invested in capital assets increased by \$28.9 million as of June 30, 2019, to \$264.3 million compared to the June 30, 2018, level of \$235.4 million. The primary contributing factor to this increase was a decrease of Construction in Progress.

Restricted Net Position – In total, restricted net position decreased by \$11.2 million to \$74.1 million at June 30, 2019, compared to \$85.3 million at June 30, 2018. The net decrease is primarily attributable to the decrease in restricted expendable for capital projects of \$11.5 million.

Unrestricted Net Position – Unrestricted net position increased by \$25.5 million to \$(447.8) million at June 30, 2019, compared to the June 30, 2018 unrestricted net position of \$(473.3) million. This increase is primarily attributable to the KTRS and KERS pension expense adjustments.

The chart below illustrates the net position for the years ended June 30, 2019 and 2018:



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EASTERN KENTUCKY UNIVERSITY
MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2019, 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.

	<u>2019</u>	<u>2018</u>	<u>2017</u>
Inventories	\$ 273	\$ 278	\$ 267
Outstanding encumbrances	1,250	2,844	3,045
Departmental commitments	9,520	9,832	15,440
Designated projects and contingency reserves	17,092	12,304	6,784
Health care self-insurance reserve	3,000	3,000	3,000
Auxiliary working capital	5,784	4,792	6,065
University capital projects	1,000	11,199	10,106
KTRS Pension	(214,884)	(255,822)	(275,002)
KERS Pension	(206,038)	(197,481)	(166,919)
KTRS OPEB	(27,356)	(27,287)	-
KERS OPEB	<u>(37,430)</u>	<u>(36,999)</u>	<u>-</u>
Total unrestricted net position	<u>\$ (447,789)</u>	<u>\$ (473,340)</u>	<u>\$ (397,214)</u>

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

	<u>2019</u>	<u>2018</u>	<u>2017</u>
ASSETS			
Current assets	\$ 75,604	\$ 67,408	\$ 69,021
Capital assets – net	513,190	498,085	471,326
Other noncurrent assets	<u>64,400</u>	<u>88,396</u>	<u>82,680</u>
Total assets	<u>\$ 653,194</u>	<u>\$ 653,889</u>	<u>\$ 623,027</u>
DEFERRED OUTFLOWS			
Unamortized deferred refunding balance	\$ 261	\$ 395	\$ 556
KTRS/KERS Pensions	52,707	91,212	126,261
KTRS/KERS OPEB	<u>7,374</u>	<u>10,133</u>	<u>-</u>
Total deferred outflows	<u>\$ 60,342</u>	<u>\$ 101,740</u>	<u>\$ 126,817</u>
LIABILITIES			
Current liabilities	\$ 43,964	\$ 42,076	\$ 37,851
Noncurrent liabilities	<u>516,991</u>	<u>674,702</u>	<u>688,968</u>
Total liabilities	<u>\$ 560,955</u>	<u>\$ 716,778</u>	<u>\$ 726,819</u>
DEFERRED INFLOWS			
Service Concession - Housing	\$ 66,367	\$ 68,737	\$ 71,108
Other Deferred Inflows	7,390	7,650	5,318
KTRS/KERS Pensions	175,919	113,676	10,816
KTRS/KERS OPEB	<u>12,250</u>	<u>1,396</u>	<u>-</u>
Total deferred inflows	<u>\$ 261,926</u>	<u>\$ 191,459</u>	<u>\$ 87,242</u>

(Continued)

EASTERN KENTUCKY UNIVERSITY
MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2019, 2018 and 2017

	<u>2019</u>	<u>2018</u>	<u>2017</u>
NET POSITION			
Net investment in capital assets	\$ 264,327	\$ 235,410	\$ 254,001
Restricted – expendable	61,785	72,989	66,663
Restricted – nonexpendable	12,333	12,333	12,333
Unrestricted	<u>(447,789)</u>	<u>(473,340)</u>	<u>(397,214)</u>
Total net position	<u>\$ (109,344)</u>	<u>\$ (152,608)</u>	<u>\$ (64,217)</u>

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 \$70.4 million from operations for the fiscal year ended June 30, 2019, prior to consideration of state appropriations and other net nonoperating revenues. This is compared to a loss of \$128.3 million from operations for the fiscal year ended June 30, 2018.

Operating Revenues

Below is a summary of operating revenues for fiscal year 2019 as compared to fiscal years 2018 and 2017:

	Year ended June 30,		
	<u>2019</u>	<u>2018</u>	<u>2017</u>
Tuition and fees	\$ 152,593	\$ 157,426	\$ 155,399
Scholarships and discounts	<u>(64,220)</u>	<u>(64,922)</u>	<u>(60,456)</u>
Net tuition and fees	88,373	92,504	94,943
Grants and contracts	46,418	49,048	50,022
Other revenues	<u>22,840</u>	<u>25,942</u>	<u>20,304</u>
Total education and general fund	157,631	167,494	165,269
Auxiliaries	25,220	25,414	29,209
Scholarships and discounts	<u>(10,480)</u>	<u>(12,610)</u>	<u>(10,581)</u>
Net auxiliaries	<u>14,740</u>	<u>12,804</u>	<u>18,628</u>
Total operating revenues	<u>\$ 172,371</u>	<u>\$ 180,298</u>	<u>\$ 183,897</u>

Tuition and Fees – Income from student tuition and fee assessments, shown net of the tuition discount, was \$88.3 million for the fiscal year ended June 30, 2019, compared to \$92.5 million for the fiscal year ended June 30, 2018. The decrease of \$4.2 million in net tuition and fees reflects principally a decrease in gross tuition and fee revenue during the year ended June 30, 2019.

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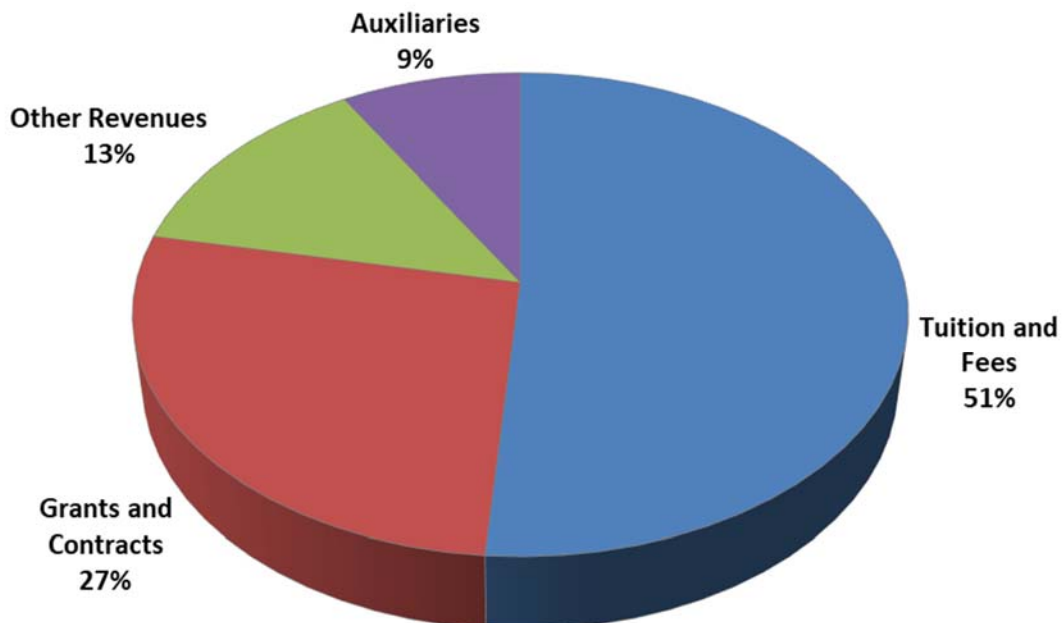
EASTERN KENTUCKY UNIVERSITY
MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2019, 2018 and 2017

Grants and Contracts – For the fiscal year ended June 30, 2019, there was \$46.4 million recognized revenue from all grants and contracts compared to \$49.0 million for the year ended June 30, 2018; a decrease of \$2.6 million. 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.

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, \$14.7 million is reported for net auxiliary revenues for the year ended June 30, 2019, compared to \$12.8 million for the year ended June 30, 2018. 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, 2019, total other operating revenues were \$22.8 million compared to \$25.9 million for June 30, 2018, a decrease of \$3.1 million.

Source of Operating Revenues – Fiscal Year 2019



(Continued)

EASTERN KENTUCKY UNIVERSITY
MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2019, 2018 and 2017

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, 2019, educational and general expenditures totaled \$254.8 million compared to \$272.5 million for the fiscal year ended June 30, 2018; a decrease of \$17.7 million.

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, 2019, were \$19.9 million, compared to \$21.8 million for the year ended June 30, 2018.

Below is a summary of operating expenditures for fiscal year 2019, compared to fiscal years 2019, 2018 and 2017:

	Year ended June 30,		
	<u>2019</u>	<u>2018</u>	<u>2017</u>
Instruction, academic support and libraries	\$ 110,017	\$ 117,860	\$ 119,193
Research and public service	42,141	43,985	44,730
Student services	18,424	20,100	21,334
Institutional support and operations and maintenance of plant	45,610	54,865	50,269
Student financial aid	15,482	14,443	15,865
Depreciation	22,919	19,991	18,706
Other operation expenses	<u>228</u>	<u>1,302</u>	<u>1,867</u>
Total educational and general expenses	254,821	272,546	271,964
Auxiliaries	19,860	21,796	20,679
Pension expense adjustments	(32,381)	11,382	42,559
OPEB expense adjustments	<u>500</u>	<u>2,927</u>	<u>-</u>
Total operating expenses	<u>\$ 242,800</u>	<u>\$ 308,651</u>	<u>\$ 335,202</u>

Instruction, Academic Support, and Libraries – The total expenditures of these three areas, which directly relate to teaching, academic, and faculty support, decreased \$7.9 million to \$110.0 million for the year ended June 30, 2019, compared to \$117.9 million for the year ended June 30, 2018.

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, 2019, total expenditures related to research and public service was \$42.1 million, compared to \$44.0 million for the fiscal year ended June 30, 2018; a decrease of \$1.9 million.

Student Services – Expenditures for student services for fiscal year 2019 decreased by \$1.7 million to \$18.4 million compared to \$20.1 million in fiscal year 2018. The student services function includes expenditures for many activities contributing to student development outside the instructional setting.

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EASTERN KENTUCKY UNIVERSITY
 MANAGEMENT'S DISCUSSION AND ANALYSIS
 June 30, 2019, 2018 and 2017

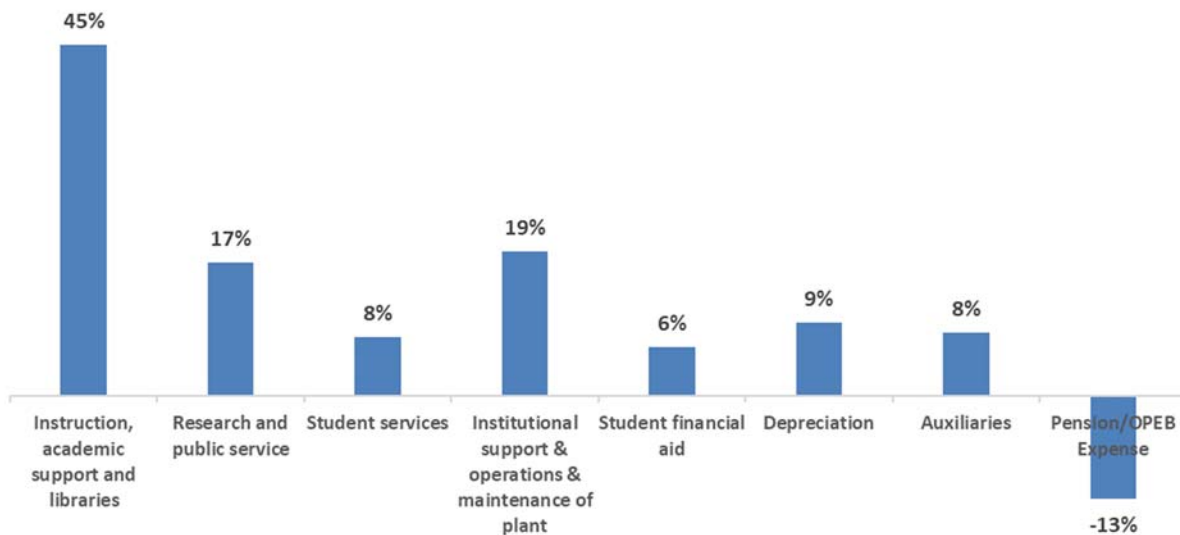
Institutional Support and Operations and Maintenance of Plant – These functions provide physical and administrative support for the University and include administrative offices, physical plant operations, noncapital maintenance expenses, utility expenses, technology support, legal, property and liability insurance, and other similar operational support costs. For the fiscal year ended June 30, 2019, the expenditures for these areas totaled \$45.6 million compared to \$54.8 million for the year ended June 30, 2018; a decrease of \$9.2 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 2019, the total financial aid expenditure was \$90.2 million compared to \$92.0 million for fiscal year 2018, a decrease of \$1.8 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, 2019, the University recorded \$(32.4) million of Pension Expense Adjustments. This is a \$43.7 million decrease from the fiscal year ending June 30, 2018 Pension Expense Adjustments of \$11.4 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, 2019, the University recorded \$500 thousand of OPEB Expense Adjustments. For the fiscal year ending June 30, 2018, the University recorded \$2.9 million of OPEB Expense Adjustments. These expense adjustments do not include actual contributions to the plan.

Major Areas of Operating Expense – Fiscal Year 2019



(Continued)

EASTERN KENTUCKY UNIVERSITY
MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2019, 2018 and 2017

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, 2019, was \$15.4 million, an increase of \$1.0 million compared to \$14.4 million for the year ended June 30, 2018.

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

	Year ended June 30,		
	2019	2018	2017
Tuition and fee discount	\$ 64,220	\$ 64,922	\$ 60,456
Auxiliary enterprises discount	10,480	12,610	10,581
Student financial aid expense	15,482	14,443	15,865
Total student financial aid expense	\$ 90,182	\$ 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, 2019 was \$64.2 million. This was a decrease of \$200 thousand from the prior year ending June 30, 2018 amount of \$64.4 million.

Investment Income – Total investment income for the fiscal years ended June 30, 2019 and 2018, was \$3.2 million and \$2.0 million, respectively; an increase of \$1.2 million.

Federal and State Grants and Contracts – Total federal and state grant revenue for the fiscal year ended June 30, 2019, was \$43.4 million, compared to \$44.5 million from fiscal year 2018. This was a decrease from prior year revenue of \$1.1 million.

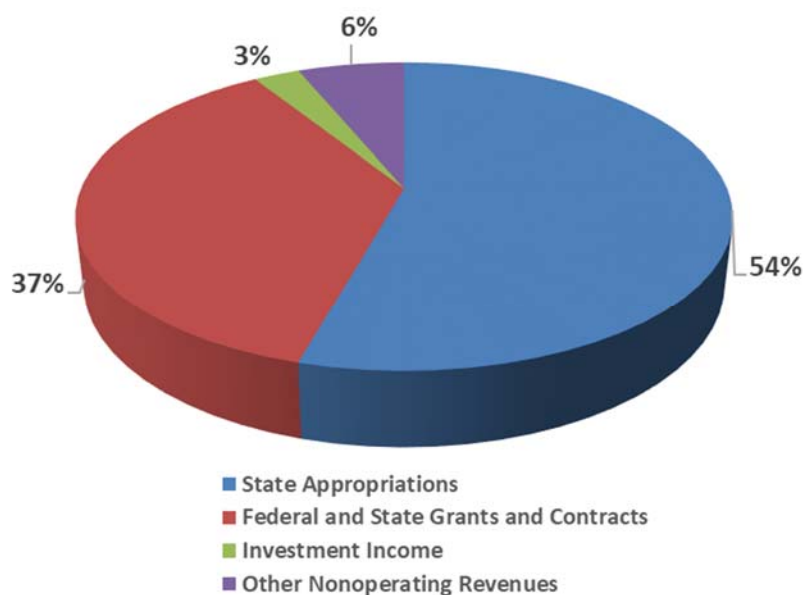
Other Non-Operating Revenues – Other non-operating revenues totaled \$7.4 million for the year ended June 30, 2019, a decrease of \$2.4 million compared to \$9.8 million from the prior year ended June 30, 2018.

Other Non-Operating Expenses – Other non-operating expenses totaled \$664 thousand for the year ended June 30, 2019, a decrease of \$25.1 million compared to \$25.7 million from the prior year ended June 30, 2018. The decrease in non-operating expenses is primarily due to the transfer of the DOCJT Training Complex to the Department of Criminal Justice Training in the prior fiscal year. The NBV of the buildings at the time of transfer was approximately \$25.0 million.

(Continued)

EASTERN KENTUCKY UNIVERSITY
MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2019, 2018 and 2017

Major Sources of Non-Operating Revenues – Fiscal Year 2019



Capital Support – For the year ended June 30, 2019, the University received funds from the Commonwealth totaling \$1.1 million for new capital projects, compared to fiscal year 2018 when the University received funds from the Commonwealth totaling \$10.6 million for new capital projects.

	Year ended June 30,		
	2019	2018	2017
Operating revenues	\$ 172,371	\$ 180,299	\$ 183,897
Operating expenses	<u>242,799</u>	<u>308,651</u>	<u>335,202</u>
Operating loss	(70,428)	(128,352)	(151,305)
Nonoperating revenues – net	<u>112,607</u>	<u>90,686</u>	<u>107,043</u>
Gain (loss) before capital appropriations	42,179	(37,666)	(44,262)
Capital appropriations	<u>1,084</u>	<u>10,633</u>	<u>22,898</u>
Change in net position	43,263	(27,033)	(21,364)
Net position – beginning of year	<u>(152,608)</u>	<u>(125,575)</u>	<u>(42,853)</u>
Net position – end of year	<u>\$ (109,345)</u>	<u>\$ (152,608)</u>	<u>\$ (64,217)</u>

(Continued)

EASTERN KENTUCKY UNIVERSITY
MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2019, 2018 and 2017

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:

	<u>Year ended June 30,</u>		
	<u>2019</u>	<u>2018</u>	<u>2017</u>
Cash provided by (used in)			
Operating activities	\$ (86,545)	\$ (88,549)	\$ (90,436)
Noncapital financing activities	111,648	108,833	107,525
Capital and related financing activities	(49,374)	(15,265)	13,817
Investing activities	<u>2,837</u>	<u>1,205</u>	<u>212</u>
Net change in cash and cash equivalents	(21,434)	6,224	31,118
Cash and cash equivalents – beginning of year	<u>107,279</u>	<u>101,055</u>	<u>69,937</u>
Cash and cash equivalents – end of year	<u>\$ 85,845</u>	<u>\$ 107,279</u>	<u>\$ 101,055</u>

(Continued)

EASTERN KENTUCKY UNIVERSITY
MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2019, 2018 and 2017

Capital Asset and Debt Administration

During fiscal years 2019 and 2018, the following projects were completed by the University:

	<u>Year ended June 30,</u>	
	<u>2019</u>	<u>2018</u>
RCF2145 KY 52 Lancaster Avenue Drainage	\$ 20	\$ -
RCF 2200 Model Gym Bleachers	36	-
Loading Dock / Truck Driveway Center for Arts	38	-
HVAC Controls Upgrade Foster Bldg.	44	-
RCF 2069 Football Laundry Room	58	-
A.B. Carter HVAC upgrade	81	-
RCF 1972 HVAC KSP Digital Forensics Memorial Hall	81	-
RCF 1869 NSB Solar Panel System (Roof)	92	-
RCF 1982 Ramsey Heat Plant Boiler # 4	111	-
RCF 1944 Arlington HVAC	122	-
Stratton Sewer Pump Station	143	-
Martin Parking Lot	174	-
RCF 1858 Robotic Milker Meadowbrook Farm - Grant 50%	397	-
RCF 1793 Clay Hall Chiller	232	-
RCF 1733 Donovan Annex Boiler	294	-
Replace Steam Lines between manholes 35 & 36	388	-
RCF 1604 Summit St Parking Lot (tiered)	498	-
NSB Phase 2 AV/IT Infrastructure	651	-
RCF 1800 Telford Makeup Air Handling Unit	686	-
RCF 1763 Telford Air Handling Units (2) Lobby Area	736	-
RCF 1791 Softball Hitting/Pitching Facility	1,693	-
RCF 1791 Baseball Hitting/Pitching Facility	1,799	-
Renovate/Improve Athletic Facilities – Softball	2,124	-
Renovate/Improve Athletic Facilities – Baseball	5,033	-
RCF 1606 Telford Hall AC Equipment	4,991	-
Renovate/Improve Athletic Facilities – Football	10,165	-
Science Building-Phase 2 and 3	58,816	-
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
	<u> </u>	<u> </u>
Total	<u>\$ 89,503</u>	<u>\$ 80,385</u>

(Continued)

EASTERN KENTUCKY UNIVERSITY
MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2019, 2018 and 2017

The following projects were still in process at June 30, 2019:

	Total Expenditures Through <u>June 30, 2019</u>	Estimated Cost to Complete at <u>June 30, 2019</u>
Begley Bldg. Sewer Lift Station	\$ 28	\$ -
Coates Bldg. – Façade Repairs	16	-
RCF 1622 Student Rec & Wellness Center	28,124	11,692
RCF 1623 Powell Bldg. Student Center	16,620	10,180
RCF 1711 Bypass Pedway	472	2,528
RCF 1825 Softball Renov Phase II Build concessions/restrooms	23	-
RCF 1847 Commonwealth 13th Flr Renovation	75	579
Relocate Underground Utilities for Student Rec Center	91	67
Coates Exterior Repairs	27	1,333
RCF 1987 Begley Bldg. Sewer Lift Station	266	34
RCF 1778 Student Rec Center Site Prep (Raze Dupree & Todd Halls)	1,060	-
RCF2153 Telford Hall replace pipes	55	1,202
RCF2145 ECU Roy Kidd Statue Wall	8	162
RCF2140 Model HVAC installation for 3 areas	24	208
Installation for rail system and storage unit at new Student Rec Center	18	41
Design Student Recreation and Wellness Center	<u>184</u>	<u>-</u>
 Total	 <u>\$ 47,091</u>	 <u>\$ 28,026</u>

Long-term debt at June 30, 2019, was \$141.9 million compared to \$150.9 million at June 30, 2018. The \$9.0 million decrease is the result of the decrease to bonds payable for payments of principal owed on bonds in fiscal year 2019.

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 just over one-fourth of the University's education and general budget. The balance 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 Eastern; with every tuition increase, there must be a corresponding focus and analysis of financial aid available to our students.
- The University feels strongly that campus facility improvements will continue to enhance student success. The various facility improvement projects that have taken place over the last several years 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 and the renovated and updated Powell Student Center will come online in fiscal year 2020, and the addition of a pedway across the bypass will round out the major projects in the Center for Student Life initiative.

(Continued)

EASTERN KENTUCKY UNIVERSITY
MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2019, 2018 and 2017

- The University's top general fund capital construction priorities remain a new Model Laboratory School/College of Education complex and a new aviation facility at the Central Kentucky Regional 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. The budgetary and financial challenges presented by placing the University's entire state appropriation into this model are significant.
- Make No Little Plans: A Vision for 2020, the University's Strategic Plan, has been extended for two years through 2022. This 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 and entrepreneurial 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 economic forecast for the Commonwealth is more uncertain.

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
 STATEMENTS OF NET POSITION
 June 30, 2019 and 2018

	<u>2019</u>	<u>2018</u>
ASSETS		
Current Assets		
Cash and cash equivalents	\$ 45,362,894	\$ 43,191,684
Accounts receivable – net of allowance of \$3,088,023 and \$2,966,658 for 2019 and 2018	28,056,468	22,603,401
Loans to students – net of allowance of \$1,929 and \$1,079 for 2019 and 2018	517,692	560,271
Inventories	272,635	277,519
Prepaid expenses	<u>1,394,689</u>	<u>774,884</u>
Total current assets	<u>75,604,378</u>	<u>67,407,759</u>
Noncurrent Assets		
Restricted cash and cash equivalents	40,482,070	64,087,717
Investments	20,484,587	20,127,991
Loans to students – net of allowance of \$12,790 and \$8,053 for 2019 and 2018	3,432,987	4,180,269
Capital assets – net of accumulated depreciation of \$287,845,149 and \$265,575,347 for 2019 and 2018	453,602,700	384,186,774
Capital assets not being depreciated	<u>59,587,554</u>	<u>113,898,377</u>
Total noncurrent assets	<u>577,589,898</u>	<u>586,481,128</u>
Total Assets	<u>653,194,276</u>	<u>653,888,887</u>
Deferred Outflows		
Unamortized deferred refunding loss balance	261,364	395,174
KTRS/KERS pension	52,707,203	91,212,421
KTRS/KERS OPEB	<u>7,374,075</u>	<u>10,131,979</u>
Total deferred outflows	<u>60,342,642</u>	<u>101,739,574</u>
Total Assets and Deferred Outflows	<u>\$ 713,536,918</u>	<u>\$ 755,628,461</u>

(Continued)

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

	<u>2019</u>	<u>2018</u>
LIABILITIES AND NET POSITION		
Current Liabilities		
Accounts payable	\$ 13,263,473	\$ 11,470,068
Accrued interest	956,040	1,177,718
Accrued salaries and benefits	3,936,855	4,554,963
Accrued compensated absences	2,911,260	3,262,392
Payroll withholding payable	911,299	965,405
Refundable deposits	359,378	40,650
Assets held for others	307,057	326,385
Unearned revenue	12,263,541	11,266,483
Bonds payable	9,055,494	9,011,987
Total current liabilities	<u>43,964,397</u>	<u>42,076,051</u>
Noncurrent Liabilities		
Unearned revenue	26,541,935	28,954,838
Bonds payable, noncurrent portion	107,329,565	116,385,059
Leases payable, noncurrent portion	25,500,000	25,500,000
Net pension liability	297,710,091	430,839,830
Net OPEB liability	59,910,311	73,021,894
Total noncurrent liabilities	<u>516,991,902</u>	<u>674,701,621</u>
Total liabilities	<u>560,956,299</u>	<u>716,777,672</u>
Deferred Inflows		
Service concession – housing	66,367,006	68,737,256
Other deferred inflows	7,389,892	7,649,834
KTRS/KERS pension	175,918,887	113,675,739
KTRS/KERS OPEB	12,249,833	1,395,673
Total deferred inflows	<u>261,925,618</u>	<u>191,458,502</u>
Net Position		
Net investment in capital assets	264,326,511	235,409,533
Restricted		
Expendable for capital projects	51,535,636	63,050,460
Expendable for loans to students	4,059,997	4,071,593
Expendable for scholarships	2,863,072	2,925,994
Expendable for institutional support	3,326,390	2,941,937
Unexpendable for permanent endowment	12,332,772	12,332,772
Unrestricted	<u>(447,789,377)</u>	<u>(473,340,002)</u>
Total net position	<u>(109,344,999)</u>	<u>(152,607,713)</u>
Total Liabilities, Deferred Inflows and Net Position	<u>\$ 713,536,918</u>	<u>\$ 755,628,461</u>

See accompanying notes to financial statements.

EASTERN KENTUCKY UNIVERSITY FOUNDATION, INC.
 STATEMENTS OF FINANCIAL POSITION
 June 30, 2019 and 2018

	<u>2019</u>	<u>2018</u>
ASSETS		
Current assets		
Cash and cash equivalents	\$ 2,453,156	\$ 2,840,864
Pledges receivable – net	477,716	787,163
Cash surrender value of life insurance	<u>172,500</u>	<u>186,807</u>
Total current assets	<u>3,103,372</u>	<u>3,814,834</u>
Noncurrent assets		
Investments	77,692,302	73,209,275
Pledges receivable – net	1,030,016	1,813,529
Property and equipment – net	703,149	717,273
Other noncurrent assets	<u>49,896</u>	<u>50,937</u>
Total noncurrent assets	<u>79,475,363</u>	<u>75,791,014</u>
Total Assets	<u>\$ 82,578,735</u>	<u>\$ 79,605,848</u>
LIABILITIES AND NET ASSETS		
Current liabilities		
Accounts payable	\$ 24,109	\$ 25,675
Due to University	<u>360,760</u>	<u>222,375</u>
Total current liabilities	<u>384,869</u>	<u>248,050</u>
Noncurrent liabilities		
Deferred gift liabilities	350,743	368,709
Assets held for others	<u>20,484,587</u>	<u>20,127,990</u>
Total noncurrent liabilities	<u>20,835,330</u>	<u>20,496,699</u>
Total Liabilities	<u>21,220,199</u>	<u>20,744,749</u>
Net assets		
Without donor restrictions		
Board designated endowment	4,931,566	7,541,872
Undesignated	<u>869,807</u>	<u>(2,709,592)</u>
Total net assets without donor restrictions	5,801,373	4,832,280
With donor restrictions		
Purpose restrictions	23,991,385	23,381,653
Perpetual in nature	<u>31,565,778</u>	<u>30,647,166</u>
Total net assets with donor restrictions	<u>55,557,163</u>	<u>54,028,819</u>
Total net assets	<u>61,358,536</u>	<u>58,861,099</u>
Total Liabilities and Net Assets	<u>\$ 82,578,735</u>	<u>\$ 79,605,848</u>

See accompanying notes to financial statements.

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

	<u>2019</u>	<u>2018</u>
OPERATING REVENUES		
Tuition and fees – net	\$ 88,373,243	\$ 92,504,337
Federal grants and contracts	25,355,714	23,855,127
State grants and contracts	15,507,689	21,019,232
Nongovernmental grants, contracts, and gifts	5,554,237	4,174,124
Sales and services of educational activities	6,595,893	6,204,504
Auxiliary enterprises – housing	9,321,159	7,640,515
Auxiliary enterprises – other	5,419,193	5,163,675
Other operating revenues	<u>16,243,849</u>	<u>19,737,435</u>
Total operating revenues	<u>172,370,977</u>	<u>180,298,949</u>
OPERATING EXPENSES		
Educational and general		
Instruction	85,330,882	92,786,050
Research	803,691	942,341
Public service	41,337,474	43,043,104
Libraries	3,859,362	4,271,382
Academic support	20,826,355	20,802,536
Student services	18,423,658	20,099,947
Institutional support	22,180,908	28,244,741
Operations and maintenance of plant	23,429,098	26,619,872
Depreciation	17,934,103	16,585,051
Student financial aid	15,481,988	14,443,064
Auxiliary enterprises		
Housing and other auxiliaries	19,859,598	21,795,858
Depreciation	4,984,803	3,406,192
Pension expense adjustments	(32,381,373)	11,382,080
OPEB expense adjustments	500,481	2,926,926
Other operating expenses	<u>228,423</u>	<u>1,301,783</u>
Total operating expenses	<u>242,799,451</u>	<u>308,650,927</u>
Operating loss	(70,428,474)	(128,351,978)
NONOPERATING REVENUES (EXPENSES)		
State appropriations	64,189,000	64,394,700
Federal and state grants and contracts	43,354,141	44,438,024
Investment income	3,193,708	1,965,829
Interest expense	(4,863,988)	(4,266,304)
Other nonoperating revenues	7,399,251	9,880,219
Other nonoperating expenses	<u>(664,478)</u>	<u>(25,726,213)</u>
Net nonoperating revenues	<u>112,607,634</u>	<u>90,686,255</u>
Gain (loss) before capital appropriations	42,179,160	(37,665,723)
Capital appropriations	<u>1,083,554</u>	<u>10,633,377</u>
Change in net position	43,262,714	(27,032,346)
Net position – beginning of year	<u>(152,607,713)</u>	<u>(125,575,367)</u>
Net position – end of year	<u>\$ (109,344,999)</u>	<u>\$ (152,607,713)</u>

See accompanying notes to financial statements.

EASTERN KENTUCKY UNIVERSITY FOUNDATION, INC.
STATEMENTS OF ACTIVITIES
Years ended June 30, 2019 and 2018

	2019			2018		
	Without Donor Restrictions	With Donor Restrictions	Total	Without Donor Restrictions	With Donor Restrictions	Total
REVENUES, GAINS, AND OTHER SUPPORT						
Contributions	\$ 205,401	\$ 2,280,271	\$ 2,485,672	\$ 142,107	\$ 2,959,883	\$ 3,101,990
Income from investments - net of investment expenses of \$208,158 and \$206,555 for 2019 and 2018, respectively	185,997	1,423,973	1,609,970	195,609	1,381,338	1,576,947
Net realized and unrealized gains on investments	286,989	1,901,967	2,188,956	405,075	2,366,665	2,771,740
Other income - net	69,807	27,044	96,851	66,039	19,021	85,060
	<u>748,194</u>	<u>5,633,255</u>	<u>6,381,449</u>	<u>808,830</u>	<u>6,726,907</u>	<u>7,535,737</u>
Net assets released from restrictions	4,104,911	(4,104,911)	-	3,614,437	(3,614,437)	-
	<u>4,853,105</u>	<u>1,528,344</u>	<u>6,381,449</u>	<u>4,423,267</u>	<u>3,112,470</u>	<u>7,535,737</u>
EXPENSES						
Support for the University	3,721,231	-	3,721,231	4,048,970	-	4,048,970
Management and general	162,781	-	162,781	158,857	-	158,857
Total expenses	<u>3,884,012</u>	<u>-</u>	<u>3,884,012</u>	<u>4,207,827</u>	<u>-</u>	<u>4,207,827</u>
Change in net assets	969,093	1,528,344	2,497,437	215,440	3,112,470	3,327,910
Net assets - beginning of year	<u>4,832,280</u>	<u>54,028,819</u>	<u>58,861,099</u>	<u>4,616,840</u>	<u>50,916,349</u>	<u>55,533,189</u>
Net assets - end of year	<u>\$ 5,801,373</u>	<u>\$55,557,163</u>	<u>\$61,358,536</u>	<u>\$ 4,832,280</u>	<u>\$54,028,819</u>	<u>\$58,861,099</u>

See accompanying notes to financial statements.

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

	<u>2019</u>	<u>2018</u>
OPERATING ACTIVITIES		
Tuition and fees	\$ 88,897,316	\$ 93,139,705
Grants, contracts and gifts	41,958,153	50,894,658
Payments to suppliers	(65,546,290)	(68,876,865)
Payments for utilities	(8,078,255)	(8,694,156)
Payments to employees	(121,186,500)	(130,579,764)
Payments for benefits	(41,481,799)	(51,521,697)
Payments to students	(15,332,783)	(12,090,134)
Loans issued to students and employees	(4,335)	(471,243)
Collections of loans to students and employees	794,196	1,003,163
Auxiliary enterprise charges		
Residence halls	8,929,056	7,609,764
Other	5,419,193	5,163,675
Sales and services of educational activities	6,595,893	6,204,504
Other receipts	<u>12,490,983</u>	<u>19,669,879</u>
Net cash used in operating activities	(86,545,172)	(88,548,511)
NONCAPITAL FINANCING ACTIVITIES		
State appropriations	64,189,000	64,394,700
Other nonoperating revenues	<u>47,458,721</u>	<u>44,438,024</u>
Net cash provided by noncapital financing activities	111,647,721	108,832,724
CAPITAL AND RELATED FINANCING ACTIVITIES		
Purchase of capital assets	(34,611,303)	(33,376,626)
Principal paid on bonds payable and capital leases	(8,270,000)	(9,190,000)
Interest paid on bonds payable and capital leases	(7,576,349)	(7,327,568)
Proceeds on issuance of bonds payable	-	21,860,000
State reimbursement of capital lease payments	-	2,136,106
Capital appropriations	<u>1,083,554</u>	<u>10,633,377</u>
Net cash used in capital and related financing activities	(49,374,098)	(15,264,711)
INVESTING ACTIVITIES		
Interest on investments	<u>2,837,112</u>	<u>1,204,611</u>
Net cash provided by investing activities	<u>2,837,112</u>	<u>1,204,611</u>
Increase (decrease) in cash and cash equivalents	(21,434,437)	6,224,113
Cash and cash equivalents – beginning of year	<u>107,279,401</u>	<u>101,055,288</u>
Cash and cash equivalents – end of year	<u>\$ 85,844,964</u>	<u>\$ 107,279,401</u>

(Continued)

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

	<u>2019</u>	<u>2018</u>
RECONCILIATION OF OPERATING LOSS TO NET CASH USED IN OPERATING ACTIVITIES		
Operating loss	\$ (70,428,474)	\$ (128,351,978)
Depreciation expense	22,918,906	19,991,243
Contributed capital assets	(1,530,000)	-
Changes in operating assets and liabilities		
Accounts receivable – net	(5,453,266)	2,133,051
Loans to students – net	789,861	531,920
Inventories	4,884	(10,104)
Prepaid expenses	(619,805)	228,506
Accounts payable	1,793,405	3,785,350
Accrued liabilities	(1,023,346)	(1,460,868)
Refundable deposits	318,728	(25,450)
Assets held for others	(19,328)	45,178
Unearned revenue	(1,415,845)	275,973
Deferred outflows – KTRS/KERS pension	38,505,218	35,048,169
Deferred outflows – KTRS/KERS OPEB	2,757,904	(6,062,979)
Deferred inflows – KTRS/KERS pension	62,243,148	102,859,295
Deferred inflows – KTRS/KERS OPEB	10,854,160	1,395,673
Net pension liability	(133,129,739)	(126,525,384)
Net OPEB liability	<u>(13,111,583)</u>	<u>7,593,894</u>
Net cash flows used in operating activities	<u>\$ (86,545,172)</u>	<u>\$ (88,548,511)</u>
Supplemental cash flows information		
Capital assets acquired through construction agreements	\$ -	\$ 32,574,192
Capital asset acquisitions in accounts payable	4,528,312	4,469,175
Capital leases payable extinguished (see Note 6)	-	4,410,000
Contributed capital assets	1,530,000	-

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 years ended June 30, 2019 and 2018 was \$6,486,549 and \$6,385,744, of which \$1,622,562 and \$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.

(Continued)

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 years ended June 30, 2019 and 2018 were \$64,220,071 and \$64,921,885 and \$9,010,668 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 2019, the University adopted the following accounting pronouncements:

- GASB Statement No. 83, *Certain Asset Retirement Obligations*. This Statement addresses accounting and financial reporting for certain asset retirement obligations (AROs) and establishes criteria for determining the timing and pattern of recognition of a liability and a corresponding deferred outflow of resources for AROs.
- GASB Statement No. 88, *Certain Disclosures Related to Debt, including Direct Borrowings and Direct Placements*. The primary objective of this Statement is to improve the information that is disclosed in notes to government financial statements related to debt, including direct borrowings and direct placements. It also clarifies which liabilities governments should include when disclosing information related to debt.

Adoption of these statements did not have a significant impact on the University's financial position or results of operations.

(Continued)

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

(Continued)

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

- GASB Statement No. 84, *Fiduciary Activities*, effective for periods beginning after December 15, 2018.
- GASB Statement No. 87, *Leases*, effective for periods beginning after December 15, 2019.
- 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 periods beginning after December 15, 2018.
- GASB Statement No. 91, *Conduit Debt Obligations*, effective for periods beginning after December 15, 2020.

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.

(Continued)

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

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

Deposits as of June 30, 2019 and 2018 consisted of:

	<u>2019</u>	<u>2018</u>
Depository accounts		
Local bank deposits – collateral held as a pledge in the University’s name	\$ 29,322,789	\$ 36,974,687
Cash on hand	19,489	23,200
State investment pool – uninsured and uncollateralized	<u>56,502,686</u>	<u>70,281,514</u>
Total deposits	<u>\$ 85,844,964</u>	<u>\$ 107,279,401</u>

Deposits at June 30, 2019 and 2018 as presented on the Statement of Net Position include:

	<u>2019</u>	<u>2018</u>
Cash and cash equivalents	\$ 45,362,894	\$ 43,191,684
Restricted cash and cash equivalents	<u>40,482,070</u>	<u>64,087,717</u>
Total deposits	<u>\$ 85,844,964</u>	<u>\$ 107,279,401</u>

Investments at June 30, 2019 and 2018 consisted of:

	<u>2019</u>	<u>2018</u>
Restricted assets held by the Foundation	<u>\$ 20,484,587</u>	<u>\$ 20,127,991</u>
Total investments	<u>\$ 20,484,587</u>	<u>\$ 20,127,991</u>

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.

(Continued)

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

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

The assets in the Foundation investment pool at June 30, 2019 and 2018 are invested as follows:

	<u>2019</u>	<u>2018</u>
Percentage of pool invested in:		
Cash equivalents – trustee	1%	1%
Registered investment companies equity funds	71	73
Registered investment companies fixed income funds	26	23
Alternative investments	<u>2</u>	<u>3</u>
Total	<u>100%</u>	<u>100%</u>

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, 2019 and 2018 is as follows:

	Fair Value Measurements at June 30, Using:			
	<u>Fair Value</u>	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
<u>2019</u>				
Eastern Kentucky University Foundation, Inc. Investment fund at net asset value per share	\$ 20,484,587	\$ -	\$ -	\$ -
Total investments	<u>\$ 20,484,587</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
<u>2018</u>				
Eastern Kentucky University Foundation, Inc. Investment fund at net asset value per share	\$ 20,127,991	\$ -	\$ -	\$ -
Total investments	<u>\$ 20,127,991</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

(Continued)

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

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 years ended June 30, 2019 and 2018 was \$3,193,708 and \$1,965,829, respectively, 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, 2019 and 2018:

	<u>2019</u>	<u>2018</u>
Student tuition and fees	\$ 9,448,621	\$ 8,189,494
Auxiliary enterprises	1,488,954	1,096,851
Federal, state and private grants and contracts	18,007,928	13,508,182
Other state agencies	28,198	145,741
Other	<u>2,170,790</u>	<u>2,629,791</u>
Total	31,144,491	25,570,059
Less allowance for uncollectible accounts	<u>(3,088,023)</u>	<u>(2,966,658)</u>
Accounts receivable – net	<u>\$ 28,056,468</u>	<u>\$ 22,603,401</u>

(Continued)

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

NOTE 4 – CAPITAL ASSETS

Capital assets activity for the year ended June 30, 2019, is as follows:

	Balance - June 30, <u>2018</u>	<u>Additions</u>	<u>Reductions</u>	<u>Transfers</u>	Balance – June 30, <u>2019</u>
Capital assets not being depreciated					
Land	\$ 8,186,328	\$ -	\$ -	\$ -	\$ 8,186,328
Historical treasures and works of art	308,492	1,530,000	-	-	1,838,492
Livestock for educational purposes	391,027	-	(202,479)	-	188,548
Construction in progress	<u>105,012,530</u>	<u>33,884,138</u>	<u>(19,098)</u>	<u>(89,503,384)</u>	<u>49,374,186</u>
Total capital assets not being depreciated	113,898,377	35,414,138	(221,577)	(89,503,384)	59,587,554
Other capital assets					
Land improvements	61,150,086	35,430	-	1,080,909	62,266,425
Buildings	511,990,282	20,125	(744,529)	88,025,890	599,291,768
Leasehold improvements	556,987	-	-	-	556,987
Equipment	29,106,512	1,749,877	(230,144)	396,585	31,022,830
Library books	<u>46,958,254</u>	<u>1,433,625</u>	<u>(82,040)</u>	<u>-</u>	<u>48,309,839</u>
Total other capital assets	649,762,121	3,239,057	(1,056,713)	89,503,384	741,447,849
Less accumulated depreciation for					
Land improvements	(34,430,988)	(3,431,183)	-	-	(37,862,171)
Buildings	(169,885,220)	(15,978,826)	338,890	-	(185,525,156)
Leasehold improvements	(510,690)	(12,558)	-	-	(523,248)
Equipment	(20,577,277)	(2,161,683)	228,174	-	(22,510,786)
Library books	<u>(40,171,172)</u>	<u>(1,334,656)</u>	<u>82,040</u>	<u>-</u>	<u>(41,423,788)</u>
Total accumulated depreciation	<u>(265,575,347)</u>	<u>(22,918,906)</u>	<u>649,104</u>	<u>-</u>	<u>(287,845,149)</u>
Other capital assets – net	<u>384,186,774</u>	<u>(19,679,849)</u>	<u>(407,609)</u>	<u>89,503,384</u>	<u>453,602,700</u>
Total capital assets – net	<u>\$498,085,151</u>	<u>\$ 15,734,289</u>	<u>\$ (629,186)</u>	<u>\$ -</u>	<u>\$513,190,254</u>

(Continued)

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

NOTE 4 – CAPITAL ASSETS (Continued)

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

	Balance - June 30, <u>2017</u>	<u>Additions</u>	<u>Reductions</u>	<u>Transfers</u>	Balance – June 30, <u>2018</u>
Capital assets not being depreciated					
Land	\$ 8,186,328	\$ -	\$ -	\$ -	\$ 8,186,328
Historical treasures and works of art	183,117	16,019	-	109,356	308,492
Livestock for educational purposes	531,300	-	(140,273)	-	391,027
Construction in progress	<u>150,669,312</u>	<u>34,727,831</u>	<u>-</u>	<u>(80,384,613)</u>	<u>105,012,530</u>
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	<u>45,672,231</u>	<u>1,466,897</u>	<u>(180,874)</u>	<u>-</u>	<u>46,958,254</u>
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	<u>(39,033,853)</u>	<u>(1,318,193)</u>	<u>180,874</u>	<u>-</u>	<u>(40,171,172)</u>
Total accumulated depreciation	<u>(264,754,338)</u>	<u>(19,991,243)</u>	<u>19,170,234</u>	<u>-</u>	<u>(265,575,347)</u>
Other capital assets – net	<u>311,755,861</u>	<u>17,632,796</u>	<u>(25,477,140)</u>	<u>80,275,257</u>	<u>384,186,774</u>
Total capital assets – net	<u>\$471,325,918</u>	<u>\$ 52,376,646</u>	<u>\$ (25,617,413)</u>	<u>\$ -</u>	<u>\$498,085,151</u>

NOTE 5 – UNEARNED REVENUE

Unearned revenue as of June 30, 2019 and 2018 is as follows:

	<u>2019</u>	<u>2018</u>
Unearned summer school revenue and activity fees	\$ 4,997,904	\$ 3,335,869
Unearned grants and contracts revenue, current	7,265,637	7,930,614
Unearned grants and contracts revenue, noncurrent	<u>26,541,935</u>	<u>28,954,838</u>
Total	<u>\$ 38,805,476</u>	<u>\$ 40,221,321</u>

(Continued)

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

NOTE 6 – BONDS PAYABLE AND CAPITAL LEASE OBLIGATIONS

Long-term liabilities as of June 30, 2019, and long-term activity for the year ended June 30, 2019 are summarized as follows:

	Balance - July 1, 2018	Additions	Reductions	Refunding	Balance - June 30, 2019	Balance Due Within One Year
Revenue bonds payable	\$102,055,000	\$ -	\$ (4,505,000)	\$ -	\$ 97,550,000	\$ 4,375,000
General receipts refunding bonds	17,770,000	-	(3,765,000)	-	14,005,000	4,030,000
Capitalized lease obligations	25,500,000	-	-	-	25,500,000	-
Unamortized bond premium	<u>5,572,046</u>	<u>-</u>	<u>(741,987)</u>	<u>-</u>	<u>4,830,059</u>	<u>650,494</u>
	<u>\$150,897,046</u>	<u>\$ -</u>	<u>\$ (9,011,987)</u>	<u>\$ -</u>	<u>\$141,885,059</u>	<u>\$ 9,055,494</u>

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	<u>4,390,392</u>	<u>1,926,283</u>	<u>(744,629)</u>	<u>-</u>	<u>5,572,046</u>	<u>741,987</u>
	<u>\$141,455,392</u>	<u>\$23,786,283</u>	<u>\$ (14,344,629)</u>	<u>\$ -</u>	<u>\$150,897,046</u>	<u>\$ 9,011,987</u>

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 years 2019 and 2018, \$105,000 and \$525,000 of principal and \$4,463 and \$26,512 of interest were paid on the bonds. Total outstanding principal at June 30, 2019 and 2018 was \$0 and \$105,000, respectively. 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 years 2019 and 2018, \$730,000 and \$705,000 of principal and \$256,979 and \$281,654, respectively, of interest were paid on the bonds. Total outstanding principal at June 30, 2019 and 2018 was \$5,700,000 and \$6,430,000, respectively.

(Continued)

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

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

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 years 2019 and 2018, \$930,000 and \$910,000 of principal and \$568,750 and \$591,750, respectively, of interest were paid on the bonds. Total outstanding principal at June 30, 2019 and 2018 was \$15,365,000 and \$16,295,000, respectively.

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.

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 2019 and 2018, \$2,880,000 and \$2,745,000 of principal and \$626,000 and \$763,250 of interest were paid on the bonds. The outstanding principal at June 30, 2019 and 2018 is \$9,640,000 and \$12,520,000, respectively.

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 years 2019 and 2018, \$545,000 and \$525,000 of principal and \$477,194 and \$498,194 of interest were paid on the bonds. Total outstanding principal at June 30, 2019 and 2018 was \$12,180,000 and \$12,725,000, respectively.

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, 2019, 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.

(Continued)

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

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

During fiscal years 2019 and 2018, \$885,000 and \$435,000 of principal and \$113,638 and \$122,338, respectively, of interest were paid on the bonds. Total outstanding principal at June 30, 2019 and 2018 was \$4,365,000 and \$5,250,000, respectively.

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 years 2019 and 2018, \$1,520,000 and \$1,500,000 of principal and \$1,841,906 and \$1,863,659, respectively, of interest were paid on the bonds. Total outstanding principal at June 30, 2019 and 2018 was \$43,120,000 and \$44,640,000, respectively.

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 years 2019 and 2018, \$675,000 and \$0 of principal and \$898,788 and \$155,154 of interest were paid on the bonds. Total outstanding principal at June 30, 2019 and 2018 was \$21,185,000 and \$21,860,000, respectively.

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.

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 years 2019 and 2018, \$0 and \$1,845,000 of principal and \$2,788,631 and \$3,025,058, respectively, of interest were paid on the capital leases.

(Continued)

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

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

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

Years ending June 30,	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
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	6,724,704	6,206,272	12,930,976
2025-2029	31,458,456	27,944,744	59,403,200
2030-2034	30,297,350	22,842,287	53,139,637
2035-2039	21,015,344	16,464,451	37,479,795
2040-2044	9,743,251	12,252,319	21,995,570
2045-2048	<u>10,304,044</u>	<u>5,209,415</u>	<u>15,513,459</u>
	<u>\$ 141,885,059</u>	<u>\$ 118,254,923</u>	<u>\$ 260,139,982</u>

Assets under capital leases at original cost totaled \$25,500,000 with accumulated depreciation of \$3,134,375 and \$2,496,875 at June 30, 2019 and 2018, respectively. This includes only Grand Campus Properties.

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, 2019 and 2018, the buildings had a net book value of \$67,700,272 and \$69,477,959 and the service concession had a carrying balance of \$66,367,006 and \$68,737,256, respectively.

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

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, 2019 and 2018 are as follows:

	<u>2019</u>	<u>2018</u>
Inventories	\$ 272,635	\$ 277,519
Outstanding encumbrances	1,249,663	2,844,019
Departmental commitments	9,520,386	9,832,474
Designated projects and contingency reserves	17,091,863	12,303,660
Health care self-insurance reserve	3,000,000	3,000,000
Auxiliary working capital	5,783,919	4,792,254
University capital projects	1,000,000	11,198,807
KTRS Pension	(214,884,106)	(255,821,928)
KERS Pension	(206,037,668)	(197,481,219)
KTRS OPEB	(27,355,982)	(27,286,719)
KERS OPEB	<u>(37,430,087)</u>	<u>(36,998,869)</u>
Total	<u>\$ (447,789,377)</u>	<u>\$ (473,340,002)</u>

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, 2019 and 2018 was \$20,484,587 and \$20,127,991, respectively.

The portion of the RUETF endowment representing the value of the funding received from the Kentucky General Assembly, plus unexpended earnings thereon, was \$18,522,233 and \$18,200,703 as of June 30, 2019 and 2018, respectively, 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, 2019 and 2018 was \$1,962,354 and \$1,927,288, respectively, and is included in restricted assets held by the Foundation (see Note 2).

(Continued)

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

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.

	<u>2019</u>	<u>2018</u>
Funds disbursed by the University on behalf of the Foundation:		
For employee salaries and benefits	\$ 209,778	\$ 122,591
For scholarships	1,322,952	1,345,200
Funds held by the Foundation on behalf of or for the benefit of the University as of June 30	20,484,587	20,127,991
Funds due to the University by the Foundation	314,827	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 <https://trs.ky.gov/>.

Basis of Accounting: For purposes of measuring the net pension and OPEB liabilities, deferred outflows of resources and deferred inflows of resources related to pension and OPEB, pension and OPEB expense, information about the fiduciary net position of the Kentucky Teachers' Retirement System of the State of Kentucky (KTRS) and additions to/deductions from KTRS's fiduciary net position have been determined on the same basis as they are reported by KTRS. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value, except for money market investments and participating interest-earning investment contracts that have a maturity at the time of purchase of one year or less, which are reported at cost.

(Continued)

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

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

Pension Plan Information

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

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

(Continued)

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

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

Contributions - Benefit and contribution rates are established by state statute. Per Kentucky Revised Statutes 161.540, 161.550 and 161.565, contribution requirements of the active employees and the participating organizations are established and may be amended by the KTRS Board. For the fiscal year ended June 30, 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, 2019 and 2018. The actuarially determined amount, when combined with employee contributions, is expected to finance the cost of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability.

The University has met 100% of the contribution funding requirement for the fiscal years ended June 30, 2019 and 2018. Total current year contributions recognized by the Plan were \$8,394,108 (\$7,148,090 related to pension and \$1,245,861 related to OPEB) for the year ended June 30, 2019. 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 \$6,567,954 for the year ended June 30, 2019.

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

	<u>2019</u>	<u>2018</u>
University's proportionate share of the net pension liability	\$ 97,174,796	\$ 193,364,393
Commonwealth of Kentucky's proportionate share of the net pension liability associated with the University	<u>72,297,288</u>	<u>154,107,781</u>
	<u>\$ 169,472,084</u>	<u>\$ 347,472,174</u>

The net pension liability was measured as of June 30, 2018 and 2017. The University's proportion of the net pension liability was based on actual contributions to the pension plan during the measurement period. At June 30, 2019 and 2018, University's proportion was 0.71% and 0.68%, respectively, and the Commonwealth of Kentucky's proportion associated with the University was .53% and 0.55%, respectively.

(Continued)

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

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

For the year ended June 30, 2019 and 2018, the University was allocated pension expense of \$(41,831,851) and \$(530,192) and revenue of \$8,410,279 and \$9,832,747, respectively. At June 30, 2019 and 2018, the University reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
<u>2019</u>		
Net difference between projected and actual earnings on investments	\$ -	\$ 2,401,876
Change in assumptions	16,369,882	77,539,941
Differences between expected and actual experience	787,688	9,792,591
Changes in proportionate share of contributions	<u>8,797,787</u>	<u>61,078,507</u>
	25,955,357	150,812,915
Contributions subsequent to the measurement date	<u>7,148,247</u>	<u>-</u>
	<u>\$ 33,103,604</u>	<u>\$ 150,812,915</u>
<u>2018</u>		
Net difference between projected and actual earnings on investments	\$ -	\$ 1,496,101
Change in assumptions	23,940,619	13,423,668
Differences between expected and actual experience	1,114,890	4,089,520
Changes in proportionate share of contributions	<u>10,466,077</u>	<u>87,634,380</u>
	35,521,586	106,643,669
Contributions subsequent to the measurement date	<u>8,612,279</u>	<u>-</u>
	<u>\$ 44,133,865</u>	<u>\$ 106,643,669</u>

At June 30, 2019, the University reported \$7,148,247 as deferred outflows of resources related to pensions resulting from University contributions subsequent to the measurement date that will be recognized as a reduction of the net pension liability in the following fiscal year. Deferred outflows and deferred inflows of resources at June 30, 2019, related to pensions will be recognized in pension expense as follows:

Year ended June 30:	
2020	\$ (40,976,655)
2021	(44,752,171)
2022	(29,973,611)
2023	<u>(9,155,121)</u>
	<u>\$ (124,857,558)</u>

(Continued)

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

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

Actuarial assumptions - The total pension liability was determined by actuarial valuations as of June 30, 2017 and 2016, using the following actuarial assumptions, applied to all periods included in the measurement:

Valuation date	June 30, 2017 and 2016
Inflation	3.00%
Salary increases	3.50% - 7.30%, average, including inflation
Investment rate of return	7.50%, net of pension plan investment expense, including inflation
Municipal bond index rate	3.89% and 3.56%
Single equivalent interest rate	7.50% and 4.49%

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 KTRS Board on November 19, 2016.

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

<u>Asset Class</u>	<u>June 30, 2018</u>	
	<u>Target Allocation</u>	<u>Long-Term Nominal Rate of Return</u>
U.S. Equity	40%	4.2%
Non U.S. Equity	22%	5.2%
Fixed Income	15%	1.2%
Additional Categories*	8%	3.3%
Real Estate	6%	3.8%
Private Equity	7%	6.3%
Cash	<u>2%</u>	0.9%
Total	<u>100.0%</u>	

(Continued)

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

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

<u>Asset Class</u>	June 30, 2017	
	<u>Target Allocation</u>	<u>Long-Term Nominal Rate of Return</u>
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, 2018 and 2017 reflects the assumed municipal bond index rate increase from 3.56% to 3.89%, resulting in a change in the Single Equivalent Interest Rate (SEIR) from 4.49% to 7.50%. The impact of this change in the discount rate is a change in assumption that is added to expected total pension liability to determine the final total pension liability at June 30, 2018. The total pension liability as of June 30, 2017 reflects the assumed municipal bond index rate increase from 3.01% to 3.56%, resulting in a change in the Single Equivalent Interest Rate (SEIR) from 4.20% to 4.49%. The impact of this change in the discount rate is a change in assumption that is added to expected total pension liability to determine the final total pension liability at June 30, 2017. Based on those assumptions, at the June 30, 2017 measurement date, 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 Single Equivalent Interest Rate (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 (TPL).

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

Discount rate - The discount rate used to measure the total pension liability was 7.50% and 4.49% at June 30, 2017 and 2016. 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 that employer contributions will be made at the actuarially determined contribution rates, adjusted by 95%, for all fiscal years in the future. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

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

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

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

Sensitivity of the University's proportionate share of the net pension liability to changes in the discount rate - The following tables present the net pension liability of the University as of June 30, 2019 and 2018, calculated using the discount rate, 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 or 1-percentage-point higher than the current rate:

	June 30, 2019		
	1% Decrease <u>(6.50%)</u>	Current Discount Rate <u>(7.50%)</u>	1% Increase <u>(8.50%)</u>
Proportionate share of the Collective Net Pension Liability <i>(in thousands)</i>	\$ 124,568	\$ 97,175	\$ 74,138
	June 30, 2018		
	1% Decrease <u>(3.49)</u>	Current Discount Rate <u>(4.49%)</u>	1% Increase <u>(5.49%)</u>
Proportionate share of the Collective Net Pension Liability <i>(in thousands)</i>	\$ 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.

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 and three-quarters 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. For the years ended June 30, 2019 and 2018, the University contributed \$1,230,145 and \$1,512,099 to the KTRS medical insurance plan.

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

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

OPEB Liabilities, OPEB Expense, and Deferred Outflows of Resources and Deferred Inflows

of Resources Related to OPEBs - At June 30, 2019 and 2018, the University reported a liability of \$25,293,000 and \$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, 2018 and 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, 2018 and 2017, the University's proportion was .73% and .79% and the Commonwealth of Kentucky's proportion associated with the University was .36% for both years.

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:

	<u>2019</u>	<u>2018</u>
University's proportionate share of the net OPEB liability	\$ 25,293,000	\$ 28,232,000
State's proportionate share of the net OPEB liability associated with the University	<u>12,379,000</u>	<u>12,803,000</u>
Total	<u>\$ 37,672,000</u>	<u>\$ 41,035,000</u>

For the year ended June 30, 2019 and 2018, the University was allocated OPEB expense of \$1,892,000 and \$2,670,000 and revenue of \$869,000 and \$833,000 for support provided by the State. At June 30, 2019 and 2018, the University reported deferred outflows of resources and deferred inflows of resources related to OPEBs from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
<u>2019</u>		
Difference between expected and actual experience	\$ -	\$ 1,296,000
Changes of assumptions	348,000	-
Net difference between projected and actual earnings on OPEB plan investments	-	103,000
Changes in proportion and differences between University contributions and proportionate share of contributions	<u>-</u>	<u>1,904,000</u>
	348,000	3,303,000
University contributions subsequent to the measurement date	<u>1,230,145</u>	<u>-</u>
Total	<u>\$ 1,578,145</u>	<u>\$ 3,303,000</u>

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

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

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
<u>2018</u>		
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	-
	<u>1,512,099</u>	<u>-</u>
Total	<u>\$ 1,512,099</u>	<u>\$ 291,000</u>

Of the total amount reported as deferred outflows of resources related to OPEB, \$1,230,145 resulting from University contributions subsequent to the measurement date and before the end of the fiscal year will be included as a reduction of the collective net OPEB liability in the year ended June 30, 2020. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized in the University's OPEB expense as follows:

Year ended June 30:	
2020	\$ (563,000)
2021	(563,000)
2022	(563,000)
2023	(517,000)
2024	(526,000)
2025	(223,000)
	<u>\$ (2,955,000)</u>

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

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

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

Valuation date	June 30, 2017 and 2016
Measurement date	June 30, 2018 and 2017
Inflation	3.00%
Real wage growth	0.50%
Wage inflation	3.50%
Salary increases	3.50% - 7.20%, including inflation
Investment rate of return	8.00%, net of OPEB plan investment expense, including inflation
Healthcare cost trend rate	Pre-65: 7.75% decreasing to an ultimate trend rate of 5.00% by FY2024. Post-65: 5.75% decreasing to an ultimate trend rate of 5.00% by FY2021.
Medicare Part B premiums	0.00% and 1.02% for FY 2018 and 2017 increasing to an ultimate rate of 5.00% by FY 2030 and 2029.
Municipal bond index rate	3.89% and 3.56%
Discount rate	8.00%
Single equivalent interest rate	8.00%, net of OPEB plan investment expense, including inflation

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

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

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

Asset Class	June 30, 2018		June 30, 2017	
	Target Allocation	Expected Geometric Rate of Return	Target Allocation	Expected Geometric Rate of Return
Global Equity	58.00%	4.60%	60.00%	5.10%
Fixed Income	9.00%	1.20%	9.00%	1.20%
Real Estate	5.50%	3.80%	4.50%	4.00%
Private Equity	6.50%	6.30%	5.50%	6.60%
High Yield	0.00%	0.00%	10.00%	4.30%
Other Additional Categories*	20.00%	3.30%	10.00%	3.30%
Cash (LIBOR)	1.00%	0.90%	1.00%	0.50%
Total	100%		100%	

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

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

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

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, 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 or 1-percentage-point higher than the current rate:

	June 30, 2019		
	1% Decrease <u>(7.00%)</u>	Current Discount Rate (8.00%)	1% Increase <u>(9.00%)</u>
University's net OPEB liability (MI) <i>(in thousands)</i>	\$ 19,913	\$ 25,293	\$ 14,539
	June 30, 2018		
	1% Decrease <u>(7.00%)</u>	Current Discount Rate (8.00%)	1% Increase <u>(9.00%)</u>
University's net OPEB liability (MI) <i>(in thousands)</i>	\$ 32,876	\$ 28,232	\$ 24,365

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:

	June 30, 2019		
	1% <u>Decrease</u>	Current Trend Rate	1% <u>Increase</u>
University's net OPEB liability <i>(in thousands)</i>	\$ 14,081	\$ 25,293	\$ 20,560

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

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

	June 30, 2018		
	<u>1% Decrease</u>	<u>Current Trend Rate</u>	<u>1% Increase</u>
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. This change occurred in the prior year, while there were no other changes in the current year.

Changes to assumptions or other inputs – Updated health care trend rates were implemented.

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.

Contributions - In order to fund the post-retirement life insurance benefit, 0.03 percent of the gross annual payroll of members is contributed by the state. In addition, KCTCS contributes 0.04 percent of each participants covered compensation. For the years ended June 30, 2019 and 2018, the University contributed \$15,873 and \$19,181 to the KTRS life insurance plan.

OPEB Liabilities, OPEB Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEBs - At June 30, 2019 and 2018, the University reported a liability of \$457,000 and \$373,000 for its proportionate share of the collective net OPEB liability, respectively. The collective net OPEB liability was measured as of June 30, 2018. 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, 2018 and 2017, the University's proportion was 1.62% and 1.70%.

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

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

For the years ended June 30, 2019 and 2018, the University was allocated OPEB expense of \$75,000 and \$19,181. At June 30, 2019 and 2018, the University reported deferred outflows of resources and deferred inflows of resources related to OPEBs from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
<u>2019</u>		
Difference between expected and actual experience	\$ 125,000	\$ -
Changes of assumptions	-	-
Net difference between projected and actual earnings on OPEB plan investments	-	10,000
Changes in proportion and differences between University contributions and proportionate share of contributions	-	<u>12,000</u>
	<u>125,000</u>	<u>22,000</u>
University contributions subsequent to the measurement date	<u>15,873</u>	-
Total	<u>\$ 140,873</u>	<u>\$ 22,000</u>
	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
<u>2018</u>		
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	-	-
	<u>78,000</u>	<u>-</u>
University contributions subsequent to the measurement date	<u>19,181</u>	-
Total	<u>\$ 97,181</u>	<u>\$ -</u>

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

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

Of the total amount reported as deferred outflows of resources related to OPEB, \$15,873 resulting from University contributions subsequent to the measurement date and before the end of the fiscal year will be included as a reduction of the collective net OPEB liability in the year ended June 30, 2020. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized in the University's OPEB expense as follows:

Year ended June 30:	
2020	\$ 32,000
2021	32,000
2022	32,000
2023	13,000
2024	<u>(6,000)</u>
	<u>\$ 103,000</u>

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

Valuation Date	June 30, 2017 and 2016
Measurement Date	June 30, 2018 and 2017
Investment rate of return	8.00% and 7.50% for 2018 and 2017, net of OPEB plan investment expense, including inflation.
Projected salary increases	3.50 – 7.20%, including inflation
Inflation rate	3.00%
Real Wage Growth	0.50%
Wage Inflation	3.50%
Municipal Bond Index Rate	3.89% and 3.56% for 2018 and 2017
Discount Rate	8.00% and 7.50% for 2018 and 2017
Single Equivalent Interest Rate	8.00% and 7.50% for 2018 and 2017, net of OPEB plan investment expense, including inflation.

Mortality rates were based on the RP-2000 Combined Mortality Table projected to 2025 with projection scale BB, and set forward two years for males and one year for females is used for the period after service retirement and for dependent beneficiaries. The RP-2000 Disabled Mortality Table set forward two years for males and seven years for females is used for the period after disability retirement. The demographic actuarial assumptions for retirement, disability incidence, withdrawal, rates of plan participation, and rates of plan election used in the June 30, 2017 valuation were based on the results of the most recent actuarial experience studies for the System, which covered the five-year period ending June 30, 2015.

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

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

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

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

Changes in assumptions or benefit terms as of June 30, 2019 included a change to the investment rate of returns, municipal bond index rate, discount rate, and single equivalent interest rate noted in the table above.

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*	June 30, 2018		June 30, 2017	
	Target Allocation	30 Year Expected Geometric Rate of Return	Target Allocation	30 Year Expected Geometric Rate of Return
U.S. Large Cap Equity	40.00%	4.20%	38.40%	4.30%
U.S. Small Cap Equity	0.00%	0.00%	2.60%	4.80%
Developed Int'l Equity	23.00%	5.20%	15.80%	5.20%
Emerging Markets Equity	0.00%	0.00%	4.20%	5.40%
Fixed Income - Inv Grade	18.00%	1.20%	16.00%	1.20%
Real Estate	6.00%	3.80%	6.00%	4.00%
Private Equity	5.00%	6.30%	7.00%	6.60%
High Yield	0.00%	0.00%	2.00%	4.30%
Other Additional Categories**	6.00%	3.30%	7.00%	3.30%
Cash (LIBOR)	2.00%	0.90%	1.00%	0.50%
Total	100%		100%	

* As the life insurance plan investment policy is subject 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 tables present the University's proportionate share of the collective net OPEB liability of the System, calculated using the discount rate, 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 or 1-percentage-point higher than the current rate:

	June 30, 2019		
	1% Decrease (6.50%)	Current Discount Rate (7.50%)	1% Increase (8.50%)
University's net OPEB (LI) liability (in thousands)	\$ 696	\$ 457	\$ 261

(Continued)

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

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

	June 30, 2018		
	1% Decrease <u>(6.50%)</u>	Current Discount Rate <u>(7.50%)</u>	1% Increase <u>(8.50%)</u>
University's net OPEB (LI) liability <i>(in thousands)</i>	\$ 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.

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.

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

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

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:

Non-Hazardous

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

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

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

Hazardous

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

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

(Continued)

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

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, 2019 and 2018, participating employers in the Nonhazardous plan contributed 49.47% (41.06% allocated to pension and 8.41% allocated to OPEB) and 49.47% (41.06% allocated to pension and 8.41% allocated to OPEB) as set by KRS, respectively, of each Nonhazardous employee's creditable compensation. For the fiscal years ended June 30, 2019 and 2018, participating employers in the Hazardous plan contributed 36.85% (34.39% allocated to pension and 2.46% allocated to OPEB) and 48.59% (40.24% allocated to pension and 8.35% 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, 2019 and 2018. Total current year contributions recognized by the Plan were \$8,186,259 (\$6,840,451 related to pension and \$1,345,808 related to OPEB) and \$11,232,867 (\$9,342,135 related to pension and \$1,890,732 related to OPEB) for the years ended June 30, 2019 and 2018. The OPEB contribution amounts do not include the implicit subsidy reported in the amount of \$313,722 and \$346,486 for years ended June 30, 2019 and 2018.

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.

(Continued)

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

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 was determined by applying procedures to the actuarial valuation as of June 30, 2018 and 2017. The financial reporting actuarial valuation as of June 30, 2018 and 2017 used the following actuarial methods and assumptions applied to all prior periods included in the measurement:

Valuation date	June 30, 2018 (rolled forward) and 2017
Experience study	July 1, 2008 – June 30, 2013
Actuarial cost method	Entry age normal
Amortization period	Level percentage payroll, closed
Remaining amortization period	26 years
Asset valuation method	5-year smoothed market
Inflation	2.30 percent
Salary increase	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, 2018 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 remained the same from 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 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.

(Continued)

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

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

- (c) **Long-Term Rate of Return:** The long-term expected rate of return was determined by using a building-block method in which best-estimate ranges of expected future real rate of returns are developed for each asset class. The ranges are combined by weighting the expected future real rate of return by the target asset allocation percentage. The target allocation and best estimates of arithmetic real rate of return for each major asset class are summarized in the tables below.
- (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

<u>Asset Class</u>	June 30, 2018	
	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
US Large Cap	8.50%	4.50%
US Mid Cap	5.00	4.50
US Small Cap	4.00	5.50
International Developed	12.50	6.50
Emerging Markets	5.00	7.25
Global Bonds	10.00	3.00
Global Credit	10.00	3.75
High Yield	3.00	5.50
Emerging Market Debt	4.00	6.00
Real Estate	5.00	7.00
Absolute Return	10.00	5.00
Real Return	10.00	5.00
Private Equity	10.00	6.50
Cash	3.00	1.50
Total	100.0%	5.13%

(Continued)

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

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

Hazardous

<u>Asset Class</u>	June 30, 2018	
	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
US Large Cap	5.00%	4.50%
US Mid Cap	6.00	4.50
US Small Cap	6.50	5.50
International Developed	12.50	6.50
Emerging Markets	5.00	7.25
Global Bonds	4.00	3.00
Global Credit	2.00	3.75
High Yield	7.00	5.50
Emerging Market Debt	5.00	6.00
Illiquid Private	10.00	8.50
Real Estate	5.00	9.00
Absolute Return	10.00	5.00
Real Return	10.00	7.00
Private Equity	10.00	6.50
Cash	32.00	1.50
Total	100.0%	6.09%

Non-hazardous

<u>Asset Class</u>	June 30, 2017	
	<u>Long-Term Target Allocation</u>	<u>Expected Real Rate of Return</u>
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%

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

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

Hazardous

<u>Asset Class</u>	June 30, 2017	
	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
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, 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 or 1 percentage-point higher than the current rate:

	June 30, 2019		
	1% Decrease (4.25%)	Current Discount Rate (5.25%)	1% Increase (6.25%)
The University's net pension liability - Non-hazardous (in thousands)	\$ 224,845	\$ 197,365	\$ 174,479
	June 30, 2018		
	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

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

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

The following presents the University's allocated portion of the Hazardous net pension liability ("NPL") of the System, calculated using the discount rate, 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 or 1 percentage-point higher than the current rate:

	June 30, 2019		
	1% Decrease (<u>5.25%</u>)	Current Discount Rate (<u>6.25%</u>)	1% Increase (<u>7.25%</u>)
The University's net pension liability – Hazardous (in thousands)	\$ 4,055	\$ 3,169	\$ 2,434
	June 30, 2018		
	1% Decrease (<u>5.25%</u>)	Discount Rate (<u>6.25%</u>)	1% Increase (<u>7.25%</u>)
The University's net pension liability – Hazardous (in thousands)	\$ 4,052	\$ 3,185	\$ 2,466

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 \$197,365,884, or approximately 1.45% as of June 30, 2019 and \$234,290,133, or 1.75% as of June 30, 2018. The University's proportionate share of the Hazardous net pension liability, as indicated in the prior table, is \$3,169,411, or approximately .63% as of June 30, 2019 and \$3,185,338, or .64% as of June 30, 2018. The net pension liabilities were distributed based on 2018 actual employer contributions to the plan.

Measurement Date: June 30, 2018 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, there have been no changes in actuarial assumptions. However, during the 2018 legislative session, House Bill 185 was enacted, which updated the benefit provisions for active members who die in the line of duty. Benefits paid to the spouses of deceased members have been increased from 25% of the member's final rate of pay to 75% of the member's average pay. If the member does not have a surviving spouse, benefits paid to surviving dependent children have been increased from 10% of the member's final pay rate to 50% of average pay for one child, 65% of average pay for two children, or 75% of average pay for three children. The total pension liability as of June 30, 2018 was determined using these updated benefit provisions.

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

Pension Expense: The University was allocated pension expense of \$14,424,374 and \$38,929,681 related to the KERS Non-Hazardous and \$ 1,218,382 and \$1,241,623 related to the KERS Hazardous for the years ended June 30, 2019 and 2018, respectively.

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

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

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

Non-hazardous

	Deferred Outflows of Resources	Deferred Inflows of Resources
<u>2019</u>		
Difference between expected and actual experience	\$ 1,405,820	\$ 552,036
Change of assumptions	8,813,943	-
Changes in proportion and differences between employer contributions and proportionate shares of contributions	1,231,788	24,488,203
Differences between expected and actual investment earning on plan investments	<u>188,422</u>	<u>-</u>
	11,639,973	25,040,239
Contributions subsequent to the measurement date	<u>6,425,801</u>	<u>-</u>
Total	<u>\$ 18,065,774</u>	<u>\$ 25,040,239</u>
	Deferred Outflows of Resources	Deferred Inflows of Resources
<u>2018</u>		
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	<u>918,805</u>	<u>-</u>
	35,668,332	7,032,070
Contributions subsequent to the measurement date	<u>9,038,230</u>	<u>-</u>
Total	<u>\$ 44,706,562</u>	<u>\$ 7,032,070</u>

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

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

Deferred outflows of resources resulting from employer contributions subsequent to the measurement date of \$6,425,801 will be recognized as a reduction of net pension liability in the year ending June 30, 2020. The remainder of the deferred outflows and deferred inflows of resources are amortized over three to five years with remaining amortization as follows:

Year ending June 30:	
2020	\$ (4,458,224)
2021	(8,430,384)
2022	(389,578)
2023	<u>(122,080)</u>
	<u>\$ (13,400,266)</u>

Hazardous

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
<u>2019</u>		
Difference between expected and actual experience	\$ 163,037	\$ -
Change of assumptions	288,031	-
Changes in proportion and differences between employer contributions and proportionate shares of contributions	672,107	25,889
Differences between expected and actual investment earning on plan investments	<u>-</u>	<u>39,844</u>
	1,123,175	65,733
Contributions subsequent to the measurement date	<u>414,650</u>	<u>-</u>
Total	<u>\$ 1,537,825</u>	<u>\$ 65,733</u>
	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
<u>2018</u>		
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	<u>35,333</u>	<u>-</u>
	2,068,089	-
Contributions subsequent to the measurement date	<u>303,905</u>	<u>-</u>
Total	<u>\$ 2,371,994</u>	<u>\$ -</u>

(Continued)

EASTERN KENTUCKY UNIVERSITY
NOTES TO FINANCIAL STATEMENTS
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NOTE 11 – PENSION AND OTHER POSTEMPLOYMENT BENEFIT (OPEB) PLANS (Continued)

Deferred outflows of resources resulting from employer contributions subsequent to the measurement date of \$414,650 will be recognized as a reduction of net pension liability in the year ending June 30, 2019. The remainder of the deferred outflows and deferred inflows of resources are amortized over three to five years with remaining amortization as follows:

Year ending June 30:	
2020	\$ 987,183
2021	142,355
2022	(54,395)
2023	<u>(17,701)</u>
	<u>\$ 1,057,442</u>

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

OPEB Information

Total OPEB Liability: The total OPEB liability was determined by applying procedures to the actuarial valuation as of June 30, 2018 and 2017. The financial reporting actuarial valuation as of June 30, 2018 and 2017 used the following actuarial methods and assumptions applied to all prior periods included in the measurement:

Valuation date	June 30, 2018 (rolled forward) and 2017
Measurement date	June 30, 2018 and 2017
Price inflation	2.30%
Payroll growth rate	0.00%
Salary increases	3.05%
Investment rate of return	6.25%
Healthcare trend rates	
Pre-65	Initial trend starting at 7.25% and 7.00%, beginning January 1, 2019 and 2020, gradually decreasing to an ultimate trend rate of 4.05% over a period of 13 and 12 years.
Post-65	Initial trend starting at 5.10% and 5.00%, beginning January 1, 2019 and 2020, gradually decreasing to an ultimate trend rate of 4.05% over a period of 11 and 10 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.

(Continued)

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

Discount rate assumptions:

- (a) **Discount Rate:** The discount rate used to measure the total Non-hazardous OPEB liability was 5.86%, 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 5.88%, which was increased from the 5.87% discount rate used in the prior year.
- (b) **Projected Cash Flows:** The projection of cash flows used to determine the discount rate assumed the local employers and plan members would contribute the actuarially determined contribution rate of projected compensation over the remaining 26-year amortization period of the unfunded actuarial accrued liability.
- (c) **Long-Term Rate of Return:** The long-term expected 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 used a municipal bond rate of 3.62% as reported in Fidelity Index's "20 – Year Municipal GO AA Index" as of June 30, 2018.
- (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.

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

(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:

<u>Asset Class</u>	June 30, 2019	
	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
US Large Cap	5.00%	4.50%
US Mid Cap	6.0	4.50
US Small Cap	6.5	5.50
International Developed	12.5	6.50
Emerging Markets	5.0	7.25
Global Bonds	4.0	3.00
Global Credit	2.0	3.75
High Yield	7.0	5.50
Emerging Market Debt	5.0	6.00
Illiquid Private	10.0	8.50
Real Estate	5.0	9.00
Absolute Return	10.0	5.00
Real Return	10.0	7.00
Private Equity	10.0	6.50
Cash	2.0	1.50
Total	100.0%	6.09%
	June 30, 2018	
<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
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.

(Continued)

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

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, 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 or 1-percentage-point higher than the current rate for Non-hazardous:

	June 30, 2019		
	1% Decrease (4.86%)	Current Discount Rate (5.86%)	1% Increase (6.86%)
The University's Net OPEB liability – Non-hazardous (<i>in thousands</i>)	\$ 40,324	\$ 34,368	\$ 29,412
	June 30, 2018		
	1% Decrease (4.83%)	Current Discount Rate (5.83%)	1% Increase (6.83%)
The University's Net OPEB liability – Non-hazardous (<i>in thousands</i>)	\$ 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 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:

	June 30, 2019		
	1% Decrease	Current Healthcare Cost Trend Rate	1% Increase
The University's Net OPEB liability – Non-hazardous (<i>in thousands</i>)	\$ 29,220	\$ 34,368	\$ 40,560
	June 30, 2018		
	1% Decrease	Current Healthcare Cost Trend Rate	1% Increase
The University's Net OPEB liability – Non-hazardous (<i>in thousands</i>)	\$ 37,707	\$ 44,378	\$ 52,755

(Continued)

EASTERN KENTUCKY UNIVERSITY
NOTES TO FINANCIAL STATEMENTS
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NOTE 11 – PENSION AND OTHER POSTEMPLOYMENT BENEFIT (OPEB) PLANS (Continued)

Hazardous

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

	June 30, 2019		
	1% Decrease <u>(4.88%)</u>	Current Discount Rate <u>(5.88%)</u>	1% Increase <u>(6.88%)</u>
The University's Net OPEB liability – Hazardous <i>(in thousands)</i>	\$ 209	\$ (208)	\$ (543)

	June 30, 2018		
	1% Decrease <u>(4.83%)</u>	Current Discount Rate <u>(5.83%)</u>	1% Increase <u>(6.83%)</u>
The University's Net OPEB liability – Hazardous <i>(in thousands)</i>	\$ 471	\$ 39	\$ (315)

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:

	June 30, 2019		
	Current Healthcare		
	<u>1% Decrease</u>	<u>Cost Trend Rate</u>	<u>1% Increase</u>
The University's Net OPEB liability – Hazardous <i>(in thousands)</i>	\$ (535)	\$ 208	\$ 196

	June 30, 2018		
	Current Healthcare		
	<u>1% Decrease</u>	<u>Cost Trend Rate</u>	<u>1% Increase</u>
The University's Net OPEB liability – Hazardous <i>(in thousands)</i>	\$ (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 \$34,368,478, or approximately 1.45% as of June 30, 2019 and \$44,378,249, or approximately 1.75% as of June 30, 2018. The University's proportionate share of the Hazardous net OPEB liability, as indicated in the prior table, is \$(208,167), or approximately .63% as of June 30, 2019 and \$38,645, or approximately .64% as of June 30, 2018. The net OPEB liabilities were distributed based on 2018 actual employer contributions to the plan.

(Continued)

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

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

Measurement Date: June 30, 2018 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, there have been no changes in actuarial assumptions. However, during the 2018 legislative session, House Bill 185 was enacted, which updated the benefit provisions for active members who die in the line of duty. The system shall now pay 100% of the insurance premium for spouses and children of all active members who die in the line of duty. The total OPEB liability as of June 30, 2018, is determined using these updated benefit provisions.

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 OPEB expense of \$1,915,256 related to the KERS Non-Hazardous and \$71,506 related to the KERS Hazardous for the year ended June 30, 2019, and \$4,402,364 related to the KERS Non-Hazardous and \$68,888 related to the KERS Hazardous for the year ended 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:

Non-hazardous

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
<u>2019</u>		
Difference between expected and actual experience	\$ -	\$ 2,244,105
Change of assumptions	3,612,847	129,889
Changes in proportion and differences between employer contributions and proportionate shares of contributions	-	5,701,361
Differences between expected and actual investment earning on plan investments	<u>-</u>	<u>503,390</u>
	3,612,847	8,578,745
Contributions subsequent to the measurement date	<u>1,627,580</u>	<u>-</u>
Total	<u>\$ 5,240,427</u>	<u>\$8,578,745</u>

(Continued)

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

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

	Deferred Outflows of Resources	Deferred Inflows of Resources
<u>2018</u>		
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	-	-
	<u>-</u>	<u>574,390</u>
	5,810,453	954,983
Contributions subsequent to the measurement date	<u>2,196,803</u>	<u>-</u>
 Total	 <u>\$ 8,007,256</u>	 <u>\$ 954,983</u>

Deferred outflows of resources resulting from employer contributions subsequent to the measurement date of \$1,627,580, which includes the implicit subsidy reported of \$311,433, will be recognized as a reduction of net OPEB liability in the year ending June 30, 2020. The remainder of the deferred outflows and deferred inflows of resources are amortized over three to five years with remaining amortization as follows:

Year ending June 30:	
2020	\$ (1,026,734)
2021	(1,026,734)
2022	(1,026,734)
2023	<u>(1,885,696)</u>
	 <u>\$ (4,965,898)</u>

Hazardous

	Deferred Outflows of Resources	Deferred Inflows of Resources
<u>2019</u>		
Difference between expected and actual experience	\$ -	\$ 169,545
Change of assumptions	382,680	3,072
Changes in proportion and differences between employer contributions and proportionate shares of contributions	-	7,572
Differences between expected and actual investment earning on plan investments	-	-
	<u>-</u>	<u>165,899</u>
	382,680	346,088
Contributions subsequent to the measurement date	<u>31,950</u>	<u>-</u>
 Total	 <u>\$ 414,630</u>	 <u>\$ 346,088</u>

(Continued)

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

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

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
<u>2018</u>		
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	<u>\$ 515,452</u>	<u>\$ 149,690</u>

Deferred outflows of resources resulting from employer contributions subsequent to the measurement date of \$31,950, which include the implicit subsidy reported of \$2,289, will be recognized as a reduction of net OPEB liability in the year ending June 30, 2020. The remainder of the deferred outflows and deferred inflows of resources are amortized over three to five years with remaining amortization as follows:

Year ending June 30:		
2020	\$	5,097
2021		5,097
2022		5,097
2023		38,985
2024		(6,789)
Thereafter		(10,895)
		<u>\$ 36,592</u>

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

Summary Pension Plan Information:

Summary Pension Plan Information as of June 30, 2019 and 2018:

	<u>KERS</u>	<u>KTRS</u>	<u>Total</u>
<u>2019</u>			
Net pension liability	\$ 200,535,295	\$ 97,174,796	\$ 297,710,091
Deferred outflows of resources	19,603,599	33,103,604	52,707,203
Deferred inflows of resources	25,105,972	150,812,915	175,918,887
Pension expense adjustments	8,608,700	(40,990,073)	(32,381,373)
 <u>2018</u>			
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

(Continued)

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

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

Summary OPEB Plan Information:

Summary OPEB Plan Information as of June 30, 2019 and 2018:

	<u>KERS</u>	<u>KTRS</u>	<u>Total</u>
<u>2019</u>			
Net OPEB liability	\$ 34,160,311	\$ 25,750,000	\$ 59,910,311
Deferred outflows of resources	5,655,057	1,719,018	7,374,075
Deferred inflows of resources	8,924,833	3,325,000	12,249,833
OPEB expense adjustments	431,223	69,258	500,481
 <u>2018</u>			
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

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 years ended June 30, 2019 and 2018 totaled \$15,085,137 and \$17,354,929, respectively. Administrative fees incurred for the years ended June 30, 2019 and 2018 were \$1,120,249 and \$769,882, respectively.

Changes in the liability for self-insurance at June 30, 2019 and 2018 are as follows:

	<u>2019</u>	<u>2018</u>
Liability – beginning of year	\$ 1,500,000	\$ 2,308,423
Accruals for current year claims and changes in estimate	13,821,889	14,692,795
Claims paid	(15,085,137)	(17,354,929)
Other costs	<u>916,730</u>	<u>1,853,711</u>
Liability – end of year	<u>\$ 1,153,482</u>	<u>\$ 1,500,000</u>

(Continued)

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

NOTE 13 – COMMITMENTS AND CONTINGENCIES

Construction Commitments – The estimated cost to complete construction projects under contract at June 30, 2019 and 2018, is approximately \$28.0 million and \$61.8 million, respectively. 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.

NOTE 14 – OPERATING EXPENSES BY NATURAL CLASSIFICATION

Operating expenses by natural classification for the years ended June 30, 2019 and 2018 are as follows:

	<u>2019</u>	<u>2018</u>
Salaries and wages	\$ 121,144,006	\$ 130,429,112
Employee benefits	40,500,947	50,211,481
Supplies and other services	62,062,809	66,910,812
Travel	4,298,838	4,636,935
Depreciation	22,918,906	19,991,243
Student scholarships and financial aid	15,332,783	12,090,134
Utilities	8,078,255	8,694,156
Pension expense adjustments	(32,381,373)	11,382,080
OPEB expense adjustments	500,481	2,926,926
Other operating expenses	<u>343,799</u>	<u>1,378,048</u>
Total	<u>\$ 242,799,451</u>	<u>\$ 308,650,927</u>

(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.

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 addresses the complexity and understandability of net asset classification, deficiencies in information about liquidity and the availability of resources, and the lack of consistency in the type of information provided about expenses and investment returns. The Foundation adopted ASU 2016-14 as of and for the year ended June 30, 2019 and has thus adjusted the presentation of the accompanying financial statements accordingly, including electing to present the statements of cash flows on the direct method. ASU 2016-14 has been applied retrospectively to all periods presented. As a result, certain amounts presented in the 2018 financial statements have been reclassified to conform to the 2019 presentation. There have been no changes to the 2018 increase in net assets or total net assets as of June 30, 2018 as a result of these reclassifications.

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. Other income from investments is reflected on the accompanying statements of activities as with or without donor restrictions based upon the existence and nature of any donor or legally imposed restrictions.

(Continued)

NOTE 15 – EASTERN KENTUCKY UNIVERSITY FOUNDATION, INC.

A. NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(Continued)

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 \$1,174,000 and \$1,797,000 as of June 30, 2019 and 2018, respectively.

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.

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 net assets with purposes restrictions until appropriated for expenditure by the Foundation, unless the donor has permanently restricted such net appreciation (depreciation). In cases where the donor has placed time or purpose 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 net assets with donor restrictions 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 years ended June 30, 2019 and 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.

(Continued)

NOTE 15 – EASTERN KENTUCKY UNIVERSITY FOUNDATION, INC.

A. NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(Continued)

Classification of Net Assets - The Foundation records and reports its assets, liabilities, net assets, revenues and other support, expenses, and gains and losses based on the existence or absence of donor-imposed restrictions according to the two classes of net assets as follows:

Net assets without donor restrictions: Net assets that are not subject to donor-imposed restrictions and may be expended for any purpose in performing the primary objectives of the Foundation, including endowment net assets which have been designated by the Foundation's Board of Directors. Such net assets may be used at the discretion of management and/or the Board of Directors. While the Foundation does not intend to expend Board designated endowment net assets for purposes other than those for which the funds have been designated, if necessary, such funds could be expended for current operations at the discretion of the Board of Directors.

Net assets with donor restrictions: Net assets subject to stipulations imposed by donors. Certain donor restrictions are temporary in nature; those restrictions will be met by actions of the Foundation or by the passage of time. Other donor restrictions are perpetual in nature, whereby the donor has stipulated the funds be maintained in perpetuity.

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

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.

Functional Expenses - The costs of providing program and other activities have been summarized on a functional basis in the accompanying statements of activities (see also Note 15K). Program service expenses (support for the University) and management and general expenses are based on direct costs. Fundraising for the Foundation is provided by the University.

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.

(Continued)

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

A. NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(Continued)

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, 2019 and 2018.

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, 2019 and 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 \$15,900,000 and \$18,900,000 as of June 30, 2019 and 2018, respectively. 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 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 fiscal year ending June 30, 2020. The Foundation evaluated the impact of the adoption of ASU 2018-08 on the financial statements and did not record any material impact from the adoption of ASU 2018-08 as of July 1, 2019.

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 fiscal year ending June 30, 2023.

The Foundation is currently evaluating ASU 2016-13 and its 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, 2019. Management has performed its analysis through the date of the Independent Auditor's Report, the date the financial statements were available to be issued.

(Continued)

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

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

B. LIQUIDITY AND AVAILABILITY OF RESOURCES

The Foundation is substantially supported by contributions with donor restrictions. Because a donor's restriction requires resources to be used in a particular manner or in a future period, the Foundation must maintain sufficient resources to meet those responsibilities to its donors. Accordingly, financial assets may not be available for general expenditure within one year. As part of the Foundation's liquidity management, it has a policy to structure its financial assets to be available as its general expenditures, liabilities, and other obligations come due. In addition, the Foundation invests cash in excess of daily requirements in short-term investments. In the event of an unanticipated liquidity need, the Foundation also could draw upon its Board designated endowment net assets.

Financial assets available for general expenditure, that is, without donor or other restrictions limiting their use, within one year of the statement of financial position date, are as follows at June 30, 2019 and 2018:

	2019	2018
Financial assets		
Cash and cash equivalents	\$ 2,453,156	\$ 2,840,864
Investments	77,692,302	73,209,275
Pledges receivable - net	1,507,732	2,600,692
	81,653,190	78,650,831
Less amounts not available to be used within one year or amounts not available without Board approval		
Assets held for others	(20,484,587)	(20,127,990)
Board designated endowment net assets	(4,931,566)	(7,541,872)
Donor restricted net assets for use in future periods	(23,991,385)	(23,381,653)
Donor restricted net assets in perpetuity	(31,565,778)	(30,647,166)
Endowment spend/appropriations	2,920,990	2,817,978
	\$ 3,600,864	\$ (229,872)

C. 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 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.

(Continued)

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

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

C. FAIR VALUE OF FINANCIAL INSTRUMENTS (Continued)

- 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.

The fair value of financial instruments as of June 30, 2019 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	\$ 875,388	\$ 875,388	\$ -	\$ -
Banker's acceptances	8,172,573	-	8,172,573	-
Equities	49,392,153	49,392,153	-	-
Fixed income	18,078,312	18,078,312	-	-
Alternatives:				
Limited partnerships	1,173,876	-	-	1,173,876
	<u>\$ 77,692,302</u>	<u>\$ 68,345,853</u>	<u>\$ 8,172,573</u>	<u>\$ 1,173,876</u>

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
	<u>\$ 73,209,275</u>	<u>\$ 67,779,400</u>	<u>\$ 3,519,545</u>	<u>\$ 1,910,330</u>

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 at June 30, 2018 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.

(Continued)

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

C. FAIR VALUE OF FINANCIAL INSTRUMENTS (Continued)

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.

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, 2019 relative to alternative investments:

	Fair Value	Unfunded Commitments	Redemption Frequency	Redemption Notice Period
Limited partnerships	\$ 1,173,876	\$ 724,321	Fund Dissolved	N/A

The respective limited partnerships have incorporation dates ranging from 2005 to 2008. Each of the limited partnerships has 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)

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

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

C. FAIR VALUE OF FINANCIAL INSTRUMENTS (Continued)

The years ended June 30, 2019 and 2018 activity with respect to the investments reflected as Level 3 is as follows:

	<u>2019</u>	<u>2018</u>
Beginning of year	\$ 1,910,330	\$ 2,300,640
Net realized and unrealized gains (losses) on investments included in the change in net assets	(169,677)	34,321
Net sales of investments	<u>(566,777)</u>	<u>(424,631)</u>
End of year	<u>\$ 1,173,876</u>	<u>\$ 1,910,330</u>

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

D. ENDOWMENT

The Foundation's endowment consists of approximately 440 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. 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, 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 fund absent explicit donor stipulations to the contrary. As a result of this interpretation, the Foundation classifies as net assets with donor restrictions in perpetuity (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 as net assets with donor restrictions in perpetuity is classified as net assets with purposes restrictions until those amounts are appropriated for expenditure by the Foundation in a manner consistent with the standard of prudence prescribed by UPMIFA.

(Continued)

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

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

D. 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. There are no such funds with deficiencies at June 30, 2019 and 2018.

At June 30, 2019, endowment investments consist of the following:

	Without Donor Restrictions	With Donor Restrictions		Total
		Purpose Restrictions	In Perpetuity	
Board designated	\$ 4,931,566	\$ -	\$ -	\$ 4,931,566
Donor restricted	-	16,629,855	31,003,017	47,632,872
	\$ 4,931,566	\$ 16,629,855	\$ 31,003,017	\$ 52,564,438

(Continued)

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

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

D. ENDOWMENT (Continued)

Changes in endowment investments for the year ended June 30, 2019 are as follows:

	Without Donor Restrictions	With Donor Restrictions		Total
		Purpose Restrictions	In Perpetuity	
Beginning of year	\$ 7,541,872	\$ 16,382,693	\$ 29,521,775	\$ 53,446,340
Contributions	73,448	85,217	1,481,242	1,639,907
Investment return				
Net investment income	180,691	1,400,529	-	1,581,220
Net realized and unrealized appreciation	437,742	1,647,253	-	2,084,995
Board designation changes	(3,187,191)	-	-	(3,187,191)
Appropriation of endowment assets for expenditure	(114,996)	(2,885,837)	-	(3,000,833)
End of year	<u>\$ 4,931,566</u>	<u>\$ 16,629,855</u>	<u>\$ 31,003,017</u>	<u>\$ 52,564,438</u>

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

	Without Donor Restrictions	With Donor Restrictions		Total
		Purpose Restrictions	In Perpetuity	
Board designated	\$ 7,541,872	\$ -	\$ -	\$ 7,541,872
Donor restricted	-	16,382,693	29,521,775	45,904,468
	<u>\$ 7,541,872</u>	<u>\$ 16,382,693</u>	<u>\$ 29,521,775</u>	<u>\$ 53,446,340</u>

(Continued)

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

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

D. ENDOWMENT (Continued)

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

	Without Donor Restrictions	With Donor Restrictions		Total
		Purpose Restrictions	In Perpetuity	
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 realized and unrealized appreciation	589,142	2,106,908	-	2,696,050
Appropriation of endowment assets for expenditure	<u>(50,787)</u>	<u>(2,348,167)</u>	<u>-</u>	<u>(2,398,954)</u>
End of year	<u>\$ 7,541,872</u>	<u>\$ 16,382,693</u>	<u>\$ 29,521,775</u>	<u>\$ 53,446,340</u>

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. 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)

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

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

E. PLEDGES RECEIVABLE

At June 30, 2019, net pledges receivable consist of the following:

	Without Donor Restrictions	With Donor Restrictions		Total
		Purpose Restrictions	In Perpetuity	
Current pledges receivable:				
Estimated to be collected in less than one year	\$ -	\$ 209,096	\$ 278,620	\$ 487,716
Less allowance	-	(6,000)	(4,000)	(10,000)
	<u>\$ -</u>	<u>\$ 203,096</u>	<u>\$ 274,620</u>	<u>\$ 477,716</u>
Long-term pledges receivable:				
Estimated to be collected in one to five years	\$ -	\$ 526,237	\$ 304,414	\$ 830,651
Estimated to be collected thereafter	-	288,638	727	289,365
Less allowance	-	(14,000)	(8,000)	(22,000)
Less discounts to net present value	-	(59,000)	(9,000)	(68,000)
	<u>\$ -</u>	<u>\$ 741,875</u>	<u>\$ 288,141</u>	<u>\$ 1,030,016</u>
	<u>\$ -</u>	<u>\$ 944,971</u>	<u>\$ 562,761</u>	<u>\$ 1,507,732</u>

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

	Without Donor Restrictions	With Donor Restrictions		Total
		Purpose Restrictions	In Perpetuity	
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)
	<u>\$ 20,000</u>	<u>\$ 430,436</u>	<u>\$ 336,727</u>	<u>\$ 787,163</u>
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)
	<u>\$ 77,000</u>	<u>\$ 947,865</u>	<u>\$ 788,664</u>	<u>\$ 1,813,529</u>
	<u>\$ 97,000</u>	<u>\$ 1,378,301</u>	<u>\$ 1,125,391</u>	<u>\$ 2,600,692</u>

(Continued)

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

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

F. PROPERTY AND EQUIPMENT

At June 30, 2019 and 2018, net property and equipment consists of the following:

	2019	2018
Land	\$ 250,000	\$ 250,000
Buildings and building improvements	600,000	600,000
	850,000	850,000
Less accumulated depreciation	(146,851)	(132,727)
	\$ 703,149	\$ 717,273

Depreciation expense for each of the years ended June 30, 2019 and 2018 totals \$14,124.

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, 2019 and 2018 totaling \$350,743 and \$368,709, respectively, 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 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 15C).

The years ended June 30, 2019 and 2018 activity with respect to deferred gift liabilities is as follows:

	2019	2018
Beginning of year	\$ 368,709	\$ 390,446
New deferred gifts	-	-
Payment obligations	(55,179)	(59,297)
Net actuarial loss	37,213	37,560
End of year	\$ 350,743	\$ 368,709

At June 30, 2019 and 2018, investments relative to such deferred gift liabilities total \$791,026 and \$804,752, respectively.

(Continued)

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

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

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

	2019	2018
Regional University Endowment Trust Fund	\$ 18,522,233	\$ 18,200,702
Programs of Distinction	1,962,354	1,927,288
	\$ 20,484,587	\$ 20,127,990

I. NET ASSETS WITH DONOR RESTRICTIONS

At June 30, 2019 and 2018, net assets with donor restrictions consist of the following:

	2019	2018
Subject to expenditure for specified purposes		
Scholarships program	\$ 3,356,229	\$ 3,237,848
Academic programs	3,632,634	3,195,082
Athletic programs	404,641	422,850
Capital projects	1,015,145	1,027,005
Other	15,582,736	15,498,868
	23,991,385	23,381,653
Endowment to be maintained in perpetuity		
Scholarships program	22,810,052	21,986,880
Academic programs	8,221,592	8,141,894
Athletic programs	450,110	450,110
Capital projects	84,024	68,282
Other	31,565,778	30,647,166
	\$ 55,557,163	\$ 54,028,819

(Continued)

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

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

J. NET ASSETS RELEASED FROM RESTRICTIONS

Net assets released from restrictions consist of the following for the years ended June 30, 2019 and 2018:

	2019	2018
Purposes restrictions satisfied/time restrictions expired:		
Scholarships program	\$ 1,285,475	\$ 1,310,637
Academic programs	2,130,112	1,560,971
Capital projects	124,957	143,205
Other support for the University	564,367	599,624
	\$ 4,104,911	\$ 3,614,437

K. FUNCTIONAL EXPENSE CLASSIFICATION

The Foundation's expenses by functional classification for the years ended June 30, 2019 and 2018 are as follows:

	2019	2018
Program services - support for the University		
Scholarships program	\$ 1,322,952	\$ 1,345,200
Academic programs	1,662,562	1,843,969
Athletic programs	264,008	491,643
Capital projects	220,280	175,630
Other	237,305	178,404
Depreciation	14,124	14,124
	\$ 3,721,231	\$ 4,048,970
Management and general		
Professional and consulting fees	\$ 118,152	\$ 112,941
Other	44,629	45,916
	\$ 162,781	\$ 158,857
	\$ 3,884,012	\$ 4,207,827

(Continued)

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

L. CONCENTRATIONS

At June 30, 2019 and 2018, approximately 55% and 40% of total outstanding gross pledges receivable are due from one donor, respectively.

For 2019, approximately 10% of total contributions revenue was received from one donor. No such concentration exists for 2018.

M. RELATED PARTY TRANSACTIONS

Eastern Kentucky University - The University provides various administrative services to the Foundation. In addition, during the year ended June 30, 2019, the University expended \$1,322,952 and \$209,778 on behalf of the Foundation with respect to scholarships and employee salaries/related benefits, respectively. Such amounts are ultimately reimbursed by the Foundation. 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. At June 30, 2019 and 2018, the amount due to the University on the accompanying statements of financial position totals \$360,760 and \$222,375, respectively.

Other - At June 30, 2019 and 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 \$262,060 and \$1,045,409, respectively. Such gross pledges receivable amounts are included in the amounts reflected in Note 15E.

At June 30, 2019 and 2018, the cash surrender value of life insurance includes \$4,464 and \$3,060, respectively, 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, 2019, 2018, 2017, 2016 and 2015

	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>
KERS – Non-Hazardous					
University's proportion of the net pension liability	1.45%	1.75%	1.82%	1.71%	1.61%
University's proportionate share of the net pension liability	\$ 197,366	\$ 234,290	\$ 207,489	\$ 171,780	\$ 144,048
University's covered payroll	\$ 24,966	\$ 26,630	\$ 29,378	\$ 27,312	\$ 27,301
University's proportionate share of the net pension liability as a percentage of its covered payroll	790.54%	879.80%	706.27%	628.95%	527.63%
Plan fiduciary net position as a percentage of the total pension liability	12.84%	13.30%	14.80%	22.32%	22.32%
KERS – Hazardous					
University's proportion of the net pension liability	.63%	.64%	.07%	-%	-%
University's proportionate share of the net pension liability	\$ 3,169	\$ 3,185	\$ 275	\$ -	\$ -
University's covered payroll	\$ 1,079	\$ 518	\$ -	\$ -	\$ -
University's proportionate share of the net pension liability as a percentage of its covered payroll	293.70%	614.86%	-%	-%	-%
Plan fiduciary net position as a percentage of the total pension liability	56.10%	54.80%	57.41%	-%	-%
KTRS					
University's proportion of the net pension liability	.71%	0.68%	1.13%	1.12%	1.10%
University's proportionate share of the net pension liability	\$ 97,175	\$ 193,364	\$ 349,600	\$ 274,717	\$ 237,056
State's proportionate share of the net pension liability associated with the University	<u>72,297</u>	<u>154,108</u>	<u>32,949</u>	<u>27,936</u>	<u>26,899</u>
Total	<u>\$ 169,472</u>	<u>\$ 347,472</u>	<u>\$ 382,549</u>	<u>\$ 302,653</u>	<u>\$ 263,955</u>
University's covered payroll	\$ 88,822	\$ 89,975	\$ 89,598	\$ 87,589	\$ 83,276
University's proportionate share of the net pension liability as a percentage of its covered payroll	109.40%	214.91%	390.19%	313.64%	284.66%
Plan fiduciary net position as a percentage of the total pension liability	59.30%	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, 2019, 2018, 2017, 2016 and 2015

	2019	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>
KERS – Non-Hazardous					
Contractually required contribution	\$ 6,426	\$ 9,038	\$ 10,658	\$ 9,072	\$ 8,774
Contributions in relation to the contractually required contribution	<u>(6,426)</u>	<u>(9,038)</u>	<u>(10,658)</u>	<u>(9,072)</u>	<u>(8,774)</u>
Contribution deficiency (excess)	<u>\$ _____</u>	<u>\$ _____</u>	<u>\$ _____</u>	<u>\$ _____</u>	<u>\$ _____</u>
University's covered payroll	\$ 15,504	\$ 24,966	\$ 26,630	\$ 29,378	\$ 27,312
Contributions as a percentage of covered payroll	41.45%	36.20%	40.02%	30.88%	32.13%
KERS – Hazardous					
Contractually required contribution	\$ 415	\$ 311	\$ 159	\$ -	\$ -
Contributions in relation to the contractually required contribution	<u>(415)</u>	<u>(311)</u>	<u>(159)</u>	<u>-</u>	<u>-</u>
Contribution deficiency (excess)	<u>\$ _____</u>	<u>\$ _____</u>	<u>\$ _____</u>	<u>\$ _____</u>	<u>\$ _____</u>
University's covered payroll	\$ 1,201	\$ 1,079	\$ 518	\$ -	\$ -
Contributions as a percentage of covered payroll	34.55%	28.82%	30.69%	-%	-%
KTRS					
Contractually required contribution	\$ 7,148	\$ 8,612	\$ 8,814	\$ 8,843	\$ 7,235
Contributions in relation to the contractually required contribution	<u>(7,148)</u>	<u>(8,612)</u>	<u>(8,814)</u>	<u>(8,843)</u>	<u>(7,235)</u>
Contribution deficiency (excess)	<u>\$ _____</u>	<u>\$ _____</u>	<u>\$ _____</u>	<u>\$ _____</u>	<u>\$ _____</u>
University's covered payroll	\$ 53,396	\$ 88,822	\$ 89,975	\$ 89,598	\$ 87,589
Contributions as a percentage of covered payroll	13.39%	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.

EASTERN KENTUCKY UNIVERSITY
REQUIRED SUPPLEMENTARY INFORMATION
NOTES TO REQUIRED SUPPLEMENTARY PENSION INFORMATION
June 30, 2019 and 2018

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).

2018:

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

EASTERN KENTUCKY UNIVERSITY
REQUIRED SUPPLEMENTARY INFORMATION
NOTES TO REQUIRED SUPPLEMENTARY PENSION INFORMATION
June 30, 2019 and 2018

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.

2018:

Changes in Assumptions and Benefit Terms Since Prior Measurement Date - The total pension liability as of June 30, 2018 reflects the assumed municipal bond index rate increase from 3.56 percent to 3.89 percent, resulting in a change in the Single Equivalent Interest Rate (SEIR) from 4.49 percent to 7.50 percent. The impact of this change in the discount rate is a change in assumption that is added to expected total pension liability to determine the final total pension liability at June 30, 2018. The total pension liability as of June 30, 2017 reflects the assumed municipal bond index rate increase from 3.01 percent to 3.56 percent, resulting in a change in the Single Equivalent Interest Rate (SEIR) from 4.20 percent to 4.49 percent. The impact of this change in the discount rate is a change in assumption that is added to expected total pension liability to determine the final total pension liability at June 30, 2017.

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

	<u>2019</u>	<u>2018</u>
KERS – Non-Hazardous		
University's proportion of the net OPEB liability	1.45%	1.75%
University's proportionate share of the net OPEB liability	\$ 34,368	\$ 44,378
University's covered payroll	\$ 24,966	\$ 26,630
University's proportionate share of the net OPEB liability as a percentage of its covered payroll	137.66%	166.65%
Plan fiduciary net position as a percentage of the total OPEB liability	27.32%	24.40%
KERS – Hazardous		
University's proportion of the net OPEB liability	0.63%	0.64%
University's proportionate share of the net OPEB liability (asset)	\$ (208)	\$ 39
University's covered payroll	\$ 1,079	\$ 518
University's proportionate share of the net OPEB liability as a percentage of its covered payroll	(19.28)%	7.53%
Plan fiduciary net position as a percentage of the total OPEB liability	106.83%	98.80%
KTRS – Medical Insurance		
University's proportion of the net OPEB liability	0.73%	0.79%
University's proportionate share of the net OPEB liability	\$ 25,293	\$ 28,232
State's proportionate share of the net OPEB liability associated with the University	<u>12,379</u>	<u>12,803</u>
Total	\$ 37,672	\$ 41,035
University's covered payroll	\$ 88,822	\$ 89,975
University's proportionate share of the net OPEB liability as a percentage of its covered payroll	28.48%	31.38%
Plan fiduciary net position as a percentage of the total OPEB liability	25.50%	21.18%
KTRS – Life Insurance		
University's proportion of the net OPEB liability	1.62%	1.70%
University's proportionate share of the net OPEB liability	\$ 457	\$ 373
University's covered payroll	\$ 88,822	\$ 89,975
University's proportionate share of the net OPEB liability as a percentage of its covered payroll	0.51%	0.41%
Plan fiduciary net position as a percentage of the total OPEB liability	75.00%	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, 2019 and 2018

	<u>2019</u>	<u>2018</u>
KERS – Non-Hazardous		
Contractually required contribution	\$ 1,316	\$ 1,851
Contributions in relation to the contractually required contribution	<u>(1,316)</u>	<u>(1,851)</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>
University's covered payroll	\$ 15,504	\$ 24,966
Contributions as a percentage of covered payroll	8.49%	7.41%
KERS – Hazardous		
Contractually required contribution	\$ 30	\$ 33
Contributions in relation to the contractually required contribution	<u>(30)</u>	<u>(33)</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>
University's covered payroll	\$ 1,201	\$ 1,079
Contributions as a percentage of covered payroll	2.50%	3.06%
KTRS – Medical Insurance		
Contractually required contribution	\$ 1,230	\$ 1,512
Contributions in relation to the contractually required contribution	<u>(1,230)</u>	<u>(1,512)</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>
University's covered payroll	\$ 53,396	\$ 88,822
Contributions as a percentage of covered payroll	2.30%	17.02%
KTRS – Life Insurance		
Contractually required contribution	\$ 16	\$ 19
Contributions in relation to the contractually required contribution	<u>(16)</u>	<u>(19)</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>
University's covered payroll	\$ 53,396	\$ 88,822
Contributions as a percentage of covered payroll	0.03%	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.

EASTERN KENTUCKY UNIVERSITY
REQUIRED SUPPLEMENTARY INFORMATION
NOTES TO REQUIRED SUPPLEMENTARY OPEB INFORMATION
June 30, 2019 and 2018

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%.

2018:

Changes in Assumptions and Benefit Terms: Since the prior measurement date, there have been no changes in actuarial assumptions. However, during the 2018 legislative session, House Bill 185 was enacted, which updated the benefit provisions for active members who die in the line of duty. The system shall now pay 100% of the insurance premium for spouses and children of all active members who dies in the line of duty. The total OPEB liability as of June 30, 2018, is determined using these updated benefit provisions.

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.

2018:

Changes of benefit terms – For the Life Insurance Plan, changes in assumptions or benefit terms as of June 30, 2019 included a change to the investment rate of returns, municipal bond index rate, discount rate, and single equivalent interest rate noted in the table above. For the Medical Insurance Plan, 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. This change occurred in the prior year, while there were no other changes in the current year.

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, 2019, and the related notes to the financial statements, which collectively comprise the University's basic financial statements, and have issued our report thereon dated October 11, 2019. 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

Louisville, Kentucky
October 11, 2019

**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, 2019. The University's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

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

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of the University's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the University's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

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

Opinion on Each Major Federal Program

In our opinion, the University complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2019.

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

Louisville, Kentucky
October 11, 2019

EASTERN KENTUCKY UNIVERSITY
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
Year ended June 30, 2019

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	\$ 24,385,861	\$ -
Federal Supplemental Educational Opportunity Grant		84.007	792,641	-
Federal Work Study Program		84.033	613,801	-
Federal Work Study Service Tutors		84.033	4,707	-
Federal Work Study Job Location/ Development		84.033	49,561	-
Federal Perkins Loan Program		84.038	4,747,109	-
Teach Grant		84.379	9,639	-
Federal Stafford Loan – Direct Lending		84.268	69,667,662	-
Federal Direct Student Loan - PLUS		84.268	<u>9,944,068</u>	-
Total Student Financial Aid Cluster			<u>110,215,049</u>	<u>-</u>
TRIO Cluster				
NOVA Student Support Services FY 18		84.042A	34,531	-
NOVA Student Support Services FY 19		84.042A	317,240	-
Educational Talent Search FY 17		84.044A	1,339	-
Educational Talent Search FY 18		84.044A	84,937	-
Educational Talent Search FY 19		84.044A	308,941	-
Upward Bound FY 18		84.047A	2,787	-
Upward Bound FY 19		84.047A	377,991	-
Upward Bound Student Supp FY 19		84.047A	99,420	-
Upward Bound FY 20		84.047A	69,912	-
Upward Bound Student Supp FY 20		84.047A	25,539	-
Ronald McNair Post Baccalaureate Program – Admin 2018		84.217A	51,299	-
Ronald McNair Post Baccalaureate Program – Student Supp 2018		84.217A	27,512	-
Ronald McNair Post Baccalaureate Program – Admin 2019		84.217A	128,926	-
Ronald McNair Post Baccalaureate Program – Student Supp 2019		84.217A	<u>21,442</u>	-
Total TRIO Cluster			<u>1,551,816</u>	<u>-</u>
PREPaRE FY 14		84.325	<u>37,320</u>	<u>620</u>
EKU Student Child Care Access and Expansion Program		84.335A	<u>50,066</u>	<u>-</u>
			<u>111,854,251</u>	<u>620</u>
Pass-Through Programs –				
Berea College				
Promise Summer Camp	P0027045	84.215N	2,284	-
Promise Neighborhood	P0027405	84.215N	3,959	-
Promise Neighborhood PR Intern	P0027565	84.215N	4,055	-
PS Navigo Position for GEAR UP	MOA	84.334	43,962	-
BC GEAR UP Supp Funding	MOA	84.042A	140,322	-
Berea College GEAR UP	P0027086	84.334	256,846	-
LINC GEAR UP	P9927765	84.334	46,861	-
LINC Internships e-Mentors	P0027765	84.215N	7,689	-
Promise Summer Camp	P0027609	84.215N	5,912	-
GEAR UP Summer Bridge 2019	P0027887	84.334	<u>9,221</u>	-
			<u>521,111</u>	<u>-</u>

See accompanying notes to schedule of expenditures of federal awards.

EASTERN KENTUCKY UNIVERSITY
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
Year ended June 30, 2019

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				
Southern Migrant Education				
Regional Center	PON2 540 1600002675 1	84.011A	\$ 124,595	\$ 21,589
Southern Migrant Education				
Regional Center	PON2 540 1600003023 1	84.011A	252,231	-
21 st CCLF FY19	PON2 540 1900002027 1	84.287	223,774	-
Kentucky Center for Instructional				
Disc.				
	PON2 540 1900000493 1	84.027A	635,506	-
Interpreter Training Progress				
FY 19	PON2 540 1900000421 1	84.027	453,600	-
ITP FY 18 Extension	PON2 540 1900000037 1	84.027A	6,993	-
Making Algebraic Connections FY 18	PON2 540 1700002891 1	84.366B	(1,025)	-
Making Algebraic Connections FY 19	PON2 540 1800000747 1	84.366B	77,009	3,686
Unmanned Aircraft Systems	PON2 540 1900001311 2	84.048A	24,553	-
			<u>1,797,236</u>	<u>25,275</u>
Kentucky Department for Technical				
Education				
PD Teacher Educators FY 19	PON2 540 1900002911 1	84.048A	8,662	-
Perkins Basic Grant FY 19	PON2 540 1900002911 1	84.048A	117,759	-
			<u>126,421</u>	<u>-</u>
Kentucky Department of Vocational				
Rehabilitation				
Vocational Rehabilitation FY 19	PON2 531 1900000621 1	84.126	454,829	-
Kentucky Council on Postsecondary				
Education				
Madison County Adult Education				
FY 19	SC 415 1900000619	84.002A	64,390	-
Madison County Adult Education				
FY 19	SC 415 1900000619	84.002	17,897	-
Clay County Adult Education FY 19	SC 415 1900000619	84.002A	57,566	-
Clay County Adult Education FY 18	SC 415 1900000619	84.002	11,448	-
Garrard County Adult Education FY 18	PO2 415 1800001180 1	84.002A	(18)	-
Rowan County Promo Project				
Assign FY 19	SC 415 1900000158 1	84.367B	26,861	-
Promoting Project Assign FY 19	SC 415 1900000158 1	84.367B	17,386	-
			<u>195,530</u>	<u>-</u>
Madison County Board of				
Education				
IDEA Model Funds FY 18	H027A 160032	84.027A	32,791	-
IDEA Model Funds FY 19	3810002-16	84.027A	90,655	-
			<u>123,446</u>	<u>-</u>
University of Louisville Research				
Foundation				
EKU ASSESS FY 18	ULRF-17-0030A-01	84.366	6,344	-
			<u>3,224,917</u>	<u>25,275</u>
Total U.S. Department of Education			<u>115,079,168</u>	<u>25,895</u>

See accompanying notes to schedule of expenditures of federal awards.

EASTERN KENTUCKY UNIVERSITY
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
Year ended June 30, 2019

<u>Federal Grant/Program Title</u>	<u>Pass-Through Number</u>	<u>Federal CFDA</u>	<u>Federal Expenditures</u>	<u>Provided to Subrecipients</u>
RESEARCH AND DEVELOPMENT				
Direct Programs –				
Department of Agriculture				
Wetland and Forest Monitoring				
In the Daniel Boone National				
Forest				
		10.xxx	27,673	-
UDA-EKU Archaeology Field School				
		10.xxx	557	-
RHELM Program – Student Internships				
		10.xxx	29,969	-
			<u>58,199</u>	<u>-</u>
Department of the Interior				
Long-Term Evaluation of the Interacting				
Effect of Fire and White-Nose				
Syndrome on Endangered Bats				
		15.232	<u>33,402</u>	<u>16,469</u>
National Science Foundation				
REU: Disturbance Ecology in Control				
Appal.				
		47.074	81,488	-
Efficient Mathematical Framework				
Building and Sustaining a Research				
Database for a Global Biodiversity				
Hotspot				
		47.074	3,907	1,247
Collaborative Research RUI SG				
Disturbance Ecology				
		47.074	7,762	-
		47.076	<u>3,277</u>	<u>-</u>
			<u>146,629</u>	<u>1,247</u>
			<u>238,230</u>	<u>17,716</u>
Pass-Through Programs –				
Department of Interior:				
Kentucky Waterways Alliance				
Environmental DNA				
Protection				
	Letter of Agreement	15.625	<u>9,679</u>	<u>-</u>
Blue Grass Army Depot				
Running Buffalo Clover				
and Deer Herd Survey				
	W22G1F18P0030	15.xxx	<u>13,018</u>	<u>-</u>
Kentucky Department of Fish				
& Wildlife Resources				
Indiana Bat KY WNS Landscape				
	PON2 660 1900000348 1	15.615	<u>20,000</u>	<u>-</u>

See accompanying notes to schedule of expenditures of federal awards.

EASTERN KENTUCKY UNIVERSITY
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
Year ended June 30, 2019

<u>Federal Grant/Program Title</u>	<u>Pass-Through Number</u>	<u>Federal CFDA</u>	<u>Federal Expenditures</u>	<u>Provided to Subrecipients</u>
RESEARCH AND DEVELOPMENT				
Pass-Through Programs (Continued) –				
Arkansas Game and Fish Commission				
DNA Barcode Reference				
Library eDNA	Letter of Agreement	15.634	\$ 5,819	\$ 918
Arkansas Freshwater Mussels	Subgrant Agreement	15.634	<u>8,798</u>	<u>-</u>
			<u>14,617</u>	<u>918</u>
Department of Health and Human Services				
University of Louisville				
Lead Faculty Award for KBRIN	ULRF 13-1493D-04	93.959	31,384	-
Effect of p75NTR on Oxidative	ULRF 13-1493D-04	93.859	48,195	-
Effect of p75NTR on Oxidative	ULRF 18-0975A-02	93.859	<u>4,429</u>	<u>-</u>
			<u>84,008</u>	<u>-</u>
University of Kentucky Research Foundation				
MRSA Assessment Kentucky Cattle Workers	32100000764-18-284	93.262	<u>12,411</u>	<u>-</u>
University of Vermont				
Integrating Behavioral Health/ Primary Care	29861SUB52532	93.xxx	<u>31,131</u>	<u>-</u>
National Institute of Health				
University of Louisville				
Horizontal Laminar Flow Hood With Vibration Isolator	ULRF-13-1493D-04	93.389	8,893	-
Allentown NextGen Cage System	ULRF 13-1493D-04	93.389	<u>18,484</u>	<u>-</u>
			<u>27,377</u>	<u>-</u>
Environmental Protection Agency				
Kentucky Division of Water				
Continued Validation of Wetland	SC129 19000001387 1	66.461	13,369	-
Assessment of Kentucky Wetlands	SC 129 190000074 1	66.461	<u>72,199</u>	<u>-</u>
			<u>85,568</u>	<u>-</u>
National Science Foundation				
University of Kentucky Research Foundation				
Telomere Roles in Fungal Evolution	3200001363-18-082	47.074	<u>8,665</u>	<u>-</u>

See accompanying notes to schedule of expenditures of federal awards.

EASTERN KENTUCKY UNIVERSITY
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
Year ended June 30, 2019

<u>Federal Grant/Program Title</u>	<u>Pass-Through Number</u>	<u>Federal CFDA</u>	<u>Federal Expenditures</u>	<u>Provided to Subrecipients</u>
RESEARCH AND DEVELOPMENT				
Pass-Through Programs (Continued) –				
Murray State University				
Size Structure on Trophic Cascades	DEB-1354787	47.074	\$ 50,424	\$ -
REU Supplement: Effects Of Size Str.	2017-023	47.074	<u>3,000</u>	<u>-</u>
			<u>53,424</u>	<u>-</u>
			<u>359,898</u>	<u>918</u>
Total Research and Development			<u>598,128</u>	<u>18,634</u>
DEPARTMENT OF DEFENSE				
Direct Programs –				
Defense Intelligence Agency				
Bluegrass State Intelligence FY 18		12.598	177,452	107,281
Bluegrass State Intelligence FY 19		12.598	<u>191,515</u>	<u>29,384</u>
			<u>368,967</u>	<u>136,665</u>
Total Department of Defense			<u>368,967</u>	<u>136,665</u>
DEPARTMENT OF AGRICULTURE				
Pass-Through Programs –				
USDA Forest Service				
Daniel Boone National Forest				
Visitor Use Monitor	16-PA-11080200-010	10.xxx	7,742	-
Forest Inventory and Monitoring DBNF	17-PA-11080200-005	10.xxx	719	-
Partn for Forest Inventory and Man	17-PA-11080200-005	10.xxx	<u>10,020</u>	<u>-</u>
			<u>18,481</u>	<u>-</u>
Kentucky Department of Agriculture				
EKU Red Barn Garden				
Special Crop	PON2 035 1900003059-1	10.170	<u>756</u>	<u>-</u>
Kentucky Department of Education				
Upward Bound Summer Food 2018				
	12114	10.559	<u>13,282</u>	<u>-</u>
Kentucky Cabinet for Health and Family Services				
University Training Consortium FY 18				
	PON2 736 150000 1287 1	10.561	22,325	368
University Training Consortium FY 19				
	PON2 736 1800004118	10.561	<u>500,300</u>	<u>33,256</u>
			<u>522,625</u>	<u>33,624</u>
Kentucky Council on Postsecondary Education				
Path 2 Promise Adult Education FY 19				
	SC 415 1900000619	10.596	<u>22,583</u>	<u>-</u>
Total Department of Agriculture			<u>577,727</u>	<u>33,624</u>

See accompanying notes to schedule of expenditures of federal awards.

EASTERN KENTUCKY UNIVERSITY
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
Year ended June 30, 2019

<u>Federal Grant/Program Title</u>	<u>Pass-Through Number</u>	<u>Federal CFDA</u>	<u>Federal Expenditures</u>	<u>Provided to Subrecipients</u>
ENVIRONMENTAL PROTECTION AGENCY				
Pass-Through Programs –				
Earth Force, Inc.				
Earth Force Green Schools Connect	Letter of Agreement	66.951	\$ <u>132</u>	\$ <u>-</u>
Kentucky Association of Environmental Education Addressing Climate Statewide Throughout				
	Letter of Agreement	66.951	<u>806</u>	<u>-</u>
Total Environmental Protection Agency			<u>938</u>	<u>-</u>
FEDERAL COMMUNICATION COMMISSION				
Direct Programs -				
Federal Communication Commissions				
Deafblind Equipment District Program FY 18		32.xxx	<u>60,809</u>	<u>-</u>
Total Federal Communication Commission			<u>60,809</u>	<u>-</u>
DEPARTMENT OF HEALTH AND HUMAN SERVICES				
Direct Programs –				
Health Resources and Service Administration				
Expanding Access to Health Services		93.224	43,598	-
Expanding Access to Health Services		93.527	164,010	-
Access Increase Mental Health Services		93.224	86,482	-
Health Center Quality Improvement 17/18		93.527	15,416	-
BCHC FY 19		93.224	664,107	-
BCHC FY 19		93.527	1,707,704	-
BCHC FY 20		93.224	163,213	-
BCHC FY 20		93.527	419,689	-
EKU Safe FY 18		93.243	21,710	-
EKU Safe FY 18 Carryover		93.243	8,858	-
EKU Safe FY 19		93.243	<u>62,125</u>	<u>-</u>
			<u>3,356,912</u>	<u>-</u>

See accompanying notes to schedule of expenditures of federal awards.

EASTERN KENTUCKY UNIVERSITY
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
Year ended June 30, 2019

<u>Federal Grant/Program Title</u>	<u>Pass-Through Number</u>	<u>Federal CFDA</u>	<u>Federal Expenditures</u>	<u>Provided to Subrecipients</u>
DEPARTMENT OF HEALTH AND HUMAN SERVICES (Continued)				
Pass-Through Programs –				
Kentucky Cabinet for Health and Family Services				
Education Pays Center FY 19	SC 736 190000189	93.558	\$ 352,636	\$ -
Medicaid Waiver FY 19	SC 746 1800004086 1	93.778	12,835	-
DBHDID FY 19	PON2 729 1800001953	93.243	75,085	-
DBHDID FY 19	PON2 729 1800001953	93.958	11,787	-
DBHDID FY 19	PON2 729 1600001953	93.959	420,234	-
DBHDID FY 19	PON2 729 1600001953	93.788	33,000	-
University Training Consortium FY 18	PON2 736 1500001287 1	93.087	11,442	7,822
University Training Consortium FY 18	PON2 736 1500001287 1	93.556	13,946	10,876
University Training Consortium FY 18	PON2 736 1500001287 1	93.558	20,209	15,257
University Training Consortium FY 18	PON2 736 1500001287 1	93.575	(1)	-
University Training Consortium FY 18	PON2 736 1500001287 1	93.603	71,926	61,588
University Training Consortium FY 18	PON2 736 1500001287 1	93.658	667,247	212,572
University Training Consortium FY 18	PON2 736 1500001287 1	93.669	7,371	-
University Training Consortium FY 18	PON2 736 1500001287 1	93.674	51,055	48,314
University Training Consortium FY 18	PON2 736 1500001287 1	93.590	5,086	500
University Training Consortium FY 18	PON2 736 1500001287 1	93.667	14	-
University Training Consortium FY 18	PON2 736 1500001287 1	93.778	4,473	-
University Training Consortium FY 19	PON2 736 1800004118	93.087	83,153	15,828
University Training Consortium FY 19	PON2 736 1800004118	93.556	314,312	41,273
University Training Consortium FY 19	PON2 736 1800004118	93.558	303,434	42,281
University Training Consortium FY 19	PON2 736 1800004118	93.575	166,427	-
University Training Consortium FY 19	PON2 736 1800004118	93.590	573,697	-
University Training Consortium FY 19	PON2 736 1800004118	93.603	613,157	321,751
University Training Consortium FY 19	PON2 736 1800004118	93.658	8,713,889	2,152,512
University Training Consortium FY 19	PON2 736 1800004118	93.667	4,511	-
University Training Consortium FY 19	PON2 736 1800004118	93.669	147,084	36,931

See accompanying notes to schedule of expenditures of federal awards.

EASTERN KENTUCKY UNIVERSITY
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
Year ended June 30, 2019

<u>Federal Grant/Program Title</u>	<u>Pass-Through Number</u>	<u>Federal CFDA</u>	<u>Federal Expenditures</u>	<u>Provided to Subrecipients</u>
DEPARTMENT OF HEALTH AND HUMAN SERVICES (Continued)				
Pass-Through Programs (Continued) –				
Kentucky Cabinet for Health and Family Services				
University Training Consortium FY 19	PON2 736 1800004118	93.674	\$ 374,433	\$ 201,878
University Training Consortium FY 19	PON2 736 1800004118	93.778	110,698	-
Family Planning FY 19		93.217	32,048	-
Mosquito Surveillance FY 19	PON2 728 1900001806	93.323	<u>3,136</u>	<u>-</u>
			<u>13,198,324</u>	<u>3,169,383</u>
Hope Center, Inc.				
HOPE Center SAMHSA MAT Expansion	Subaward agreement	93.243	<u>34,705</u>	<u>-</u>
University of Kentucky				
Bridging the Gap	3200000656-13-130	93.859	19,342	-
Central Appalachian Regional Education	3200001939-19-058	93.262	123,638	-
Central Appalachian Regional Education	3200001939-19-058	93.262	<u>19,715</u>	<u>-</u>
			<u>162,695</u>	<u>-</u>
			<u>13,395,724</u>	<u>3,169,383</u>
Total Department of Health and Human Services			<u>16,752,636</u>	<u>3,169,383</u>
DEPARTMENT OF HOMELAND SECURITY				
Pass-Through Programs –				
Center for Rural Development				
Rural Domestic Preparedness Consortium FY 15: Task 2	FY15-00190-03-EKU	97.005	15,331	-
Rural Domestic Preparedness Consortium FY 16: Task 1	EMW-2016-CA-0097-S01	97.005	21,053	-
Rural Domestic Preparedness Consortium FY 16: Task 2	EMW-2016-CA-0097-S01	97.005	102,579	-
Rural Domestic Preparedness Consortium FY 17: Task 1	FY17-00052-S01-EKU	97.005	19,280	-
Rural Domestic Preparedness Consortium FY 17: Task 2	FY17-00052-S01-EKU	97.005	250,581	-
Rural Domestic Preparedness Consortium FY 18: Task 1	FY18-00075-S01-EKU	97.005	1,753	-
Rural Domestic Preparedness Consortium FY 18: Task 2	FY18-00075-S01-EKU	97.005	<u>4,065</u>	<u>-</u>
Total Department of Homeland Security			<u>414,642</u>	<u>-</u>

See accompanying notes to schedule of expenditures of federal awards.

EASTERN KENTUCKY UNIVERSITY
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
Year ended June 30, 2019

<u>Federal Grant/Program Title</u>	<u>Pass-Through Number</u>	<u>Federal CFDA</u>	<u>Federal Expenditures</u>	<u>Provided to Subrecipients</u>
DEPARTMENT AERONAUTICS AND SPACE ADMINISTRATION				
Pass-Through Programs – University of Kentucky Research Foundation Leggo My Science	3200000161-19-193	43.008	\$ 3,625	\$ -
Total National Aeronautics and Space Administration			<u>3,625</u>	<u>-</u>
NATIONAL ENDOWMENT FOR THE HUMANITIES				
Pass-Through Programs – University of Kentucky The Anatolian Trail Adventure	3200002373-19-206	45.169	5,064	-
Total National Endowment for the Humanities			<u>5,064</u>	<u>-</u>
NATIONAL SCIENCE FOUNDATION				
Pass-Through Programs – University of Kentucky Research Foundation Math & Science Summer Camp	3200000271-18-276	47.079	(49)	-
Total National Science Foundation			<u>(49)</u>	<u>-</u>
DEPARTMENT OF TRANSPORTATION				
Pass-Through Programs – Kentucky Transportation Cabinet EKU Drainage Project	1900001227	20.205	15,985	-
Total Department of Transportation			<u>15,985</u>	<u>-</u>
APPALACHIAN REGIONAL COMMISSION				
Pass-Through Programs – Eastern Kentucky Pride, Inc. HELP – Healthier Environment	EEG-18-043	23.002	2,478	-
Total Appalachian Regional Commission			<u>2,478</u>	<u>-</u>
CORPORATION FOR NATIONAL AND COMMUNITY SERVICE				
Pass-Through Programs – Kentucky Commission of Community Volunteerism & Service Kentucky READY Corps FY 18	PON2 730 1800000303 1	94.006	18,141	-
Kentucky READY Corps FY 19	PON2 730 1900002434 1	94.006	99,750	-
Kentucky READY Corps FY 19 Supp	PON2 730 1900003540 1	94.009	438	-
Total Corporation for National Community Service			<u>118,329</u>	<u>-</u>
Total Federal Expenditures			<u>\$ 133,998,447</u>	<u>\$ 3,384,201</u>

See accompanying notes to schedule of expenditures of federal awards.

EASTERN KENTUCKY UNIVERSITY
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
Year ended June 30, 2019

<u>Grant/Program Title</u>	<u>Federal CFDA</u>	<u>Federal Expenditures</u>
Subtotals of Multiple Awards/CFDA Numbers		
Bluegrass State Intelligence	12.598	\$ 368,967
Environmental Education Grants	66.951	938
Adult Education Grants to States	84.002	151,283
Migrant Education Program	84.011	376,826
Vocational Education Basic Grants to States	84.048	150,974
Innovative Approaches to Literacy, Full-Service Community Schools; and Promised Neighborhoods	84.215	23,899
Science and Math Camp	84.334	356,890
Mathematics and Science Partnerships	84.366	82,328
Supporting Effective Instruction State Grants	84.367	44,247
University Training Consortium Program	93.087	94,595
Substance Abuse and Mental Health	93.243	202,483
Occupational Safety and Health Program	93.262	143,353
University Training Consortium Program	93.556	328,258
University Training Consortium Program	93.590	578,783
University Training Consortium Program	93.603	685,083
University Training Consortium Program	93.658	9,381,136
University Training Consortium Program	93.667	4,525
University Training Consortium Program	93.669	154,455
University Training Consortium Program	93.674	425,488
AmeriCorps	94.006	117,891
State and Local Homeland Security National Training Program	97.005	414,642
SNAP Cluster		522,625
Special Education Cluster		1,219,545
TANF Cluster		676,279
CCDF Cluster		166,426
Health Center Program Cluster		3,264,219
Highway Planning and Construction Cluster		15,985
Medicaid Cluster		128,006

See accompanying notes to schedule of expenditures of federal awards.

EASTERN KENTUCKY UNIVERSITY
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
Year ended June 30, 2019

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, 2019, 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, 2019. Loans made during the year are included in federal expenditures presented in the schedule.

<u>Cluster/Program Title</u>	<u>Amount Outstanding</u>
Student Financial Aid – Federal Perkins Loan Program	\$ 3,960,277

NOTE 3 – INDIRECT COST

Predetermined indirect cost rates have been approved through June 30, 2019. 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.

EASTERN KENTUCKY UNIVERSITY
 SCHEDULE OF FINDINGS AND QUESTIONED COSTS
 Year ended June 30, 2019

PART I: SUMMARY OF AUDITORS' RESULTS

Financial Statements

Type of auditors' report issued	<u>Unmodified</u>			
Internal control over financial reporting:				
Material weakness(es) identified?	<u> </u>	Yes	<u> X </u>	No
Significant deficiency(ies) identified?	<u> </u>	Yes	<u> X </u>	None Reported
Noncompliance material to financial statements noted?	<u> </u>	Yes	<u> X </u>	No

Federal Awards

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

Identification of major programs:

<u>CFDA Number(s)</u>	<u>Name of Federal Program or Cluster Number</u>
	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
	TRIO Cluster (consisting of):
84.042	Student Support Services
84.044	Talent Search
84.047	Upward Bound
84.217	McNair Post-Baccalaureate Achievement

Dollar threshold used to distinguish between Type A and Type B programs	\$ <u>750,000</u>			
Auditee qualified as low-risk auditee?	<u> X </u>	Yes	<u> </u>	No

PART II – FINANCIAL STATEMENT FINDINGS

None

PART III – FEDERAL AWARDS FINDINGS AND QUESTIONED COSTS

None
