

EASTERN KENTUCKY UNIVERSITY
REPORT ON AUDIT OF INSTITUTION
OF HIGHER EDUCATION
IN ACCORDANCE WITH UNIFORM GUIDANCE
June 30, 2020

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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, 2020 and 2019, and the related notes to the financial statements, which collectively comprise the University's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audits. We did not audit the financial statements of 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, 2020 and 2019, and the respective changes in financial position and, where applicable, cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis on pages 3 through 17, the Schedule of the University's Proportionate Share of the Net Pension Liability on page 93, the Schedule of the University's Pension Contributions on page 94, the Schedule of the University's Proportionate Share of the Net OPEB Liability on page 98, and the Schedule of the University's OPEB Contributions on page 99 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated December 15, 2020 on our consideration of the University's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the University's 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
December 15, 2020

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 2019, the University welcomed nearly 15,000 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 2020 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, 2020, with selected comparative information for the years ended June 30, 2019 and 2018. The MD&A should be read in conjunction with the accompanying financial statements and notes.

EASTERN KENTUCKY UNIVERSITY
MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2020, 2019 and 2018

Financial Highlights

At June 30, 2020, Eastern Kentucky University's financial position decreased as reflected in the Statement of Net Position.

- Total assets decreased by \$16.8 million to \$636.4 million at June 30, 2020, compared to \$653.2 million at June 30, 2019. The major factors affecting this include an increase in net capital assets being depreciated of \$45.7 million and an increase in current assets of \$6.7 million, offset by a decrease in capital assets not being depreciated of \$45.3 million and a decrease in restricted cash of \$23.1 million.
- Deferred outflows decreased by \$23.7 million to \$36.6 million at June 30, 2020, compared to \$60.3 million at June 30, 2019. The decrease is attributed to a decrease in deferred outflows related to pensions and OPEB.
- Overall liabilities decreased by \$86.1 million to \$474.9 million at June 30, 2020, compared to \$561.0 million at June 30, 2019. This decrease is primarily the result of a \$69.3 million decrease in Net Pension and OPEB Liability.
- Deferred inflows decreased by \$21.9 million to \$240.0 million at June 30, 2020, compared to \$261.9 million at June 30, 2019. The decrease is attributed to a decrease in KERS/KTRS pensions.
- Total net position at June 30, 2020 increased \$67.5 million to \$(41.8) million. The greatest factor affecting this increase was a decrease in Net Pension & OPEB 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, 2020 and 2019, 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 2020 and 2019 fiscal years, as well as the results of operating and nonoperating activities and cash flows. Also included are the financial statements for the Foundation, which are presented in this report in accordance with GASB Statement No. 39, *Determining Whether Certain Organizations are Component Units – an amendment of GASB Statement No. 14*.

Reporting Entity

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

Statement of Net Position

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

(Continued)

EASTERN KENTUCKY UNIVERSITY
MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2020, 2019 and 2018

Assets – Total assets at June 30, 2020, decreased to \$636.4 million compared to \$653.2 million at June 30, 2019.

Cash and Cash Equivalents – Total cash and cash equivalents at June 30, 2020, totaled \$71.1 million; \$14.7 million less than the June 30, 2019, level of \$85.8 million. This decrease is attributable primarily to a decrease of restricted cash and cash equivalents of \$23.1 million.

Investments – The Foundation holds and manages investments owned by the University. At June 30, 2020, the market value of investments held by the Foundation on behalf of the University was \$20.3 million compared to \$20.5 million at June 30, 2019, a decrease of \$200 thousand.

Capital Assets – The historical cost, less accumulated depreciation, of the University's capitalized assets was \$513.7 million as of June 30, 2020, a net increase after depreciation of \$460 thousand from the \$513.2 million balance at June 30, 2019. 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, 2020, compared to June 30, 2019, with the exception of accounts receivable (net of allowance) which decreased in total by \$1.5 million; loans to students, which decreased in total by \$658 thousand; inventories, which increased by \$53 thousand; and prepaid interest, which decreased in total by \$221 thousand.

Deferred Outflows –The deferred outflows for the year ended June 30, 2020, totaled \$36.6 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 \$23.7 million under the June 30, 2019 balance of \$60.3 million.

Liabilities – Total liabilities at June 30, 2020, were \$474.9 million compared to \$561.0 million at June 30, 2019. This decrease of \$86.1 million is primarily attributable to a decrease in Net Pension and OPEB Liability from fiscal year 2020 of \$69.3 million.

Bonds Payable and Capital Lease Obligations – In total, bonds payable and capital lease obligations decreased by \$9 million as of June 30, 2020, compared to June 30, 2019. At June 30, 2020, the total bonds payable and capital lease obligations were \$132.9 million versus \$141.9 million at June 30, 2019. This decrease is attributable to the principal payments made on the bonds.

Other Liability Categories – At June 30, 2020, the balances in various other liability categories decreased by \$7.8 million to \$53.7 million compared to \$61.5 million at June 30, 2019. 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 2020, 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, 2020, totaled \$240.0 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 decrease of \$21.9 million is primarily attributed to KTRS and KERS pension, compared to the June 30, 2019 deferred inflows balance of \$261.9 million.

Net Position – Total Net Position at June 30, 2020, was \$(41.8) million; an increase of \$67.5 million from June 30, 2019.

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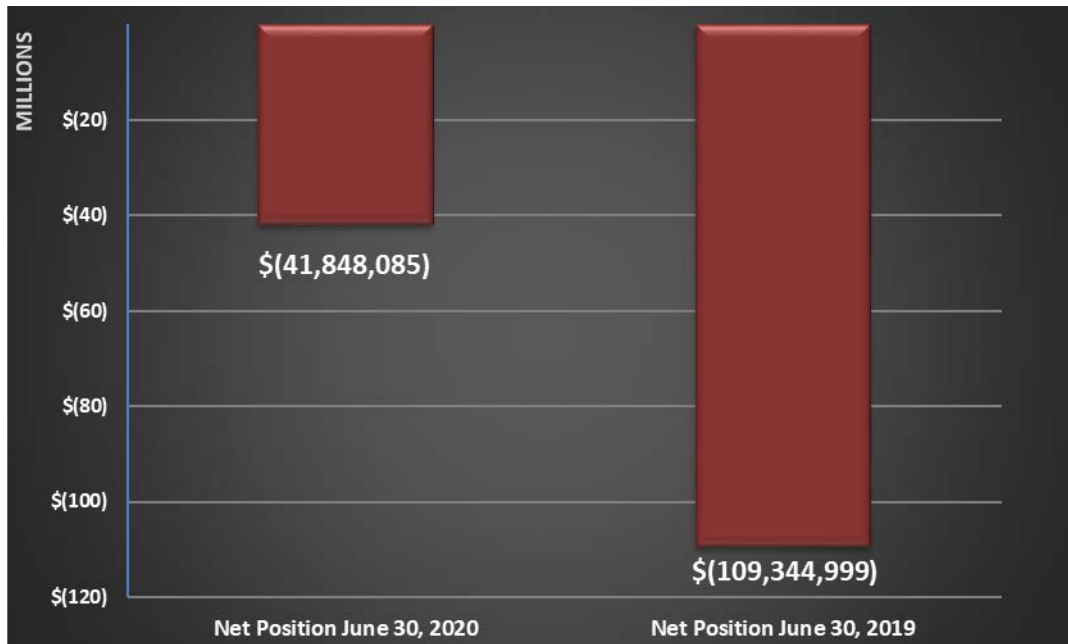
EASTERN KENTUCKY UNIVERSITY
MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2020, 2019 and 2018

Net Investment in Capital Assets – Net position invested in capital assets increased by \$17.9 million as of June 30, 2020 to \$282.2 million compared to the June 30, 2019, level of \$264.3 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 \$24.4 million to \$49.7 million at June 30, 2020, compared to \$74.1 million at June 30, 2019. The net decrease is primarily attributable to the decrease in restricted expendable for capital projects of \$22.3 million.

Unrestricted Net Position – Unrestricted net position increased by \$74.0 million to \$(373.8) million at June 30, 2020, compared to the June 30, 2019 unrestricted net position of \$(447.8) 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, 2020 and 2019:



(Continued)

EASTERN KENTUCKY UNIVERSITY
MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2020, 2019 and 2018

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 (in thousands) at June 30 are shown below with the respective designations indicated.

	<u>2020</u>	<u>2019</u>	<u>2018</u>
Inventories	\$ 326	\$ 273	\$ 278
Outstanding encumbrances	799	1,250	2,844
Departmental commitments	3,570	9,520	9,832
Designated projects and contingency reserves	32,764	17,092	12,304
Health care self-insurance reserve	3,000	3,000	3,000
Auxiliary working capital	5,469	5,784	4,792
University capital projects	1,000	1,000	11,199
KTRS Pension	(171,759)	(214,884)	(255,822)
KERS Pension	(187,284)	(206,038)	(197,481)
KTRS OPEB	(26,610)	(27,356)	(27,287)
KERS OPEB	<u>(35,096)</u>	<u>(37,430)</u>	<u>(36,999)</u>
Total unrestricted net position	<u>\$ (373,821)</u>	<u>\$ (447,789)</u>	<u>\$ (473,340)</u>

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

	<u>2020</u>	<u>2019</u>	<u>2018</u>
ASSETS			
Current assets	\$ 82,312	\$ 75,604	\$ 67,408
Capital assets – net	513,650	513,190	498,085
Other noncurrent assets	<u>40,430</u>	<u>64,400</u>	<u>88,396</u>
Total assets	<u>\$ 636,392</u>	<u>\$ 653,194</u>	<u>\$ 653,889</u>
DEFERRED OUTFLOWS			
Unamortized deferred refunding balance	\$ 205	\$ 261	\$ 395
KTRS/KERS Pensions	29,469	52,707	91,212
KTRS/KERS OPEB	<u>6,938</u>	<u>7,374</u>	<u>10,133</u>
Total deferred outflows	<u>\$ 36,612</u>	<u>\$ 60,342</u>	<u>\$ 101,740</u>
LIABILITIES			
Current liabilities	\$ 38,648	\$ 43,964	\$ 42,076
Noncurrent liabilities	<u>436,228</u>	<u>516,991</u>	<u>674,702</u>
Total liabilities	<u>\$ 474,876</u>	<u>\$ 560,955</u>	<u>\$ 716,778</u>
DEFERRED INFLOWS			
Service Concession - Housing	\$ 63,997	\$ 66,367	\$ 68,737
Other Deferred Inflows	7,130	7,390	7,650
KTRS/KERS Pensions	145,960	175,919	113,676
KTRS/KERS OPEB	<u>22,889</u>	<u>12,250</u>	<u>1,396</u>
Total deferred inflows	<u>\$ 239,976</u>	<u>\$ 261,926</u>	<u>\$ 191,459</u>

(Continued)

EASTERN KENTUCKY UNIVERSITY
MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2020, 2019 and 2018

	<u>2020</u>	<u>2019</u>	<u>2018</u>
NET POSITION			
Net investment in capital assets	\$ 282,242	\$ 264,327	\$ 235,410
Restricted – expendable	37,399	61,785	72,989
Restricted – nonexpendable	12,333	12,333	12,333
Unrestricted	<u>(373,822)</u>	<u>(447,789)</u>	<u>(473,340)</u>
Total net position	<u>\$ (41,848)</u>	<u>\$ (109,344)</u>	<u>\$ (152,608)</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 \$48.3 million from operations for the fiscal year ended June 30, 2020, prior to consideration of state appropriations and other net nonoperating revenues. This is compared to a loss of \$70.4 million from operations for the fiscal year ended June 30, 2019.

Operating Revenues

Below is a summary of operating revenues for fiscal year 2020 as compared to fiscal years 2019 and 2018:

	Year ended June 30, (in thousands)		
	<u>2020</u>	<u>2019</u>	<u>2018</u>
Tuition and fees	\$ 150,873	\$ 152,593	\$ 157,426
Scholarships and discounts	<u>(63,607)</u>	<u>(64,220)</u>	<u>(64,922)</u>
Net tuition and fees	87,266	88,373	92,504
Grants and contracts	43,598	46,418	49,048
Other revenues	<u>16,140</u>	<u>22,840</u>	<u>25,942</u>
Total education and general fund	147,004	157,631	167,494
Auxiliaries	21,158	25,220	25,414
Scholarships and discounts	<u>(6,516)</u>	<u>(10,480)</u>	<u>(12,610)</u>
Net auxiliaries	<u>14,642</u>	<u>14,740</u>	<u>12,804</u>
Total operating revenues	<u>\$ 161,646</u>	<u>\$ 172,371</u>	<u>\$ 180,298</u>

Tuition and Fees – Income from student tuition and fee assessments, shown net of the tuition discount, was \$87.3 million for the fiscal year ended June 30, 2020, compared to \$88.3 million for the fiscal year ended June 30, 2019. The decrease of \$1.1 million in net tuition and fees reflects principally a decrease in gross tuition and fee revenue during the year ended June 30, 2020.

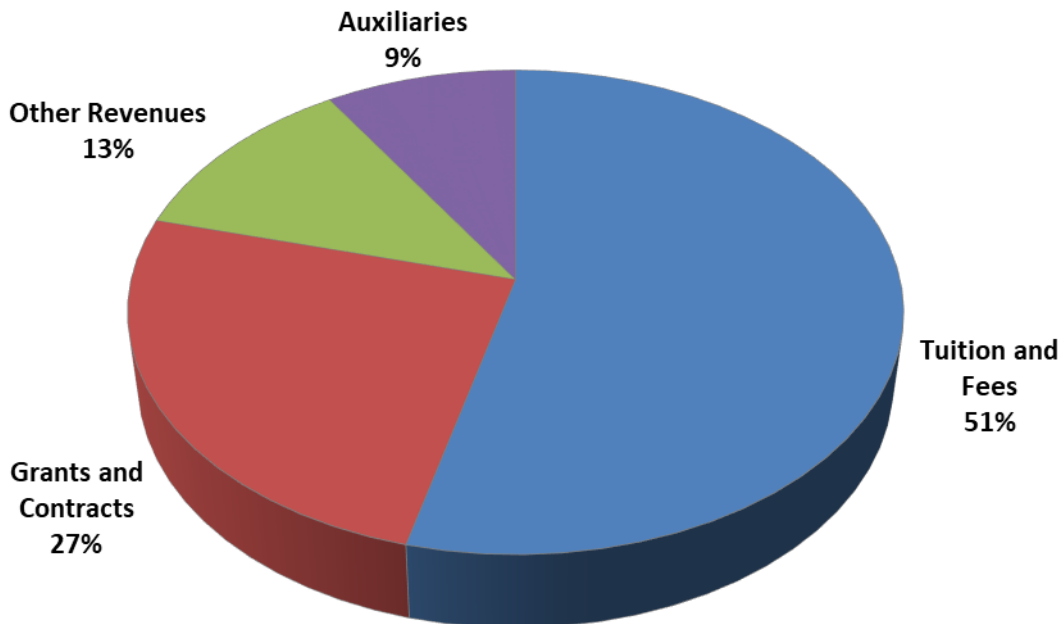
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Grants and Contracts – For the fiscal year ended June 30, 2020, there was \$43.6 million recognized revenue from all grants and contracts compared to \$46.4 million for the year ended June 30, 2019; a decrease of \$2.8 million. Revenues recognized 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, \$14.6 million is reported for net auxiliary revenues for the year ended June 30, 2020, compared to \$14.7 million for the year ended June 30, 2019. 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, 2020, total other operating revenues were \$16.1 million compared to \$22.8 million for June 30, 2019, a decrease of \$6.7 million.

Source of Operating Revenues – Fiscal Year 2020



(Continued)

EASTERN KENTUCKY UNIVERSITY
MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2020, 2019 and 2018

Operating Expenses

Educational and General – Educational and general expenses are those expenditures associated with both academic instruction and support of the educational mission of the University. These include expenditures related to both operational activities and those activities where funding is restricted for specific purposes, such as external contracts and grants. Educational and general expenditures include instructional costs, expenditures related to public service, academic support services such as libraries, student services including health services and student activities, administrative costs for the University, the maintenance and operation of the University's physical facilities, financial and scholarship expenses not directly related to tuition or housing, and debt service expenditures. For the fiscal year ended June 30, 2020, educational and general expenditures totaled \$256.7 million compared to \$254.8 million for the fiscal year ended June 30, 2019; an increase of \$1.9 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, 2020, were \$18.2 million, compared to \$19.9 million for the year ended June 30, 2019.

Below is a summary of operating expenditures for fiscal year 2020, compared to fiscal years 2019 and 2018:

	<u>Year ended June 30, (in thousands)</u>		
	<u>2020</u>	<u>2019</u>	<u>2018</u>
Instruction, academic support and libraries	\$ 102,136	\$ 110,017	\$ 117,860
Research and public service	33,570	42,141	43,985
Student services	17,604	18,424	20,100
Institutional support and operations and maintenance of plant	54,566	45,610	54,865
Student financial aid	23,629	15,482	14,443
Depreciation	22,891	22,919	19,991
Other operation expenses	<u>2,350</u>	<u>228</u>	<u>1,302</u>
Total educational and general expenses	256,747	254,821	272,546
 Auxiliaries	 18,171	 19,860	 21,796
Pension expense adjustments	(61,879)	(32,381)	11,382
OPEB expense adjustments	<u>(3,080)</u>	<u>500</u>	<u>2,927</u>
 Total operating expenses	 <u>\$ 209,959</u>	 <u>\$ 242,800</u>	 <u>\$ 308,651</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 \$102.1 million for the year ended June 30, 2020, compared to \$110 million for the year ended June 30, 2019.

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, 2020, total expenditures related to research and public service was \$33.6 million, compared to \$42.1 million for the fiscal year ended June 30, 2019; a decrease of \$8.5 million.

Student Services – Expenditures for student services for fiscal year 2020 decreased by \$820 thousand to \$17.6 million compared to \$18.4 million in fiscal year 2019. 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, 2020, 2019 and 2018

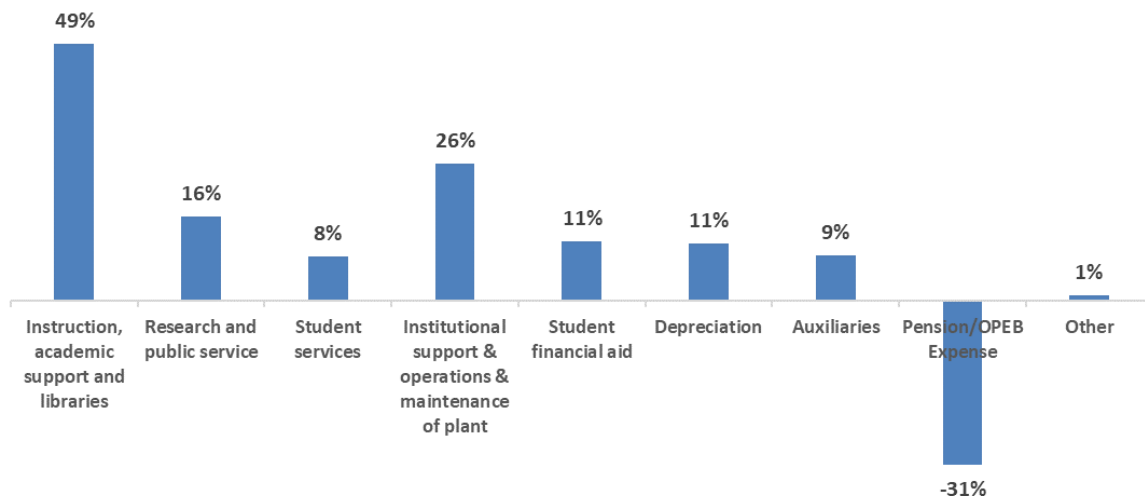
Institutional Support and Operations and Maintenance of Plant – These functions provide physical and administrative support for the University and include administrative offices, physical plant operations, noncapital maintenance expenses, utility expenses, technology support, legal, property and liability insurance, and other similar operational support costs. For the fiscal year ended June 30, 2020, the expenditures for these areas totaled \$54.5 million compared to \$45.6 million for the year ended June 30, 2019; an increase of \$9 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 2020, the total financial aid expenditure was \$93.8 million compared to \$90.2 million for fiscal year 2019, an increase of \$3.6 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, 2020, the University recorded \$(61.9) million of Pension Expense Adjustments. This is a \$29.5 million decrease from the fiscal year ending June 30, 2019 Pension Expense Adjustments of \$(32.4) 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, 2020, the University recorded \$(3.1) million of OPEB Expense Adjustments. For the fiscal year ending June 30, 2020, the University recorded \$500 thousand of OPEB Expense Adjustments. These expense adjustments do not include actual contributions to the plan.

Major Areas of Operating Expense – Fiscal Year 2020



(Continued)

EASTERN KENTUCKY UNIVERSITY
MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2020, 2019 and 2018

Student financial aid expense reported on the Statement of Revenues, Expenses, and Changes in Net Position reflect the residual financial aid paid directly to the students. The student financial aid expense for the year ended June 30, 2020, was \$23.6 million, an increase of \$8.1 million compared to \$15.5 million for the year ended June 30, 2019. The increase represents an approximately \$1.1 million of housing refunds to students residing in P3 housing that the University chose to expense due to closing campus in March 2020, \$1.4 million in increase in Pell grant expense from the prior year, and the distribution of \$4.8 million dollars of CARES emergency student funding.

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

	Year ended June 30, (in thousands)		
	2020	2019	2018
Tuition and fee discount	\$ 63,607	\$ 64,220	\$ 64,922
Auxiliary enterprises discount	6,516	10,480	12,610
Student financial aid expense	23,629	15,482	14,443
Total student financial aid expense	\$ 93,752	\$ 90,182	\$ 91,975

Non-Operating Revenues/Expenses

State Appropriations – Funding from state appropriations for operations and debt service for the fiscal year ended June 30, 2020 was \$63.8 million. This was a decrease of \$435 thousand from the prior year ending June 30, 2019 amount of \$64.2 million.

Investment Income – Total investment income for the fiscal years ended June 30, 2020 and 2019, was \$1.5 million and \$3.2 million, respectively; a decrease of \$1.7 million.

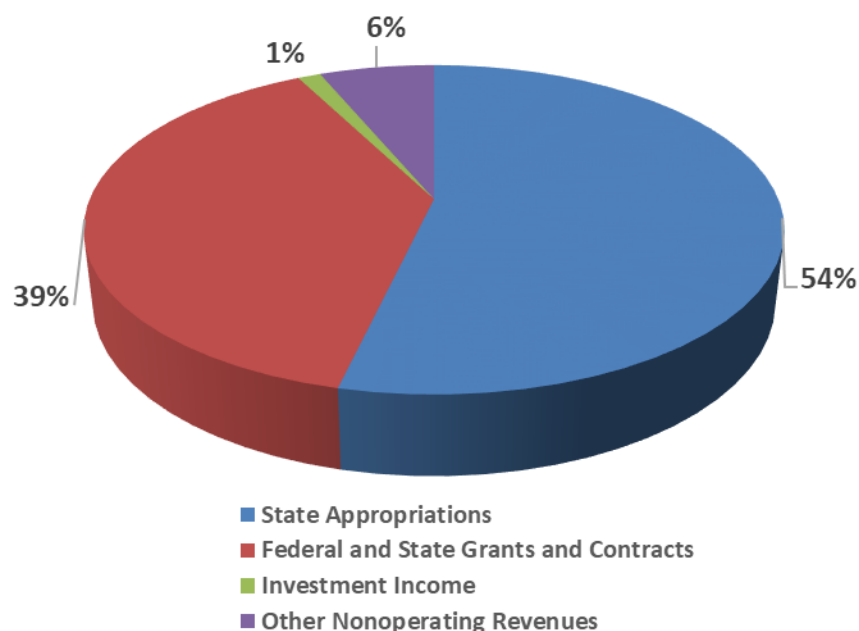
Federal and State Grants and Contracts – Total federal and state grant revenue for the fiscal year ended June 30, 2020, was \$46.0 million, compared to \$43.4 million from fiscal year 2019. This was an increase from prior year revenue of \$2.6 million.

Other Non-Operating Revenues – Other non-operating revenues totaled \$7.5 million for the year ended June 30, 2020, an increase of \$131 thousand compared to \$7.4 million from the prior year ended June 30, 2019.

Other Non-Operating Expenses – Other non-operating expenses totaled \$144 thousand for the year ended June 30, 2020, a decrease of \$520 thousand compared to \$664 thousand from the prior year ended June 30, 2019.

(Continued)

Major Sources of Non-Operating Revenues – Fiscal Year 2020



Capital Support– For the year ended June 30, 2020, the University received funds from the Commonwealth totaling \$1.2 million for new capital projects, compared to fiscal year 2019 when the University received funds from the Commonwealth totaling \$1.1 million for new capital projects.

	Year ended June 30, (in thousands)		
	<u>2020</u>	<u>2019</u>	<u>2018</u>
Operating revenues	\$ 161,646	\$ 172,371	\$ 180,299
Operating expenses	<u>209,959</u>	<u>242,799</u>	<u>308,651</u>
Operating loss	(48,313)	(70,428)	(128,352)
Nonoperating revenues – net	<u>114,645</u>	<u>112,607</u>	<u>90,686</u>
Gain (loss) before capital appropriations	66,332	42,179	(37,666)
Capital appropriations	<u>1,165</u>	<u>1,084</u>	<u>10,633</u>
Change in net position	67,497	43,263	(27,033)
Net position – beginning of year	<u>(109,345)</u>	<u>(152,608)</u>	<u>(125,575)</u>
Net position – end of year	<u>\$ (41,848)</u>	<u>\$ (109,345)</u>	<u>\$ (152,608)</u>

(Continued)

EASTERN KENTUCKY UNIVERSITY
MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2020, 2019 and 2018

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 (in thousands) from the Statements of Cash Flows:

	<u>Year ended June 30, (in thousands)</u>		
	<u>2020</u>	<u>2019</u>	<u>2018</u>
Cash provided by (used in)			
Operating activities	\$ (95,466)	\$ (86,545)	\$ (88,549)
Noncapital financing activities	114,518	111,648	108,833
Capital and related financing activities	(35,834)	(49,374)	(15,265)
Investing activities	<u>2,035</u>	<u>2,837</u>	<u>1,205</u>
Net change in cash and cash equivalents	(14,747)	(21,434)	6,224
 Cash and cash equivalents – beginning of year	 <u>85,845</u>	 <u>107,279</u>	 <u>101,055</u>
 Cash and cash equivalents – end of year	 <u>\$ 71,098</u>	 <u>\$ 85,845</u>	 <u>\$ 107,279</u>

(Continued)

EASTERN KENTUCKY UNIVERSITY
MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2020, 2019 and 2018

Capital Asset and Debt Administration

During fiscal years 2020 and 2019, the following projects were completed by the University:

	Year ended June 30, (in thousands)	
	2020	2019
RCF 1622 Student Rec & Wellness Center	\$ 38,365	\$
RCF 1623 Powell Bldg Student Center	23,392	
Relocate Underground Utilities for Student Rec Center	93	
RCF 1778 Student Rec Center Site Prep (Raze Dupree & Todd Halls)	1,100	
RCF2153 Telford Hall replace pipes	599	
RCF2145 ECU Roy Kidd Statue Wall	173	
RCF2418 Model Lab School-Signage	50	
RCF2140 Model HVAC installation for 3 areas	226	
Vicker's Lot Turaround Spot Paving	29	
RCF 2567 Roark Chiller Replacement	111	
Design Student Recreation and Wellness Center	205	
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
Total	\$ 64,343	\$ 89,503

(Continued)

EASTERN KENTUCKY UNIVERSITY
MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2020, 2019 and 2018

The following projects were still in process at June 30, 2020:

	Total Expenditures Through <u>June 30, 2020</u>	Estimated Cost to Complete at <u>June 30, 2020</u>
Begley Bldg. Sewer Lift Station	\$ 28	\$ 294
RCF 1711 Bypass Pedway	472	2,528
RCF 1825 Softball Renov Phase II Build concessions/restrooms	262	31
RCF 1847 Commonwealth 13th Flr Renovation	75	579
Coates Exterior Repairs	28	-
RCF 1987 Begley Bldg. Sewer Lift Station	419	49
RCF 2572 Wallace Entries Brick Repair/Replacement	283	580
RCF 2560 Combs Boiler/Heat Exchange Replacement	22	203
RCF 2525 Ramsey Heat Plant Boiler Replacement	409	262
RCF 2500 Tom Samuel Track resurfacing	738	266
RCF 2371 Alumni Col Chiller replacement	<u>15</u>	<u>422</u>
Total	<u>\$ 2,751</u>	<u>\$ 5,214</u>

Long-term debt at June 30, 2020, was \$132.9 million compared to \$141.9 million at June 30, 2019. The \$9 million decrease is the result of the decrease to bonds payable for payments of principal owed on bonds in fiscal year 2020.

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:

- In March 2020, the World Health Organization declared the novel coronavirus 19 (COVID-19) outbreak a world-wide pandemic. Accordingly, in the same month, Eastern Kentucky University declared an official State of Emergency, enacting the public health guidelines issued by the Governor, the Centers for Disease Control (CDC), and local health agencies. Steps were taken to reduce the campus residential population, and employees whose jobs permitted working remotely were encouraged to do so. The impact of this public health emergency remains fluid and could potentially negatively impact the financial resources of the University. However, as of the date of these statements, there has been little impact to University's financial position as a result of the COVID-19 pandemic. As of this writing, the University continues to operate in a State of Emergency.
- 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. And subsequent to June 30, 2020, in early September, the University received a letter from the State Budget Director's office in conjunction with the Council on Post-secondary Education (CPE), requesting that the University prepare a proposed plan that includes an 8% cut to our state appropriation. For EKV, an 8% cut represents approximately \$5.3 million.
- In addition to the state appropriation, the balance of the University's education and general budget must come from other sources, primarily student tuition revenue. The Council on Postsecondary

(Continued)

EASTERN KENTUCKY UNIVERSITY
MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2020, 2019 and 2018

Education 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 various campus facility improvements that have taken place over the last several years have enhanced student success, and are transforming the living and learning experience for our students. The new Student Recreation & Wellness Center and the renovated and updated Powell Student Center projects were completed and came online in fiscal year 2020. Construction of a pedway across the bypass has now begun and this project will round out the major projects in the Center for Student Life initiative.
- The Performance Based Funding model has been implemented in Kentucky. The University's entire state appropriation is 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.
- The University's Strategic Plan, *Make No Little Plans: A Vision for 2020* has been extended for two years through 2022. During the upcoming fiscal year, the University will embark on the development of a new, updated comprehensive strategic plan that will supersede the current plan.
- 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. With the ongoing COVID-19 pandemic, the current U.S. economic outlook is mixed at best. Although national economic growth has picked up in the third quarter of 2020, the effects of the sharp economic contraction in second quarter of 2020 are still being felt nationally, in the Commonwealth, and locally. Overall unemployment has reached record levels nationwide. The aforementioned cut to the University's state funding is a result of a diminished revenue outlook for Kentucky—again due to the economic impacts of the ongoing COVID-19 pandemic.
- Finally, in addition to the foregoing multitude of other, extraordinary economic factors currently impacting the University, the state's current pension obligations continue to weigh heavily and add uncertainty for the Commonwealth's economic recovery.

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 Senior Vice President for Finance & Administration, Eastern Kentucky University, Coates CPO 35A, 521 Lancaster Avenue, Richmond, KY 40475.

(Continued)

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

	<u>2020</u>	<u>2019</u>
ASSETS		
Current Assets		
Cash and cash equivalents	\$ 53,751,403	\$ 45,362,894
Accounts receivable – net of allowance of \$4,950,677 and \$3,088,023 for 2020 and 2019	26,565,758	28,056,468
Loans to students – net of allowance of \$1,053 and \$1,929 for 2020 and 2019	495,364	517,692
Inventories	325,958	272,635
Prepaid expenses	<u>1,174,182</u>	<u>1,394,689</u>
Total current assets	<u>82,312,665</u>	<u>75,604,378</u>
Noncurrent Assets		
Restricted cash and cash equivalents	17,346,635	40,482,070
Investments	20,285,936	20,484,587
Loans to students – net of allowance of \$5,948 and \$12,790 for 2020 and 2019	2,797,297	3,432,987
Capital assets – net of accumulated depreciation of \$310,027,275 and \$287,845,149 for 2020 and 2019	499,370,476	453,602,700
Capital assets not being depreciated	<u>14,279,457</u>	<u>59,587,554</u>
Total noncurrent assets	<u>554,079,801</u>	<u>577,589,898</u>
Total Assets	<u>636,392,466</u>	<u>653,194,276</u>
Deferred Outflows		
Unamortized deferred refunding loss balance	204,636	261,364
KTRS/KERS pension	29,469,198	52,707,203
KTRS/KERS OPEB	<u>6,938,242</u>	<u>7,374,075</u>
Total deferred outflows	<u>36,612,076</u>	<u>60,342,642</u>
Total Assets and Deferred Outflows	<u>\$ 673,004,542</u>	<u>\$ 713,536,918</u>

(Continued)

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

	<u>2020</u>	<u>2019</u>
LIABILITIES AND NET POSITION		
Current Liabilities		
Accounts payable	\$ 6,323,990	\$ 13,263,473
Accrued interest	608,108	956,040
Accrued salaries and benefits	5,676,975	3,936,855
Accrued compensated absences	2,624,717	2,911,260
Payroll withholding payable	860,540	911,299
Refundable deposits	70,387	359,378
Assets held for others	309,520	307,057
Unearned revenue	13,067,766	12,263,541
Bonds payable	<u>9,106,630</u>	<u>9,055,494</u>
Total current liabilities	<u>38,648,633</u>	<u>43,964,397</u>
Noncurrent Liabilities		
Unearned revenue	24,129,032	26,541,935
Bonds payable, noncurrent portion	98,291,586	107,329,565
Leases payable, noncurrent portion	25,500,000	25,500,000
Net pension liability	242,552,439	297,710,091
Net OPEB liability	<u>45,754,748</u>	<u>59,910,311</u>
Total noncurrent liabilities	<u>436,227,805</u>	<u>516,991,902</u>
Total liabilities	<u>474,876,438</u>	<u>560,956,299</u>
Deferred Inflows		
Service concession – housing	63,996,756	66,367,006
Other deferred inflows	7,129,949	7,389,892
KTRS/KERS pension	145,959,795	175,918,887
KTRS/KERS OPEB	<u>22,889,689</u>	<u>12,249,833</u>
Total deferred inflows	<u>239,976,189</u>	<u>261,925,618</u>
Net Position		
Net investment in capital assets	282,241,805	264,326,511
Restricted		
Expendable for capital projects	29,202,196	51,535,636
Expendable for loans to students	2,187,823	4,059,997
Expendable for scholarships	2,506,484	2,863,072
Expendable for institutional support	3,502,250	3,326,390
Unexpendable for permanent endowment	12,332,772	12,332,772
Unrestricted	<u>(373,821,415)</u>	<u>(447,789,377)</u>
Total net position	<u>(41,848,085)</u>	<u>(109,344,999)</u>
Total Liabilities, Deferred Inflows and Net Position	<u>\$ 673,004,542</u>	<u>\$ 713,536,918</u>

See accompanying notes to financial statements.

EASTERN KENTUCKY UNIVERSITY FOUNDATION, INC.
 STATEMENTS OF FINANCIAL POSITION
 June 30, 2020 and 2019

	<u>2020</u>	<u>2019</u>
ASSETS		
Current assets		
Cash and cash equivalents	\$ 11,424,556	\$ 2,453,156
Pledges receivable – net	756,795	477,716
Cash surrender value of life insurance	<u>176,977</u>	<u>172,500</u>
Total current assets	<u>12,358,328</u>	<u>3,103,372</u>
Noncurrent assets		
Investments	70,386,838	77,692,302
Pledges receivable – net	605,043	1,030,016
Property and equipment – net	689,025	703,149
Other noncurrent assets	<u>46,747</u>	<u>49,896</u>
Total noncurrent assets	<u>71,727,653</u>	<u>79,475,363</u>
Total Assets	<u>\$ 84,085,981</u>	<u>\$ 82,578,735</u>
LIABILITIES AND NET ASSETS		
Current liabilities		
Accounts payable	\$ 21,000	\$ 24,109
Due to University	<u>215,038</u>	<u>360,760</u>
Total current liabilities	<u>236,038</u>	<u>384,869</u>
Noncurrent liabilities		
Deferred gift liabilities	327,791	350,743
Assets held for others	<u>20,285,936</u>	<u>20,484,587</u>
Total noncurrent liabilities	<u>20,613,727</u>	<u>20,835,330</u>
Total Liabilities	<u>20,849,765</u>	<u>21,220,199</u>
Net assets		
Without donor restrictions		
Board designated endowment	5,393,899	4,931,566
Undesignated	<u>1,405,863</u>	<u>869,807</u>
Total net assets without donor restrictions	6,799,762	5,801,373
With donor restrictions		
Purpose restrictions	23,728,235	23,991,385
Perpetual in nature	<u>32,708,219</u>	<u>31,565,778</u>
Total net assets with donor restrictions	<u>56,436,454</u>	<u>55,557,163</u>
Total net assets	<u>63,236,216</u>	<u>61,358,536</u>
Total Liabilities and Net Assets	<u>\$ 84,085,981</u>	<u>\$ 82,578,735</u>

See accompanying notes to financial statements.

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

	<u>2020</u>	<u>2019</u>
OPERATING REVENUES		
Tuition and fees – net	\$ 87,266,314	\$ 88,373,243
Federal grants and contracts	28,175,030	25,355,714
State grants and contracts	11,973,210	15,507,689
Nongovernmental grants, contracts, and gifts	3,449,564	5,554,237
Sales and services of educational activities	5,619,787	6,595,893
Auxiliary enterprises – housing	10,433,792	9,321,159
Auxiliary enterprises – other	4,208,494	5,419,193
Other operating revenues	<u>10,519,818</u>	<u>16,243,849</u>
Total operating revenues	<u>161,646,009</u>	<u>172,370,977</u>
OPERATING EXPENSES		
Educational and general		
Instruction	79,647,546	85,330,882
Research	699,890	803,691
Public service	32,870,585	41,337,474
Libraries	3,430,014	3,859,362
Academic support	19,058,748	20,826,355
Student services	17,603,915	18,423,658
Institutional support	26,066,038	22,180,908
Operations and maintenance of plant	28,500,304	23,429,098
Depreciation	18,718,678	17,934,103
Student financial aid	23,628,705	15,481,988
Auxiliary enterprises		
Housing and other auxiliaries	18,170,907	19,859,598
Depreciation	4,172,476	4,984,803
Pension expense adjustments	(61,878,896)	(32,381,373)
OPEB expense adjustments	(3,079,717)	500,481
Other operating expenses	<u>2,349,995</u>	<u>228,423</u>
Total operating expenses	<u>209,959,188</u>	<u>242,799,451</u>
Operating loss	(48,313,179)	(70,428,474)
NONOPERATING REVENUES (EXPENSES)		
State appropriations	63,753,600	64,189,000
Federal and state grants and contracts	46,007,910	43,354,141
Investment income	1,495,115	3,193,708
Interest expense	(3,998,845)	(4,863,988)
Other nonoperating revenues	7,530,550	7,399,251
Other nonoperating expenses	<u>(143,700)</u>	<u>(664,478)</u>
Net nonoperating revenues	<u>114,644,630</u>	<u>112,607,634</u>
Gain (loss) before capital appropriations	66,331,451	42,179,160
Capital appropriations	<u>1,165,463</u>	<u>1,083,554</u>
Change in net position	67,496,914	43,262,714
Net position – beginning of year	<u>(109,344,999)</u>	<u>(152,607,713)</u>
Net position – end of year	<u>\$ (41,848,085)</u>	<u>\$ (109,344,999)</u>

See accompanying notes to financial statements.

EASTERN KENTUCKY UNIVERSITY FOUNDATION, INC.
STATEMENTS OF ACTIVITIES
Years ended June 30, 2020 and 2019

	2020			2019		
	Without Donor Restrictions	With Donor Restrictions	Total	Without Donor Restrictions	With Donor Restrictions	Total
REVENUES, GAINS, AND OTHER SUPPORT						
Contributions	\$ 99,613	\$ 2,395,657	\$ 2,495,270	\$ 205,401	\$ 2,280,271	\$ 2,485,672
Income from investments - net of investment expenses of \$157,591 and \$208,158 for 2020 and 2019, respectively	148,724	1,560,367	1,709,091	185,997	1,423,973	1,609,970
Net realized and unrealized gains on investments	264,443	808,653	1,073,096	286,989	1,901,967	2,188,956
Other income - net	116,596	26,022	142,618	69,807	27,044	96,851
	629,376	4,790,699	5,420,075	748,194	5,633,255	6,381,449
Net assets released from restrictions	3,911,408	(3,911,408)	-	4,104,911	(4,104,911)	-
Total revenues, gains, and other support	4,540,784	879,291	5,420,075	4,853,105	1,528,344	6,381,449
EXPENSES						
Support for the University	3,361,331	-	3,361,331	3,721,231	-	3,721,231
Management and general	181,064	-	181,064	162,781	-	162,781
Total expenses	3,542,395	-	3,542,395	3,884,012	-	3,884,012
Change in net assets	998,389	879,291	1,877,680	969,093	1,528,344	2,497,437
Net assets - beginning of year	5,801,373	55,557,163	61,358,536	4,832,280	54,028,819	58,861,099
Net assets - end of year	\$ 6,799,762	\$56,436,454	\$63,236,216	\$ 5,801,373	\$55,557,163	\$61,358,536

See accompanying notes to financial statements.

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

	<u>2020</u>	<u>2019</u>
OPERATING ACTIVITIES		
Tuition and fees	\$ 90,777,170	\$ 88,897,316
Grants, contracts and gifts	39,812,219	41,958,153
Payments to suppliers	(83,850,748)	(65,546,290)
Payments for utilities	(7,651,330)	(8,078,255)
Payments to employees	(112,966,982)	(121,186,500)
Payments for benefits	(34,288,172)	(41,481,799)
Payments to students	(18,636,433)	(15,332,783)
Loans issued to students and employees	(4,335)	(4,335)
Collections of loans to students and employees	794,196	794,196
Auxiliary enterprise charges		
Residence halls	10,665,714	8,929,056
Other	4,208,494	5,419,193
Sales and services of educational activities	5,619,787	6,595,893
Other receipts	<u>10,054,075</u>	<u>12,490,983</u>
Net cash used in operating activities	(95,466,343)	(86,545,172)
NONCAPITAL FINANCING ACTIVITIES		
State appropriations	63,753,600	64,189,000
Other nonoperating revenues	<u>50,764,567</u>	<u>47,458,721</u>
Net cash provided by noncapital financing activities	114,518,167	111,647,721
CAPITAL AND RELATED FINANCING ACTIVITIES		
Purchase of capital assets	(21,576,756)	(34,611,303)
Principal paid on bonds payable and capital leases	(14,125,000)	(8,270,000)
Interest paid on bonds payable and capital leases	(7,190,787)	(7,576,349)
Proceeds on issuance of bonds payable	5,892,872	-
Capital appropriations	<u>1,165,463</u>	<u>1,083,554</u>
Net cash used in capital and related financing activities	(35,834,208)	(49,374,098)
INVESTING ACTIVITIES		
Interest on investments	<u>2,035,458</u>	<u>2,837,112</u>
Net cash provided by investing activities	<u>2,035,458</u>	<u>2,837,112</u>
Increase (decrease) in cash and cash equivalents	(14,746,926)	(21,434,437)
Cash and cash equivalents – beginning of year	<u>85,844,964</u>	<u>107,279,401</u>
Cash and cash equivalents – end of year	<u>\$ 71,098,038</u>	<u>\$ 85,844,964</u>

(Continued)

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

	<u>2020</u>	<u>2019</u>
RECONCILIATION OF OPERATING LOSS		
TO NET CASH USED IN OPERATING ACTIVITIES		
Operating loss	\$ (48,313,179)	\$ (70,428,474)
Depreciation expense	22,891,154	22,918,906
Contributed capital assets	(26,450)	(1,530,000)
Changes in operating assets and liabilities		
Accounts receivable – net	1,490,708	(5,453,266)
Loans to students – net	658,019	789,861
Inventories	(53,323)	4,884
Prepaid expenses	220,507	(619,805)
Accounts payable	(6,939,483)	1,793,405
Accrued liabilities	1,402,819	(1,023,346)
Refundable deposits	(232,286)	318,728
Assets held for others	2,463	(19,328)
Unearned revenue	(1,608,679)	(1,415,845)
Deferred outflows – KTRS/KERS Pension	23,238,005	38,505,218
Deferred outflows – KTRS/KERS OPEB	435,833	2,757,904
Deferred inflows – KTRS/KERS Pension	(29,959,092)	62,243,148
Deferred inflows – KTRS/KERS OPEB	10,639,856	10,854,160
Net pension liability	(55,157,652)	(133,129,739)
Net OPEB liability	<u>(14,155,563)</u>	<u>(13,111,583)</u>
Net cash flows used in operating activities	<u>\$ (95,466,343)</u>	<u>\$ (86,545,172)</u>
Supplemental cash flows information		
Capital asset acquisitions in accounts payable	734,647	4,528,312
Contributed capital assets	26,450	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, 2020 and 2019 was \$5,978,488 and \$6,486,549, of which \$1,979,643 and \$1,622,562 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, 2020 and 2019 were \$63,606,779 and \$64,220,071 and \$4,962,549 and \$9,010,668, 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 2020, the University adopted the following accounting pronouncements:

- GASB Statement No. 95, *Postponement of the Effective Dates of Certain Authoritative Guidance*. This Statement was issued to provide temporary relief to governments as a result of the COVID-19 pandemic. This statement was effective immediately and postponed the required implementation dates of certain statements and implementation guides.

Recent Accounting Pronouncements - As of June 30, 2020, the GASB has issued the following statements not yet implemented by the University.

- GASB Statement No. 84, *Fiduciary Activities*, effective for periods beginning after December 15, 2019.
- GASB Statement No. 87, *Leases*, effective for periods beginning after June 15, 2021
- GASB Statement No. 89, *Accounting for Interest Cost Incurred before the End of a Construction Period*, effective for periods beginning after December 15, 2020.
- GASB Statement No. 90, *Majority Equity Interests, an amendment of GASB Statements No. 14 and No. 61*, effective for periods beginning after December 15, 2019.

(Continued)

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

(Continued)

- GASB Statement No. 91, *Conduit Debt Obligations*, effective for periods beginning after December 15, 2021.
- GASB Statement No. 92, *Omnibus 2020*, effective for periods beginning after June 15, 2021.
- GASB Statement No. 93, *Replacement of Interbank Offered Rates*, effective for periods beginning after June 15, 2021.
- GASB Statement No. 94, *Public-Private and Public-Private Partnerships and Availability Payment Arrangements*, effective for periods beginning after June 15, 2022.
- GASB Statement No. 96, *Subscription-Based Information Technology Arrangements*, effective for periods beginning after June 15, 2022.
- GASB Statement No. 97, *Certain Component Units Criteria, and Accounting and Financial Reporting for Internal Revenue Code (IRC) Section 457 Deferred Compensation Plans – an amendment of GASB Statements No. 14 and No. 84, and a supersession of GASB Statement No. 32*, effective for periods beginning after June 15, 2021.

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.

Business Disruption - In March 2020, the World Health Organization declared the coronavirus (COVID-19) outbreak to be a global pandemic. COVID-19 has impacted economic activity and financial markets globally and has resulted in a decrease in various auxiliary revenues that the University is dependent upon due to closing the campus in March 2020. The continued spread of the disease represents a risk that operations could be disrupted in the near future. The extent to which COVID-19 impacts the University will depend on future developments, which are still highly uncertain and cannot be predicted. As a result of the COVID-19 pandemic, the University received an allocation of Higher Education Emergency Relief Funding through the CARES Act totaling \$10,542,767, of which \$8,477,751 was expended and recognized as revenue during the year ended June 30, 2020. The remaining \$2,065,016 is expected to be expended and recognized as revenue when allowable expenses are incurred during fiscal year 2021.

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.

(Continued)

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

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

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

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

Deposits as of June 30, 2020 and 2019 consisted of:

	<u>2020</u>	<u>2019</u>
Depository accounts		
Local bank deposits – collateral held as a pledge in the University's name	\$ 35,443,960	\$ 29,322,789
Cash on hand	18,593	19,489
State investment pool – uninsured and uncollateralized	<u>35,635,485</u>	<u>56,502,686</u>
Total deposits	<u>\$ 71,098,038</u>	<u>\$ 85,844,964</u>

Deposits at June 30, 2020 and 2019 as presented on the Statement of Net Position include:

	<u>2020</u>	<u>2019</u>
Cash and cash equivalents	\$ 53,751,403	\$ 45,362,894
Restricted cash and cash equivalents	<u>17,346,635</u>	<u>40,482,070</u>
Total deposits	<u>\$ 71,098,038</u>	<u>\$ 85,844,964</u>

Investments at June 30, 2020 and 2019 consisted of:

	<u>2020</u>	<u>2019</u>
Restricted assets held by the Foundation	<u>\$ 20,285,936</u>	<u>\$ 20,484,587</u>
Total investments	<u>\$ 20,285,936</u>	<u>\$ 20,484,587</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, 2020 and 2019

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

The assets in the Foundation investment pool at June 30, 2020 and 2019 are invested as follows:

	<u>2020</u>	<u>2019</u>
Percentage of pool invested in:		
Cash equivalents – trustee	5%	1%
Registered investment companies equity funds	70	71
Registered investment companies fixed income funds	24	26
Alternative investments	1	2
Total	100%	100%

The University categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs. Investments that are measured at fair value using the net asset value per share (or its equivalent) as a practical expedient are not classified in the fair value hierarchy below. Refer to Note 15 B. for a description of those investments.

The fair value of financial instruments as of June 30, 2020 and 2019 is as follows:

	Fair Value Measurements at June 30, Using:			
	Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
<u>2020</u>				
Eastern Kentucky University Foundation, Inc. Investment fund at net asset value per share	\$ 20,285,936	\$ -	\$ -	\$ -
Total investments	\$ 20,285,936	\$ -	\$ -	\$ -
<u>2019</u>				
Eastern Kentucky University Foundation, Inc. Investment fund at net asset value per share	\$ 20,484,587	\$ -	\$ -	\$ -
Total investments	\$ 20,484,587	\$ -	\$ -	\$ -

(Continued)

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

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, 2020 and 2019 was \$1,495,115 and \$3,193,708, 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, 2020 and 2019:

	<u>2020</u>	<u>2019</u>
Student tuition and fees	\$ 7,771,271	\$ 9,448,621
Auxiliary enterprises	1,313,737	1,488,954
Federal, state and private grants and contracts	20,328,755	18,007,928
Other state agencies	28,198	28,198
Other	<u>2,074,474</u>	<u>2,170,790</u>
Total	31,516,435	31,144,491
Less allowance for uncollectible accounts	<u>(4,950,677)</u>	<u>(3,088,023)</u>
Accounts receivable – net	<u>\$ 26,565,758</u>	<u>\$ 28,056,468</u>

(Continued)

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

NOTE 4 – CAPITAL ASSETS

Capital assets activity for the year ended June 30, 2020, is as follows:

	Balance - June 30, <u>2019</u>	<u>Additions</u>	<u>Reductions</u>	<u>Transfers</u>	Balance – June 30, <u>2020</u>
Capital assets not being depreciated					
Land	\$ 8,186,328	\$ -	\$ -	\$ -	\$ 8,186,328
Historical treasures and works of art	1,838,492	-	-	172,804	2,011,296
Livestock for educational purposes	188,548	88,690	-	-	277,238
Construction in progress	<u>49,374,186</u>	<u>18,791,251</u>	<u>(16,052)</u>	<u>(64,344,790)</u>	<u>3,804,595</u>
Total capital assets not being depreciated	59,587,554	18,879,941	(16,052)	(64,171,986)	14,279,457
Other capital assets					
Land improvements	62,266,425	-	-	29,473	62,295,898
Buildings	599,291,768	723,404	-	64,140,892	664,156,064
Leasehold improvements	556,987	-	(431,410)	-	125,577
Equipment	31,022,830	2,312,101	(237,598)	17,673	33,115,006
Library books	<u>48,309,839</u>	<u>1,455,776</u>	<u>(60,409)</u>	<u>-</u>	<u>49,705,206</u>
Total other capital assets	741,447,849	4,491,281	(729,417)	64,188,038	809,397,751
Less accumulated depreciation for					
Land improvements	(37,862,171)	(2,864,806)	-	-	(40,726,977)
Buildings	(185,525,156)	(16,500,692)	-	-	(202,025,848)
Leasehold improvements	(523,248)	(12,558)	431,410	-	(104,396)
Equipment	(22,510,786)	(2,168,540)	217,211	-	(24,462,115)
Library books	<u>(41,423,788)</u>	<u>(1,344,560)</u>	<u>60,409</u>	<u>-</u>	<u>(42,707,939)</u>
Total accumulated depreciation	<u>(287,845,149)</u>	<u>(22,891,156)</u>	<u>709,030</u>	<u>-</u>	<u>(310,027,275)</u>
Other capital assets – net	<u>453,602,700</u>	<u>(18,399,875)</u>	<u>(20,387)</u>	<u>64,188,038</u>	<u>499,370,476</u>
Total capital assets – net	<u>\$ 513,190,254</u>	<u>\$ 480,066</u>	<u>\$ (36,439)</u>	<u>\$ 16,052</u>	<u>\$ 513,649,933</u>

(Continued)

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

NOTE 4 – CAPITAL ASSETS (Continued)

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>

NOTE 5 – UNEARNED REVENUE

Unearned revenue as of June 30, 2020 and 2019 is as follows:

	<u>2020</u>	<u>2019</u>
Unearned summer school revenue and activity fees	\$ 4,968,756	\$ 4,997,904
Unearned grants and contracts revenue, current	5,093,434	7,265,637
Unearned grants and contracts revenue, noncurrent	<u>27,134,607</u>	<u>26,541,935</u>
Total	<u>\$ 37,196,797</u>	<u>\$ 38,805,476</u>

(Continued)

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

NOTE 6 – BONDS PAYABLE AND CAPITAL LEASE OBLIGATIONS

Long-term liabilities as of June 30, 2020, and long-term activity for the year ended June 30, 2020 are summarized as follows:

	Balance - July 1, 2019	Additions	Reductions	Refunding	Balance - June 30, 2020	Balance Due Within One Year
Revenue bonds payable	\$ 97,550,000	\$ -	\$ (3,835,000)	\$ (5,700,000)	\$ 88,015,000	\$ 3,995,000
General receipts refunding bonds	14,005,000	5,265,000	(4,590,000)		14,680,000	4,445,000
Capitalized lease obligations	25,500,000	-	-	-	25,500,000	-
Unamortized bond premium	<u>4,830,059</u>	<u>627,872</u>	<u>(754,715)</u>	<u>-</u>	<u>4,703,216</u>	<u>666,630</u>
	<u>\$ 141,885,059</u>	<u>\$ 5,892,872</u>	<u>\$ (9,179,715)</u>	<u>\$ (5,700,000)</u>	<u>\$ 132,898,216</u>	<u>\$ 9,106,630</u>

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>

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 2020 and 2019, \$0 and \$105,000 of principal and \$0 and \$4,463 of interest were paid on the bonds. Total outstanding principal at June 30, 2020 was \$0. 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 2020 and 2019, \$0 and \$730,000 of principal and \$0 and \$256,979, respectively, of interest were paid on the bonds. Total outstanding principal at June 30, 2020 and 2019 was \$0 and \$5,700,000, respectively. These bonds were refunded during fiscal year 2020. See Series 2019A paragraph in this footnote.

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

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 2020 and 2019, \$960,000 and \$930,000 of principal and \$542,725 and \$568,750, respectively, of interest were paid on the bonds. Total outstanding principal at June 30, 2020 and 2019 was \$14,405,000 and \$15,365,000, 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 2020 and 2019, \$3,020,000 and \$2,880,000 of principal and \$482,000 and \$626,000 of interest were paid on the bonds. The outstanding principal at June 30, 2020 and 2019 is \$6,620,000 and \$9,640,000, 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 2020 and 2019, \$570,000 and \$545,000 of principal and \$455,394 and \$477,194 of interest were paid on the bonds. Total outstanding principal at June 30, 2020 and 2019 was \$11,610,000 and \$12,180,000, 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.

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

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

During fiscal years 2020 and 2019, \$1,010,000 and \$885,000 of principal and \$95,938 and \$113,638, respectively, of interest were paid on the bonds. Total outstanding principal at June 30, 2020 and 2019 was \$3,355,000 and \$4,365,000, 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 2020 and 2019, \$1,595,000 and \$1,520,000 of principal and \$1,765,906 and \$1,841,906, respectively, of interest were paid on the bonds. Total outstanding principal at June 30, 2020 and 2019 was \$41,525,000 and \$43,120,000, 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 2020 and 2019, \$710,000 and \$675,000 of principal and \$864,163 and \$898,788 of interest were paid on the bonds. Total outstanding principal at June 30, 2020 and 2019 was \$20,475,000 and \$21,185,000, 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.

On August 27 2019, the University sold \$5,265,000 of Eastern Kentucky University General Receipt Bonds, Series 2019A, at a net interest cost of 1.782% to refund the 2009 Series A 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 9 years. The resulting savings on a present value basis is approximately \$588,141. As of June 30, 2020, the 2009 Series A Bonds had been defeased. The University has removed the defeased amount from its accounts.

During fiscal years 2020, \$560,000 of principal \$140,259 of interest were paid on these new bonds. Total outstanding principal at June 30, 2020 was \$4,705,000.

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.

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

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

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 2020 and 2019, \$0 and \$0 of principal and \$2,844,403 and \$2,788,631, respectively, of interest were paid on the capital leases.

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>
2021	\$ 9,106,630	\$ 6,976,066	\$ 16,082,696
2022	7,758,530	6,659,492	14,418,022
2023	6,531,014	6,401,103	12,932,117
2024	6,738,850	6,194,423	12,933,273
2025	6,134,403	5,974,926	12,109,329
2026-2030	31,378,422	26,926,312	58,304,734
2031-2035	30,275,786	21,592,582	51,868,368
2036-2040	16,397,029	15,442,554	31,839,583
2041-2045	11,051,779	11,383,702	22,435,481
2046-2048	<u>7,525,773</u>	<u>3,321,141</u>	<u>10,846,914</u>
	<u>\$ 132,898,216</u>	<u>\$ 110,872,301</u>	<u>\$ 243,770,517</u>

Assets under capital leases at original cost totaled \$25,500,000 with accumulated depreciation of \$3,771,875 and \$3,134,375 at June 30, 2020 and 2019, 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, 2020 and 2019, the buildings had a net book value of \$65,922,584 and \$67,700,272 and the service concession had a carrying balance of \$63,996,756 and \$66,367,006, respectively.

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

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, 2020 and 2019 are as follows:

	<u>2020</u>	<u>2019</u>
Inventories	\$ 325,958	\$ 272,635
Outstanding encumbrances	798,747	1,249,663
Departmental commitments	3,570,254	9,520,386
Designated projects and contingency reserves	32,763,593	17,091,863
Health care self-insurance reserve	3,000,000	3,000,000
Auxiliary working capital	5,469,263	5,783,919
University capital projects	1,000,000	1,000,000
KTRS Pension	(171,759,386)	(214,884,106)
KERS Pension	(187,283,492)	(206,037,668)
KTRS OPEB	(26,610,006)	(27,355,982)
KERS OPEB	<u>(35,096,346)</u>	<u>(37,430,087)</u>
Total	<u>\$ (373,821,415)</u>	<u>\$ (447,789,377)</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, 2020 and 2019 was \$20,285,936 and \$20,484,587, respectively.

The portion of the RUETF endowment representing the value of the funding received from the Kentucky General Assembly, plus unexpended earnings thereon, was \$18,341,506 and \$18,522,233 as of June 30, 2020 and 2019, 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, 2020 and 2019 was \$1,944,430 and \$1,962,354, respectively, and is included in restricted assets held by the Foundation (see Note 2).

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

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>2020</u>	<u>2019</u>
Funds disbursed by the University on behalf of the Foundation:		
For employee salaries and benefits	\$ 290,861	\$ 209,778
For other expenses	1,181,054	1,836,504
For scholarships	1,466,096	1,322,952
Funds held by the Foundation on behalf of or for the benefit of the University as of June 30	20,285,936	20,484,587
Funds due to the University by the Foundation	221,071	314,827

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.

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

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, 2020 and 2019

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, 2020 and 2019, 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 0.03% allocated to life insurance) of covered payroll for the fiscal years ended June 30, 2020 and 2019. The actuarially determined amount, when combined with employee contributions, is expected to finance the cost of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability.

The University has met 100% of the contribution funding requirement for the fiscal years ended June 30, 2020 and 2019. Total current year contributions recognized by the Plan were \$8,377,516 (\$7,144,522 related to pension and \$1,232,944 related to OPEB) for the year ended June 30, 2020. For the year ended June 30, 2019, total contributions recognized by the Plan were \$8,394,108 (\$7,148,247 related to pension and \$1,245,861 related to OPEB). The OPEB contributions amount does not include the implicit subsidy. In addition, the Commonwealth of Kentucky contributes ad hoc annual cost of living adjustments provided by the General Assembly for KTRS retirees. This contribution totaled \$7,667,694 and \$6,567,954, respectively, for the years ended June 30, 2020 and 2019.

Pension liabilities, pension expense, and deferred outflows of resources and deferred inflows of resources related to pensions - At June 30, 2020 and 2019, the University reported a liability for its proportionate share of the net pension liability that reflected a reduction for pension support provided to the University by the Commonwealth of Kentucky. The amount recognized by the University as its proportionate share of the net pension liability, the related State support, and the total portion of the net pension liability that was associated with the University were as follows:

	<u>2020</u>	<u>2019</u>
University's proportionate share of the net pension liability	\$ 86,450,077	\$ 97,174,796
Commonwealth of Kentucky's proportionate share of the net pension liability associated with the University	<u>93,677,114</u>	<u>72,297,288</u>
	<u>\$ 180,127,191</u>	<u>\$ 169,472,084</u>

The net pension liability was measured as of June 30, 2019 and 2018. The University's proportion of the net pension liability was based on actual contributions to the pension plan during the measurement period. At June 30, 2020 and 2019, University's proportion was 0.66% and 0.71%, respectively, and the Commonwealth of Kentucky's proportion associated with the University was 0.71% and 0.53%, respectively.

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

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

For the year ended June 30, 2020 and 2019, the University was allocated pension expense of \$(45,372,454) and \$(530,192) and revenue of \$9,320,311 and \$8,410,279, respectively. At June 30, 2020 and 2019, the University reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
<u>2020</u>		
Net difference between projected and actual earnings on investments	\$ -	\$ 725,202
Change in assumptions	7,326,722	46,033,783
Differences between expected and actual experience	257,727	5,515,285
Changes in proportionate share of contributions	<u>4,359,228</u>	<u>52,123,397</u>
	11,943,677	104,397,667
Contributions subsequent to the measurement date	<u>7,144,522</u>	-
	<u>\$ 19,088,199</u>	<u>\$ 104,397,667</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>\$ 33,103,604</u>	<u>\$ 150,812,915</u>

At June 30, 2020, the University reported \$7,144,522 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, 2020, related to pensions will be recognized in pension expense as follows:

Year ended June 30:	
2021	\$ (46,826,604)
2022	(31,705,635)
2023	(12,784,480)
2024	<u>(1,137,271)</u>
	<u>\$ (92,453,990)</u>

(Continued)

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

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

Actuarial assumptions - The total pension liability in the June 30, 2019 and 2018 measurement was determined by using the following actuarial valuations, applied to all periods included in the measurement:

Actuarial valuation date	June 30, 2018 and 2017
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	3.50% and 3.89%
Single equivalent interest rate	7.50%

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

The actuarial assumptions used in the June 30, 2018 valuation were based on the results of an actuarial experience study for the period July 1, 2010 - June 30, 2015 adopted by the 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, 2019</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 %	3.2%
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, 2020 and 2019

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

<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>	

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

Changes in Assumptions and Benefit Terms Since Prior Measurement Date – The total pension liability as of June 30, 2019 reflects the assumed municipal bond index rate decrease from 3.89 percent to 3.50 percent. The Single Equivalent Interest Rate (SEIR) remained at 7.50 percent. The impact of this change in the discount rate is a change in assumption that is added to expected TPL to determine the final TPL at June 30, 2019. The total pension liability as of June 30, 2018 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.

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 TPL was 7.50 percent at June 30, 2019 and 2018. 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 for all fiscal years in the future. Based on those assumptions, at the June 30, 2019 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. 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.

(Continued)

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

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, 2020 and 2019, 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, 2020		
	1% Decrease (6.50%)	Current Discount Rate (7.50%)	1% Increase (8.50%)
Proportionate share of the Collective Net Pension Liability (<i>in thousands</i>)	\$ 110,306	\$ 86,450	\$ 66,262
	June 30, 2019		
	1% Decrease (6.50%)	Current Discount Rate (7.50%)	1% Increase (8.50%)
Proportionate share of the Collective Net Pension Liability (<i>in thousands</i>)	\$ 124,568	\$ 97,175	\$ 74,138

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, 2020 and 2019, the University contributed \$1,217,152 and \$1,230,145 to the KTRS medical insurance plan.

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

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, 2020 and 2019, the University reported a liability of \$21,503,000 and \$25,293,000 for its proportionate share of the collective net OPEB liability that reflected a reduction for state OPEB support provided to the University. The collective net OPEB liability was measured as of June 30, 2019 and 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, 2019 and 2018, the University's proportion was 0.73 % and 0.73% and the Commonwealth of Kentucky's proportion associated with the University was 0.33% 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>2020</u>	<u>2019</u>
University's proportionate share of the net OPEB liability	\$ 21,503,000	\$ 25,293,000
State's proportionate share of the net OPEB liability associated with the University	<u>9,592,000</u>	<u>12,379,000</u>
Total	<u>\$ 31,095,000</u>	<u>\$ 37,672,000</u>

For the year ended June 30, 2020 and 2019, the University was allocated OPEB expense of \$773,000 and \$1,892,000 and revenue of \$320,000 and \$869,000 for support provided by the State. At June 30, 2020 and 2019, the University reported deferred outflows of resources and deferred inflows of resources related to OPEBs from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
<u>2020</u>		
Difference between expected and actual experience	\$ -	\$ 5,205,000
Changes of assumptions	572,000	-
Net difference between projected and actual earnings on OPEB plan investments	91,000	-
Changes in proportion and differences between University contributions and proportionate share of contributions	<u>176,000</u>	<u>1,553,000</u>
	839,000	6,758,000
University contributions subsequent to the measurement date	<u>1,217,152</u>	<u>-</u>
Total	<u>\$ 2,056,152</u>	<u>\$ 6,758,000</u>

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

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

	<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>1,904,000</u>
	<u>348,000</u>	<u>3,303,000</u>
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>

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, 2021. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized in the University's OPEB expense as follows:

Year ended June 30:	
2021	\$(1,163,000)
2022	(1,163,000)
2023	(1,117,000)
2024	(1,126,000)
2025	(863,000)
Thereafter	<u>(487,000)</u>
	<u>\$ (5,919,000)</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, 2020 and 2019

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

Valuation date	June 30, 2018 and 2017
Measurement date	June 30, 2019 and 2018
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: 7.50% and 7.75% decreasing to an ultimate trend rate of 5.00% by FY2024. Post-65: 5.50% and 5.75% decreasing to an ultimate trend rate of 5.00% by FY2021.
Medicare Part B premiums	2.63% and 0.00% increasing to an ultimate rate of 5.00% by FY 2031 and 2030.
Municipal bond index rate	3.50% and 3.89%
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, 2018 valuation were based on the results of the most recent actuarial experience studies for the University, which covered the five-year period ending June 30, 2015. The remaining actuarial assumptions used in the June 30, 2018 valuation of the MIF were based on a review of recent plan experience done concurrently with the June 30, 2018 valuation. The health care cost trend rate assumption was updated for the June 30, 2018 valuation and was shown as an assumption change in the TOL roll forward while the change in initial per capita claims costs were included with experience in the TOL roll forward.

The 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, 2019		June 30, 2018	
	Target Allocation	30 Year Expected Geometric Rate of Return	Target Allocation	30 Year Expected Geometric Rate of Return
Global Equity	58.00%	5.10%	58.00%	4.60%
Fixed Income	9.00%	1.20%	9.00%	1.20%
Real Estate	6.50%	3.80%	5.50%	3.80%
Private Equity	8.50%	6.30%	6.50%	6.30%
Other Additional Categories*	17.00%	3.20%	20.00%	3.30%
Cash (LIBOR)	1.00%	0.90%	1.00%	0.90%
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, 2020 and 2019

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, 2020		
	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>	\$ 25,473	\$ 21,503	\$ 18,178
	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

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, 2020		
	1% <u>Decrease</u>	Current Trend Rate	1% <u>Increase</u>
University's net OPEB liability <i>(in thousands)</i>	\$ 17,504	\$ 21,503	\$ 26,420

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

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

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

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, 2020 and 2019, the University contributed \$15,842 and \$15,873 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, 2020 and 2019, the University reported a liability of \$498,000 and \$457,000 for its proportionate share of the collective net OPEB liability, respectively. The collective net OPEB liability was measured as of June 30, 2019. 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, 2019 and 2018, the University's proportion was 1.61% and 1.62%.

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

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

For the years ended June 30, 2020 and 2019, the University was allocated OPEB expense of \$87,000 and \$75,000. At June 30, 2020 and 2019, the University reported deferred outflows of resources and deferred inflows of resources related to OPEBs from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
<u>2020</u>		
Difference between expected and actual experience	\$ -	\$ 12,000
Changes of assumptions	-	-
Net difference between projected and actual earnings on OPEB plan investments	104,000	-
Changes in proportion and differences between University contributions and proportionate share of contributions	-	<u>15,000</u>
	<u>104,000</u>	<u>27,000</u>
University contributions subsequent to the measurement date	<u>15,842</u>	-
Total	<u>\$ 119,842</u>	<u>\$ 27,000</u>

	<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>

(Continued)

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

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

Of the total amount reported as deferred outflows of resources related to OPEB, \$15,842 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, 2021. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized in the University's OPEB expense as follows:

Year ended June 30:	
2021	\$ 37,000
2022	37,000
2023	17,000
2024	2,000
2025	(5,000)
Thereafter	<u>(11,000)</u>
	<u>\$ 77,000</u>

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

Valuation Date	June 30, 2018 and 2017
Measurement Date	June 30, 2019 and 2018
Investment rate of return	7.50% net of OPEB plan investment expense, including inflation.
Projected salary increases	3.50 – 7.20%, including inflation
Inflation rate	3.00%
Real Wage Growth	0.50%
Wage Inflation	3.50%
Municipal Bond Index Rate	3.50% and 3.89% for 2018 and 2017
Discount Rate	7.50%
Single Equivalent Interest Rate	7.50%, net of OPEB plan investment expense, including inflation.

Mortality rates were based on the RP-2000 Combined Mortality Table projected to 2025 with projection scale BB and set forward two years for males and one year for females is used for the period after service retirement and for dependent beneficiaries. The RP-2000 Disabled Mortality Table set forward two years for males and seven years for females is used for the period after disability retirement. The demographic actuarial assumptions for retirement, disability incidence, withdrawal, rates of plan participation, and rates of plan election used in the June 30, 2018 valuation were based on the results of the most recent actuarial experience studies for the 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.

(Continued)

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

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, 2019		June 30, 2018	
	Target Allocation	30 Year Expected Geometric Rate of Return	Target Allocation	30 Year Expected Geometric Rate of Return
U.S. Equity	40.00%	4.30%	40.00%	4.20%
International Equity	23.00%	5.20%	23.00%	5.20%
Fixed Income	18.00%	1.20%	18.00%	1.20%
Real Estate	6.00%	3.80%	6.00%	3.80%
Private Equity	5.00%	6.30%	5.00%	6.30%
Other Additional Categories**	6.00%	3.20%	6.00%	3.30%
Cash (LIBOR)	2.00%	0.90%	2.00%	0.90%
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, 2020		
	1% Decrease (6.50%)	Current Discount Rate (7.50%)	1% Increase (8.50%)
University's net OPEB (LI) liability (in thousands)	\$ 736	\$ 498	\$ 306

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

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

	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

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, 2020 and 2019

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.

(Continued)

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

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

For the fiscal years ended June 30, 2020 and 2019, participating employers in the Nonhazardous plan contributed 49.47% (41.06% allocated to pension and 8.41% allocated to OPEB) as set by KRS, respectively, of each Nonhazardous employee's creditable compensation. For the fiscal years ended June 30, 2020 and 2019, participating employers in the Hazardous plan contributed 36.85% (34.39% allocated to pension and 2.46% allocated to OPEB) as set by KRS, respectively, of each Hazardous employee's creditable compensation. These percentages are inclusive of both pension and insurance payments for employers. Administrative costs of KRS are financed through employer contributions and investments earnings. The University met 100% of the contribution funding requirement for the fiscal years ended June 30, 2020 and 2019. Total current year contributions recognized by the Plan were \$4,943,382 (\$4,149,952 related to pension and \$793,430 related to OPEB) and \$8,186,259 (\$6,840,451 related to pension and \$1,345,808 related to OPEB) for the years ended June 30, 2020 and 2019. The OPEB contribution amounts do not include the implicit subsidy reported in the amount of \$298,290 and \$313,722 for years ended June 30, 2020 and 2019.

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 (TPL) for KERS measured as of June 30, 2019 and 2018 was determined using the actuarial valuation as of June 30, 2018 and 2017. This valuation used the following actuarial methods and assumptions applied to all prior periods included in the measurement:

Valuation date	June 30, 2018 and 2017 (rolled forward)
Experience study	July 1, 2013 – June 30, 2018
Actuarial cost method	Entry age normal
Amortization period	Level percentage payroll, closed
Remaining amortization period	25 years
Asset valuation method	20% of the difference between the market value of assets and the expected actuarial value of assets is recognized
Inflation	2.30%
Salary increase	3.55% to 19.55%, varies by service
Investment rate of return	5.25 percent

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

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, 2020 and 2019

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, 2019	
	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
US Equity	15.75%	4.30%
Non-US Equity	15.75	4.80
Private Equity	7.00	6.65
Specialty Credit/High Yield	15.00	2.60
Core Bonds	20.50	1.35
Cash	3.00	0.20
Real Estate	5.00	4.85
Opportunistic/Absolute Return	3.00	2.97
Cash	15.00	4.10
Total	100.0%	3.52%

Hazardous

<u>Asset Class</u>	June 30, 2019	
	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
US Equity	18.75%	4.30%
Non-US Equity	18.75	4.80
Private Equity	10.00	6.65
Specialty Credit/High Yield	15.00	2.60
Core Bonds	13.50	1.35
Cash	1.00	0.20
Real Estate	5.00	4.85
Opportunistic/Absolute Return	3.00	2.97
Cash	15.00	4.10
Total	100.0%	3.89%

(Continued)

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

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

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%

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%

(Continued)

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

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

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, 2020		
	1% Decrease (4.25%)	Current Discount Rate (5.25%)	1% Increase (6.25%)
The University's net pension liability - Non-hazardous (in thousands)	\$ 174,419	\$ 152,149	\$ 133,745
	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

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, 2020		
	1% Decrease (5.25%)	Current Discount Rate (6.25%)	1% Increase (7.25%)
The University's net pension liability – Hazardous (in thousands)	\$ 5,097	\$ 3,953	\$ 3,013
	June 30, 2019		
	1% Decrease (5.25%)	Current Discount Rate (6.25%)	1% Increase (7.25%)
The University's net pension liability – Hazardous (in thousands)	\$ 4,055	\$ 3,169	\$ 2,434

(Continued)

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

Employer's Portion of the Collective Net Pension Liability: The University's proportionate share of the Non-hazardous net pension liability, as indicated in the prior table, is \$152,149,362, or approximately 1.08% as of June 30, 2020 and \$197,365,884, or 1.45% as of June 30, 2019. The University's proportionate share of the Hazardous net pension liability, as indicated in the prior table, is \$3,953,000, or approximately 0.72% as of June 30, 2020 and \$3,169,411, or 0.63% as of June 30, 2019. The net pension liabilities were distributed based on 2019 and 2018 actual employer contributions to the plan.

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

Changes in Assumptions and Benefit Terms: The KERS Board of Trustees adopted new actuarial assumptions based on an actuarial experience study for the period ending June 30, 2018. Key assumption changes include an increase to the salary increase assumptions for individual members and replacing the base retiree mortality tables with a KERS-specific mortality table developed using the actual mortality experience of non-disabled retirees in KERS. Mortality tables for disabled retirees and active members were updated with Public Retirement Mortality tables. In addition, termination rates and rates of disability incidence were increased. Retirement rates were decreased slightly for members with a participation date prior to July 1, 2003. For members with a participation date on or after July 1, 2003, retirement rates were set equal to 80% of the retirement rates applicable for the pre July 1, 2003 participants for ages below 65.

House Bill 1, which passed during the 2019 special legislative session, allows certain employers in the KERS nonhazardous plan to elect to cease participating in the system as of June 30, 2020. Since employer's elections were unknown at the time of the actuarial valuation and the legislation was enacted after the June 30, 2019 measurement date, no adjustments were made to the Total Pension Liability to reflect this legislation. House Bill 265, which passed during the 2018 legislative session, allowed certain employers within the KERS non-hazardous system to contribute less than the actuarially determined contribution in the 2018/2019 fiscal year. Since this is not expected to be an ongoing contribution education, determining the KERS non-hazardous employers' proportionate share based on the employers' actual contributions would not be reflective of the employers' long-term contribution effort. Instead, the proportionate share calculations for employers of the KERS non-hazardous system were based on the employers' covered payroll provided for fiscal year ending June 30, 2019, which would result in the same proportionate share allocation if all participating employers contributed the same contribution rate.

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

Pension Expense: The University was allocated pension expense of \$(16,208,358) and \$14,424,374 related to the KERS Non-Hazardous and \$1,617,412 and \$ 1,218,382 related to the KERS Hazardous for the years ended June 30, 2020 and 2019, respectively.

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EASTERN KENTUCKY UNIVERSITY
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June 30, 2020 and 2019

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

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
<u>2020</u>		
Difference between expected and actual experience	\$ 899,884	\$ -
Change of assumptions	4,632,615	-
Changes in proportion and differences between employer contributions and proportionate shares of contributions	-	41,170,755
Differences between expected and actual investment earning on plan investments	<u>-</u>	<u>310,022</u>
	5,532,499	41,480,777
Contributions subsequent to the measurement date	<u>3,725,518</u>	<u>-</u>
Total	<u>\$ 9,258,017</u>	<u>\$ 41,480,777</u>
	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
<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>

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

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

Deferred outflows of resources resulting from employer contributions subsequent to the measurement date of \$3,725,518 will be recognized as a reduction of net pension liability in the year ending June 30, 2021. The remainder of the deferred outflows and deferred inflows of resources are amortized over three to five years with remaining amortization as follows:

Year ending June 30:	
2021	\$ (25,554,258)
2022	(10,285,830)
2023	(99,421)
2024	<u>(8,769)</u>
	<u>\$ (35,948,278)</u>

Hazardous

	Deferred Outflows of Resources	Deferred Inflows of Resources
<u>2020</u>		
Difference between expected and actual experience	\$ 75,206	\$ -
Change of assumptions	277,048	-
Changes in proportion and differences between employer contributions and proportionate shares of contributions	346,294	13,382
Differences between expected and actual investment earning on plan investments	<u>-</u>	<u>67,969</u>
	698,548	81,351
Contributions subsequent to the measurement date	<u>424,434</u>	<u>-</u>
Total	<u>\$ 1,122,982</u>	<u>\$ 81,351</u>

	Deferred Outflows of Resources	Deferred Inflows of Resources
<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>

(Continued)

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

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, 2020. The remainder of the deferred outflows and deferred inflows of resources are amortized over three to five years with remaining amortization as follows:

Year ending June 30:	
2021	\$ 431,412
2022	194,817
2023	(14,723)
2024	<u>5,691</u>
	<u>\$ 617,197</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 using the following actuarial assumptions, applied to all periods included in the measurement:

Valuation date	June 30, 2018 and 2017 (rolled forward)
Measurement date	June 30, 2019 and 2018
Price inflation	2.30%
Payroll growth rate	0.00%
Salary increases	3.30% to 15.30%, varies by service
Investment rate of return	6.25%
Healthcare trend rates	
Pre-65	7.00% beginning January 1, 2020, decreasing to an ultimate trend rate of 4.05% over 12 years.
Post-65	5.00%, beginning January 1, 2020, decreasing to an ultimate trend rate of 4.05% over 10 years.

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

(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 5.73%, which was reduced from the 5.86% discount rate used in the prior year. The discount rate used to measure the total Hazardous OPEB liability was 5.66%, which was decreased from the 5.88% discount rate used in the prior year.
- (b) **Projected Cash Flows:** The projection of cash flows used to determine the discount rate assumed the local employers and plan members would contribute the actuarially determined contribution rate of projected compensation over the remaining 26-year amortization period of the unfunded actuarial accrued liability.
- (c) **Long-Term Rate of Return:** The long-term expected rate of return was determined by using a building-block method in which best-estimate ranges of expected future real rate of returns are developed for each asset class. The ranges are combined by weighting the expected future real rate of return by the target asset allocation percentage.
- (d) **Municipal Bond Rate:** The discount rate determination used a municipal bond rate of 3.13% as reported in Fidelity Index's "20 – Year Municipal GO AA Index" as of June 30, 2019.
- (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
NOTES TO FINANCIAL STATEMENTS
June 30, 2020 and 2019

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, 2020	
	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
US Equity	18.75 %	4.30 %
Non-US Equity	18.75	4.80
Private Equity	10.00	6.65
Specialty Credit/High Yield	15.00	2.60
Core Bonds	13.50	1.35
Cash	1.00	0.20
Real Estate	5.00	4.85
Opportunistic	3.00	2.97
Real Return	15.00	4.10
 Total	 <u>100.0%</u>	 <u>31.82%</u>
<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	 <u>100.0%</u>	 <u>6.09%</u>

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

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

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.

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, 2020		
	1% Decrease	Current	1% Increase
	<u>(4.73%)</u>	<u>Discount Rate</u>	<u>(6.73%)</u>
		<u>(5.73%)</u>	
The University's Net OPEB liability – Non-hazardous <i>(in thousands)</i>	\$ 28,515	\$ 23,948	\$ 20,188
	June 30, 2019		
	1% Decrease	Current	1% Increase
	<u>(4.86%)</u>	<u>Discount Rate</u>	<u>(6.86%)</u>
		<u>(5.86%)</u>	
The University's Net OPEB liability – Non-hazardous <i>(in thousands)</i>	\$ 40,324	\$ 34,368	\$ 29,412

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, 2020		
	1% Decrease	Current Healthcare	1% Increase
		<u>Cost Trend Rate</u>	
The University's Net OPEB liability – Non-hazardous <i>(in thousands)</i>	\$ 20,345	\$ 23,948	\$ 28,305
	June 30, 2019		
	1% Decrease	Current Healthcare	1% Increase
		<u>Cost Trend Rate</u>	
The University's Net OPEB liability – Non-hazardous <i>(in thousands)</i>	\$ 29,220	\$ 34,368	\$ 40,560

(Continued)

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

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, 2020		
	1% Decrease (4.66%)	Current Discount Rate (5.66%)	1% Increase (6.66%)
The University's Net OPEB liability – Hazardous (<i>in thousands</i>)	\$ 326	\$ (194)	\$ (614)

	June 30, 2019		
	1% Decrease (4.83%)	Current Discount Rate (5.83%)	1% Increase (6.83%)
The University's Net OPEB liability – Hazardous (<i>in thousands</i>)	\$ 209	\$ (208)	\$ (543)

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, 2020		
	1% Decrease	Current Healthcare Cost Trend Rate	1% Increase
The University's Net OPEB liability – Hazardous (<i>in thousands</i>)	\$ (564)	\$ (194)	\$ 257

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

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 \$23,947,615, or approximately 1.07% as of June 30, 2020 and \$34,368,478, or approximately 1.45% as of June 30, 2019. The University's proportionate share of the Hazardous net OPEB liability, as indicated in the prior table, is \$(193,867) or approximately 0.72% as of June 30, 2020 and \$(208,167), or approximately 0.63% as of June 30, 2019. The net OPEB liabilities were distributed based on 2019 and 2018 actual employer contributions to the plan.

(Continued)

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: For the fiscal year ended June 30, 2020, the KERS Board of Trustees adopted new actuarial assumptions. These assumptions were based on an actuarial experience study for the period ending June 30, 2018. Key changes include replacing the base retiree mortality tables with a KERS-specific mortality table developed using the actual mortality experience of non-disabled retirees in KERS. Mortality tables for disabled retirees and active members were updated with Public Retirement Mortality tables. In addition, termination rates and rates of disability incidence were increased. Retirement rates were decreased slightly for members with a participation date prior to July 1, 2003. For members with a participation date on or after July 1, 2003, retirement rates were set equal to 80% of the retirement rates applicable for the pre July 1, 2003 participants for ages below 65.

House Bill 1, which passed during the 2019 special legislative session, allows certain employers in the non-hazardous plan to elect to cease participating in the system as of June 30, 2020. Since employer's elections were unknown at the time of the actuarial valuation and the legislation was enacted after the June 30, 2019 measurement date, no adjustments were made to the Total OPEB Liability to reflect this legislation.

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

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

OPEB Expense: The University was allocated OPEB expense of \$(1,363,859) related to the KERS Non-Hazardous and \$58,990 related to the KERS Hazardous for the year ended June 30, 2020, and \$1,915,256 related to the KERS Non-Hazardous and \$71,506 related to the KERS Hazardous for the year ended June 30, 2019.

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

(Continued)

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

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

Non-hazardous

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
<u>2020</u>		
Difference between expected and actual experience	\$ -	3,819,802
Change of assumptions	3,140,566	72,032
Changes in proportion and differences between employer contributions and proportionate shares of contributions	-	11,550,278
Differences between expected and actual investment earning on plan investments	-	<u>157,062</u>
	<u>3,140,566</u>	<u>15,599,174</u>
Contributions subsequent to the measurement date	<u>1,051,744</u>	<u>-</u>
Total	<u>\$ 4,192,310</u>	<u>\$ 15,599,174</u>
	<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>503,390</u>
	<u>3,612,847</u>	<u>8,578,745</u>
Contributions subsequent to the measurement date	<u>1,627,580</u>	<u>-</u>
Total	<u>\$ 5,240,427</u>	<u>\$ 8,578,745</u>

Deferred outflows of resources resulting from employer contributions subsequent to the measurement date of \$763,069, which includes the implicit subsidy reported of \$288,675, will be recognized as a reduction of net OPEB liability in the year ending June 30, 2021. The remainder of the deferred outflows and deferred inflows of resources are amortized over three to five years with remaining amortization as follows:

Year ending June 30:	
2021	\$(3,362,889)
2022	(3,362,889)
2023	(3,959,268)
2024	<u>(1,773,561)</u>
	<u>\$ (12,458,608)</u>

(Continued)

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

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

Hazardous

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
<u>2020</u>		
Difference between expected and actual experience	\$ -	\$ 346,124
Change of assumptions	529,962	2,872
Changes in proportion and differences between employer contributions and proportionate shares of contributions	-	44,364
Differences between expected and actual investment earning on plan investments	-	112,313
	529,962	505,673
Contributions subsequent to the measurement date	39,976	-
Total	\$ 569,938	\$ 505,673
	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
<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	-	165,899
	382,680	346,088
Contributions subsequent to the measurement date	31,950	-
Total	\$ 414,630	\$ 346,088

Deferred outflows of resources resulting from employer contributions subsequent to the measurement date of \$29,661, which include the implicit subsidy reported of \$9,615, will be recognized as a reduction of net OPEB liability in the year ending June 30, 2021. The remainder of the deferred outflows and deferred inflows of resources will be amortized and recognized in the University's OPEB expense as follows:

Year ending June 30:	
2022	\$ 4,944
2023	4,944
2024	43,932
2025	(8,848)
2026	(18,946)
Thereafter	(1,739)
	\$ 24,288

(Continued)

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

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

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, 2020 and 2019:

	<u>KERS</u>	<u>KTRS</u>	<u>Total</u>
<u>2020</u>			
Net pension liability	\$ 156,102,362	\$ 86,450,077	\$ 242,552,439
Deferred outflows of resources	10,380,999	19,088,199	29,469,198
Deferred inflows of resources	41,562,128	104,397,667	145,959,795
Pension expense adjustments	(18,754,176)	(43,124,720)	(61,878,896)
<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)

Summary OPEB Plan Information:

Summary OPEB Plan Information as of June 30, 2020 and 2019:

	<u>KERS</u>	<u>KTRS</u>	<u>Total</u>
<u>2020</u>			
Net OPEB liability	\$ 23,753,748	\$ 22,001,000	\$ 45,754,748
Deferred outflows of resources	4,762,248	2,175,994	6,938,242
Deferred inflows of resources	16,104,847	6,785,000	22,889,847
OPEB expense adjustments	(2,333,741)	(745,976)	(3,079,717)
<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

(Continued)

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

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, 2020 and 2019 totaled \$11,789,963 and \$15,085,137, respectively. Administrative fees incurred for the years ended June 30, 2020 and 2019 were \$922,730 and \$1,120,249, respectively.

Changes in the liability for self-insurance at June 30, 2020 and 2019 are as follows:

	<u>2020</u>	<u>2019</u>
Liability – beginning of year	\$ 1,153,482	\$ 1,500,000
Accruals for current year claims and changes in estimate	13,031,884	13,821,889
Claims paid	(11,789,963)	(15,085,137)
Other costs	<u>(7,966)</u>	<u>916,730</u>
Liability – end of year	<u>\$ 2,387,437</u>	<u>\$ 1,153,482</u>

NOTE 13 – COMMITMENTS AND CONTINGENCIES

Construction Commitments – The estimated cost to complete construction projects under contract at June 30, 2020 and 2019, is approximately \$5,214,243 and \$28.0 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.

(Continued)

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

NOTE 14 – OPERATING EXPENSES BY NATURAL CLASSIFICATION

Operating expenses by natural classification for the years ended June 30, 2020 and 2019 are as follows:

	<u>2020</u>	<u>2019</u>
Salaries and wages	\$ 112,955,355	\$ 121,144,006
Employee benefits	35,702,618	40,500,947
Supplies and other services	72,467,322	62,062,809
Travel	2,882,913	4,298,838
Depreciation	22,891,154	22,918,906
Student scholarships and financial aid	18,636,433	15,332,783
Utilities	7,651,330	8,078,255
Pension expense adjustments	(61,878,896)	(32,381,373)
OPEB expense adjustments	(3,079,717)	500,481
Other operating expenses	<u>1,730,676</u>	<u>343,799</u>
Total	<u>\$ 209,959,188</u>	<u>\$ 242,799,451</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 accompanying financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America (U.S. GAAP). Under financial reporting standards for not-for-profit organizations, net assets, revenues, expenses, and gains (losses) are classified based on the existence or absence of donor-imposed restrictions.

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

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

Investments - Investments in equity securities having a readily determinable market value and all debt securities are carried at fair value. Income from investments consists of dividends and interest income net of related investment expenses. 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

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 investments existed. The estimated fair value of the Foundation's alternative investments total approximately \$932,000 and \$1,174,000 as of June 30, 2020 and 2019, respectively.

The Foundation invests endowment matching funds for the Regional University Endowment Trust Fund (see Note 8) on behalf of the University. In addition, the Foundation also invests Programs of Distinction (see Note 8) related endowment funds on behalf of the University. Dividends and interest income and realized and unrealized gains and losses on investments are allocated between the Foundation and the University based on the percentage of investments owned.

(Continued)

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

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

The Foundation previously adopted the Uniform Prudent Management of Institutional Funds Act (UPMIFA). Under UPMIFA, net appreciation (depreciation) on endowment fund investments, whose income is otherwise unrestricted as to use, is reported as 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, the 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 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, 2020 and 2019.

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.

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.

(Continued)

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

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

Revenue Recognition - The Foundation adopted Accounting Standards Update (ASU) 2014-09, Revenue from Contracts with Customers (Topic 606) (ASU 2014-09), as of and for the year ended June 30, 2020. The Foundation elected not to delay the adoption of ASU 2014-09 by one year pursuant to ASU 2020-05, Revenue from Contracts with Customers (Topic 606) and Leases (Topic 842) - Effective Dates for Certain Entities. ASU 2014-09 was adopted using the modified retrospective method. The Foundation applied the provisions of ASU 2014-09 to all contracts with customers at the July 1, 2019 effective date and all contracts with customers entered into thereafter. The Foundation has not recorded any material impact related to the adoption of ASU 2014-09. The adoption of ASU 2014-09 however, as applicable, results in an increased level of note disclosures about the nature, amount, timing, and uncertainty of revenue and cash flows arising from the Foundation's contracts with customers.

The Foundation's primary sources of revenue/support are contributions, net income from investments, and net realized and unrealized gains (losses) on investments. Such sources of revenue/support are all scoped out of ASU 2014-09.

The Foundation, as a resource recipient, also adopted ASU 2018-08, Not-for-Profit Entities (Topic 605): Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made (ASU 2018-08), as of and for the year ended June 30, 2020. ASU 2018-08 was adopted using the modified prospective method. ASU 2018-08 provides guidance with respect to (1) evaluating whether transactions should be accounted for as contributions (non-reciprocal transactions) within the scope of ASC Topic 958, Not-for-Profit Entities, or as exchange (reciprocal) transactions subject to other guidance, and (2) determining whether a contribution is conditional. The Foundation has not recorded any material impact related to the adoption of ASU 2018-08 as a resource recipient.

As a resource provider, the provisions of ASU 2018-08 will be effective for the fiscal year ending June 30, 2021. The Foundation is currently evaluating ASU 2018-08 and its related impact, if any, on the Foundation's financial statements as a resource provider.

Contributions - The Foundation recognizes contributions when cash/cash equivalents, investments, or other assets; an unconditional promise to give; or a notification of a beneficial interest is received. Contributions are recorded at fair value when received. An unconditional promise to give (a pledge) is recognized in the year the pledge is made. Conditional promises to give, that is, those with a measurable performance or other barrier and a right of return, are not recognized until the conditions on which they depend have been met.

Contributions of cash and other assets received without donor stipulations are reported as revenue and net assets without donor restrictions. Contributions 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.

(Continued)

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

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

Unconditional promises to give expected to be collected within one year are reported at their net realizable value. Unconditional promises to give expected to be collected in future years are recorded at the present value of estimated future cash flows. The resulting discount is computed using a risk-free interest rate applicable to the years in which the unconditional promises are received (discount rates ranging from 0.52% to 3.44%). Amortization of the discounts is included in contribution revenue. The related allowance, an estimated amount, which, in management's judgment, is considered to be adequate to absorb future losses on amounts that may become uncollectible, is based upon a review of the outstanding pledges together with general historical collection experience.

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 11). 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.

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, 2020 and 2019.

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, 2020 and 2019.

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 \$14,200,000 and \$15,900,000 as of June 30, 2020 and 2019, 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 2016, the Financial Accounting Standards Board (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, 2024. The Foundation is currently evaluating ASU 2016-13 and its related impact on the Foundation's financial statements.

(Continued)

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

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

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

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, 2020. Management has performed its analysis through the date of the Independent Auditor's Report, the date the accompanying financial statements were available to be issued.

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 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, 2020 and 2019:

	2020	2019
Financial assets		
Cash and cash equivalents	\$ 11,424,556	\$ 2,453,156
Investments	70,386,838	77,692,302
Pledges receivable - net	1,361,838	1,507,732
	83,173,232	81,653,190
Less amounts not available to be used within one year or amounts not available without Board approval		
Assets held for others	(20,285,936)	(20,484,587)
Board designated endowment net assets	(5,393,899)	(4,931,566)
Donor restricted net assets for use in future periods	(23,728,235)	(23,991,385)
Donor restricted net assets in perpetuity	(32,708,219)	(31,565,778)
Endowment spend/appropriations	2,777,666	2,920,990
	\$ 3,834,609	\$ 3,600,864

(Continued)

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

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

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.
- 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, 2020 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	\$ 3,104,333	\$ 3,104,333	\$ -	\$ -
Equities	49,065,836	49,065,836	-	-
Fixed income	17,284,762	17,284,762	-	-
Alternatives				
Limited partnerships	931,907	-	-	931,907
	<u>\$ 70,386,838</u>	<u>\$ 69,454,931</u>	<u>\$ -</u>	<u>\$ 931,907</u>

(Continued)

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

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

C. FAIR VALUE OF FINANCIAL INSTRUMENTS (Continued)

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 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. The predominance of market inputs are actively quoted and can be validated through external sources, including brokers, market transactions, and third-party pricing services.

At June 30, 2019, the Foundation was also invested in banker's acceptances which were valued using a yield curve matrix derived from quoted prices for similar assets in active markets. The fair value of this investment was classified as a Level 2 financial instrument. The maturity dates of the banker's acceptances generally ranged from approximately 60 to 180 days. Each of the respective banker's acceptances could 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.

(Continued)

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

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

C. FAIR VALUE OF FINANCIAL INSTRUMENTS (Continued)

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, 2020 relative to alternative investments:

	<u>Fair Value</u>	<u>Unfunded Commitments</u>	<u>Redemption Frequency</u>	<u>Redemption Notice Period</u>
Limited partnerships	\$ 931,907	\$ 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.

The years ended June 30, 2020 and 2019 activity with respect to the investments reflected as Level 3 is as follows:

	<u>2020</u>	<u>2019</u>
Beginning of year	\$ 1,173,876	\$ 1,910,330
Net realized and unrealized losses on investments included in the change in net assets	(138,071)	(169,677)
Net sales of investments	<u>(103,898)</u>	<u>(566,777)</u>
End of year	<u>\$ 931,907</u>	<u>\$ 1,173,876</u>

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

(Continued)

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

D. ENDOWMENT

The Foundation's endowment consists of approximately 445 individual funds established for a variety of purposes. The endowment includes both donor restricted endowment funds and funds designated by the Foundation's Board of 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.

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, 2020 and 2019.

At June 30, 2020, endowment investments consist of the following:

	Without Donor Restrictions	<u>With Donor Restrictions</u>		
		Purpose Restrictions	In Perpetuity	Total
Board designated	\$ 5,393,899	\$ -	\$ -	\$ 5,393,899
Donor restricted	-	16,561,184	32,179,055	48,740,239
	<u>\$ 5,393,899</u>	<u>\$ 16,561,184</u>	<u>\$ 32,179,055</u>	<u>\$ 54,134,138</u>

(Continued)

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

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

D. ENDOWMENT (Continued)

Changes in endowment investments for the year ended June 30, 2020 are as follows:

	Without Donor Restrictions	With Donor Restrictions		Total
		Purpose Restrictions	In Perpetuity	
Beginning of year	\$ 4,931,566	\$ 16,629,855	\$ 31,003,017	\$ 52,564,438
Contributions	78,286	35,636	1,176,038	1,289,960
Investment return				
Net investment income	133,935	1,540,256	-	1,674,191
Net realized and unrealized appreciation	307,362	584,524	-	891,886
Appropriation of endowment assets for expenditure	(57,250)	(2,229,087)	-	(2,286,337)
End of year	<u>\$ 5,393,899</u>	<u>\$ 16,561,184</u>	<u>\$ 32,179,055</u>	<u>\$ 54,134,138</u>

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
	<u>\$ 4,931,566</u>	<u>\$ 16,629,855</u>	<u>\$ 31,003,017</u>	<u>\$ 52,564,438</u>

(Continued)

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

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	<u>With Donor Restrictions</u>		<u>Total</u>
		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	<u>(114,996)</u>	<u>(2,885,837)</u>	<u>-</u>	<u>(3,000,833)</u>
End of year	<u>\$ 4,931,566</u>	<u>\$ 16,629,855</u>	<u>\$ 31,003,017</u>	<u>\$ 52,564,438</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, 2020 and 2019

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

E. PLEDGES RECEIVABLE

At June 30, 2020, net pledges receivable consists 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	\$ -	\$ 341,231	\$ 483,164	\$ 824,395
Less allowance	-	(41,800)	(25,800)	(67,600)
	<u>\$ -</u>	<u>\$ 299,431</u>	<u>\$ 457,364</u>	<u>\$ 756,795</u>
Long-term pledges receivable:				
Estimated to be collected in one to five years	\$ -	\$ 445,665	\$ 96,000	\$ 541,665
Estimated to be collected thereafter	-	155,478	-	155,478
Less allowance	-	(33,500)	(20,600)	(54,100)
Less discounts to net present value	-	(34,400)	(3,600)	(38,000)
	<u>\$ -</u>	<u>\$ 533,243</u>	<u>\$ 71,800</u>	<u>\$ 605,043</u>
	<u>\$ -</u>	<u>\$ 832,674</u>	<u>\$ 529,164</u>	<u>\$ 1,361,838</u>

At June 30, 2019, net pledges receivable consists 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>

(Continued)

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

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

F. PROPERTY AND EQUIPMENT

At June 30, 2020 and 2019, net property and equipment consists of the following:

	2020	2019
Land	\$ 250,000	\$ 250,000
Buildings and building improvements	600,000	600,000
	850,000	850,000
Less accumulated depreciation	(160,975)	(146,851)
	\$ 689,025	\$ 703,149

Depreciation expense for each of the years ended June 30, 2020 and 2019 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, 2020 and 2019 totaling \$327,791 and \$350,743, 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, 2020 and 2019 activity with respect to deferred gift liabilities is as follows:

	2020	2019
Beginning of year	\$ 350,743	\$ 368,709
Payment obligations	(54,247)	(55,179)
Net actuarial loss	31,295	37,213
End of year	\$ 327,791	\$ 350,743

At June 30, 2020 and 2019, investments relative to such deferred gift liabilities total \$765,928 and \$791,026, respectively.

(Continued)

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

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, 2020 and 2019, assets held for others consist of the following:

	<u>2020</u>	<u>2019</u>
Regional University Endowment Trust Fund	\$ 18,341,506	\$ 18,522,233
Programs of Distinction	<u>1,944,430</u>	<u>1,962,354</u>
	<u>\$ 20,285,936</u>	<u>\$ 20,484,587</u>

I. NET ASSETS WITH DONOR RESTRICTIONS

At June 30, 2020 and 2019, net assets with donor restrictions consist of the following:

	<u>2020</u>	<u>2019</u>
Subject to expenditure for specified purposes		
Scholarships program	\$ 2,254,751	\$ 3,356,229
Academic programs	3,280,689	3,632,634
Athletic programs	567,578	404,641
Capital projects	839,061	1,015,145
Other	<u>16,786,156</u>	<u>15,582,736</u>
	<u>23,728,235</u>	<u>23,991,385</u>
Endowment to be maintained in perpetuity		
Scholarships program	23,832,623	22,810,052
Academic programs	8,339,612	8,221,592
Athletic programs	450,110	450,110
Capital projects	<u>85,874</u>	<u>84,024</u>
	<u>32,708,219</u>	<u>31,565,778</u>
	<u>\$ 56,436,454</u>	<u>\$ 55,557,163</u>

(Continued)

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

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, 2020 and 2019:

	<u>2020</u>	<u>2019</u>
Purposes restrictions satisfied/time restrictions expired		
Scholarships program	\$ 1,414,796	\$ 1,285,475
Academic programs	1,518,410	2,130,112
Athletic programs	146,782	-
Capital projects	192,167	124,957
Other support for the University	639,253	564,367
	<u>\$ 3,911,408</u>	<u>\$ 4,104,911</u>

K. FUNCTIONAL EXPENSE CLASSIFICATION

The Foundation's expenses by functional classification for the years ended June 30, 2020 and 2019 are as follows:

	<u>2020</u>	<u>2019</u>
Program services - support for the University		
Scholarships program	\$ 1,466,096	\$ 1,322,952
Academic programs	1,010,556	1,662,562
Athletic programs	152,723	264,008
Capital projects	315,353	220,280
Other	402,479	237,305
Depreciation	14,124	14,124
	<u>\$ 3,361,331</u>	<u>\$ 3,721,231</u>
Management and general		
Professional and consulting fees	\$ 124,701	\$ 118,152
Other	56,363	44,629
	<u>\$ 181,064</u>	<u>\$ 162,781</u>
	<u>\$ 3,542,395</u>	<u>\$ 3,884,012</u>

(Continued)

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

L. CONCENTRATIONS

At June 30, 2020, approximately 55% of total outstanding gross pledges receivable are due from one donor. At June 30, 2019, approximately 65% of total outstanding gross pledges receivable are due between two donors.

For 2019, approximately 10% of total contributions revenue was received from one donor. No such concentration exists for 2020.

M. RELATED PARTY TRANSACTIONS

Eastern Kentucky University - The University provides various administrative services to the Foundation. In addition, during the year ended June 30, 2020, the University expended \$1,466,096 and \$290,861 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, 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. At June 30, 2020 and 2019, the amount due to the University on the accompanying statements of financial position totals \$215,038 and \$360,760, respectively.

Other - At June 30, 2020 and 2019, 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 \$207,719 and \$262,060, respectively. Such gross pledges receivable amounts are included in the amounts reflected in Note 15E.

At June 30, 2020 and 2019, the cash surrender value of life insurance includes \$5,910 and \$4,464, respectively, with respect to a policy under which the insured is a member of the Foundation's Board of Directors.

N. RISKS AND UNCERTAINTIES

In March 2020, the World Health Organization declared the global novel coronavirus disease 2019 (COVID-19) outbreak a pandemic. Additionally, the United States Centers for Disease Control and Prevention confirmed the spread of COVID-19 throughout the United States. As of the date the accompanying financial statements were available to be issued, the Foundation's operations have not been significantly impacted by the outbreak of COVID-19. The Foundation's operations could be adversely affected as a result of COVID-19, however since the situation surrounding the pandemic remains fluid, the long-term duration, nature, and extent of the impact on the Foundation, if any, cannot be reasonably estimated at this time.

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, 2020, 2019, 2018, 2017, 2016 and 2015

	<u>2020</u>	<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	1.08%	1.45%	1.75%	1.82%	1.71%	1.61%
University's proportionate share of the net pension liability	\$ 152,149	\$ 197,366	\$ 234,290	\$ 207,489	\$ 171,780	\$ 144,048
University's covered payroll	\$ 15,504	\$ 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	981.36%	790.54%	879.80%	706.27%	628.95%	527.63%
Plan fiduciary net position as a percentage of the total pension liability	13.66%	12.84%	13.30%	14.80%	22.32%	22.32%
KERS – Hazardous						
University's proportion of the net pension liability	0.72%	0.63%	0.64%	0.07%	-%	-%
University's proportionate share of the net pension liability	\$ 3,953	\$ 3,169	\$ 3,185	\$ 275	\$ -	\$ -
University's covered payroll	\$ 1,201	\$ 1,079	\$ 518	\$ -	\$ -	\$ -
University's proportionate share of the net pension liability as a percentage of its covered payroll	329.14%	293.70%	614.86%	-%	-%	-%
Plan fiduciary net position as a percentage of the total pension liability	55.49%	56.10%	54.80%	57.41%	-%	-%
KTRS						
University's proportion of the net pension liability	0.60%	0.71%	0.68%	1.13%	1.12%	1.10%
University's proportionate share of the net pension liability	\$ 86,450	\$ 97,175	\$ 193,364	\$ 349,600	\$ 274,717	\$ 237,056
State's proportionate share of the net pension liability associated with the University	<u>93,677</u>	<u>72,297</u>	<u>154,108</u>	<u>32,949</u>	<u>27,936</u>	<u>26,899</u>
Total	<u>\$ 180,127</u>	<u>\$ 169,472</u>	<u>\$ 347,472</u>	<u>\$ 382,549</u>	<u>\$ 302,653</u>	<u>\$ 263,955</u>
University's covered payroll	\$ 53,396	\$ 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	161.90%	109.40%	214.91%	390.19%	313.64%	284.66%
Plan fiduciary net position as a percentage of the total pension liability	58.80%	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, 2020, 2019, 2018, 2017, 2016 and 2015

	<u>2020</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>
KERS – Non-Hazardous						
Contractually required contribution	\$ 3,726	\$ 6,426	\$ 9,038	\$ 10,658	\$ 9,072	\$ 8,774
Contributions in relation to the contractually required contribution	<u>(3,726)</u>	<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>	<u>\$ _____</u>
University's covered payroll	\$ 8,979	\$ 15,504	\$ 24,966	\$ 26,630	\$ 29,378	\$ 27,312
Contributions as a percentage of covered payroll	41.49%	41.45%	36.20%	40.02%	30.88%	32.13%
KERS – Hazardous						
Contractually required contribution	\$ 424	\$ 415	\$ 311	\$ 159	\$ -	\$ -
Contributions in relation to the contractually required contribution	<u>(424)</u>	<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>	<u>\$ _____</u>
University's covered payroll	\$ 1,263	\$ 1,201	\$ 1,079	\$ 518	\$ -	\$ -
Contributions as a percentage of covered payroll	33.60%	34.55%	28.82%	30.69%	-%	-%
KTRS						
Contractually required contribution	\$ 7,136	\$ 7,148	\$ 8,612	\$ 8,814	\$ 8,843	\$ 7,235
Contributions in relation to the contractually required contribution	<u>(7,136)</u>	<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>	<u>\$ _____</u>
University's covered payroll	\$ 52,805	\$ 53,396	\$ 88,822	\$ 89,975	\$ 89,598	\$ 87,589
Contributions as a percentage of covered payroll	13.51%	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, 2020 and 2019

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, 2020 and 2019

KERS (Continued)

2019:

Changes in Assumptions and Benefit Terms: For the fiscal year ended June 30, 2020, the KERS Board of Trustees adopted new actuarial assumptions. These assumptions were based on an actuarial experience study for the period ending June 30, 2018. Key changes include replacing the base retiree mortality tables with a KERS-specific mortality table developed using the actual mortality experience of non-disabled retirees in KERS. Mortality tables for disabled retirees and active members were updated with Public Retirement Mortality tables. In addition, termination rates and rates of disability incidence were increased. Retirement rates were decreased slightly for members with a participation date prior to July 1, 2003. For members with a participation date on or after July 1, 2003, retirement rates were set equal to 80% of the retirement rates applicable for the pre-July 1, 2003 participants for ages below 65.

House Bill 1, which passed during the 2019 special legislative session, allows certain employers in the non-hazardous plan to elect to cease participating in the system as of June 30, 2020. Since employer's elections were unknown at the time of the actuarial valuation and the legislation was enacted after the June 30, 2019 measurement date, no adjustments were made to the Total Pension Liability to reflect this legislation.

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

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%.
-

EASTERN KENTUCKY UNIVERSITY
REQUIRED SUPPLEMENTARY INFORMATION
NOTES TO REQUIRED SUPPLEMENTARY PENSION INFORMATION
June 30, 2020 and 2019

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.

2019:

Changes in Assumptions and Benefit Terms Since Prior Measurement Date - The TPL as of June 30, 2019 reflects the assumed municipal bond index rate decrease from 3.89 percent to 3.50 percent. The Single Equivalent Interest Rate (SEIR) remained at 7.50 percent. The impact of this change in the discount rate is a change in assumption that is added to expected TPL to determine the final TPL at June 30, 2019.

EASTERN KENTUCKY UNIVERSITY
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF THE UNIVERSITY'S PROPORTIONATE SHARE OF THE NET OPEB LIABILITY
(in thousands)
June 30, 2020, 2019 and 2018

	<u>2020</u>	<u>2019</u>	<u>2018</u>
KERS – Non-Hazardous			
University's proportion of the net OPEB liability	1.07%	1.45%	1.75%
University's proportionate share of the net OPEB liability	\$ 23,948	\$ 34,368	\$ 44,378
University's covered payroll	\$ 15,504	\$ 24,966	\$ 26,630
University's proportionate share of the net OPEB liability as a percentage of its covered payroll	154.46%	137.66%	166.65%
Plan fiduciary net position as a percentage of the total OPEB liability	30.92%	27.32%	24.40%
KERS – Hazardous			
University's proportion of the net OPEB liability	0.72%	0.63%	0.64%
University's proportionate share of the net OPEB liability (asset)	\$ (194)	\$ (208)	\$ 39
University's covered payroll	\$ 1,201	\$ 1,079	\$ 518
University's proportionate share of the net OPEB liability as a percentage of its covered payroll	(16.14)%	(19.28)%	7.53%
Plan fiduciary net position as a percentage of the total OPEB liability	105.29%	106.83%	98.80%
KTRS – Medical Insurance			
University's proportion of the net OPEB liability	0.73%	0.73%	0.79%
University's proportionate share of the net OPEB liability	\$ 21,503	\$ 25,293	\$ 28,232
State's proportionate share of the net OPEB liability associated with the University	<u>9,592</u>	<u>12,379</u>	<u>12,803</u>
Total	\$ 31,095	\$ 37,672	\$ 41,035
University's covered payroll	\$ 53,396	\$ 88,822	\$ 89,975
University's proportionate share of the net OPEB liability as a percentage of its covered payroll	40.27%	28.48%	31.38%
Plan fiduciary net position as a percentage of the total OPEB liability	32.58%	25.50%	21.18%
KTRS – Life Insurance			
University's proportion of the net OPEB liability	1.60%	1.62%	1.70%
University's proportionate share of the net OPEB liability	\$ 498	\$ 457	\$ 373
University's covered payroll	\$ 53,396	\$ 88,822	\$ 89,975
University's proportionate share of the net OPEB liability as a percentage of its covered payroll	0.93%	0.51%	0.41%
Plan fiduciary net position as a percentage of the total OPEB liability	73.40%	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, 2020, 2019 and 2018

	<u>2020</u>	<u>2019</u>	<u>2018</u>
KERS – Non-Hazardous			
Contractually required contribution	\$ 763	\$ 1,316	\$ 1,851
Contributions in relation to the contractually required contribution	<u>(763)</u>	<u>(1,316)</u>	<u>(1,851)</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
University's covered payroll	\$ 8,979	\$ 15,504	\$ 24,966
Contributions as a percentage of covered payroll	8.50%	8.49%	7.41%
KERS – Hazardous			
Contractually required contribution	\$ 30	\$ 30	\$ 33
Contributions in relation to the contractually required contribution	<u>(30)</u>	<u>(30)</u>	<u>(33)</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
University's covered payroll	\$ 1,263	\$ 1,201	\$ 1,079
Contributions as a percentage of covered payroll	2.40%	2.50%	3.06%
KTRS – Medical Insurance			
Contractually required contribution	\$ 1,216	\$ 1,230	\$ 1,512
Contributions in relation to the contractually required contribution	<u>(1,216)</u>	<u>(1,230)</u>	<u>(1,512)</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
University's covered payroll	\$ 52,805	\$ 53,396	\$ 88,822
Contributions as a percentage of covered payroll	2.30%	2.30%	17.02%
KTRS – Life Insurance			
Contractually required contribution	\$ 16	\$ 16	\$ 19
Contributions in relation to the contractually required contribution	<u>(16)</u>	<u>(16)</u>	<u>(19)</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
University's covered payroll	\$ 52,805	\$ 53,396	\$ 88,822
Contributions as a percentage of covered payroll	0.03%	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, 2020

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.

2019:

Changes in Assumptions and Benefit Terms: For the fiscal year ended June 30, 2020, the KERS Board of Trustees adopted new actuarial assumptions. These assumptions were based on an actuarial experience study for the period ending June 30, 2018. Key changes include replacing the base retiree mortality tables with a KERS-specific mortality table developed using the actual mortality experience of non-disabled retirees in KERS. Mortality tables for disabled retirees and active members were updated with Public Retirement Mortality tables. In addition, termination rates and rates of disability incidence were increased. Retirement rates were decreased slightly for members with a participation date prior to July 1, 2003. For members with a participation date on or after July 1, 2003, retirement rates were set equal to 80% of the retirement rates applicable for the pre-July 1, 2003 participants for ages below 65.

House Bill 1, which passed during the 2019 special legislative session, allows certain employers in the non-hazardous plan to elect to cease participating in the system as of June 30, 2020. Since employer's elections were unknown at the time of the actuarial valuation and the legislation was enacted after the June 30, 2019 measurement date, no adjustments were made to the Total OPEB Liability to reflect this legislation.

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

EASTERN KENTUCKY UNIVERSITY
REQUIRED SUPPLEMENTARY INFORMATION
NOTES TO REQUIRED SUPPLEMENTARY OPEB INFORMATION
June 30, 2020

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.

2019:

Changes of assumptions – Medical Insurance Plan: The healthcare cost trend rate for Pre-65 decreased from 7.75 percent to 7.50 percent and Post-65 decreased from 5.75 percent to 5.50 percent. Medicare Part B premiums increased to 2.63 percent from 0.0 percent. The municipal bond index rate decreased from 3.89 percent to 3.50 percent.

Changes of assumptions – Life Insurance Plan: The municipal bond index rate decreased from 3.89 percent to 3.50 percent.

SUPPLEMENTARY 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, 2020, and the related notes to the financial statements, which collectively comprise the University's basic financial statements, and have issued our report thereon dated December 15, 2020. 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. was 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) as a basis for designing 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 from 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 financial statements. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the 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
December 15, 2020

**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, 2020. The University's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

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

Auditor's Responsibility

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

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

Opinion on Each Major Federal Program

In our opinion, the University complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2020.

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.

Report on Schedule of Expenditures of Federal Awards Required by the Uniform Guidance

We have audited the financial statements of the business-type activities and the discretely presented component unit of the University as of and for the years ended June 30, 2020 and 2019, and the related notes to the financial statements, which collectively comprise the University's basic financial statements. We issued our report thereon dated December 15, 2020, which contained unmodified opinions on those financial statements. Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by the Uniform Guidance and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditure of federal awards is fairly stated in all material respects in relation to the basic financial statements as a whole.


Crowe LLP

Louisville, Kentucky
June 16, 2021

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

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	\$ 23,492,688	\$ -
Federal Supplemental Educational Opportunity Grant		84.007	752,697	-
Federal Work Study Program		84.033	556,925	-
Federal Work Study Service Tutors		84.033	17,338	-
Federal Work Study Job Location/Development		84.033	36,930	-
Federal Perkins Loan Program		84.038	3,957,527	-
Teach Grant		84.379	17,840	-
Federal Direct Student Loans		84.268	66,152,735	-
Federal Direct Student Loans - PLUS		84.268	<u>8,532,838</u>	-
Total Student Financial Aid Cluster			<u>103,517,518</u>	<u>-</u>
TRIO Cluster				
NOVA Student Support Services FY 18		84.042A	31,597	-
NOVA Student Support Services FY 19		84.042A	51,217	-
NOVA Student Support Services FY 20		84.042A	293,424	-
Passed through Berea College:				
GEAR UP Supplemental Funding	P334A110026/ P334A110029	84.042A	<u>1,221</u>	<u>-</u>
			377,459	-
Direct Programs-				
Educational Talent Search FY 18		84.044A	2,131	-
Educational Talent Search FY 19		84.044A	83,362	-
Educational Talent Search FY 20		84.044A	<u>275,271</u>	<u>-</u>
			360,764	-
Upward Bound FY 19		84.047A	15,321	-
Upward Bound FY 19		84.047A	16,594	-
Upward Bound FY 20		84.047A	371,412	-
Upward Bound FY 20		84.047A	104,398	-
Upward Bound FY 21		84.047A	60,704	-
Upward Bound FY 21		84.047A	<u>21,624</u>	<u>-</u>
			590,053	-
Ronald E. McNair Program - Administrative 2018		84.217A	3,888	-
Ronald E. McNair Program - Administrative 2020		84.217A	128,193	-
Ronald E. McNair Program - Administrative 2020		84.217A	16,949	-
Ronald E. McNair Program - Administrative 2019		84.217A	54,752	-
Ronald E. McNair Program - Administrative 2019		84.217A	<u>20,112</u>	<u>-</u>
			<u>223,894</u>	<u>-</u>
Total TRIO Cluster			<u>1,552,170</u>	<u>-</u>
COVID-19: Higher Education Emergency Relief Fund: Emergency Grants to Students				
		84.425E	4,759,700	-
COVID-19: Higher Education Emergency Relief Fund: Institutional Portion				
		84.425F	<u>3,718,051</u>	<u>-</u>
			<u>8,477,751</u>	<u>-</u>
EKU Student Child Care Access and Expansion Program FY 19				
		84.335A	143,296	-
EKU Student Child Care Access And Expansion Program FY 20				
		84.335A	<u>108,839</u>	<u>-</u>
			<u>252,135</u>	<u>-</u>
			<u>113,799,574</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, 2020

<u>Federal Grant/Program Title</u>	<u>Pass-Through Number</u>	<u>Federal CFDA</u>	<u>Federal Expenditures</u>	<u>Provided to Subrecipients</u>
U.S. DEPARTMENT OF EDUCATION (Continued)				
Pass-Through Programs (Continued) -				
Berea College				
Promise Neighborhood PR Intern GEAR UP Summer Bridge – Summer 2019	P0027565	84.215N	\$ 5,561	\$ -
GEAR UP Colonels Now Program	P0027887	84.334	100,154	-
GEAR UP Mathematics Skills Lab	P0027853	84.334	45,429	-
Travel funding for post-secondary Navigator	P0028070	84.334	6,518	-
Postsecondary Navigator Position For Berea College's GEAR UP Grant FY 20	Letter of Agreement	84.215N	358	-
LINC Internships for BPE GEAR UP College/Career Navigators	Letter of Agreement	84.334A	32,379	-
LINC Internships for BPE for Knox Promise Neighborhood Middle And High School e-Ment	Letter of Agreement	84.334	25,698	-
LINC Internships for BPE Knox Promise Neighborhood Middle And High School e-Mentorship	P0027765	84.215N	45,010	-
Knox Promise Neighborhood – PR And Early Childhood Interns	P0028260	84.215N	52,335	-
Promise Neighborhood in Partnership With ECU – Corbin Summer Career Camps	P0028259	84.215N	7,202	-
	Letter of Agreement	84.215N	<u>3,829</u>	-
			<u>324,473</u>	-
Kentucky Council on Postsecondary Education				
GEAR UP Kentucky Graduate Assistant	SC 415 2000000196	84.334	<u>19,478</u>	-
Kentucky Department of Education				
21 st Century Community Learning Centers FY 19	PON2 540 1900002027	84.287	(12)	-
21 st Century Community Learning Centers FY 20	PON2 540 1900004316	84.287	183,455	-
Southern Migrant Education Regional Center FY 19	PON2 540 1900002418	84.011A	296,099	161,666
Kentucky Migrant Education Program Regional Service Center – Southern Region	PON2 540 19000004760	84.011A	<u>257,677</u>	-
			<u>737,219</u>	<u>161,666</u>

See accompanying notes to schedule of expenditures of federal awards.

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

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 for Technical Education				
Professional Development for Teacher Educators in Career & Technical Education FY 19	PON2 540 1900001311	84.048A	\$ (395)	\$ -
Professional Development for Teacher Educators in Career & Technical Education FY 20	PON2 540 1900004228	84.048A	4,789	-
Instructional and Field Based Support	PON2 540 1900004238	84.048A	1,328	-
Perkins Basic Grant FY 20	PON2 540 1900004260	84.048A	<u>97,278</u>	-
			<u>103,000</u>	<u>-</u>
Kentucky Department of Vocational Rehabilitation				
Vocational Rehabilitation Interpreting Services FY 20	PON2 561 1900000621	84.126	<u>447,704</u>	<u>-</u>
Kentucky Education and Workforce Development Cabinet				
Adult Education FY 20 – Madison County	SC 531 200000324	84.002	39,503	-
Adult Education FY 20 – Madison County	SC 531 200000324	84.002A	57,615	-
Adult Education FY 20 – Clay County	SC 531 200000324	84.002	34,286	-
Adult Education FY 20 – Clay County	SC 531 200000324	84.002A	<u>72,693</u>	<u>-</u>
			<u>204,097</u>	<u>-</u>
Special Education Cluster:				
Madison County Board of Education				
Individuals with Disabilities Education Act (IDEA) FY 19	3810002-16	84.027A	11,353	-
Individuals with Disabilities Education Act (IDEA) FY 20	3810002-19	84.027A	<u>88,333</u>	<u>-</u>
			<u>99,686</u>	<u>-</u>
Kentucky Department of Education				
Interpreter Education Program for EKU Students and PD Training	PON2 540 1900004895	84.027A	<u>376,145</u>	<u>-</u>
Special Education Cluster			<u>475,831</u>	<u>-</u>
			<u>2,311,802</u>	<u>-</u>
Total U.S. Department of Education			<u>116,111,376</u>	<u>161,666</u>
RESEARCH AND DEVELOPMENT				
Direct Programs –				
Department of Agriculture				
Wetland and Forest Monitoring In the Daniel Boone National Forest		10.xxx	1,236	-
Partnership for Forest Inventory and Monitoring to Inform Management on The DBNF		10.xxx	<u>3,178</u>	<u>-</u>
			<u>4,414</u>	<u>-</u>
Department of Interior				
Mitigation tool for WNS-imperiled bats		15.657	<u>24,734</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, 2020

<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 (Continued)				
Direct Programs (Continued) –				
National Science Foundation				
Collaborative Research: RUI SG: Imperiled plants of tropical rivers		47.074	\$ 41,180	\$ 23,155
REU Site: Disturbance Ecology in Central Appalachia		47.074	35,772	-
REU: Disturbance Ecology in Central Appalachia		47.074	80,906	-
Efficient Mathematical and Computational Framework for Identifying Protein Functional Sites		47.049	24,465	-
Disturbance Ecology		47.076	<u>2,723</u>	<u>-</u>
			<u>185,046</u>	<u>23,155</u>
			<u>214,194</u>	<u>23,155</u>
Pass-Through Programs –				
Department of Defense				
University of Kentucky Research Foundation				
Personal and Professional Exposure to Suicide in Military Populations	32000002480-20-189	12.420	<u>8,112</u>	<u>-</u>
Department of Health & Human Services				
Kentucky Administrative Office Of the Courts				
Opioid Use/Substance Use Disorder Training Project Project Evaluation Services	PON2 729 190003569	93.788	<u>30,366</u>	<u>-</u>
University of Louisville Research Foundation				
Lead Faculty Award for the KBRIN (Kentucky Biomedical Research Infrastructure Network	ULRF 18-0975A-02	93.859	18,928	-
Effects of P75NTR on Oxidative Stress-Induced Degeneration of CNS Neurons	ULRF 18-0975A-02	93.859	52,305	-
Effects of P75NTR on Oxidative Stress-Induced Degeneration of CNS Neurons	ULRF 18-9755B-02	93.859	<u>4,604</u>	<u>-</u>
			<u>75,837</u>	<u>-</u>
University of Vermont				
Integrating Behavioral Health And Primary Care for Comorbid Behavioral and Medical Prc	PCS-1409-24372	93.xxx	<u>36,369</u>	<u>-</u>
Department of Interior:				
Blue Grass Army Depot Running Buffalo Clover and Deer Herd Survey 2018-2019	W22G1F18P0030	15.xxx	<u>5,481</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, 2020

<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 (Continued)				
Pass-Through Programs (Continued) –				
University of Kentucky Research Foundation				
Predicting harmful cyanobacteria Blooms in Central Kentucky	3200000437-19-284	15.805	\$ 6,746	\$ -
Geophysical imaging of ridgetop Wetland-perched groundwater Systems	3200000437-20-248	15.805	<u>669</u>	<u>-</u>
			<u>7,415</u>	<u>-</u>
Kentucky Department of Fish & Wildlife Resources				
Assessing Reproductive and Roost Characteristics of the Indiana Bat	PON2 660 1900003697	15.615	<u>5,936</u>	<u>-</u>
Environmental Protection Agency				
Kentucky Division of Water				
Continued Validation of Wetland Assessments for KY Wetlands	SC 129 1900001387 1	66.461	12,238	-
Supplemental Funding				
Continued Validation of Wetland Assessments For KY Wetlands	SC129 1900001387 1	66.461	<u>6,586</u>	<u>-</u>
			<u>18,824</u>	<u>-</u>
University of Louisville Research Foundation				
Biological effects of American beaver in restored stream and floodplain complexes	ULRF 19-1083-01	66.461	<u>1,486</u>	<u>-</u>
National Science Foundation				
Murray State University				
Effects of size structure on Trophic Cascades	2017-023	47.074	<u>26,514</u>	<u>-</u>
University of Kentucky Research Foundation				
Augmented Structures & Enhanced Robotic Systems	32000002692-20-030	47.083	25,976	-
Proposed Platform Creation on Robotic End Effector Design and Simulation	32000002692-20-030	47.083	52,002	-
Optical Spectroscopy Support for KY Advanced Manufacturing Initiative	32000002692-20-030	47.083	35,271	-
Telomere Roles in Fungal Evolution	32000001363-18-082	47.074	<u>10,468</u>	<u>-</u>
			<u>123,717</u>	<u>-</u>
			<u>340,057</u>	<u>-</u>
Total Research and Development			<u>554,251</u>	<u>23,155</u>

See accompanying notes to schedule of expenditures of federal awards.

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

Federal Grant/Program Title	Pass-Through Number	Federal CFDA	Federal Expenditures	Provided to Subrecipients
DEPARTMENT OF AGRICULTURE				
Direct Programs –				
Daniel Boone National Forest National Use Monitoring		10.xxx	\$ <u>956</u>	\$ <u>-</u>
Pass-Through Programs –				
Kentucky Department of Agriculture EKU Red Barn Garden Specialty Crop Community Outreach	PON2 035 1900003059	10.170	<u>9,944</u>	<u>-</u>
Kentucky Department of Education Child Nutrition Cluster - Upward Bound Summer Program - Summer 2019	12114	10.559	<u>13,351</u>	<u>-</u>
Kentucky Cabinet for Health and Family Services SNAP Cluster				
University Training Consortium -FY19	PON2 7361800004118	10.561	1,784	1,784
University Training Consortium -FY20	PON2 7361800004478	10.561	<u>834,511</u>	<u>59,485</u>
Total SNAP Cluster			<u>836,295</u>	<u>61,269</u>
			<u>859,590</u>	<u>61,269</u>
Total Department of Agriculture			<u>860,546</u>	<u>61,269</u>
DEPARTMENT OF DEFENSE				
Direct Programs –				
Defense Intelligence Agency Bluegrass State Intelligence Community Center of Academic Excellence FY 19		12.598	<u>154,836</u>	<u>121,492</u>
Total Department of Defense			<u>154,836</u>	<u>121,492</u>
DEPARTMENT OF HEALTH AND HUMAN SERVICES				
Direct Programs –				
Health Care Program Cluster				
Expanding Access to Quality Substance Abuse Disorder & Mental Health Services BCHC FY20		93.224	2,076	-
		93.224	<u>654,212</u>	<u>-</u>
			656,288	-
FY 2019 Integrating Behavioral Health Services (IHBS) Supplemental Funding		93.527	38,613	-
Expanding Access to Quality Substance Use Disorder and Mental Health Services		93.527	67,367	-
Health Center Quality Improvement		93.527	19,608	-
Expanding Access to Quality Substance Abuse Disorder & Mental Health Services BCHC FY20		93.527	7,972	-
		93.527	<u>1,686,240</u>	<u>-</u>
			<u>1,819,800</u>	<u>-</u>
Total Health Care Program Cluster			2,476,088	-
Communities Talk Eastern Kentucky University Suicide Awareness and Focus on Education (EKU SAFE) FY 19		93.xxx	155	-
		93.243	<u>31,237</u>	<u>-</u>
			<u>2,507,480</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, 2020

<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) –				
Compass Evaluation & Research, Inc.				
Compass Project Management Services	Agreement	93.434	\$ 26,185	\$ -
The Hope Center, Inc.				
HOPE Center SAMHSA Sponsored MAT expansion Grant	Subaward Agreement	93.243	50,547	-
Kentucky Cabinet for Health & Family Services				
Family Planning FY 17/18	PO2 728 1600005324 1	93.217	15,873	-
Family Planning FY 19/20	SC 728 1900000176	93.217	18,410	-
Center for Student Parents FY 20	SC 736 1900000189	93.558	351,819	-
Eastern Kentucky University				
Mosquito Surveillance	PON2 728 1900001806	93.323	3,436	-
University Training Consortium FY 19	PON2 736 1500001287 1	93.556	8,773	8,773
University Training Consortium FY 19	PON2 736 1500001287 1	93.558	971	971
University Training Consortium FY 19	PON2 736 1500001287 1	93.590	2,739	-
University Training Consortium FY 19	PON2 736 1500001287 1	93.603	68,956	55,674
University Training Consortium FY 19	PON2 736 1500001287 1	93.658	210,666	179,212
University Training Consortium FY 19	PON2 736 1500001287 1	93.667	65	-
University Training Consortium FY 19	PON2 736 1500001287 1	93.669	217	-
University Training Consortium FY 19	PON2 736 1500001287 1	93.674	63,760	63,559
Behavioral Health/Substance Abuse Initiative FY 20				
Behavioral Health/Substance Abuse Initiative FY 20	PON2 729 1900003968	93.958	6,291	-
Behavioral Health/Substance Abuse Initiative FY 20				
Behavioral Health/Substance Abuse Initiative FY 20	PON2 729 1900003968	93.959	529,649	-
Behavioral Health/Substance Abuse Initiative FY 20				
Behavioral Health/Substance Abuse Initiative FY 20	PON2 729 1900003968	93.788	32,975	-
University Training Consortium FY 20	PON2 736 1900004478	93.472	107,703	-
University Training Consortium FY 20	PON2 736 1900004478	93.556	201,988	38,519
University Training Consortium FY 20	PON2 736 1900004478	93.558	291,095	29,706
CCDF Cluster – UTC FY 20	PON2 736 1900004478	93.575	171,071	-
University Training Consortium FY 20	PON2 736 1900004478	93.590	644,990	-
University Training Consortium FY 20	PON2 736 1900004478	93.603	509,393	278,240
University Training Consortium FY 20	PON2 736 1900004478	93.658	8,436,904	2,623,585
University Training Consortium FY 20	PON2 736 1900004478	93.667	19,045	-
University Training Consortium FY 20	PON2 736 1900004478	93.669	156,298	24,406
University Training Consortium FY 20	PON2 736 1900004478	93.674	529,102	330,636
Medicaid Cluster				
Medicaid Waiver Management				
Application FY 19	SC 746 1800004086 1	93.778	14,008	-
University Training Consortium FY 20	PON2 736 1900004478	93.778	119,917	-
Total Medicaid Cluster			<u>133,925</u>	<u>-</u>
			<u>12,516,114</u>	<u>3,633,281</u>

See accompanying notes to schedule of expenditures of federal awards.

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

<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) – University of Kentucky Research Foundation				
CARERC MPH-Industrial Hygiene Training Program	32000002746-20-060	93.262	\$ 34,106	\$ -
Central Appalachian Regional Education Research Center	3200002746-20-059	93.262	<u>137,797</u>	<u>-</u>
			<u>171,903</u>	<u>-</u>
Kentucky Partnership for Families And Children – Respite Care Provider Network	Letter of Agreement	93.104	<u>94,155</u>	<u>-</u>
			<u>12,858,904</u>	<u>3,633,281</u>
Total Department of Health and Human Services			<u>15,366,384</u>	<u>3,633,281</u>
DEPARTMENT OF HOMELAND SECURITY				
Pass-Through Programs – Center for Rural Development				
Rural Domestic Preparedness Consortium FY 16: Task 1	EMW-2016-CA-0097-S01	97.005	17,527	-
Rural Domestic Preparedness Consortium FY 16: Task 2	EMW-2016-CA-0097-S01	97.005	50,757	-
Rural Domestic Preparedness Consortium FY 17: Task 1	FY17-00052-S01-EKU	97.005	48,492	-
Rural Domestic Preparedness Consortium FY 17: Task 2	FY17-00052-S01-EKU	97.005	104,873	-
Rural Domestic Preparedness Consortium FY 18: Task 1	EMW-2018-CA-00075-S01	97.005	2,921	-
Rural Domestic Preparedness Consortium FY 18: Task 2	EMW-2018-CA-00075-S01	97.005	<u>198,414</u>	<u>-</u>
Total Department of Homeland Security			<u>422,984</u>	<u>-</u>
APPALACHIAN REGIONAL COMMISSION				
Direct Programs –				
Aviation Simulators for Kentucky's Appalachia Regional Training Centers		23.002	52,806	-
Kentucky's Appalachia Aviation Maintenance Technician Training Project		23.002	<u>88,589</u>	<u>-</u>
Total Appalachian Regional Commission			<u>141,395</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, 2020

<u>Federal Grant/Program Title</u>	<u>Pass-Through Number</u>	<u>Federal CFDA</u>	<u>Federal Expenditures</u>	<u>Provided to Subrecipients</u>
CORPORATION FOR NATIONAL AND COMMUNITY SERVICE				
Pass-Through Programs –				
Kentucky Commission of Community Volunteerism & Service				
Kentucky Students for Disaster Readiness and Resiliency Corps (KY READY Corps) FY 19				
	PON2 730 1900002434	94.006	\$ 25,346	\$ -
Kentucky Students for Disaster Readiness and Resiliency Corps (KY READY Corps) FY 20				
	PON2 730 1900002434	94.006	<u>125,075</u>	<u>-</u>
			<u>150,421</u>	<u>-</u>
Kentucky Cabinet for Health & Family Services				
Serve Kentucky Training Services				
	PON2 730 1900004680	94.009	44,677	-
Serve Kentucky Training Services				
	PON2 730 1900004680	94.021	<u>44,677</u>	<u>-</u>
			<u>89,354</u>	<u>-</u>
Total Corporation for National Community Service			<u>239,775</u>	<u>-</u>
NATIONAL AERONAUTICS AND SPACE ADMINISTRATION				
Pass-Through Programs –				
University of Kentucky Research Foundation Leggo My Science				
	3200000161-19-193	43.008	<u>1,223</u>	<u>-</u>
Total National Aeronautics and Space Administration			<u>1,223</u>	<u>-</u>
Total Federal Expenditures			<u>\$ 133,852,770</u>	<u>\$ 4,000,863</u>

See accompanying notes to schedule of expenditures of federal awards.

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

<u>Grant/Program Title</u>	<u>Federal CFDA</u>	<u>Federal Expenditures</u>
Subtotals of Multiple Awards/CFDA Numbers		
Migrant Education Program	84.011	\$ 553,776
Innovative Approaches to Literacy, Full-Service Community Schools; and Promised Neighborhoods	84.215	114,295
Twenty-First Century Community Learning Centers	84.287	183,443
Science and Math Camp	84.334	229,656
Biological Sciences	47.074	194,840
Family Planning Services	93.217	34,283
Substance Abuse and Mental Health Services - Projects of Regional and National Significance	93.243	81,784
University Training Consortium Program	93.556	210,671
Temporary Assistance for Needy Families	93.558	643,885
University Training Consortium Program	93.590	647,729
University Training Consortium Program	93.603	578,349
University Training Consortium Program	93.658	8,647,570
University Training Consortium Program	93.667	19,110
University Training Consortium Program	93.669	156,515
University Training Consortium Program	93.674	592,863
Opioid STR	93.788	30,460

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, 2020

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, 2020 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 – INDIRECT COST

Predetermined indirect cost rates have been approved through June 30, 2020. 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.

NOTE 3 – FEDERAL LOAN PROGRAMS

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

The amount presented on the schedule of expenditures of federal awards for the Federal Perkins Loan Program represents loan balances outstanding at July 1, 2019 for which the government imposes continuing compliance requirements. No disbursements are permitted under the Federal Perkins Loan Program subsequent to June 30, 2018. As of June 30, 2020, the University's outstanding Perkins loan balance is \$3,295,307.

EASTERN KENTUCKY UNIVERSITY
 SCHEDULE OF FINDINGS AND QUESTIONED COSTS
 Year ended June 30, 2020

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?	_____	Yes	<u> X </u>	No
Significant deficiency(ies) identified?	_____	Yes	<u> X </u>	None Reported
Noncompliance material to financial statements noted?	_____	Yes	<u> X </u>	No

Federal Awards

Internal control over major programs:				
Material weakness(es) identified?	_____	Yes	<u> X </u>	No
Significant deficiency(ies) identified?	_____	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)?	_____	Yes	<u> X </u>	None Reported

Identification of major programs:

<u>CFDA Number(s)</u>	<u>Name of Federal Program or Cluster Number</u>
10.561	State Administrative Matching Grants for the Supplemental Nutrition Assistance Program (SNAP Cluster)
84.063	Total Student Financial Assistance Cluster (consisting of): Federal Pell Grant Program Federal Supplemental Educational Opportunity Grant Program Federal Work Study Program Federal Perkins Loan Program TEACH Grant Federal Direct Student Loans
84.007	
84.033	
84.038	
84.379	
84.268	
84.425	COVID-19 - Education Stabilization Fund
93.224	Total Health Care Program Cluster (consisting of): Health Center Program Grants for New and Expanded Services Under Health Center Program
93.527	

Dollar threshold used to distinguish between Type A and Type B programs	\$ <u> 910,058 </u>		
Auditee qualified as low-risk auditee?	_____	X	Yes _____ No

PART II – FINANCIAL STATEMENT FINDINGS

None noted.

PART III – FEDERAL AWARDS FINDINGS AND QUESTIONED COSTS

None noted.
