

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

**REPORT ON AUDIT OF INSTITUTION
OF HIGHER EDUCATION
IN ACCORDANCE WITH UNIFORM GUIDANCE**
June 30, 2021 and 2020

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INDEPENDENT AUDITOR'S REPORT

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

Report on the Financial Statements

We have audited the accompanying financial statements of the business-type activities, the aggregate discretely presented component units, and the aggregate remaining fund information of the Western Kentucky University ("University"), a component unit of the Commonwealth of Kentucky, as of and for the years ended June 30, 2021 and 2020, and the related notes to the financial statements, which collectively comprise the University's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audits. We did not audit the financial statements of Western Kentucky University Foundation, Inc., WKU Student Life Foundation, Inc., and College Heights Foundation, Inc. for the years ended June 30, 2021 and 2020, all of which make up the entire aggregate discretely presented component units of the University. Those financial statements were audited by other auditors whose reports thereon have been furnished to us, and our opinions, insofar as it relates to the amounts included for Western Kentucky University Foundation, Inc., WKU Student Life Foundation, Inc., and College Heights Foundation, Inc., for the years ended June 30, 2021 and 2020, are based solely on the reports of the other auditors. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement. The financial statements of Western Kentucky University Foundation, Inc., WKU Student Life Foundation, Inc., and College Heights Foundation, Inc. were not audited in accordance with *Government Auditing Standards*.

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

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

Opinions

In our opinion, based on our audits and the reports of the other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities, the aggregate discretely presented component units, and the aggregate remaining fund information of the University, as of June 30, 2021 and 2020, and the respective changes in financial position and, where applicable, cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 1 to the financial statements, the University has adopted GASB Statement No. 84, *Fiduciary Activities*, for the year ended June 30, 2021. Our opinions are not modified with respect to this matter.

Other Matters

Required Supplementary Information

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

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated October 22, 2021, 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
October 22, 2021

WESTERN KENTUCKY UNIVERSITY
MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2021 and 2020

Overview

Management's Discussion and Analysis ("MD&A") of Western Kentucky University's ("WKU" or the "University") financial statements is intended to provide an overview of the financial position, changes in financial position, and cash flows of the University as of and for the fiscal years ended June 30, 2021 and 2020. MD&A, in addition to the financial statements and the footnote disclosures, is the responsibility of University management.

All financial statements have been prepared on the accrual basis of accounting. Under the accrual basis of accounting, revenues are recognized when earned and expenses are recorded when an obligation has been incurred.

An independent audit, performed by Crowe LLP, provides an opinion on the basic financial statements taken as a whole. Crowe LLP has expressed an unmodified opinion on the financial statements stating that such statements present fairly, in all material respects, the financial position of the University as of June 30, 2021 and 2020, and the changes in its financial position and its cash flows for the years then ended. Included in these financial statements are the financial statements of the Western Kentucky University Research Foundation, which is a blended component unit of the University's financial statements. Also included are the financial statements of the Western Kentucky University Foundation, College Heights Foundation and the Student Life Foundation, which are each discretely presented within the financial statements of the University. Crowe LLP received and relied upon audit reports prepared and work performed by other auditors as a basis of their opinion on the University's financial statements.

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

Reporting Entity

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

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

(Continued)

WESTERN KENTUCKY UNIVERSITY
MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2021 and 2020

Fiscal Year 2021 Highlights

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

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

	<u>Fall 2020</u>	<u>Fall 2019</u>	<u>Fall 2018</u>
<u>Enrollment Base (Headcount)</u>			
Undergraduate applications	8,578	9,634	9,250
Undergraduate enrollment (including returning students)	15,286	15,906	17,030
First-time freshmen	3,120	2,714	2,934
Total graduate enrollment	2,231	2,277	2,426
Total enrollment	17,517	18,183	19,456

The following data, with a comparison between the 2020/2021, 2019/2020, and 2018/2019 school years, is provided to help assess the financial viability of the University:

	<u>June 30, 2021</u>	<u>June 30, 2020</u>	<u>June 30, 2019</u>
<u>Supporting Foundations</u>			
Endowments	\$239.6 million	\$191.2 million	\$185.7 million
Total cash receipts	\$19.8 million	\$21.9 million	\$23.2 million
<u>State Appropriations</u>			
General non-operating revenue	\$ 71,658,700	\$ 73,723,300	\$ 73,783,400
Capital appropriation	<u>-</u>	<u>1,085,678</u>	<u>8,212,116</u>
Total	<u>\$ 71,658,700</u>	<u>\$ 74,808,978</u>	<u>\$ 81,995,516</u>

Statement of Net Position

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

(Continued)

WESTERN KENTUCKY UNIVERSITY
MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2021 and 2020

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

A summary of the University's assets, deferred outflows of resources, liabilities, deferred inflows of resources, and net position, as of June 30, 2021, 2020, and 2019, is as follows:

Condensed Statement of Net Position (in Thousands)

	<u>2021</u>	<u>2020</u>	<u>2019</u>
ASSETS			
Current and non-current other assets	\$ 173,458	\$ 146,430	\$ 135,464
Capital assets, net	<u>440,722</u>	<u>449,912</u>	<u>457,479</u>
Total assets	<u>614,180</u>	<u>596,342</u>	<u>592,943</u>
DEFERRED OUTFLOWS OF RESOURCES			
Deferred loss on bond refunding	2,719	3,240	3,761
Deferred pension and OPEB outflows	<u>34,596</u>	<u>37,621</u>	<u>54,559</u>
Total deferred outflows of resources	<u>37,315</u>	<u>40,861</u>	<u>58,320</u>
 Total assets and deferred outflows of resources	 <u>\$ 651,495</u>	 <u>\$ 637,203</u>	 <u>\$ 651,263</u>
LIABILITIES			
Long-term obligations (current and non-current)	\$ 132,194	\$ 146,627	\$ 163,100
Net pension liability	237,063	242,963	279,540
Net OPEB liability	44,644	45,564	55,312
Other liabilities	36,538	18,502	19,005
Unearned revenue	<u>49,564</u>	<u>35,549</u>	<u>18,976</u>
Total liabilities	<u>500,003</u>	<u>489,205</u>	<u>535,933</u>
DEFERRED INFLOWS OF RESOURCES			
Deferred pension and OPEB inflows	88,959	152,282	177,937
NET POSITION			
Net investment in capital assets	310,283	305,361	299,454
Restricted			
Non-expendable	17,668	16,289	15,592
Expendable	30,733	27,738	16,121
Unrestricted	<u>(296,151)</u>	<u>(353,672)</u>	<u>(393,774)</u>
Total net position	<u>62,533</u>	<u>(4,284)</u>	<u>(62,607)</u>
 Total liabilities, deferred inflows of resources, and net position	 <u>\$ 651,495</u>	 <u>\$ 637,203</u>	 <u>\$ 651,263</u>

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WESTERN KENTUCKY UNIVERSITY
MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2021 and 2020

Liabilities include pledges payable to the city of Bowling Green ("City") in the amount of \$12,895,233 for the Diddle Arena Improvements Project. Bonds payable for educational buildings total \$104,500,265 with final payments on the bonds scheduled for fiscal year 2036. Additionally, the university's net pension and OPEB liability was \$281,707,270, \$288,526,911, and \$334,851,781, as of June 30, 2021, 2020, and 2019, respectively.

Statement of Revenues, Expenses, and Changes in Net Position

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

The most significant source of non-operating revenue for fiscal year 2021 is non-exchange grants and contracts due to the addition of \$29,573,378 in COVID related relief funds. Other important non-operating revenue sources include State appropriations and investment income. State appropriations are non-operating because these funds are non-exchange revenues provided by the General Assembly to the University without the General Assembly directly receiving commensurate value (goods and services) for those revenues.

Accordingly, the University reports net operating losses of \$(91,131,509), \$(79,892,202), and \$(91,047,715), for fiscal years 2021, 2020, and 2019, respectively.

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WESTERN KENTUCKY UNIVERSITY
MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2021 and 2020

A summary of the University's activities for the years ended June 30, 2021, 2020, and 2019 is as follows:

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

	<u>2021</u>	<u>2020</u>	<u>2019</u>
Operating revenues			
Net tuition and fees	\$ 102,999	\$ 120,036	\$ 126,640
Grants and contracts	170	261	230
Sales and services of educational departments	14,281	16,104	17,518
Auxiliary enterprises	14,694	19,846	22,500
Other	<u>13,236</u>	<u>18,792</u>	<u>22,074</u>
Total operating revenues	<u>145,380</u>	<u>175,039</u>	<u>188,962</u>
Operating expenses	<u>236,512</u>	<u>254,931</u>	<u>280,010</u>
Operating loss	<u>(91,132)</u>	<u>(79,892)</u>	<u>(91,048)</u>
Non-operating revenues (expenses)			
State appropriations	71,659	73,723	73,783
Grants and contracts	89,887	64,430	61,364
Investment income, net	1,898	2,014	382
Interest on capital asset-related debt	(5,207)	(5,615)	(6,012)
Other	<u>(289)</u>	<u>2,577</u>	<u>220</u>
Net non-operating revenues	<u>157,948</u>	<u>137,129</u>	<u>129,737</u>
Gain before capital contributions	66,816	57,237	38,689
State capital appropriation	<u>-</u>	<u>1,086</u>	<u>8,212</u>
Increase in net position	66,816	58,323	46,901
Net position, beginning of year	<u>(4,284)</u>	<u>(62,607)</u>	<u>(109,508)</u>
Net position, end of year	<u>\$ 62,532</u>	<u>\$ (4,284)</u>	<u>\$ (62,607)</u>

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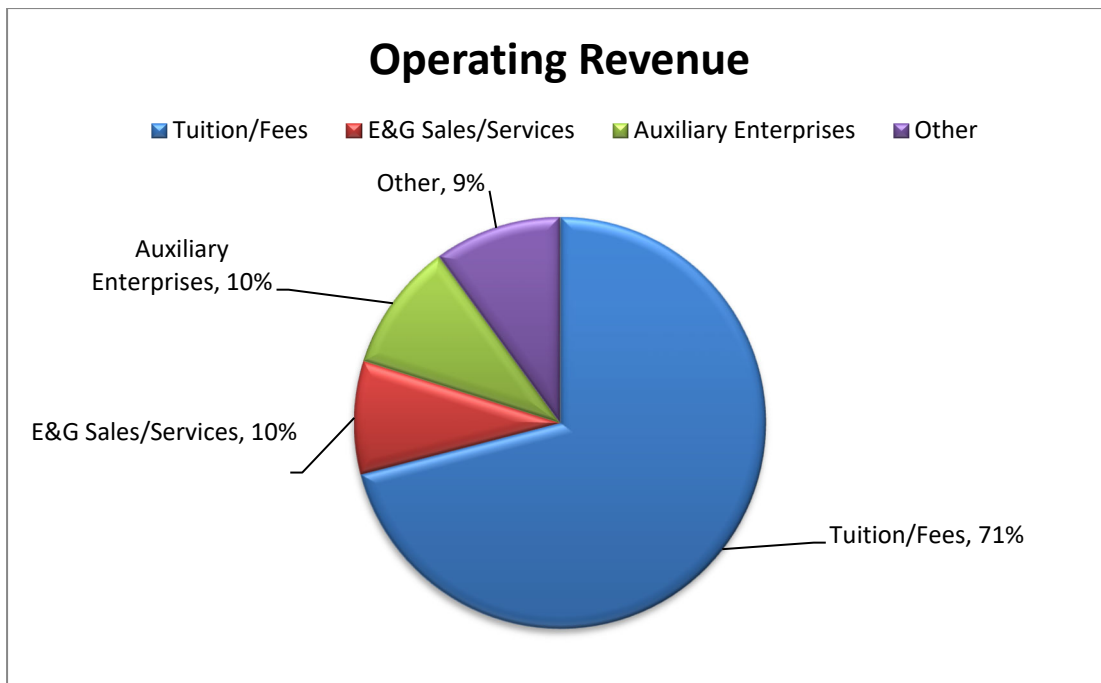
Operating Revenues

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

As noted in the aforementioned enrollment data the University's total headcount enrollment decreased by approximately 3.7% between fall 2019 (18,183 students) and fall 2020 (17,517 students). As of fall 2020, approximately 76.0% of students enrolled at the University were Kentucky residents. An additional 10.9% of the student population came from Tennessee with many coming to the University through a state reciprocity agreement (*i.e.*, enrolled at in-state rates) or in the Tuition Incentive Program.

Tuition and fees revenue is recorded in the financial statements net of scholarship allowances, gift scholarships, and institutional aid. A scholarship allowance is the difference between the stated charges for goods and services provided by the institution and the amount that is billed to students and third parties making payments on behalf of students. College Access Program and KEES Program have been included in the scholarship allowance after these sources have been used to satisfy a student's fees and charges. Any excess aid disbursed to the student is recognized as a student financial aid expense. Net tuition and fees, as of June 30, 2021 and 2020, were approximately 57.7% and 64.5%, respectively of the gross tuition and fees with approximately \$75.4 million and \$66.2 million, respectively, being recorded as scholarship allowance.

The distribution of FY 2021 operating revenue, by source, is summarized as follows:



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

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WESTERN KENTUCKY UNIVERSITY
 MANAGEMENT'S DISCUSSION AND ANALYSIS
 June 30, 2021 and 2020

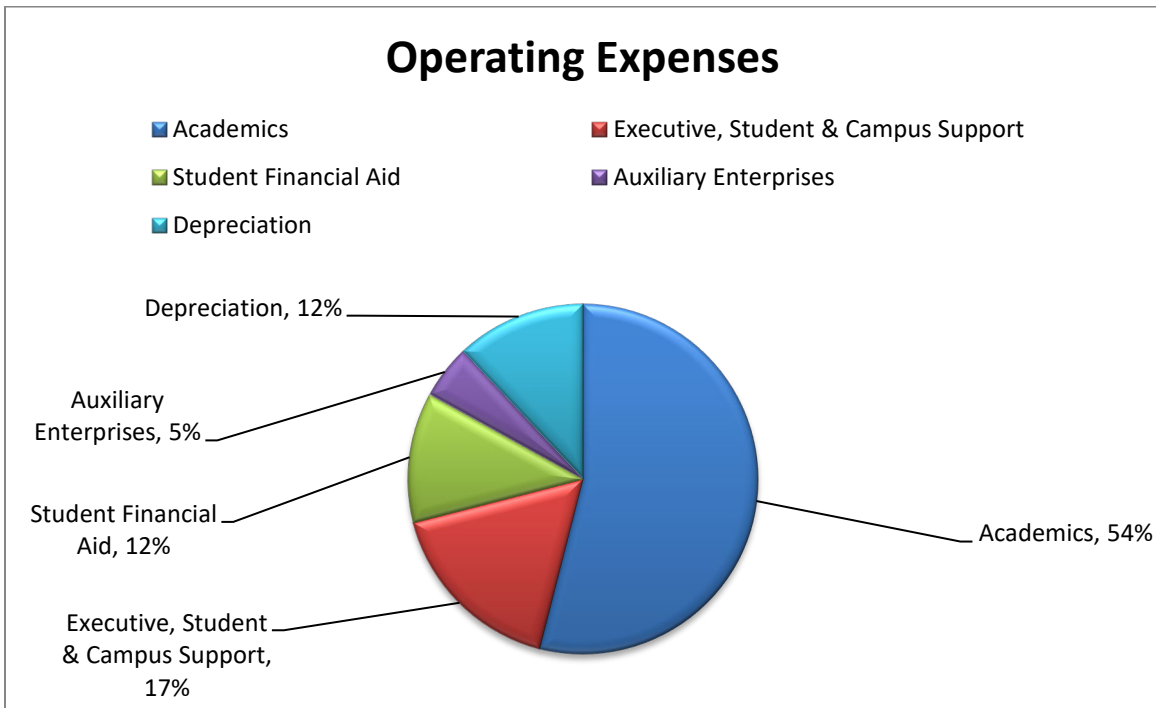
The grant and contract awards received in a given year are frequently multiyear awards for which only the current year activity related to the award will be recorded (*i.e.*, any cash received in excess of expenses incurred will be recorded as unearned revenue). Additionally, awards related to future periods are not recorded in the University's financial statements. The following chart provides a three-year comparison of total grants and contracts awarded (not received/recorded) during fiscal years 2021, 2020, and 2019.

Grants and Contracts Awards (Excluding Financial Aid)

	<u>2021</u>	<u>2020</u>	<u>2019</u>
Federal	\$ 46,398,819	\$ 17,419,498	\$ 12,861,236
State	1,161,125	1,659,392	2,460,090
Other	<u>3,262,448</u>	<u>2,875,472</u>	<u>2,598,870</u>
 Total	 <u>\$ 50,822,392</u>	 <u>\$ 21,954,362</u>	 <u>\$ 17,920,196</u>

Operating Expenses

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



(Continued)

WESTERN KENTUCKY UNIVERSITY
MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2021 and 2020

Non-operating Revenues and Expenses

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

The University's investments consist primarily of collateralized mortgage obligations and its equity in Commonwealth of Kentucky pooled investment funds. Investment income for the years ended June 30, 2021, 2020, and 2019 is comprised of the following:

	<u>2021</u>	<u>2020</u>	<u>2019</u>
Investment income	\$ 1,897,905	\$ 2,014,514	\$ 1,030,673
Net change for the year in the fair value of investments	<u> -</u>	<u> (314)</u>	<u> (648,237)</u>
	<u>\$ 1,897,905</u>	<u>\$ 2,014,200</u>	<u>\$ 382,436</u>

State appropriations were \$71,658,700, \$73,723,300, and \$73,783,400, for 2021, 2020, and 2019, respectively.

Change in Net Position

For the years ended June 30, 2021, 2020, and 2019, the University's net position increased by \$66,816,929, \$58,322,886, and \$46,900,930, respectively. The year-end net position for June 30, 2021, 2020, and 2019 were \$62,532,844, \$(4,284,085), and \$(62,606,971), respectively.

Statements of Cash Flows

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

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

(Continued)

WESTERN KENTUCKY UNIVERSITY
MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2021 and 2020

The major sources of cash received for operating activities are tuition and fees of \$98,535,708 and \$122,428,943 and auxiliary enterprises of \$14,693,803 and \$19,846,452 at June 30, 2021 and 2020, respectively. Major uses of cash for operating activities were payments to employees for salaries and benefits of \$164,807,271 and \$178,376,311 and to suppliers and contractors of \$73,781,392 and \$88,275,399 at June 30, 2021 and 2020, respectively. A majority of the non-capital financing activities is state appropriations and grants and contracts. Principal and interest paid on capital debt and leases are recognized as capital and related financing activities. Investing activities recognize the cash flows from proceeds from sales and maturities of investments and interest receipts.

The Statements of Cash Flows are summarized as follows:

Condensed Statements of Cash Flows (in thousands)

	<u>2021</u>	<u>2020</u>	<u>2019</u>
Cash Provided By (Used In)			
Operating activities	\$(104,297)	\$ (88,565)	\$ (92,906)
Non-capital financing activities	160,595	137,163	135,072
Capital and related financing activities	(38,686)	(39,271)	(27,084)
Investing activities	<u>2,945</u>	<u>2,141</u>	<u>1,006</u>
Net increase (decrease) in cash and cash equivalents	20,557	11,468	16,088
Cash and cash equivalents, beginning of year	<u>103,698</u>	<u>92,230</u>	<u>76,142</u>
Cash and cash equivalents, end of year	<u>\$ 124,255</u>	<u>\$ 103,698</u>	<u>\$ 92,230</u>

Capital Asset and Long-term Obligations

Capital Assets

As of June 30, 2021, 2020, and 2019, the University had \$440.7 million, \$449.9 million, and \$457.5 million invested in capital assets, net of accumulated depreciation of \$455.9 million, \$438.1 million, and \$412.6 million, respectively. Capital assets at June 30, 2021, 2020, and 2019 are summarized below:

	<u>2021</u>	<u>2020</u>	<u>2019</u>
Land	\$ 14,962,881	\$ 14,962,881	\$ 12,924,788
Buildings and improvements	631,032,217	630,466,373	617,391,617
Infrastructure	71,221,616	70,950,519	69,740,734
Furniture, fixtures, and equipment	82,749,675	92,555,820	90,776,239
Library materials	65,620,291	63,828,613	64,013,663
Construction in progress	<u>31,077,231</u>	<u>15,221,720</u>	<u>15,267,561</u>
Total capital assets	896,663,911	887,985,926	870,114,602
Less accumulated depreciation	<u>(455,942,185)</u>	<u>(438,074,314)</u>	<u>(412,635,935)</u>
Capital assets, net	<u>\$ 440,721,726</u>	<u>\$ 449,911,612</u>	<u>\$ 457,478,667</u>

The major construction project in progress, as of June 30, 2021, consisted of the renovation/construction of the WKU Commons.

(Continued)

WESTERN KENTUCKY UNIVERSITY
MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2021 and 2020

Long-Term Obligations

As of June 30, 2021, 2020, and 2019, the University had \$132.2 million, \$146.6 million, and \$163.1 million, respectively, in long-term obligations consisting of pledges payable to the city of Bowling Green, bonds payable (Consolidated Educational Buildings Revenue Bonds and General Receipts Bonds), capital leases, and other long-term obligations. The long-term obligations, including the current portion, are summarized as follows:

	<u>2021</u>	<u>2020</u>	<u>2019</u>
Pledges to the City	\$ 12,895,233	\$ 15,406,280	\$ 17,757,327
General receipts bonds	104,500,265	115,128,983	125,472,702
Capital leases	13,238,042	13,601,590	16,467,440
Other long-term obligations	<u>1,560,241</u>	<u>2,490,031</u>	<u>3,402,906</u>
Total	<u>\$ 132,193,781</u>	<u>\$ 146,626,884</u>	<u>\$ 163,100,375</u>

Economic Factors Impacting Future Periods

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

- WKU's fall 2020 total enrollment of 17,517 continued a trend of fewer nontraditional students. Enrollment of international undergraduate and graduate students decreased by 36.5 percent from fall 2019. First-time freshmen enrollment increased by 406 students. WKU's continuing emphasis on the academic quality of the incoming class has resulted in an average ACT score of 22.5 and a High School GPA of 3.44. Retention rates increased to 76.8 percent for fall 2020 from 72.9 percent for fall 2019. The continued emphasis on student retention along with the larger first-time freshmen class will help stabilize a recurring revenue base.
- The Council on Postsecondary Education (CPE) has the statutory responsibility to approve tuition rates. Significant emphasis continues to be placed on setting tuition rates with modest increases that will not impede economic access to postsecondary education. CPE enacted a tuition and fee-setting schedule enabling universities to raise tuition up to 3 percent through fiscal year 2022-23, with a one-year maximum of 2 percent. CPE approved a tuition increase of 2 percent at WKU.
- The Kentucky General Assembly once again passed a one-year state budget for fiscal year 2022. The enacted budget reflected an increase in base operating support of approximately 1.3 percent. An allotment of \$3,592,500 was added to WKU's state appropriation to help offset the large increase in Kentucky Public Pension Authority rates. Additionally, WKU's Postsecondary Education Performance Pool allocation increased to \$1,398,800 for 2021-2022, compared to \$757,900 for 2020-2021.

(Continued)

WESTERN KENTUCKY UNIVERSITY
MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2021 and 2020

- In fiscal year 2018, the University initiated a process to develop a new budget model that became operational on July 1, 2020. This process required revisiting the underlying assumptions and operational details of the entire budget process. The decision was made to transition to a decentralized, incentive-based approach to budgeting that empowers colleges to engage in entrepreneurial activities and to focus on enrollment growth and retention with the goal of increasing tuition and alternative revenue sources. The colleges are able to reinvest budget surplus into key strategic initiatives within each unit.
- In June 2018, the WKU Strategic Plan *Climbing to Greater Heights 2018-2028* was approved by the Board of Regents. WKU reached a 25% completion point in December, 2020. WKU remains committed to maintaining and improving the physical and virtual structures that contribute to completion and success for all WKU students. To that end, the First-Year Village opens in fall 2021, providing modern residence space in a holistic living-learning environment. The WKU Commons at Helm Library will also open during fiscal year 2022, providing multipurpose space for dining, cooperative work, and student engagement. The hallmarks of the plan, Our Students, Our Hill, and Our Community and Beyond, bode well for creating a fiscally responsible academic institution that emphasizes student success.
- In March 2020, the global COVID-19 health crisis transformed operations at the University within a matter of days. The entire campus community rallied together to ensure the safety of students, faculty, and staff while navigating a return to in-person learning in Fall 2020. While the University's top priority remained the health and well-being of our campus and extended communities, the following financial strategies were enacted to emphasize efficient and cost-conscious administrative operations during this time of fiscal uncertainty:
 - Reduction or elimination of any non-strategic capital renewal projects, renovations, deferred and routine maintenance, and equipment purchases.
 - Reduction of travel expenses.
 - Consolidation of purchasing decisions to leverage buying power.

The above strategies were effective during fiscal year 2021 and will continue into fiscal year 2022 due to the ongoing uncertainty of COVID. In addition, WKU remains steadfast in creating a safe, welcoming, and inclusive environment for students and employees by evaluating and adjusting instructional modalities, spacing in classrooms, and providing increased flexibility in workforce scheduling. These financial strategies and operational adjustments have helped the University achieve financial stability while also executing its commitment to academic excellence and student success.

- WKU implemented a Voluntary Separation Incentive Program (VSIP) as an employee-centered strategy for making appropriate workforce adjustments and creating opportunities for organizational renewal and invention. VSIP allowed eligible faculty and staff to attain retirement status, seek other professional opportunities, or otherwise cease employment with WKU. The program will result in a reduction of the future salary base which comprises a significant part of the operating budget. There were 125 university employee participants (52 faculty and 73 staff) with a June 30, 2021 effective date.

Requests for Information

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

(Continued)

WESTERN KENTUCKY UNIVERSITY
STATEMENTS OF NET POSITION
June 30, 2021 and 2020

	<u>2021</u>	<u>2020</u>
ASSETS		
Current assets		
Cash and cash equivalents	\$ 124,255,127	\$ 103,408,994
Accounts receivable, net of allowance of \$3,773,762 and \$2,898,454 for 2021 and 2020, respectively	15,213,523	10,578,548
Federal and state grants receivable	10,731,325	4,736,212
Inventories	97,195	112,359
Loans to students	149,301	215,692
Prepaid expenses and other	<u>3,857,393</u>	<u>6,441,280</u>
Total current assets	<u>154,303,864</u>	<u>125,493,085</u>
Noncurrent assets		
Restricted cash and cash equivalents	-	289,108
Loans to students, net of allowance of \$548,366 each year	999,167	1,443,477
Assets held in trust	18,155,389	19,204,919
Capital assets – non-depreciable	46,040,112	30,184,601
Capital assets – depreciable	850,623,799	857,801,325
Accumulated depreciation	<u>(455,942,185)</u>	<u>(438,074,314)</u>
Total noncurrent assets	<u>459,876,282</u>	<u>470,849,116</u>
Total assets	<u>614,180,146</u>	<u>596,342,201</u>
DEFERRED OUTFLOWS OF RESOURCES		
Deferred loss on bond refunding	2,718,987	3,239,977
Deferred outflows – KTRS Pension	13,759,469	17,097,797
Deferred outflows – KERS Non-Hazardous Pension	9,427,296	12,221,063
Deferred outflows – KERS Hazardous Pension	724,488	963,427
Deferred outflows – KERS OPEB	7,114,395	5,453,017
Deferred outflows – KTRS OPEB	<u>3,570,500</u>	<u>1,885,776</u>
Total deferred outflows of resources	<u>37,315,135</u>	<u>40,861,057</u>
Total assets and deferred outflows of resources	<u>\$ 651,495,281</u>	<u>\$ 637,203,258</u>

See accompanying notes to financial statements.

WESTERN KENTUCKY UNIVERSITY
STATEMENTS OF NET POSITION
June 30, 2021 and 2020

	<u>2021</u>	<u>2020</u>
LIABILITIES		
Current liabilities		
Accounts payable	\$ 8,103,661	\$ 7,319,795
Self-insured health liability	1,214,587	1,131,863
Self-insured workers' compensation liability	75,951	165,595
Accrued payroll and withholdings	21,319,558	4,107,966
Accrued compensated absences	3,362,020	3,453,813
Accrued interest	1,098,881	1,195,135
Unearned revenue	49,564,267	35,549,207
Long-term obligations - current	14,825,654	14,433,104
Deposits held in custody for others	1,048,228	1,128,118
Other current liabilities	<u>315,000</u>	<u>-</u>
Total current liabilities	<u>100,927,807</u>	<u>68,484,596</u>
Non-current liabilities		
Long-term obligations	117,368,127	132,193,780
Net pension liability – KTRS	79,922,679	79,900,958
Net pension liability – KERS Non-Hazardous	153,738,894	159,267,355
Net pension liability – KERS Hazardous	3,401,722	3,794,750
Net OPEB liability – KERS	27,815,975	24,881,848
Net OPEB liability – KTRS	<u>16,828,000</u>	<u>20,682,000</u>
Total non-current liabilities	<u>399,075,397</u>	<u>420,720,691</u>
Total liabilities	<u>500,003,204</u>	<u>489,205,287</u>
DEFERRED INFLOWS OF RESOURCES		
Deferred inflows – KTRS Pension	61,408,935	122,008,131
Deferred inflows – KERS Non-Hazardous Pension	10,172,417	14,377,025
Deferred inflows – KERS Hazardous Pension	245,980	88,124
Deferred inflows – KERS OPEB	6,785,901	8,338,776
Deferred inflows – KTRS OPEB	<u>10,346,000</u>	<u>7,470,000</u>
Total deferred inflows	<u>88,959,233</u>	<u>152,282,056</u>
NET POSITION		
Net investment in capital assets	310,283,058	305,361,480
Restricted		
Non-expendable - endowments	17,668,486	16,289,113
Expendable		
Loans	1,717,857	2,176,419
Capital projects	29,014,632	25,561,308
Unrestricted	<u>(296,151,189)</u>	<u>(353,672,405)</u>
Total net position	<u>62,532,844</u>	<u>(4,284,085)</u>
Total liabilities, deferred inflows, and net position	<u>\$ 651,495,281</u>	<u>\$ 637,203,258</u>

See accompanying notes to financial statements.

WESTERN KENTUCKY UNIVERSITY
WESTERN KENTUCKY UNIVERSITY FOUNDATION, INC.
STATEMENTS OF FINANCIAL POSITION
December 31, 2020 and 2019

	<u>2020</u>	<u>2019</u>
ASSETS		
Cash and cash equivalents	\$ 9,324,624	\$ 17,023,563
Investments	83,882,222	66,182,584
Pledges receivable, net	3,553,067	2,726,066
Due from WKU Alumni Association, net of allowance of \$50,476 and \$60,147, respectively	458,860	483,536
Other receivables	-	15,387
Prepaid expenses and other assets	91,703	118,668
Property, net	1,536,205	1,046,718
Assets held for others	<u>22,269,877</u>	<u>22,477,398</u>
Total assets	<u>\$ 121,116,558</u>	<u>\$ 110,073,920</u>
 LIABILITIES AND NET ASSETS		
Liabilities		
Accounts payable	\$ 22,932	\$ 37,872
Deferred gift liabilities	939,768	917,533
Liability for assets held for others	<u>22,269,877</u>	<u>22,477,398</u>
Total liabilities	<u>23,232,577</u>	<u>23,432,803</u>
Net Assets		
Without donor restrictions	5,590,627	4,762,532
With donor restrictions	<u>92,293,354</u>	<u>81,878,585</u>
Total net assets	<u>97,883,981</u>	<u>86,641,117</u>
Total liabilities and net assets	<u>\$ 121,116,558</u>	<u>\$ 110,073,920</u>

See accompanying notes to financial statements.

WESTERN KENTUCKY UNIVERSITY
 WKU STUDENT LIFE FOUNDATION, INC.
 STATEMENTS OF FINANCIAL POSITION
 June 30, 2021 and 2020

	<u>2021</u>	<u>2020</u>
ASSETS		
Cash and cash equivalents	\$ 15,819,235	\$ 12,713,178
Accounts receivable - Western Kentucky University	378,274	835,762
Accounts receivable - students - net of allowance of \$87,089 and \$246,250 for 2021 and 2020, respectively	1,159,729	377,623
Accounts receivable – other	-	15,529
Net investment in direct financing lease - related party	1,525,609	1,569,464
Prepaid expenses	210,789	185,513
Assets limited as to use	11,331,510	39,640,487
Assets held for others - student deposits	254,080	450,807
Assets held by others - student deposits - cash	532,670	293,043
Derivative instruments, at fair value	129,227	389,659
Property and equipment held for sale	405,900	-
Property and equipment, net	<u>147,734,688</u>	<u>125,186,829</u>
Total assets	<u>\$ 179,481,711</u>	<u>\$ 181,657,894</u>
 LIABILITIES AND NET ASSETS		
Liabilities		
Accounts payable	\$ 3,303,628	\$ 4,524,119
Accrued expenses	450,316	479,802
Student deposits	786,750	743,850
Prepaid rent from students	102,130	-
Asset retirement obligation	794,269	794,269
Deferred revenue – Hilltopper Hub	2,705,882	2,882,353
Long-term debt, net of unamortized debt issue costs	<u>122,975,231</u>	<u>128,713,710</u>
Total liabilities	131,118,206	138,138,103
Net Assets		
Without donor restrictions	<u>48,363,505</u>	<u>43,519,791</u>
Total liabilities and net assets	<u>\$ 179,481,711</u>	<u>\$ 181,657,894</u>

See accompanying notes to financial statements.

WESTERN KENTUCKY UNIVERSITY
COLLEGE HEIGHTS FOUNDATION, INC.
STATEMENTS OF FINANCIAL POSITION
December 31, 2020 and 2019

	<u>2020</u>	<u>2019</u>
ASSETS		
Cash and cash equivalents	\$ 4,095,649	\$ 4,447,629
Interest and dividends receivable	67,420	67,420
Investments	88,759,644	75,097,293
Beneficial interest in third-party trusts	6,515,698	5,946,063
Assets held for others	3,320,842	2,946,249
Fixed assets, net of depreciation	906,830	2,076,905
Other assets	<u>-</u>	<u>750</u>
Total assets	<u>\$ 103,666,083</u>	<u>\$ 90,582,309</u>
 LIABILITIES AND NET ASSETS		
Liabilities		
Accounts payable	\$ 1,000,000	\$ -
Refundable advances and gift annuity liabilities	3,781,011	2,756,827
Liability for assets held for others	<u>3,320,842</u>	<u>2,946,249</u>
 Total liabilities	 8,101,853	 5,703,076
 Net assets		
Without donor restrictions	18,953,687	12,541,945
With donor restrictions	<u>76,610,543</u>	<u>72,337,288</u>
 Total net assets	 <u>95,564,230</u>	 <u>84,879,233</u>
Total liabilities and net assets	<u>\$ 103,666,083</u>	<u>\$ 90,582,309</u>

See accompanying notes to financial statements.

WESTERN KENTUCKY UNIVERSITY
STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
Years ended June 30, 2021 and 2020

	<u>2021</u>	<u>2020</u>
REVENUES		
Operating revenues		
Tuition and fees, net of discounts and allowances of \$75,389,048 and \$66,165,773	\$ 102,999,425	\$ 120,036,095
Federal grants and contracts	32,707	24,488
State grants and contracts	45,136	77,892
Local and private grants and contracts	92,095	158,282
Sales and services of educational activities	14,280,808	16,103,935
Auxiliary enterprise revenues, net of discounts and allowances of \$1,933,053 and \$1,696,558	14,693,803	19,846,452
Other operating revenues	<u>13,235,898</u>	<u>18,791,799</u>
Total operating revenues	<u>145,379,872</u>	<u>175,038,943</u>
EXPENSES		
Operating expenses		
Education and general		
Instruction	86,146,592	94,455,517
Research	4,847,860	5,850,344
Public service	14,651,164	14,851,848
Libraries	3,965,782	4,563,210
Academic support	18,214,973	19,409,881
Student services	27,014,974	31,132,377
Institutional support	52,941,499	35,020,789
Operation and maintenance of plant	26,024,712	26,432,173
Student financial aid	28,347,403	28,814,399
Pension and OPEB expense	(67,117,532)	(55,042,091)
Depreciation	29,048,000	29,549,530
Auxiliary enterprises	<u>12,425,954</u>	<u>19,893,168</u>
Total operating expenses	<u>236,511,381</u>	<u>254,931,145</u>
Operating loss	<u>(91,131,509)</u>	<u>(79,892,202)</u>
Non-operating revenues (expenses)		
State appropriations	70,900,800	69,344,200
State appropriations – Performance Funding	757,900	4,379,100
Federal grants and contracts	65,892,088	39,815,267
State grants and contracts	20,587,609	20,409,541
Local and private grants and contracts	3,407,739	4,205,030
Net investment income	1,897,905	2,014,200
Interest on capital asset-related debt	(5,207,071)	(5,615,164)
(Loss) gain on disposal of capital assets	(196,727)	77,914
Gain on exchange of capital asset	-	2,240,546
Other non-operating income (expenses)	<u>(91,805)</u>	<u>258,776</u>
Net non-operating revenues	<u>157,948,438</u>	<u>137,129,410</u>
Gain before other capital contributions	66,816,929	57,237,208
State capital appropriation	<u>-</u>	<u>1,085,678</u>
Increase in net position	66,816,929	58,322,886
Net position, beginning of year	<u>(4,284,085)</u>	<u>(62,606,971)</u>
Net position, end of year	<u>\$ 62,532,844</u>	<u>\$ (4,284,085)</u>

See accompanying notes to financial statements.

WESTERN KENTUCKY UNIVERSITY
WESTERN KENTUCKY UNIVERSITY FOUNDATION, INC.
STATEMENT OF ACTIVITIES
Year ended December 31, 2020

	Without Donor Restrictions	With Donor Restrictions	Total
Revenues, gains (losses), and other support:			
Contributions	\$ 105,627	\$ 5,675,098	\$ 5,780,725
Non-charitable contributions	59,797	766,532	826,329
Investment income	25,665	1,396,125	1,421,790
Net unrealized and realized gain on investments	180,314	9,293,835	9,474,149
Net actuarial gain from deferred gift liabilities	-	56,084	56,084
Rental and royalty income	<u>15,610</u>	<u>18,200</u>	<u>33,810</u>
	387,013	17,205,874	17,592,887
 Net assets released from restriction	 <u>6,791,105</u>	 <u>(6,791,105)</u>	 <u>-</u>
 Total revenues, gains (losses), and other support	 <u>7,178,118</u>	 <u>10,414,769</u>	 <u>17,592,887</u>
Expenses:			
Expenses on behalf of WKU programs			
Public service	475,303	-	475,303
Construction	480,596	-	480,596
Other	<u>4,223,681</u>	<u>-</u>	<u>4,223,681</u>
Total program expenses	5,179,580	-	5,179,580
 Management and general	 878,821	 -	 878,821
Fundraising	<u>291,622</u>	<u>-</u>	<u>291,622</u>
 Total expenses	 <u>6,350,023</u>	 <u>-</u>	 <u>6,350,023</u>
 Change in net assets	 828,095	 10,414,769	 11,242,864
 Net assets, beginning of year	 <u>4,762,532</u>	 <u>81,878,585</u>	 <u>86,641,117</u>
 Net assets, end of year	 <u>\$ 5,590,627</u>	 <u>\$ 92,293,354</u>	 <u>\$ 97,883,981</u>

See accompanying notes to financial statements.

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

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

See accompanying notes to financial statements.

WESTERN KENTUCKY UNIVERSITY
 WKU STUDENT LIFE FOUNDATION, INC.
 STATEMENTS OF ACTIVITIES
 Years ended June 30, 2021 and 2020

	<u>2021</u>	<u>2020</u>
OPERATING REVENUES		
Student housing revenue	\$ 23,471,244	\$ 23,625,825
Contributions – WKU CARES funding	-	3,903,711
Interest income – direct financing lease	101,756	107,634
Hilltopper Hub prepaid lease revenue	176,471	117,647
Other	<u>757,118</u>	<u>858,734</u>
Total operating revenues	<u>24,506,589</u>	<u>28,613,551</u>
OPERATING EXPENSES		
Salaries, benefits, and related expenses	5,812,851	6,009,426
Utilities	2,402,149	2,441,199
Repairs, maintenance, and supplies	1,321,572	1,633,381
Management fees	84,200	84,200
Professional fees	55,160	86,607
Insurance	653,297	608,674
Depreciation and amortization	5,100,332	5,762,005
Bad debt expense	31,042	163,744
Long-lived asset impairment	56,784	1,037,739
Student housing refunds due to COVID closures	-	3,903,711
Other	<u>443,509</u>	<u>390,513</u>
Total operating expenses	<u>15,960,896</u>	<u>22,121,199</u>
Change in net assets from operations	<u>8,545,693</u>	<u>6,492,352</u>
NONOPERATING REVENUES (EXPENSES)		
Interest income	269,148	676,234
Interest expense, fees, and bond issuance costs	(3,710,695)	(4,003,182)
Change in fair value of derivative instruments - forward sale agreement	<u>(260,432)</u>	<u>(96,777)</u>
Total non-operating expenses	<u>(3,701,979)</u>	<u>(3,423,725)</u>
Change in net assets without donor restrictions	4,843,714	3,068,627
Net assets without donor restrictions, beginning of year	<u>43,519,791</u>	<u>40,451,164</u>
Net assets without donor restrictions, end of year	<u>\$ 48,363,505</u>	<u>\$ 43,519,791</u>

See accompanying notes to financial statements.

WESTERN KENTUCKY UNIVERSITY
COLLEGE HEIGHTS FOUNDATION, INC.
STATEMENT OF ACTIVITIES
Year ended December 31, 2020

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
REVENUES, GAINS, AND OTHER SUPPORT			
Contributions	\$ 508,981	\$ 7,935,391	\$ 8,444,372
Net investment income	307,210	10,879,109	11,186,319
Change in value of split-interest agreements	-	77,526	77,526
Net assets released from restrictions:			
Satisfaction of program restrictions	<u>14,618,771</u>	<u>(14,618,771)</u>	<u>-</u>
Total revenues, gains, and other support	<u>15,434,962</u>	<u>4,273,255</u>	<u>19,708,217</u>
EXPENSES			
Program services	6,898,333	-	6,898,333
Supporting services			
Management and general	762,808	-	762,808
Fundraising	<u>12,079</u>	<u>-</u>	<u>12,079</u>
Total supporting services	<u>774,887</u>	<u>-</u>	<u>774,887</u>
Total expenses	<u>7,673,220</u>	<u>-</u>	<u>7,673,220</u>
Transfer to WKU	<u>(1,350,000)</u>	<u>-</u>	<u>(1,350,000)</u>
CHANGE IN NET ASSETS	6,411,742	4,273,255	10,684,997
NET ASSETS, BEGINNING OF YEAR	<u>12,541,945</u>	<u>72,337,288</u>	<u>84,879,233</u>
NET ASSETS, END OF YEAR	<u>\$ 18,953,687</u>	<u>\$ 76,610,543</u>	<u>\$ 95,564,230</u>

See accompanying notes to financial statements.

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

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
REVENUES, GAINS, AND OTHER SUPPORT			
Contributions	\$ 658,339	\$ 8,959,325	\$ 9,617,664
Net investment income	789,408	12,632,223	13,421,631
Change in value of split-interest agreements	-	925,612	925,612
Net assets released from restrictions:			
Satisfaction of program restrictions	16,993,709	(16,993,709)	-
Loss on exchange of assets	<u>-</u>	<u>(29,306)</u>	<u>(29,306)</u>
Total revenues, gains, and other support	<u>18,441,456</u>	<u>5,494,145</u>	<u>23,935,601</u>
EXPENSES			
Program services	6,062,243	-	6,062,243
Supporting services			
Management and general	788,708	-	788,708
Fundraising	<u>23,379</u>	<u>-</u>	<u>23,379</u>
Total supporting services	<u>812,087</u>	<u>-</u>	<u>812,087</u>
Total expenses	<u>6,874,330</u>	<u>-</u>	<u>6,874,330</u>
CHANGE IN NET ASSETS	11,567,126	5,494,145	17,061,271
NET ASSETS, BEGINNING OF YEAR	<u>974,819</u>	<u>66,843,143</u>	<u>67,817,962</u>
NET ASSETS, END OF YEAR	<u>\$ 12,541,945</u>	<u>\$ 72,337,288</u>	<u>\$ 84,879,233</u>

See accompanying notes to financial statements.

WESTERN KENTUCKY UNIVERSITY
 WESTERN KENTUCKY UNIVERSITY FOUNDATION, INC.
 STATEMENT OF FUNCTIONAL EXPENSES
 Year ended December 31, 2020

	WKU Program Services						Total Expenses
	Public Service	Construction	Other	Total WKU Program Services	Management and General	Fundraising	
Salaries/wages, payroll taxes, and benefits	\$ 88,209	\$ -	\$ 1,530,480	\$ 1,618,689	\$ 449,956	\$ 42,805	\$ 2,111,450
Scholarships and honorariums	3,531	-	958,891	962,422	-	-	962,422
Professional fees and other services	290,854	-	290,259	581,113	281,598	238,897	1,101,608
Travel, meals, and entertainment	12,169	-	294,706	306,875	-	7,105	313,980
Printing, supplies, and other office expenses	52,079	-	158,713	210,792	26,951	1,399	239,142
Other miscellaneous expenses	41	-	147,199	147,240	2,823	1,416	151,479
Gifts and donations	9,982	-	511,348	521,330	-	-	521,330
Capital expenditures	16,878	480,596	188,893	686,367	-	-	686,367
Dues/subscriptions and registrations	-	-	128,973	128,973	-	-	128,973
Equipment rentals and maintenance	1,560	-	14,219	15,779	-	-	15,779
Bad debt expense	-	-	-	-	117,493	-	117,493
Total expenses	<u>\$ 475,303</u>	<u>\$ 480,596</u>	<u>\$ 4,223,681</u>	<u>\$ 5,179,580</u>	<u>\$ 878,821</u>	<u>\$ 291,622</u>	<u>\$ 6,350,023</u>

See accompanying notes to financial statements.

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

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

See accompanying notes to financial statements.

WESTERN KENTUCKY UNIVERSITY
COLLEGE HEIGHTS FOUNDATION, INC.
STATEMENT OF FUNCTIONAL EXPENSES
Year ended December 31, 2020

	<u>Program Services</u>	<u>Supporting Services</u>		<u>Total</u>
		<u>Management and General</u>	<u>Fund Raising</u>	
Scholarships	\$ 6,070,360	\$ -	\$ -	\$ 6,070,360
Other expenses	827,973	-	-	827,973
Salaries and benefits	-	562,097	-	562,097
Renovation expenses	-	50,438	-	50,438
Professional fees	-	40,906	-	40,906
Real estate expenses	-	23,332	-	23,332
Fundraising	-	-	12,079	12,079
Postage	-	10,278	-	10,278
Travel and transportation	-	8,928	-	8,928
Equipment and furnishings	-	4,125	-	4,125
Software	-	4,088	-	4,088
Bank fees	-	3,798	-	3,798
Memberships	-	3,480	-	3,480
Office supplies	-	3,042	-	3,042
Telephone	-	2,503	-	2,503
Staff development	-	1,030	-	1,030
Gifts	-	549	-	549
Sponsorships	-	100	-	100
Total expenses before depreciation	6,898,333	718,694	12,079	7,629,106
Depreciation	-	44,114	-	44,114
Total expense	\$ 6,898,333	\$ 762,808	\$ 12,079	\$ 7,673,220

See accompanying notes to financial statements.

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

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

See accompanying notes to financial statements.

WESTERN KENTUCKY UNIVERSITY
STATEMENTS OF CASH FLOWS
Years ended June 30, 2021 and 2020

	<u>2021</u>	<u>2020</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Tuition and fees	\$ 98,256,635	\$ 122,428,943
Grants and contracts	(6,685,604)	466,033
Payments to employees	(159,759,341)	(172,115,676)
Payments to suppliers	(66,418,532)	(75,232,551)
Loans issued to students, net of collection	130,213	107,590
Collection of loans to students	380,488	341,547
Sales and services of educational departments	14,280,808	16,103,935
Other operating revenues	13,235,898	18,791,799
Auxiliary enterprise revenues	14,693,803	19,846,452
Auxiliary enterprise payments		
Payments to employees	(5,047,930)	(6,260,635)
Payments to suppliers	<u>(7,362,860)</u>	<u>(13,042,848)</u>
Net cash used in operating activities	<u>(104,296,422)</u>	<u>(88,565,411)</u>
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES		
State appropriations	70,900,800	69,344,200
State appropriations – Performance Funding	757,900	4,379,100
Grants and contracts receipts	89,887,436	64,429,838
Student organization agency receipts (disbursements) - net	(430,471)	(469,034)
Other nonoperating revenues (expenses)	<u>(520,989)</u>	<u>(520,990)</u>
Net cash provided by non-capital financing activities	<u>160,594,676</u>	<u>137,163,114</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Proceeds from short-term financing	315,000	-
Proceeds from sale of capital assets	140,484	160,403
Purchases of capital assets	(20,186,952)	(19,414,293)
Principal paid on capital debt and leases	(13,651,378)	(15,405,764)
Interest paid on capital debt and leases	(5,303,325)	(5,697,270)
State appropriations for capital acquisition	<u>-</u>	<u>1,085,678</u>
Net cash used in capital and related financing activities	<u>(38,686,171)</u>	<u>(39,271,246)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
WKU Research Foundation assets held in trust	(125,884)	(107,834)
Loss on sale of investments	(1,557,914)	(788,520)
Investment income	<u>4,628,740</u>	<u>3,037,520</u>
Net cash provided by investing activities	<u>2,944,942</u>	<u>2,141,166</u>
Net change in cash and cash equivalents	20,557,025	11,467,623
Cash and cash equivalents, beginning of year	<u>103,698,102</u>	<u>92,230,479</u>
Cash and cash equivalents, end of year	<u>\$ 124,255,127</u>	<u>\$ 103,698,102</u>

See accompanying notes to financial statements.

WESTERN KENTUCKY UNIVERSITY
STATEMENTS OF CASH FLOWS
Years ended June 30, 2021 and 2020

	<u>2021</u>	<u>2020</u>
Reconciliation of net operating loss to net cash used in operating activities		
Operating loss	\$ (91,131,509)	\$ (79,892,202)
Depreciation expense	29,048,000	29,549,530
Changes in operating assets and liabilities		
Accounts receivable, net	(4,634,975)	2,841,652
Federal and state grants receivable	(5,995,113)	(1,195,150)
Assets held in trust	533	372
Inventories	15,164	589,684
Loans to students, net	510,701	449,137
Prepaid expenses and other	2,583,887	(2,599,179)
Accounts payable and other current liabilities	775,493	(1,143,373)
Health insurance liability	(6,920)	72,735
Accrued payroll and payroll withholdings	11,321,034	49,363
Accrued compensated absences	(91,793)	660,359
Deferred outflows – pension and OPEB	9,436,480	17,721,936
Deferred inflows – pension and OPEB	(63,322,823)	(25,918,168)
Net pension liability	(5,899,768)	(36,576,735)
Net OPEB liability	(919,873)	(9,748,135)
Unearned revenue	<u>14,015,060</u>	<u>16,572,763</u>
Net cash used in operating activities	<u>\$ (104,296,422)</u>	<u>\$ (88,565,411)</u>
 Supplemental cash flows information		
Non-cash activities:		
Construction in progress included in accounts payable	\$ (8,373)	\$ (410,125)
Pension and OPEB contributions in accrued payroll	(5,890,558)	-
Donation of capital assets from related parties	<u>-</u>	<u>(3,803,839)</u>
Total non-cash activities	<u>\$ (5,898,931)</u>	<u>\$ (4,213,964)</u>
 Reconciliation of cash and cash equivalents to the statement of net position		
Cash and cash equivalents	\$ 124,255,127	\$ 103,408,994
Restricted cash and cash equivalents	<u>-</u>	<u>289,108</u>
Total cash and cash equivalents	<u>\$ 124,255,127</u>	<u>\$ 103,698,102</u>

See accompanying notes to financial statements.

WESTERN KENTUCKY UNIVERSITY
STATEMENTS OF FIDUCIARY NET POSITION
June 30, 2021 and 2020

	<u>Custodial Funds</u>	
	<u>2021</u>	<u>2020</u>
Assets		
Cash and equivalents	\$ <u>419,057</u>	\$ <u>117,887</u>
Total assets	<u>\$ 419,057</u>	<u>\$ 117,887</u>
Net Position		
Restricted for:		
Organizations and other governments	\$ <u>419,057</u>	\$ <u>117,887</u>
Total net position	<u>\$ 419,057</u>	<u>\$ 117,887</u>

See accompanying notes to financial statements.

WESTERN KENTUCKY UNIVERSITY
STATEMENTS OF CHANGES IN FIDUCIARY NET POSITION
Years Ended June 30, 2021 and 2020

	Custodial Funds	
	<u>2021</u>	<u>2020</u>
Additions		
Sales and services	\$ 137,170	\$ 28,923
Other miscellaneous additions	928,400	496,575
Total additions	1,065,570	525,498
Deductions		
Compensation	443,361	295,439
Benefits	170,180	141,697
General and administrative expenses	150,859	561,100
Total deductions	764,400	998,236
Net increase (decrease) in fiduciary net position	301,170	(472,738)
Net position, beginning of year	117,887	-
Cumulative effect of implementation of GASB Statement No. 84	-	590,625
Net position, beginning of year, restated	117,887	590,625
Net position, end of year	\$ 419,057	\$ 117,887

See accompanying notes to financial statements.

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

Nature of Operations: Western Kentucky University (the "University") is a state supported institution of higher education located in Bowling Green, Kentucky, and accredited by the Southern Association of Colleges and Schools Commission on Colleges. The University awards graduate and undergraduate degrees and serves a student population of approximately 17,500 and 18,200 in 2021 and 2020, respectively. The University is operated under the jurisdiction of a Board of Regents and is a component unit of the Commonwealth of Kentucky. Major federally funded student financial aid programs in which the University participates include the Federal Pell Grant, Federal Supplemental Educational Opportunity Grant, Federal Work Study, Federal Family Education Loan, Federal Direct Loan, and Federal Perkins Loan Programs. The University extends unsecured credit to students.

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

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

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

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

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

The financial information included for each foundation noted above is derived from the respective foundation's annual audited financial statements. WKU Foundation, Inc. and College Heights Foundation, Inc. operate on a calendar year. Thus, the information included for each of these foundations is as of and for the years ended December 31, 2020 and 2019. The Student Life Foundation, Inc. operates on a fiscal year beginning July 1, and extending through June 30; likewise the information contained herein is as of and for the years ended June 30, 2021 and 2020.

(Continued)

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

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

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

For financial reporting purposes, the University is considered an enterprise fund and all balances and activities of the University are included in this fund. In accordance with GASB Statement No. 84, *Fiduciary Activities*, fiduciary funds are used to account for assets held in trust by the University for the benefit of individuals, organizations or other governments. Specifically, the University holds assets for a variety of student groups, as well as for the Kentucky Institute for International Studies (KIIS), the Cooperative Center for Study Abroad (CCSA), and the World Council for Gifted and Talented Children (WCGTC).

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

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

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

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

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

(Continued)

WESTERN KENTUCKY UNIVERSITY
NOTES TO FINANCIAL STATEMENTS
June 30, 2021 and 2020

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

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

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

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

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

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

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

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

The University capitalizes interest costs as a component of construction in progress, based on interest costs of borrowing specifically for the project, net of interest earned on investments acquired with the proceeds of borrowings. For the years ended June 30, 2021 and 2020, no interest was capitalized.

	<u>2021</u>	<u>2020</u>
Interest capitalized	\$ -	\$ -
Interest charged to expense	<u>5,207,071</u>	<u>5,615,164</u>
Total interest incurred	<u>\$ 5,207,071</u>	<u>\$ 5,615,164</u>

(Continued)

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

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

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

Unearned Revenue: Tuition and fee revenues collected during the fiscal year, which relate to the period after June 30, 2021 (or June 30, 2020), have been recorded as unearned revenues. Unearned revenues arise when resources are received by the University before it has a legal claim to them, as when grant monies are received prior to the incurrence of qualifying expenditures. In subsequent periods, when both revenue recognition criteria are met, or when the University has a legal claim to the resources, the liability for unearned revenue is removed from the statement of net position and revenue is recognized. Unearned revenue also includes amounts received from grant and contract sponsors that have not yet been earned and unexpended state capital appropriations.

Pensions: For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions and pension expense, information about the fiduciary net position of the Kentucky Employees' Retirement System and Kentucky Teachers' Retirement System (referred to collectively as "the Plans"), and additions to/deductions from the Plans fiduciary net position have been determined on the same basis as they are reported by the Plans. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are generally reported at fair value.

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

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

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

(Continued)

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

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

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

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

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

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

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

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

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

Service Concessions Arrangement: Effective July 1, 2020, the University entered into a 10-year bookstore services agreement with Barnes & Noble College Booksellers, LLC (Barnes & Noble) in which Barnes & Noble will operate and provide services for the bookstore of the University. The University entered into this agreement in order to provide the students, faculty, and staff of the University a bookstore within the Student Union that can be used to purchase textbooks, school supplies, and other merchandise.

This agreement meets the requirements of a service concession arrangement as defined by GASB Statement No. 60, *Accounting and Financial Reporting for Service Concession Arrangements*. As a result, at June 30, 2021, the University reports a capital asset for the portion of the facility utilized by Barnes & Noble as part of the overall building capital asset. No other significant transactions have been reported as a result of this agreement.

(Continued)

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

As part of this agreement, the University conveys to Barnes & Noble the right and obligation to provide bookstore services in the facility owned by the University, however, the University continues to maintain ownership of the facility at all times, including at the conclusion of the 10-year agreement.

Recent Accounting Pronouncements Adopted/Implemented:

GASB Statement No. 84, *Fiduciary Activities* - The provisions of this Statement were initially effective for periods beginning after December 15, 2018; however, GASB Statement No. 95, *Postponement of the Effective Dates of Certain Authoritative Guidance*, postponed the effective date by 12 months upon its issuance in May 2020. The objective of this Statement is to improve guidance regarding the identification of fiduciary activities for accounting and financial reporting purposes and how those activities should be reported. The adoption of this Standard did not have a material effect on the University's net position or changes in net position, however, it did result in the addition of the Statements of Fiduciary Net Position and the Statements of Changes in Fiduciary Net Position. In addition, the net position as of July 1, 2019 on the Statements of Changes in Fiduciary Net Position was restated to show the addition of the fiduciary fund net position.

GASB Statement No. 90, *Majority Equity Interests—an amendment of GASB Statements No. 14 and No. 61* - This statement requires majority equity interests in legally separate organizations, which meet the definition of an investment, to be measured at fair value using the equity method of accounting. The University has determined that it does not have any such investments.

GASB Statement No. 92, *Omnibus 2020* - This statement addresses the application of various previously issued statements and implementation guides. It is effective for periods beginning after June 15, 2021. Certain provisions are effective immediately and the University has implemented those provisions with no material impact to its financial statements. The University will implement the remainder of the provisions during its fiscal year ending June 30, 2022.

Implementation Guide – 2019–1, *Implementation Guidance Update – 2019* - This guide addresses the application of various previously issued statements and implementation guides. The University has implemented the provisions of this implementation guide with no material impact to its financial statements.

Implementation Guide – 2019–2, *Fiduciary Activities* - This guide provides clarification of certain requirements included in GASB Statement 84, *Fiduciary Activities*. The University has implemented the requirements of this guidance as part of adoption of GASB Statement 84, *Fiduciary Activities*.

Recent Accounting Pronouncements: As of June 30, 2021, the GASB has issued the following statements not yet implemented by the University.

GASB Statement No. 87, *Leases, issued June 2017* - The objective of this Statement is to better meet the information needs of financial statement users by improving accounting and financial reporting for leases by governments. This Statement increases the usefulness of governments' financial statements by requiring recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. It establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. Under this Statement, a lessee is required to recognize a lease liability and an intangible right-to-use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources, thereby enhancing the relevance and consistency of information about governments' leasing activities. The University's management has not yet determined the effect this statement will have on the University's financial statements.

(Continued)

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

GASB Statement No. 89, *Accounting for Interest Cost Incurred before the End of a Construction Period*, issued June 2018 - The objectives of this Statement are (1) to enhance the relevance and comparability of information about capital assets and the cost of borrowing for a reporting period and (2) to simplify accounting for interest cost incurred before the end of a construction period. The University's management has not yet determined the effect this statement will have on the University's financial statements.

GASB Statement No. 91, *Conduit Debt Obligations*, issued May 2019 - The provisions of this Statement were initially effective for reporting periods beginning after December 15, 2020; however, GASB Statement No. 95, *Postponement of the Effective Dates of Certain Authoritative Guidance*, postponed the effective date by 12 months upon its issuance in May 2020. The objectives of this Statement are to provide a single method of reporting conduit debt obligations by issuers and eliminate diversity in practice associated with (1) commitments extended by issuers, (2) arrangements associated with conduit debt obligations, and (3) related note disclosures. This Statement achieves those objectives by clarifying the existing definition of a conduit debt obligation; establishing that a conduit debt obligation is not a liability of the issuer; establishing standards for accounting and financial reporting of additional commitments and voluntary commitments extended by issuers and arrangements associated with conduit debt obligations; and improving required note disclosures. The University's management has not yet determined the effect this statement will have on the University's financial statements. The University will implement the requirements of this guide for its fiscal year ending June 30, 2023.

GASB Statement No. 92, *Omnibus 2020*, issued January 2020 - The objectives of this Statement are to enhance comparability in accounting and financial reporting and to improve the consistency of authoritative literature by addressing practice issues that have been identified during implementation and application of certain GASB Statements. This Statement addresses a variety of topics. The University's management has not yet determined the effect this statement will have on the University's financial statements. The University will implement the requirements of this guide for its fiscal year ending June 30, 2022.

GASB Statement No. 93, *Replacement of Interbank Offered Rates*, issued March 2020 - The objective of this Statement is to address those and other accounting and financial reporting implications that result from the replacement of an interbank offered rate (IBOR)—most notably, the London Interbank Offered Rate (LIBOR). As a result of global reference rate reform, LIBOR is expected to cease to exist in its current form at the end of 2021, prompting governments to amend or replace financial instruments for the purpose of replacing LIBOR with other reference rates, by either changing the reference rate or adding or changing fallback provisions related to the reference rate. The University's management has not yet determined the effect this statement will have on the University's financial statements. The University will implement the requirements of this guide for its fiscal year ending June 30, 2022.

(Continued)

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

GASB Statement No. 94, *Public-Private and Public-Public Partnerships and Availability Payment Arrangements*, issued March 2020 - The objective of this Statement is to improve financial reporting by addressing issues related to public-private and public-public partnership arrangements (PPPs). As used in this Statement, a PPP is an arrangement in which a government (the transferor) contracts with an operator (a governmental or nongovernmental entity) to provide public services by conveying control of the right to operate or use a nonfinancial asset, such as infrastructure or other capital asset (the underlying PPP asset), for a period of time in an exchange or exchange-like transaction. Some PPPs meet the definition of a service concession arrangement (SCA), which the Board defines in this Statement as a PPP in which (1) the operator collects and is compensated by fees from third parties; (2) the transferor determines or has the ability to modify or approve which services the operator is required to provide, to whom the operator is required to provide the services, and the prices or rates that can be charged for the services; and (3) the transferor is entitled to significant residual interest in the service utility of the underlying PPP asset at the end of the arrangement. The University's management has not yet determined the effect this statement will have on the University's financial statements. The University will implement the requirements of this guide for its fiscal year ending June 30, 2023.

GASB Statement No. 96, *Subscription-Based Information Technology Arrangements*, issued May 2020 - The objective of this Statement is to provide guidance on the accounting and financial reporting for subscription-based information technology arrangements (SBITAs) for government end users (governments). This Statement (1) defines a SBITA; (2) establishes that a SBITA results in a right-to-use subscription asset—an intangible asset—and a corresponding subscription liability; (3) provides the capitalization criteria for outlays other than subscription payments, including implementation costs of a SBITA; and (4) requires note disclosures regarding a SBITA. To the extent relevant, the standards for SBITAs are based on the standards established in Statement No. 87, Leases, as amended. The University's management has not yet determined the effect this statement will have on the University's financial statements. The University will implement the requirements of this guide for its fiscal year ending June 30, 2023.

GASB Statement No. 97, *Certain Component Unit Criteria, and Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans* – an amendment of GASB Statements No. 14 and No. 84, and a supersession of GASB Statement No. 32, issued June 2020 - The objectives of this Statement are to (1) increase consistency and comparability related to the reporting of fiduciary component units in circumstances in which a potential component unit does not have a governing board and the primary government performs the duties that a governing board typically would perform; (2) mitigate costs associated with the reporting of certain defined contribution pension plans, defined contribution other postemployment benefit (OPEB) plans, and employee benefit plans other than pension plans or OPEB plans (other employee benefit plans) as fiduciary component units in fiduciary fund financial statements; and (3) enhance the relevance, consistency, and comparability of the accounting and financial reporting for Internal Revenue Code (IRC) Section 457 deferred compensation plans (Section 457 plans) that meet the definition of a pension plan and for benefits provided through those plans. The University's management has not yet determined the effect this statement will have on the University's financial statements. The University will implement the requirements of this guide for its fiscal year ending June 30, 2022.

Implementation Guide – 2019–3, *Leases* - This guide provides clarification of certain requirements included in GASB Statement 87, Leases. It is effective for periods beginning after June 15, 2021. The University will implement the requirements of this guide for its fiscal year ending June 30, 2022.

(Continued)

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

Implementation Guide – 2020–1, Implementation Guidance Update – 2020 - This guide addresses the application of various previously issued statements and implementation guides. It is effective for periods beginning after June 15, 2021 and December 15, 2021. The University will implement the provisions in this guide for its fiscal years ending June 30, 2022 and June 30, 2023, as applicable.

NOTE 2 - ASSETS HELD IN TRUST

Assets held in trust as of June 30, 2021 and 2020 consisted of:

	<u>2021</u>	<u>2020</u>
Cash equivalents	\$ 445,047	\$ 195,159
Common equity, common fixed income and mutual funds	<u>17,710,342</u>	<u>19,009,760</u>
Fair value of assets held in trust	<u>\$ 18,155,389</u>	<u>\$ 19,204,919</u>

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

NOTE 3 - DEPOSITS AND INVESTMENTS

Cash

The carrying amount of cash and cash equivalents was \$124,255,127 and \$103,698,102 at June 30, 2021 and 2020, while the bank balances were \$136,465,422 and \$111,847,434 at June 30, 2021 and 2020. All account balances at banks were either insured by the Federal Deposit Insurance Corporation (FDIC) for \$250,000 or collateralized with securities of the U.S. Government or with letters of credit issued by the Federal Home Loan Bank held in the University’s name by financial institutions acting as the University’s agent.

Investments

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

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

The University has the following recurring fair value measurements as of June 30, 2021 and 2020:

- Assets held in trust of \$18,155,389 and \$19,204,919, respectively, which is valued at net asset value (NAV). There are no unfunded commitments and funds can be redeemed on a daily basis. The investment strategy is a long-term growth strategy and the underlying funds in the trust include cash, common stock, mutual funds, and fixed income securities.

(Continued)

WESTERN KENTUCKY UNIVERSITY
NOTES TO FINANCIAL STATEMENTS
June 30, 2021 and 2020

NOTE 3 - DEPOSITS AND INVESTMENTS (Continued)

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

Credit Risk: The University's general investment policy is to apply the prudent-person rule: Investments are made as a prudent person would be expected to act, with discretion and intelligence, to seek reasonable income, preserve capital, and, in general, avoid speculative investments. The University's investment policy allows investments in U.S. Agency securities if such obligations are rated at the time of purchase at one of the three highest classifications established by at least two standard rating services. The University did not have any investment in debt securities as of June 30, 2021 and 2020. Therefore, the University is not considered to have credit risk.

Custodial Credit Risk: For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the University will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The University's investment policy requires that all amounts in excess of any insurance limits be collateralized by securities eligible for University investment. The market value of the pledged securities shall equal or exceed the portion of the deposit requiring collateralization. The University is fully collateralized as of June 30, 2021 and 2020.

Of the University's cash balance as of June 30, 2021 and 2020, \$500,000 is secured by FDIC insurance, and \$101,358,313 and \$54,238,939, respectively, is collateralized by the pledging institution. Additionally, as of June 30, 2021 and 2020, \$34,607,109 and \$57,108,495 is held within various accounts with the Commonwealth of Kentucky.

Concentration of Credit Risk: The Commonwealth of Kentucky places no limit on the amount the University may invest in any one issuer. More than 90% percent of the University's investments are U.S. Treasury Obligations.

Investment income for the year ended June 30, 2021 and 2020 consisted of:

	<u>2021</u>	<u>2020</u>
Interest income, including interest earned on cash equivalents	\$ 518,531	\$ 1,317,198
Net change in fair value of investments and assets held in trust	<u>1,379,374</u>	<u>697,002</u>
	<u>\$ 1,897,905</u>	<u>\$ 2,014,200</u>

NOTE 4 - ACCOUNTS RECEIVABLE

Accounts receivable consist of the following as of June 30, 2021 and 2020:

	<u>2021</u>	<u>2020</u>
Tuition, fees, sales and services	\$ 14,599,411	\$ 12,401,701
Miscellaneous, other	<u>4,387,874</u>	<u>1,075,301</u>
	18,987,285	13,477,002
Less allowance for doubtful accounts	<u>(3,773,762)</u>	<u>(2,898,454)</u>
Accounts receivable, net	<u>\$ 15,213,523</u>	<u>\$ 10,578,548</u>

(Continued)

WESTERN KENTUCKY UNIVERSITY
NOTES TO FINANCIAL STATEMENTS
June 30, 2021 and 2020

NOTE 5 - CAPITAL ASSETS

Changes in capital assets for the year ended June 30, 2021 are summarized as follows:

	Balance July 1, 2020	Additions	Disposals	Transfers	Balance June 30, 2021
Non-depreciable capital assets:					
Land	\$ 14,962,881	\$ -	\$ -	\$ -	\$ 14,962,881
Construction in progress	<u>15,221,720</u>	<u>16,692,452</u>	<u>-</u>	<u>(836,941)</u>	<u>31,077,231</u>
	<u>30,184,601</u>	<u>16,692,452</u>	<u>-</u>	<u>(836,941)</u>	<u>46,040,112</u>
Depreciable capital assets:					
Buildings and improvements	630,466,373	-	-	565,844	631,032,217
Infrastructure	70,950,519	-	-	271,097	71,221,616
Furniture, fixtures, and equipment	92,555,820	817,505	(10,623,650)	-	82,749,675
Library materials	<u>63,828,613</u>	<u>2,685,368</u>	<u>(893,690)</u>	<u>-</u>	<u>65,620,291</u>
	<u>857,801,325</u>	<u>3,502,873</u>	<u>(11,517,340)</u>	<u>836,941</u>	<u>850,623,799</u>
Less accumulated depreciation:					
Buildings and improvements	278,576,203	19,174,728	-	-	297,750,931
Infrastructure	36,290,990	3,091,170	-	-	39,382,160
Furniture, fixtures, and equipment	73,247,831	3,956,978	(10,286,438)	-	66,918,371
Library materials	<u>49,959,290</u>	<u>2,825,124</u>	<u>(893,691)</u>	<u>-</u>	<u>51,890,723</u>
	<u>438,074,314</u>	<u>29,048,000</u>	<u>(11,180,129)</u>	<u>-</u>	<u>455,942,185</u>
Net capital assets	<u>\$ 449,911,612</u>	<u>\$ (8,852,675)</u>	<u>\$ (337,211)</u>	<u>\$ -</u>	<u>\$ 440,721,726</u>

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

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

(Continued)

WESTERN KENTUCKY UNIVERSITY
NOTES TO FINANCIAL STATEMENTS
June 30, 2021 and 2020

NOTE 5 - CAPITAL ASSETS (Continued)

A summary of construction in progress at June 30, 2021 and 2020 is as follows:

	<u>2021</u>	<u>2020</u>
WKU Commons - Helm	\$ 25,037,062	\$ 10,743,421
WKU Police Department improvements	1,205,126	-
Other projects under \$1,000,000	<u>4,835,043</u>	<u>4,478,299</u>
	<u>\$ 31,077,231</u>	<u>\$ 15,221,720</u>

Contractual commitments in connection with all projects totaled \$13,463,250 and \$22,338,128 at June 30, 2021 and 2020.

NOTE 6 - UNEARNED REVENUE

Unearned revenue consisted of the following items as of June 30, 2021 and 2020:

	<u>2021</u>	<u>2020</u>
Aramark capital contract	\$ 38,489,192	\$ 24,094,766
Summer school tuition and fees	4,405,550	4,513,365
Grants and contracts	4,060,236	4,920,664
Advance sale of football tickets	799,298	602,470
Vehicle parking permits	430,695	470,425
University master plan	187,125	150,625
Miscellaneous	<u>1,192,171</u>	<u>796,892</u>
Total unearned revenue	<u>\$ 49,564,267</u>	<u>\$ 35,549,207</u>

NOTE 7 - LONG-TERM OBLIGATIONS

The following is a summary of long-term obligation transactions for the University for the year ended June 30, 2021:

	<u>Balance</u> <u>July 1, 2020</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance</u> <u>June 30, 2021</u>	<u>Current</u> <u>Portion</u>
Capital lease obligations	\$ 13,601,590	\$ -	\$ (363,548)	\$ 13,238,042	\$ 399,214
General receipts bonds payable, net of discounts	115,128,983	-	(10,628,718)	104,500,265	10,963,718
Other long-term debt	2,490,031	-	(929,790)	1,560,241	926,675
Pledges payable, net of discount premiums	<u>15,406,280</u>	<u>-</u>	<u>(2,511,047)</u>	<u>12,895,233</u>	<u>2,536,047</u>
Total bonds, pledges, and capital leases	<u>\$ 146,626,884</u>	<u>\$ -</u>	<u>\$ (14,433,103)</u>	<u>\$ 132,193,781</u>	<u>\$ 14,825,654</u>

(Continued)

WESTERN KENTUCKY UNIVERSITY
NOTES TO FINANCIAL STATEMENTS
June 30, 2021 and 2020

NOTE 7 - LONG-TERM OBLIGATIONS (Continued)

The following is a summary of long-term obligation transactions for the University for the year ended June 30, 2020:

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

General Receipts Bonds Payable

Bonds payable as of June 30, 2021 and 2020, are composed of General Receipts Bonds, Series 2011A, 2012A, 2012B, 2013A, 2015A, 2016A, 2016B, and 2016C. The bonds mature in varying amounts through September 1, 2036, with interest payable at annual rates ranging from 2.00% to 5.00%. Buildings and revenues from student registration fees are pledged as collateral against the Consolidated Educational Buildings Revenue Bond payable, whereas general receipts of the University are pledged as collateral against the General Receipts Bonds payable.

The total bonds payable as of June 30, 2021 and 2020 were as follows:

	<u>2021</u>	<u>2020</u>
General Receipts Refunding Bonds, Series 2011A, dated November 15, 2011, with interest rates from 2.00% to 3.00%. Final payment date is May 1, 2023.	\$ 1,352,863	\$ 2,004,295
General Receipts Bonds, Series 2012A, dated June 6, 2012, with interest rates from 2.00% to 5.00%. Final principal payment date is May 1, 2032.	22,534,496	24,242,541
General Receipts Refunding Bonds, Series 2012B, dated June 6, 2012, with interest rates from 2.00% to 3.00%. Final principal payment date is May 1, 2023.	1,314,086	1,946,652
General Receipts Bonds, Series 2013A, dated October 29, 2013, with interest rates from 2.00% to 4.75%. Final principal payment date is September 1, 2033.	26,131,465	27,704,017
General Receipts Refunding Bonds, Series 2015A, dated October 13, 2015, with interest rates from 2.00% to 3.00%. Final principal payment date is September 1, 2026.	3,890,061	4,481,739

(Continued)

WESTERN KENTUCKY UNIVERSITY
 NOTES TO FINANCIAL STATEMENTS
 June 30, 2021 and 2020

NOTE 7 - LONG-TERM OBLIGATIONS (Continued)

	<u>2021</u>	<u>2020</u>
General Receipts Refunding Bonds, Series 2016A, dated March 17, 2016, with interest rates from 2.00% to 5.00%. Final principal payment date is September 1, 2026.	\$ 16,643,075	\$ 19,122,406
General Receipts Bonds, Series 2016B, dated October 25, 2016, with interest rates from 2.00% to 4.00%. Final principal payment date is September 1, 2036.	8,175,230	8,546,508
General Receipts Refunding Bonds, Series 2016C, dated October 25, 2016, with interest rates from 3.00% to 4.00%. Final principal payment date is September 1, 2028.	<u>24,458,989</u>	<u>27,080,825</u>
Total bonds payable	<u>\$ 104,500,265</u>	<u>\$ 115,128,983</u>

The debt service requirements for the bonds payable as of June 30, 2021 are as follows:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2022	\$ 10,195,000	\$ 3,716,166	\$ 13,911,166
2023	10,555,000	3,355,091	13,910,091
2024	9,570,000	2,968,616	12,538,616
2025	9,950,000	2,595,410	12,545,410
2026	10,345,000	2,203,079	12,548,079
2027-2031	35,860,000	5,988,688	41,848,688
2032-2036	12,345,000	1,000,813	13,345,813
2037	<u>620,000</u>	<u>12,400</u>	<u>632,400</u>
	99,440,000	21,840,263	121,280,263
Add: unamortized premiums, net of discounts	<u>5,060,265</u>	<u>-</u>	<u>5,060,265</u>
	<u>\$ 104,500,265</u>	<u>\$ 21,840,263</u>	<u>\$ 126,340,528</u>

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

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

(Continued)

WESTERN KENTUCKY UNIVERSITY
NOTES TO FINANCIAL STATEMENTS
June 30, 2021 and 2020

NOTE 7 - LONG-TERM OBLIGATIONS (Continued)

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

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

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

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

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

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

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

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

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

(Continued)

WESTERN KENTUCKY UNIVERSITY
NOTES TO FINANCIAL STATEMENTS
June 30, 2021 and 2020

NOTE 7 - LONG-TERM OBLIGATIONS (Continued)

Capital Lease Obligations

The University has acquired certain real property and equipment under various lease-purchase contracts and other capital lease agreements. The costs of University assets held under capital leases totaled \$18,232,681, net of accumulated depreciation of \$4,225,850 and \$3,758,648 at June 30, 2021 and 2020, respectively. The following is a schedule by year of future minimum lease payments under the capital leases including interest at rates of 2.23% to 6.42% together with the present value of the future minimum lease payments as of June 30, 2021:

Year ending June 30	Total to be Paid	Present Value of Future Minimum Lease Payments	Interest Portion
2022	\$ 1,019,112	\$ 399,214	\$ 619,898
2023	1,035,012	435,534	599,478
2024	1,049,912	472,551	577,361
2025	1,063,812	510,306	553,506
2026	1,026,122	497,070	529,052
2027-2031	4,726,939	2,423,367	2,303,572
2032-2036	4,770,234	3,035,000	1,735,234
2037-2041	5,234,625	4,385,000	849,625
2042	<u>1,107,000</u>	<u>1,080,000</u>	<u>27,000</u>
	<u>\$ 21,032,768</u>	<u>\$ 13,238,042</u>	<u>\$ 7,794,726</u>

Other Long-Term Debt

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

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

On July 27, 2012, the Board of Regents authorized the University to acquire 340 E. 14th Street (now Alumni Avenue). In connection with this property acquisition, the University agreed to make future payments to the WKU Real Estate Corporation. These payments represent the principal and interest payments of the present value of a Charitable Remainder Annuity Trust held by the WKU Real Estate Corporation, to which this property once belonged. The future payments consist of monthly installments of \$15,575 through June 30, 2026.

(Continued)

WESTERN KENTUCKY UNIVERSITY
 NOTES TO FINANCIAL STATEMENTS
 June 30, 2021 and 2020

NOTE 7 - LONG-TERM OBLIGATIONS (Continued)

Debt service requirements on the other long-term debt at June 30, 2021, were as follows:

Year ending June 30	<u>Total to be Paid</u>	<u>Principal</u>	<u>Interest</u>
2022	\$ 948,301	\$ 926,675	\$ 21,626
2023	596,548	590,441	6,107
2024	15,575	13,664	1,911
2025	15,575	14,363	1,212
2026	<u>15,575</u>	<u>15,098</u>	<u>477</u>
	<u>\$ 1,591,574</u>	<u>\$ 1,560,241</u>	<u>\$ 31,333</u>

Pledges Payable

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

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

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

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

(Continued)

WESTERN KENTUCKY UNIVERSITY
 NOTES TO FINANCIAL STATEMENTS
 June 30, 2021 and 2020

NOTE 7 - LONG-TERM OBLIGATIONS (Continued)

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

Year ending June 30	<u>Total to be Paid</u>	<u>Principal Series 2010</u>	<u>Interest Series 2010</u>
2022	\$ 3,005,705	\$ 2,525,000	\$ 480,705
2023	2,807,330	2,415,000	392,330
2024	2,822,975	2,520,000	302,975
2025	2,833,475	2,625,000	208,475
2026	<u>2,861,756</u>	<u>2,755,000</u>	<u>106,756</u>
	14,331,241	12,840,000	1,491,241
Add unaccrued premiums	<u>55,233</u>	<u>55,233</u>	<u>-</u>
	<u>\$ 14,386,474</u>	<u>\$ 12,895,233</u>	<u>\$ 1,491,241</u>

NOTE 8 - OPERATING LEASES

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

Future minimum lease payments at June 30, 2021, were:

2022	\$ 926,447
2023	919,375
2024	919,375
2025	958,575
2026	921,758
Thereafter through 2038	<u>18,033,535</u>
	<u>\$ 22,679,065</u>

Lease expense was \$927,090 and \$950,331 for the years ended June 30, 2021 and 2020.

(Continued)

NOTE 9 - DEFINED BENEFIT PENSION AND OTHER POSTEMPLOYMENT BENEFITS PLANS

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

Optional Retirement Plan

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

For the years ended June 30, 2021 and 2020, contribution rates for plan members and the University expressed as a percentage of covered payrolls were 6.16% and 8.74%, respectively. Of the University's 8.74% contribution, 0.00% is paid to Kentucky Teachers' Retirement System for unfunded liabilities.

Covered payroll totaled \$50,236,671 and \$51,311,780 for the years ended June 30, 2021 and 2020. The University's contributions to the Optional Retirement Program for the years ended June 30, 2021 and 2020 were \$4,390,689 and \$4,484,652, respectively. Employees' contributions to the Optional Retirement Program for the years ended June 30, 2021 and 2020 were \$3,094,580 and \$3,160,805, respectively.

Kentucky Employees Retirement System

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

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

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

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

WESTERN KENTUCKY UNIVERSITY
 NOTES TO FINANCIAL STATEMENTS
 June 30, 2021 and 2020

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

Kentucky Employees Retirement System (Continued)

Non-Hazardous

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

Hazardous

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

(Continued)

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

Kentucky Employees Retirement System (Continued)

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

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

Benefit Eligibility: Recipient of a retirement allowance

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

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

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

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

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

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

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

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

For the fiscal years ended June 30, 2021 and 2020, participating employers in the Nonhazardous plan contributed 49.47% (41.06% allocated to pension and 8.41% allocated to OPEB) as set by KRS, of each Nonhazardous employee's creditable compensation. For the fiscal years ended June 30, 2021 and 2020, participating employers in the Hazardous plan contributed 36.00% (36.00% allocated to pension and 0.00% allocated to OPEB) as set by KRS, respectively, of each Hazardous employee's creditable compensation. These percentages are inclusive of both pension and insurance payments for employers. Administrative costs of KRS are financed through employer contributions and investments earnings.

(Continued)

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

Kentucky Employees Retirement System (Continued)

The University has met 100% of the contribution funding requirement for the fiscal years ended June 30, 2021 and 2020. Total contributions by the Plan were \$7,428,138 (\$6,235,212 related to pension and \$1,192,925 related to OPEB) and \$8,172,348 (\$6,826,979 related to pension and \$1,345,369 related to OPEB) for the years ended June 30, 2021 and 2020, respectively. The OPEB contributions amount does not include the implicit subsidy of \$429,909 and \$311,410 for the fiscal years ended June 30, 2021 and 2020, respectively. In addition, the University contributed \$1,011,750 (\$839,750 related to pension and \$172,000 related to OPEB) to the Plan related to a voluntary separation program for the fiscal year ended June 30, 2021. This amount was accrued as of June 30, 2021 and included as deferred outflows of resources.

Members whose participation began before 9/1/2008:

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

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

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

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

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

Pension Information

Total Pension Liability: The total pension liability ("TPL") was measured as of June 30, 2020 and 2019, using the following actuarial assumptions, applied to all periods included in the measurement:

June 30, 2020:

Valuation date	June 30, 2019
Actuarial cost method	Entry Age Normal
Amortization method	Level percent of pay
Price inflation	2.30 percent
Salary increases	3.55 to 15.55 percent (Non-hazardous) and 3.55 to 19.55 (Hazardous), varies by service
Amortization period	26 years, closed
Investment rate of return	5.25 percent (Non-hazardous) and 6.25 percent (Hazardous)

(Continued)

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

Kentucky Employees Retirement System (Continued)

June 30, 2019:

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

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 2020. 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).
- (b) Projected Cash Flows: The projection of cash flows used to determine the discount rate assumed the local employers and plan members would contribute the statutorily determined contribution rate of projected compensation over the remaining 25-year amortization period of the unfunded actuarial accrued liability. The actuarial determined contribution rate is adjusted to reflect the phase in of anticipated gains on actuarial value of assets over the first four years of the projection period.
- (c) Long-Term Rate of Return: The long-term expected rate of return was determined by using a building-block method in which best-estimate ranges of expected future real rate of returns are developed for each asset class. The ranges are combined by weighting the expected future real rate of return by the target asset allocation percentage.
- (d) Municipal Bond Rate: The discount rate determination does not use a municipal bond rate.
- (e) Periods of Projected Benefit Payments: The long-term assumed rate of return was applied to all periods of projected benefit payments to determine the total pension liability.

(Continued)

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

Kentucky Employees Retirement System (Continued)

- (f) Assumed Asset Allocation: The long-term expected rate of return was determined by using a building-block method in which best-estimate ranges of expected future real rate of returns are developed for each asset class. The ranges are combined by weighting the expected future real rate of return by the target asset allocation percentage. The target asset allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

2020 Non-hazardous

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
Growth		
US Equity	15.75%	4.50%
Non-US Equity	15.75%	5.25%
Private Equity	7.00%	5.15%
Specialty Credit/High Yield	15.00%	3.90%
Liquidity		
Core Bonds	20.50%	-0.25%
Cash	3.00%	-0.75%
Diversifying Strategies		
Real Estate	5.00%	5.30%
Opportunistic/Absolute Return	3.00%	2.25%
Real Return	<u>15.00%</u>	3.95%
Total	<u>100.00%</u>	

2019 Non-hazardous

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

(Continued)

WESTERN KENTUCKY UNIVERSITY
NOTES TO FINANCIAL STATEMENTS
June 30, 2021 and 2020

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

Kentucky Employees Retirement System (Continued)

2020 Hazardous

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
Growth		
US Equity	18.75%	4.50%
Non-US Equity	18.75%	5.25%
Private Equity	10.00%	6.65%
Specialty Credit/High Yield	15.00%	3.90%
Liquidity		
Core Bonds	13.50%	-0.25%
Cash	1.00%	-0.75%
Diversifying Strategies		
Real Estate	5.00%	5.30%
Opportunistic/Absolute Return	3.00%	2.25%
Real Return	<u>15.00%</u>	3.95%
Total	<u>100.00%</u>	

2019 Hazardous

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

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

(Continued)

WESTERN KENTUCKY UNIVERSITY
 NOTES TO FINANCIAL STATEMENTS
 June 30, 2021 and 2020

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

Kentucky Employees Retirement System (Continued)

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

2020

	1% Decrease (4.25%)	Current Discount Rate (5.25%)	1% Increase (6.25%)
The University's net pension liability - Non-hazardous	\$ 176,087,488	\$ 153,738,894	\$ 135,372,584

2019

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

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

2020

	1% Decrease (5.25%)	Current Discount Rate (6.25%)	1% Increase (7.25%)
The University's net pension liability – Hazardous	\$ 4,352,883	\$ 3,401,722	\$ 2,627,424

2019

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

(Continued)

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

Kentucky Employees Retirement System (Continued)

Employer's Portion of the Collective Net Pension Liability: The University's proportionate share of the Non-hazardous net pension liability at June 30, 2021 and 2020 is \$153,738,894, or approximately 1.085%, and, \$159,267,355, or approximately 1.128% respectively. The University's proportionate share of the Hazardous net pension liability at June 30, 2021 and 2020 is \$3,401,722, or approximately 0.607%, and \$3,794,750, or approximately 0.695%, respectively. The net pension liabilities were distributed based on the employers' covered payroll provided for the measurement period ending June 30, 2020 and actual employer contributions to the plan for the measurement period ending June 30, 2019.

Measurement Date: June 30, 2019 and 2018 are the actuarial valuation dates and June 30, 2020 and 2019 are the measurement dates upon which the total pension liability is based.

Changes in Assumptions and Benefit Terms: There have been no assumption changes since June 30, 2019. House Bill 1, which passed during the 2019 special legislative session, allows certain employers in the KERS non-hazardous plan to elect to cease participating in the system as of June 30, 2020. Senate Bill 249 passed during the 2020 Legislative Session and delayed the effective date of cessation under these provisions to June 30, 2021. Since employer's elections were unknown at the time of the actuarial valuations, no adjustments were made to the Total Pension Liability to reflect this legislation.

Senate Bill 249 also changed the funding period for the amortization of the unfunded liability to 30 years as of June 30, 2019. Gains and losses incurred in future years will be amortized over separate 20-year amortization bases. This change did not impact the calculation of Total Pension Liability and only impacts the calculation of the contribution rates payable starting July 1, 2020. Additionally, House Bill 271 passed during the 2020 Legislative Session and removed provisions that reduce the monthly payment to a surviving spouse of a member whose death was due to a duty-related injury upon remarriage of the spouse. It also increased benefits for a very small number of beneficiaries. This did not have a material (or measurable) impact on the liability of the plans and therefore, we did not make any adjustment to the Total Pension Liability to reflect this legislation. There were no other material plan provision changes.

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

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

Pension Expense: The University was allocated pension expense of \$(351,105) and \$3,995,600 related to the KERS Non-Hazardous and \$382,637 and \$796,056 related to the KERS Hazardous for the years ending June 30, 2021 and 2020.

(Continued)

WESTERN KENTUCKY UNIVERSITY
NOTES TO FINANCIAL STATEMENTS
June 30, 2021 and 2020

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

Kentucky Employees Retirement System (Continued)

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

<u>2020 Non-hazardous</u>	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between expected and actual experience	\$ 873,383	\$ -
Change of assumptions	1,731,872	-
Changes in proportion and differences between employer contributions and proportionate shares of contributions	-	10,172,417
Net differences between expected and actual investment earning on plan investments	<u>158,090</u>	<u>-</u>
	2,763,345	
Contributions subsequent to the measurement date	<u>6,663,951</u>	<u>-</u>
Total	<u>\$ 9,427,296</u>	<u>\$ 10,172,417</u>

<u>2019 Non-hazardous</u>	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between expected and actual experience	\$ 941,983	\$ -
Change of assumptions	4,849,342	-
Changes in proportion and differences between employer contributions and proportionate shares of contributions	-	14,052,499
Net differences between expected and actual investment earning on plan investments	<u>-</u>	<u>324,526</u>
	5,791,325	14,377,025
Contributions subsequent to the measurement date	<u>6,429,738</u>	<u>-</u>
Total	<u>\$ 12,221,063</u>	<u>\$ 14,377,025</u>

(Continued)

WESTERN KENTUCKY UNIVERSITY
NOTES TO FINANCIAL STATEMENTS
June 30, 2021 and 2020

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

Kentucky Employees Retirement System (Continued)

Deferred outflows of resources resulting from employer contributions subsequent to the measurement date of \$6,663,951 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:	
2022	\$ (6,751,956)
2023	(931,966)
2024	133,007
2025	<u>141,843</u>
	<u>\$ (7,409,072)</u>

2020 Hazardous

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Difference between expected and actual experience	\$ 6,037	\$ 3,665
Change of assumptions	97,556	-
Changes in proportion and differences between employer contributions and proportionate shares of contributions	93,519	242,315
Net differences between expected and actual investment earning on plan investments	<u>116,365</u>	<u>-</u>
	313,477	245,980
Contributions subsequent to the measurement date	<u>411,011</u>	<u>-</u>
Total	<u>\$ 724,488</u>	<u>\$ 245,980</u>

2019 Hazardous

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

(Continued)

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

Kentucky Employees Retirement System (Continued)

Deferred outflows of resources resulting from employer contributions subsequent to the measurement date of \$411,011 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:		
2022	\$	(9,635)
2023		(14,774)
2024		48,338
2025		<u>43,568</u>
	<u>\$</u>	<u>67,497</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 measured as of June 30, 2020 and 2019, using the following actuarial assumptions, applied to all periods included in the measurement:

June 30, 2020:

Actuarial valuation date	June 30, 2019
Price inflation	2.30 percent
Payroll growth rate	0.00 percent
Salary increases	3.30 to 15.30 percent (Non-hazardous) and 3.55 to 19.55 percent (Hazardous), varies by service
Investment rate of return	6.25 percent
Healthcare trend rates:	
Pre-65	Initial trend starting at 6.40 percent at January 1, 2022 and gradually decreasing to an ultimate trend rate of 4.05 percent over a period of 14 years.
Post-65	Initial trend starting at 2.90 percent at January 1, 2023 and gradually increasing to an ultimate trend rate of 4.05 percent over a period of 14 years.

(Continued)

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

Kentucky Employees Retirement System (Continued)

June 30, 2019:

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

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:

- 1) Discount Rate: The discount rate used to measure the total Non-hazardous OPEB liability was 5.43%, which was decreased from the 5.73% discount rate used in the prior year. The discount rate used to measure the total Hazardous OPEB liability was 5.28%, which was decreased from the 5.66% discount rate used in the prior year. Based on the stated assumptions and the projection of cash flows as of each fiscal year ending, the plan's fiduciary net position and future contributions were projected to be sufficient to finance the future benefit payments of the current plan members. Therefore, the long-term expected rate of return on insurance plan investments was applied to all periods of the projected benefit payments paid from the retirement system. However, the cost associated with the implicit employer subsidy is not currently being included in the calculation of the actuarial determined contributions, and any cost associated with the implicit subsidy will not be paid out of the trust. Therefore, the municipal bond rate was applied to future expected benefit payments associated with the implicit subsidy.
- 2) Projected Cash Flows: The projection of cash flows used to determine the discount rate assumed the local employers and plan members would contribute the actuarially determined contribution rate of projected compensation over the remaining 26-year amortization period of the unfunded actuarial accrued liability.

(Continued)

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

Kentucky Employees Retirement System (Continued)

- 3) Long-Term Rate of Return: The long-term expected rate of return was determined by using a building-block method in which best-estimate ranges of expected future real rate of returns are developed for each asset class. The ranges are combined by weighting the expected future real rate of return by the target asset allocation percentage.
- 4) Municipal Bond Rate: The discount rate determination used a municipal bond rate of 2.45% as reported in Fidelity Index's "20-Year Municipal GO AA Index" as of June 30, 2020, which was decreased from the 3.13% municipal bond rate used in the prior year.
- 5) Period of Projected Benefit Payments: Current assets, future contributions, and investment earnings are projected to be sufficient to pay the projected benefit payments from the retirement system. However, the cost associated with the implicit employer subsidy is not currently being included in the calculation of the system's actuarial determined contributions, and it is the actuary's understanding that any cost associated with the implicit subsidy will not be paid out of the system's trust. Therefore, the municipal bond rate was applied to future expected benefit payments associated with the implicit subsidy.
- 6) Assumed Asset Allocations: The long-term expected rate of return was determined by using a building-block method in which best-estimate ranges of expected future real rate of returns are developed for each asset class. The ranges are combined by weighting the expected future real rate of return by the target asset allocation percentage. The target asset allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

<u>2020 Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
Growth		
US Equity	18.75%	4.50%
Non-US Equity	18.75%	5.25%
Private Equity	10.00%	6.65%
Specialty Credit/High Yield	15.00%	3.90%
Liquidity		
Core Bonds	13.50%	-0.25%
Cash	1.00%	-0.75%
Diversifying Strategies		
Real Estate	5.00%	5.30%
Opportunistic/Absolute Return	3.00%	2.25%
Real Return	<u>15.00%</u>	3.95%
Total	<u>100.00%</u>	

(Continued)

WESTERN KENTUCKY UNIVERSITY
NOTES TO FINANCIAL STATEMENTS
June 30, 2021 and 2020

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

Kentucky Employees Retirement System (Continued)

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

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 of 5.43 percent, as well as what the University's allocated portion of the System's net OPEB liability would be if it were calculated using a discount rate that is 1-percentage-point lower (4.43 percent) or 1-percentage-point higher (6.43 percent) than the current rate for Non-hazardous:

2020

	1% Decrease (4.43%)	Current Discount Rate (5.43%)	1% Increase (6.43%)
The University's Net OPEB liability – Non-hazardous	\$ 32,844,414	\$ 27,556,546	\$ 23,216,293

2019

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

(Continued)

WESTERN KENTUCKY UNIVERSITY
 NOTES TO FINANCIAL STATEMENTS
 June 30, 2021 and 2020

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

Kentucky Employees Retirement System (Continued)

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

<u>2020</u>			
	<u>1% Decrease</u>	<u>Current Healthcare Cost Trend Rate</u>	<u>1% Increase</u>
The University's Net OPEB liability – Non-hazardous	\$ 23,193,422	\$ 27,556,546	\$ 32,841,336
<u>2019</u>			
	<u>1% Decrease</u>	<u>Current Healthcare Cost Trend Rate</u>	<u>1% Increase</u>
The University's Net OPEB liability – Non-hazardous	\$ 21,296,916	\$ 25,067,955	\$ 29,629,631

Hazardous

The following presents The University's allocated portion of the Hazardous net OPEB liability of the System, calculated using the discount rate of 5.28% percent, as well as what the University's allocated portion of the System's net OPEB liability would be if it were calculated using a discount rate that is 1-percentage-point lower (4.28 percent) or 1-percentage-point higher (6.28 percent) than the current rate for Hazardous:

<u>2020</u>			
	<u>1% Decrease (4.28%)</u>	<u>Current Discount Rate (5.28%)</u>	<u>1% Increase (6.28%)</u>
The University's Net OPEB liability – Hazardous	\$ 765,296	\$ 259,429	\$ (147,580)
<u>2019</u>			
	<u>1% Decrease (4.66%)</u>	<u>Current Discount Rate (5.66%)</u>	<u>1% Increase (6.66%)</u>
The University's Net OPEB liability – Hazardous	\$ 312,637	\$ (186,107)	\$ (589,618)

(Continued)

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

Kentucky Employees Retirement System (Continued)

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

<u>2020</u>	<u>1% Decrease</u>	<u>Current Healthcare Cost Trend Rate</u>	<u>1% Increase</u>
The University's Net OPEB liability – Hazardous	\$ (121,571)	\$ 259,429	\$ 725,929
<u>2019</u>	<u>1% Decrease</u>	<u>Current Healthcare Cost Trend Rate</u>	<u>1% Increase</u>
The University's Net OPEB liability – Hazardous	\$ (541,432)	\$ (186,107)	\$ 246,258

Employer's Portion of the Collective OPEB Liability: The University's proportionate share of the Non-hazardous net OPEB liability at June 30, 2021 and 2020 is \$27,556,546, or approximately 1.085%, and \$25,067,955, or approximately 1.128%, respectively. The University's proportionate share of the Hazardous net OPEB (asset) liability at June 30, 2021 and 2020 is \$259,429, or approximately 0.607% and \$(186,107), or approximately 0.693%, respectively. The net OPEB liabilities were distributed based on the 2020 and 2019 actual employer contributions to the plan.

Measurement Date: June 30, 2020 and 2019 is the measurement date upon which the total OPEB liability is based.

Changes in Assumptions and Benefit Terms: For the fiscal year ended June 30, 2021, the assumed increase in future health care costs was reviewed during the June 30, 2019 valuation process and was updated to better reflect more current expectations relating to anticipated future increase in the medical costs. The June 30, 2020 actuarial information reflects the anticipated savings from the repeal of the "Cadillac Tax" and "Health Insurer Fee", which occurred in December of 2019. The assumed load on pre-Medicare premiums to reflect the cost of the Cadillac Tax was removed and the Medicare premiums were reduced by 11 percent to reflect the repeal of the Health Insurer Fee. 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 KERS nonhazardous plan to elect to cease participating in the system as of June 30, 2020. Senate Bill 249 passed during the 2020 Legislative Session and delayed the effective date of cessation under these provisions to June 30, 2021. Since employer's elections were unknown at the time of the actuarial valuations, no adjustments were made to the Total OPEB Liability to reflect this legislation.

(Continued)

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

Kentucky Employees Retirement System (Continued)

Senate Bill 249 also changed the funding period for the amortization of the unfunded liability to 30 years as of June 30, 2019. Gains and losses incurred in future years will be amortized over separate 20-year amortization bases. This change did not impact the calculation of Total OPEB Liability and only impacts the calculation of the contribution rates payable starting July 1, 2020. 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 nonhazardous 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 nonhazardous 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. There were no other material plan provision changes.

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 \$1,424,594 and \$1,095,877 related to the KERS Non-Hazardous and \$132,343 and \$55,362 related to the KERS Hazardous for the years ending June 30, 2021 and 2020, respectively.

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

2020 Non-hazardous

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Difference between expected and actual experience	\$ 2,280,609	\$ 2,736,585
Change of assumptions	2,016,994	47,886
Changes in proportion and differences between employer contributions and proportionate shares of contributions	-	3,732,889
Net differences between expected and actual investment earning on plan investments	<u>384,676</u>	<u>-</u>
	4,682,280	6,517,360
Contributions subsequent to the measurement date	<u>1,779,690</u>	<u>-</u>
Total	<u>\$ 6,461,970</u>	<u>\$ 6,517,360</u>

(Continued)

WESTERN KENTUCKY UNIVERSITY
NOTES TO FINANCIAL STATEMENTS
June 30, 2021 and 2020

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

Kentucky Employees Retirement System (Continued)

2019 Non-hazardous

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

Deferred outflows of resources resulting from employer contributions subsequent to the measurement date of \$1,779,690 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:	
2022	\$ (423,334)
2023	(1,116,577)
2024	(408,162)
2025	<u>112,992</u>
	<u>\$ (1,835,081)</u>

2020 Hazardous

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Difference between expected and actual experience	\$ 131,097	\$ 229,943
Change of assumptions	382,483	1,857
Changes in proportion and differences between employer contributions and proportionate shares of contributions	17,621	36,741
Net differences between expected and actual investment earning on plan investments	<u>106,080</u>	<u>-</u>
	637,281	268,541
Contributions subsequent to the measurement date	<u>15,144</u>	<u>-</u>
Total	<u>\$ 652,425</u>	<u>\$ 268,541</u>

(Continued)

WESTERN KENTUCKY UNIVERSITY
NOTES TO FINANCIAL STATEMENTS
June 30, 2021 and 2020

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

Kentucky Employees Retirement System (Continued)

2019 Hazardous

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

Deferred outflows of resources resulting from employer contributions subsequent to the measurement date of \$15,144 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:	
2022	\$ 97,790
2023	130,543
2024	86,280
2025	55,377
2026	<u>(1,250)</u>
	<u>\$ 368,740</u>

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

(Continued)

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

Kentucky Teachers' Retirement System

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

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

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

Pension Plan Information

Pension Benefits Provided: The information on the following page 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.

(Continued)

WESTERN KENTUCKY UNIVERSITY
 NOTES TO FINANCIAL STATEMENTS
 June 30, 2021 and 2020

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

Kentucky Teachers' Retirement System

	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)

WESTERN KENTUCKY UNIVERSITY
 NOTES TO FINANCIAL STATEMENTS
 June 30, 2021 and 2020

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

Kentucky Teachers' Retirement System (Continued)

Contributions: Benefit and contribution rates are established by state statute. Per Kentucky Revised Statutes 161.540, 161.550, and 161.565, contribution requirements of the active employees and the participating organizations are established and may be amended by the KTRS Board. For the fiscal year ended June 30, 2021 and 2020, University employees were required to contribute 8.185% of their annual covered salary for retirement benefits. The University was contractually required to contribute 15.865% (14.030% allocated to pension, 1.775% allocated to medical insurance and 0.06% allocated to life insurance) of covered payroll for the fiscal years ended June 30, 2021 and 2020. 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, 2021 and 2020. Total contributions by the Plan were \$7,008,747 (\$5,909,067 related to pension and \$1,099,680 related to OPEB) and \$7,414,307 (\$6,247,531 related to pension and \$1,166,776 related to OPEB) for the years ended June 30, 2021 and 2020, respectively. In addition, the Commonwealth of Kentucky contributes ad hoc annual cost of living adjustments provided by the General Assembly for KTRS retirees. This contribution totaled \$6,571,387 and \$7,086,818 for the years ending June 30, 2021 and 2020. In addition, the University contributed \$4,878,808 (\$4,006,988 related to pension and \$871,820 related to OPEB) to the Plan related to a voluntary separation program for the fiscal year ended June 30, 2021. This amount was accrued as of June 30, 2021 and included as deferred outflows of resources.

Pension liabilities, pension expense, and deferred outflows of resources and deferred inflows of resources related to pensions: At June 30, 2021 and 2020, 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>2021</u>	<u>2020</u>
University's proportionate share of the net pension liability	\$ 79,922,679	\$ 79,900,958
Commonwealth of Kentucky's proportionate share of the net pension liability associated with the University	<u>84,053,378</u>	<u>86,580,480</u>
	<u>\$ 163,976,057</u>	<u>\$ 166,481,438</u>

The net pension liability was measured as of June 30, 2020 and 2019. 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, 2021 and 2020 University's proportion was 0.539% and 0.559%, respectively, and the Commonwealth of Kentucky's proportion associated with the University was 0.567% and 0.606%, respectively.

(Continued)

WESTERN KENTUCKY UNIVERSITY
NOTES TO FINANCIAL STATEMENTS
June 30, 2021 and 2020

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

Kentucky Teachers' Retirement System (Continued)

For the years ended June 30, 2021 and 2020, the University recognized pension expense of \$(57,042,958) and \$(54,183,643), and revenue of \$(9,720,781) and \$(8,614,238), respectively. At June 30, 2021 and 2020, the University reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

<u>2021</u>	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual experience	\$ (952,651)	\$ 2,617,687
Change in assumptions	2,083,191	23,004,974
Net difference between projected and actual earnings on investments	738,125	-
Changes in proportionate share of contributions	<u>1,974,749</u>	<u>35,786,274</u>
	3,843,414	61,408,935
Contributions subsequent to the measurement date	<u>9,916,055</u>	<u>-</u>
	<u>\$ 13,759,469</u>	<u>\$ 61,408,935</u>
<u>2020</u>	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual experience	\$ 238,202	\$ 5,097,468
Change in assumptions	6,771,679	42,546,445
Net difference between projected and actual earnings on investments	-	670,264
Changes in proportionate share of contributions	<u>3,840,385</u>	<u>73,693,954</u>
	10,850,266	122,008,131
Contributions subsequent to the measurement date	<u>6,247,531</u>	<u>-</u>
	<u>\$ 17,097,797</u>	<u>\$ 122,008,131</u>

At June 30, 2021, the University reported \$9,916,055 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:	
2022	\$ (44,752,454)
2023	(14,284,822)
2024	546,082
2025	<u>925,673</u>
	<u>\$ (57,565,521)</u>

(Continued)

WESTERN KENTUCKY UNIVERSITY
NOTES TO FINANCIAL STATEMENTS
June 30, 2021 and 2020

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

Kentucky Teachers' Retirement System (Continued)

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

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

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

The actuarial assumptions used in the June 30, 2019 and 2018 valuations were based on the results of an actuarial experience study for the period July 1, 2010 - June 30, 2015 adopted by the Board on November 19, 2016.

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

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

<u>2020 Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Nominal Rate of Return</u>
U.S. Equity	40.0%	4.6%
International Equity	22.0%	5.6%
Fixed Income	15.0%	0.0%
Additional Categories*	7.0%	2.5%
Real Estate	7.0%	4.3%
Private Equity	7.0%	7.7%
Cash	<u>2.0%</u>	-0.5%
Total	<u>100.0%</u>	

<u>2019 Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Nominal Rate of Return</u>
U.S. Equity	40.0%	4.2%
International Equity	22.0%	5.2%
Fixed Income	15.0%	1.2%
Additional Categories*	8.0%	3.3%
Real Estate	6.0%	3.8%
Private Equity	7.0%	6.3%
Cash	<u>2.0%</u>	0.9%
Total	<u>100.0%</u>	

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

(Continued)

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

Kentucky Teachers' Retirement System (Continued)

Changes in Assumptions and Benefit Terms Since Prior Measurement Date: There were no changes since the prior measurement date.

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

Discount rate: The discount rate used to measure the total pension liability at June 30, 2020 and 2019 was 7.50%. The projection of cash flows used to determine the discount rate assumed that plan member contributions will be made at the current contribution rates and the Employer contributions will contribute the Actuarially Determined Contribution (ADC) in accordance with the LIF's funding policy determined by a valuation performed on a date two years prior to the beginning of the fiscal year in which the ADC applies.

Based on those assumptions, the pension plan's fiduciary net position 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.

Sensitivity of the University's proportionate share of the net pension liability to changes in the discount rate: The following table presents the net pension liability of the University as of June 30, 2021, calculated using the discount rate of 7.50%, as well as what the University's net pension liability (in thousands) would be if it were calculated using a discount rate that is 1-percentage-point lower (6.50%) or 1-percentage-point higher (8.50%) than the current rate:

<u>2021</u>	1% Decrease (<u>6.50%</u>)	Current Discount Rate (<u>7.50%</u>)	1% Increase (<u>8.50%</u>)
Proportionate share of the Collective Net Pension Liability (<i>in thousands</i>)	\$ 101,797,672	\$ 79,922,679	\$ 61,715,423
<u>2020</u>	1% Decrease (<u>6.50%</u>)	Current Discount Rate (<u>7.50%</u>)	1% Increase (<u>8.50%</u>)
Proportionate share of the Collective Net Pension Liability (<i>in thousands</i>)	\$ 101,949,442	\$ 79,900,958	\$ 61,241,808

(Continued)

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

Kentucky Teachers' Retirement System (Continued)

Medical Insurance Plan

Plan Description: In addition to the OPEB benefits previously described, Kentucky Revised Statute 161.675 requires KTRS to provide post-employment healthcare benefits to eligible members and dependents. The KTRS Medical Insurance benefit is a cost-sharing multiple employer defined benefit plan with a special funding situation. Changes made to the medical plan may be made by the KTRS Board of Trustees, the Kentucky Department of Employee Insurance and the General Assembly.

Benefits Provided: To be eligible for medical benefits, the member must have retired either for service or disability. The KTRS Medical Insurance Fund offers coverage to members under the age of 65 through the Kentucky Employees Health Plan administered by the Kentucky Department of Employee Insurance. KTRS retired members are given a supplement to be used for payment of their health insurance premium. The amount of the member's supplement is based on a contribution supplement table approved by the KTRS Board of Trustees. The retired member pays premiums in excess of the monthly supplement. Once retired members and eligible spouses attain age 65 and are Medicare eligible, coverage is obtained through the KTRS Medicare Eligible Health Plan.

Contributions: In order to fund the post-retirement healthcare benefit, seven and one-half percent (7.50%) of the gross annual payroll of members is contributed. Three 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.

OPEB Liabilities, OPEB Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEBs: At June 30, 2021 and 2020, the University reported a liability of \$16,343,000 and \$20,219,000, respectively, for its proportionate share of the collective net OPEB liability that reflected a reduction for state OPEB support provided to the University. The collective net OPEB liability was measured as of June 30, 2020, and the total OPEB liability used to calculate the collective net OPEB liability was based on a projection of the University's long-term share of contributions to the OPEB plan relative to the projected contributions of all participating employers, actuarially determined. At June 30, 2020 and 2019, the University's proportion was 0.648% and 0.691%, respectively.

The amount recognized by the University as its proportionate share of the OPEB liability, the related State support, and the total portion of the net OPEB liability at June 30, 2021 and 2020 that was associated with the University were as follows:

	<u>2021</u>	<u>2020</u>
University's proportionate share of the net OPEB liability	\$ 16,343,000	\$ 20,219,000
State's proportionate share of the net OPEB liability associated with the University	<u>7,205,000</u>	<u>9,019,000</u>
Total	<u>\$ 23,548,000</u>	<u>\$ 29,238,000</u>

(Continued)

WESTERN KENTUCKY UNIVERSITY
NOTES TO FINANCIAL STATEMENTS
June 30, 2021 and 2020

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

Kentucky Teachers' Retirement System (Continued)

For the years ended June 30, 2021 and 2020, the University recognized OPEB expense of \$(26,000) and \$727,000, and revenue of \$740,000 and \$512,000, respectively, for support provided by the State. At June 30, 2021, the University reported deferred outflows of resources and deferred inflows of resources related to OPEBs from the following sources:

2021

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Difference between expected and actual experience	\$ -	\$ 6,967,000
Changes of assumptions	991,000	-
Net difference between projected and actual earnings on OPEB plan investments	532,000	-
Changes in proportion and differences between University contributions and proportionate share of contributions	<u>-</u>	<u>3,328,000</u>
	1,523,000	10,295,000
University contributions subsequent to the measurement date	<u>1,926,543</u>	<u>-</u>
Total	<u>\$ 3,449,543</u>	<u>\$ 10,295,000</u>

2020

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

(Continued)

WESTERN KENTUCKY UNIVERSITY
 NOTES TO FINANCIAL STATEMENTS
 June 30, 2021 and 2020

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

Kentucky Teachers' Retirement System (Continued)

Of the total amount reported as deferred outflows of resources related to OPEB, \$1,926,543 resulting from University contributions subsequent to the measurement date and before the end of the fiscal year will be included as a reduction of the collective net OPEB liability in the year ended June 30, 2020. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized in the University's OPEB expense as follows:

Year ended June 30:	
2022	\$(1,831,000)
2023	(1,790,000)
2024	(1,798,000)
2025	(1,566,000)
2026	(1,291,000)
Thereafter	<u>(496,000)</u>
	<u>\$(8,772,000)</u>

Actuarial Assumptions: The total OPEB liability measured at June 30, 2020 and 2019 were determined using the following actuarial assumptions, applied to all periods included in the measurement:

June 30, 2020:

Actuarial valuation date	June 30, 2019
Actuarial cost method	Entry Age Normal
Amortization method	Level Percent of Payroll
Amortization period	21 years
Asset valuation method	Five-year smoothed value
Investment rate of return	8.00%, net of OPEB plan investment expense, including inflation.
Salary increases	3.50 – 7.20%, including inflation
Inflation rate	3.00%
Real Wage Growth	0.50%
Wage Inflation	3.50%
Healthcare cost trend rates:	
Under 65	7.25% for FYE 2020 decreasing to an ultimate rate of 5.00% by FYE 2029
Ages 65 and Older	5.25% for FYE 2020 decreasing to an ultimate rate of 5.00% by FYE 2022
Medicare Part B Premiums	6.49% for FYE 2020 with an ultimate rate of 5.00% by 2031
Municipal Bond Index Rate	2.19 %
Single Equivalent Interest Rate	8.00%, net of OPEB plan investment expense, including inflation.

(Continued)

WESTERN KENTUCKY UNIVERSITY
 NOTES TO FINANCIAL STATEMENTS
 June 30, 2021 and 2020

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

Kentucky Teachers' Retirement System (Continued)

June 30, 2019:

Actuarial valuation date	June 30, 2018
Actuarial cost method	Entry Age Normal
Amortization method	Level Percent of Payroll
Amortization period	22 years
Asset valuation method	Five-year smoothed value
Investment rate of return	8.00%, net of OPEB plan investment expense, including inflation.
Salary increases	3.50 – 7.20%, including inflation
Inflation rate	3.00%
Real Wage Growth	0.50%
Wage Inflation	3.50%
Healthcare cost trend rates:	
Under 65	7.50% for FYE 2019 decreasing to an ultimate rate of 5.00% by FYE 2024
Ages 65 and Older	5.50% for FYE 2019 decreasing to an ultimate rate of 5.00% by FYE 2021
Medicare Part B Premiums	2.63% for FYE 2019 with an ultimate rate of 5.00% by 2031
Municipal Bond Index Rate	3.50 %
Single Equivalent Interest Rate	8.00%, net of OPEB plan investment expense, including inflation.

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

The remaining actuarial assumptions (e.g., initial per capita costs, health care cost trends) used in the June 30, 2019 and 2018 valuation were based on a review of recent plan experience done concurrently with the June 30, 2019 and 2018 valuation. The health care cost trend assumption was updated for the June 30, 2019 and 2018 valuations 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.

(Continued)

WESTERN KENTUCKY UNIVERSITY
 NOTES TO FINANCIAL STATEMENTS
 June 30, 2021 and 2020

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

Kentucky Teachers' Retirement System (Continued)

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

<u>2020 Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Nominal Rate of Return</u>
Global Equity	58.0%	5.4%
Fixed Income	9.0%	0.0%
Real Estate	6.5%	4.3%
Private Equity	8.5%	7.7%
Other Additional Categories	17.0%	2.5%
Cash (LIBOR)	<u>1.0%</u>	-0.5%
Total	<u>100.0%</u>	

<u>2019 Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Nominal Rate of Return</u>
Global Equity	58.0%	5.1%
Fixed Income	9.0%	1.2%
Real Estate	6.5%	3.8%
Private Equity	8.5%	6.3%
Other Additional Categories	17.0%	3.2%
Cash (LIBOR)	<u>1.0%</u>	0.9%
Total	<u>100.0%</u>	

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

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

<u>2020</u>	1% Decrease (7.00%)	Current Discount Rate (8.00%)	1% Increase (9.00%)
University's net OPEB liability (MI)	\$ 19,753,000	\$ 16,343,000	\$ 13,497,000

(Continued)

WESTERN KENTUCKY UNIVERSITY
NOTES TO FINANCIAL STATEMENTS
June 30, 2021 and 2020

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

Kentucky Teachers' Retirement System (Continued)

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

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

<u>2020</u>	<u>1% Decrease</u>	<u>Current</u> <u>Trend Rate</u>	<u>1% Increase</u>
University's net OPEB liability (MI)	\$ 12,954,000	\$ 16,343,000	\$ 20,520,000

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

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

Changes of benefit terms: There were no changes in benefit terms for the year ending June 30, 2021 and 2020.

(Continued)

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

Kentucky Teachers' Retirement System (Continued)

Life Insurance Plan

Plan Description: KTRS administers the life insurance plan as provided by Kentucky Revised Statute 161.655 to eligible active and retired members. The KTRS Life Insurance benefit is a cost-sharing multiple employer defined benefit plan with a special funding situation. Changes made to the life insurance plan may be made by the KTRS Board of Trustees and the General Assembly.

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

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

OPEB Liabilities, OPEB Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEBs: At June 30, 2021 and 2020, the University reported a liability of \$485,000 and \$463,000 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, 2020, and the total OPEB liability used to calculate the collective net OPEB liability was based on a projection of the University's long-term share of contributions to the OPEB plan relative to the projected contributions of all participating employers, actuarially determined. At June 30, 2020 and 2019, the University's proportion was 1.399% and 1.489%, respectively.

The amount recognized by the University as its proportionate share of the OPEB liability, the related State support, and the total portion of the net OPEB liability at June 30, 2021 and 2020 that was associated with the University were as follows:

	<u>2021</u>	<u>2020</u>
University's proportionate share of the net OPEB liability	\$ 485,000	\$ 463,000
State's proportionate share of the net OPEB liability associated with the University	-	-
Total	\$ 485,000	\$ 463,000

For the years ended June 30, 2021 and 2020, the University recognized OPEB expense of \$84,000 and \$83,000, and revenue of \$9,000 and \$5,000, respectively, for support provided by the State. At June 30, 2021, the University reported deferred outflows of resources and deferred inflows of resources related to OPEBs from the following sources:

(Continued)

WESTERN KENTUCKY UNIVERSITY
 NOTES TO FINANCIAL STATEMENTS
 June 30, 2021 and 2020

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

Kentucky Teachers' Retirement System (Continued)

2021:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Difference between expected and actual experience	\$ 8,000	\$ 7,000
Changes of assumptions	-	-
Net difference between projected and actual earnings on OPEB plan investments	68,000	-
Changes in proportion and differences between University contributions and proportionate share of contributions	-	44,000
	76,000	51,000
Contributions subsequent to the measurement date	44,957	-
	\$ 120,957	\$ 51,000

2020:

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

Of the total amount reported as deferred outflows of resources related to OPEB, \$44,957 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:	
2022	\$ 28,000
2023	12,000
2024	(3,000)
2025	(3,000)
2026	(4,000)
Thereafter	(5,000)
	\$ 25,000

(Continued)

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

Kentucky Teachers' Retirement System (Continued)

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

June 30, 2020:

Actuarial valuation date	June 30, 2019
Actuarial cost method	Entry Age Normal
Amortization method	Level Percent of Payroll
Amortization period	27 years
Asset valuation method	Five-year smoothed value
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	2.19%

June 30, 2019:

Actuarial valuation date	June 30, 2018
Actuarial cost method	Entry Age Normal
Amortization method	Level Percent of Payroll
Amortization period	30 years
Asset valuation method	Five-year smoothed value
Investment rate of return	7.50%, net of OPEB plan investment expense, including inflation.
Projected salary increases	3.50 – 7.45%, including inflation
Inflation rate	3.00%
Real Wage Growth	0.50%
Wage Inflation	3.50%
Municipal Bond Index Rate	3.50%

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

The remaining actuarial assumptions (e.g., initial per capita costs, health care cost trends) used in the June 30, 2019 and 2018 valuations were based on a review of recent plan experience done concurrently with the June 30, 2019 and 2018 valuations. The health care cost trend assumption was updated for the June 30, 2019 and 2018 valuations 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.

(Continued)

WESTERN KENTUCKY UNIVERSITY
NOTES TO FINANCIAL STATEMENTS
June 30, 2021 and 2020

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

Kentucky Teachers' Retirement System (Continued)

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

<u>2020 Asset Class*</u>	<u>Target Allocation</u>	<u>Long-Term Nominal Rate of Return</u>
U.S. Equity	40.0%	4.6%
International Equity	23.0%	5.6%
Fixed Income	18.0%	0.0%
Real Estate	6.0%	4.3%
Private Equity	5.0%	7.7%
Other Additional Categories	6.0%	2.5%
Cash (LIBOR)	<u>2.0%</u>	-0.5%
Total	<u>100.0%</u>	

<u>2019 Asset Class*</u>	<u>Target Allocation</u>	<u>Long-Term Nominal Rate of Return</u>
U.S. Equity	40.0%	4.3%
International Equity	23.0%	5.2%
Fixed Income	18.0%	1.2%
Real Estate	6.0%	3.8%
Private Equity	5.0%	6.3%
Other Additional Categories	6.0%	3.2%
Cash (LIBOR)	<u>2.0%</u>	0.9%
Total	<u>100.0%</u>	

* As the LIF investment policy is to change, the above reflects the pension allocation and returns that achieve the target 8.00% long-term rate of return.

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

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

<u>2020</u>	1% Decrease (6.50%)	Current Discount Rate (7.50%)	1% Increase (8.50%)
University's net OPEB liability (LI)	\$ 703,000	\$ 485,000	\$ 307,000

(Continued)

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

Kentucky Teachers' Retirement System (Continued)

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

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

Changes of benefit terms: There were no changes in benefit terms for the year ending June 30, 2021 and 2020.

NOTE 10 - COMMITMENTS AND CONTINGENCIES

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

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

NOTE 11 - RISK MANAGEMENT

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

Prior to 2006, the University had joined together with other Kentucky governmental entities to form a public entity risk pool currently operating as a common risk management and insurance program for its members. The University paid an annual premium to the pool for its workers' compensation insurance coverage. The pool's governing agreement specified that the pool will be self-sustaining through member premiums and will reinsure through commercial carriers for claims in excess of specified stop-loss amounts. In 2006, the University began self-insuring workers' compensation claims. Risk Management Services Corporation administers the university's workers' compensation claims. During 2021 and 2020, there were no significant reductions in insurance coverage from the previous years.

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

(Continued)

WESTERN KENTUCKY UNIVERSITY
 NOTES TO FINANCIAL STATEMENTS
 June 30, 2021 and 2020

NOTE 11 - RISK MANAGEMENT (Continued)

Changes in the balance of the self-insured health liability as of June 30, 2021, 2020, and 2019, are summarized as follows:

	<u>2021</u>	<u>2020</u>	<u>2019</u>
Balance, beginning of year	\$ 1,131,863	\$ 1,012,412	\$ 1,057,653
Claims and changes in estimates	14,701,575	14,184,900	12,241,069
Claims payments	<u>(14,618,851)</u>	<u>(14,065,449)</u>	<u>(12,286,310)</u>
Balance, end of year	<u>\$ 1,214,587</u>	<u>\$ 1,131,863</u>	<u>\$ 1,012,412</u>

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

Changes in the balance of the self-insured workers' compensation liability as of June 30, 2021, 2020, and 2019 are summarized as follows:

	<u>2021</u>	<u>2020</u>	<u>2019</u>
Balance, beginning of year	\$ 165,595	\$ 212,311	\$ 171,259
Claims and changes in estimates	101,484	116,473	159,924
Claims payments	<u>(191,128)</u>	<u>(163,189)</u>	<u>(118,872)</u>
Balance, end of year	<u>\$ 75,951</u>	<u>\$ 165,595</u>	<u>\$ 212,311</u>

Business Disruption

In March 2020, the World Health Organization declared the coronavirus (COVID-19) outbreak to be a pandemic. COVID-19 has impacted economic activity and financial markets globally and locally and has resulted in a decrease in tuition revenue and an increase in operating expenses. The continued spread of the disease variants represents a significant risk that operations could be disrupted in the near future. However, the University received federal funding and created health and safety guidelines to help mitigate the impact of the disruption in operations for the years ended June 30, 2020 and June 30, 2021.

The extent to which COVID-19 further impacts the University will depend on future developments, which are still highly uncertain and cannot be predicted. As a result, the University has not yet determined the impact this disruption may have on its financial statements for the year ending June 30, 2022.

(Continued)

WESTERN KENTUCKY UNIVERSITY
NOTES TO FINANCIAL STATEMENTS
June 30, 2021 and 2020

NOTE 12 - REGIONAL UNIVERSITY EXCELLENCE TRUST FUND (RUETF)

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

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

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

Following is a summary of the funding for the RUETF as of June 30, 2021:

	CPE Funding <u>Received</u>	<u>External Matched Pledges</u>	
		<u>Received</u>	<u>Pledged</u>
Balance, July 1, 2020	\$ 14,211,209	\$ 16,368,173	\$ 25,000
New Pledges	-	-	-
Current year collections	<u>-</u>	<u>20,000</u>	<u>(20,000)</u>
Balance, June 30, 2021	<u>\$ 14,211,209</u>	<u>\$ 16,388,173</u>	<u>\$ 5,000</u>

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

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

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

(Continued)

WESTERN KENTUCKY UNIVERSITY
NOTES TO FINANCIAL STATEMENTS
June 30, 2021 and 2020

NOTE 13 - NATURAL AND FUNCTIONAL CLASSIFICATIONS OF OPERATING EXPENSES

The University's operating expenses by functional classification on June 30, 2021, were as follows:

Functional Classification	Compensation and Benefits	Supplies Contractual Services and Other	Utilities	Non Capitalized Property	Scholarships	Depreciation	Total
Instruction	\$ 81,719,911	\$ 3,726,577	\$ 1,476	\$ 698,628	\$ -	\$ -	\$ 86,146,592
Research	3,407,280	1,397,330	2,929	40,321	-	-	4,847,860
Public service	8,979,120	5,532,574	28,761	110,709	-	-	14,651,164
Libraries	3,518,274	434,408	-	13,100	-	-	3,965,782
Academic support	14,194,571	3,734,877	2,045	283,480	-	-	18,214,973
Student services	18,202,248	8,727,692	16,075	68,959	-	-	27,014,974
Institutional support	38,913,572	13,650,953	1,337	375,637	-	-	52,941,499
Operation and maintenance of plant	8,327,272	12,670,415	5,173,275	(146,250)	-	-	26,024,712
Student financial aid	107,883	695,640	-	-	27,543,880	-	28,347,403
Pension and OPEB	(67,117,532)	-	-	-	-	-	(67,117,532)
Depreciation	-	-	-	-	-	29,048,000	29,048,000
Auxiliary enterprise	5,047,930	5,275,726	1,983,949	118,349	-	-	12,425,954
Total operating expenses	\$ 115,300,529	\$ 55,846,192	\$ 7,209,847	\$ 1,562,933	\$ 27,543,880	\$ 29,048,000	\$ 236,511,381

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

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

(Continued)

WESTERN KENTUCKY UNIVERSITY
NOTES TO FINANCIAL STATEMENTS
June 30, 2021 and 2020

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

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

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

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

Investments

As of December 31, 2020 and 2019, investments consist of the following:

	<u>2020</u>	<u>2019</u>
Certificates of deposit	\$ 2,768,565	\$ 4,154,581
Mutual funds	45,357,994	54,855,222
Exchange traded funds	9,433,219	5,129,723
Corporate bonds	8,610,961	-
Equity securities	27,388,131	9,163,359
Real estate and other alternative investments	<u>12,593,229</u>	<u>15,357,097</u>
	106,152,099	88,659,982
Less: investments included above which are held for WKU	18,868,022	18,463,620
Less: investments included above which are held for LifeWorks	56,268	50,289
Less: investments included above which are held for KIIS	86,719	605,969
Less: investments included above which are held for Alumni Association	489,828	437,785
Less: investments included above which are held for HAF	<u>2,769,040</u>	<u>2,919,735</u>
	<u>\$ 83,882,222</u>	<u>\$ 66,182,584</u>

(Continued)

WESTERN KENTUCKY UNIVERSITY
NOTES TO FINANCIAL STATEMENTS
June 30, 2021 and 2020

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

Assets Held for Others

Assets held for others represent resources in the possession of, but not under the control of the Foundation. As of December 31, 2020 and 2019, assets held for others consist of the following:

	<u>2020</u>	<u>2019</u>
WKU – Regional University Excellence Trust Fund	\$ 16,112,836	\$ 14,757,888
WKU – Self-insurance program funds	2,715,893	3,669,667
Hilltopper Athletic Foundation	2,769,040	2,919,735
Kentucky Institute for International Studies	86,719	605,969
Alumni Association Lifetime	489,828	437,785
LifeWorks	56,268	50,289
Green River	<u>39,293</u>	<u>36,065</u>
	<u>\$ 22,269,877</u>	<u>\$ 22,477,398</u>

Accordingly, the accompanying statements of financial position as of December 31, 2020 and 2019 reflect a liability for assets held for others in the amount of \$22,269,877 and \$22,477,398, respectively.

Net Assets With Donor Restrictions

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

	<u>2020</u>	<u>2019</u>
Subject to expenditure for specified purpose:		
Academic support/WKU programs	\$ 12,231,402	\$ 10,831,130
Athletics	2,306,403	2,526,420
Public service	1,637,753	1,188,763
Professorships	976,392	773,813
Scholarship funds	131,911	130,691
Promises to give, the proceeds from which have been restricted by donors for:		
Academic support/WKU programs	2,043,657	2,333,955
Athletics	504,823	349,830
Public services	<u>149,912</u>	<u>257,860</u>
Total subject to expenditure for specified purpose	19,982,253	18,392,462
Subject to passage of time:		
Assets held under split-interest agreements	423,907	882,680
Endowments:		
Subject to Foundation endowment spending policy and appropriation:		
Investments held in perpetuity, the income from which is expendable to support the Foundation (reported as investment income)	71,887,194	62,664,868
Underwater endowments	<u>-</u>	<u>(61,425)</u>
Total endowments	<u>71,887,194</u>	<u>62,603,443</u>
Total net assets with donor restriction	<u>\$ 92,293,354</u>	<u>\$ 81,878,585</u>

(Continued)

WESTERN KENTUCKY UNIVERSITY
NOTES TO FINANCIAL STATEMENTS
June 30, 2021 and 2020

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

Net Assets With Donor Restrictions (Continued)

Net assets were released from donor restrictions by incurring expenses satisfying the restricted purpose or by occurrence of the passage of time or other events specified by the donors as follows for the years ended December 31, 2020 and 2019:

	<u>2020</u>	<u>2019</u>
Distributions (proceeds are not restricted by donors):		
Assets held under split-interest agreements	\$ 17,431	\$ 185,815
Restricted-purpose spending-rate distributions and appropriations:		
Academic support/WKU programs	3,443,397	13,927,119
Athletics	1,492,300	1,815,414
Public service	543,153	4,908,365
Professorships	1,122,209	896,234
Scholarship funds	<u>172,615</u>	<u>206,513</u>
Total	<u>\$ 6,791,105</u>	<u>\$ 21,939,460</u>

Pension Plans

Through WKU, the Foundation participates in the Kentucky Employees' Retirement System (KERS) and the Kentucky Teachers' Retirement System (KTRS), both of which are cost-sharing, multiple-employer, defined benefit pension plans administered by the respective KERS and KTRS Boards of Trustees. Both KERS and KTRS provide retirement, disability, and death benefits to the Foundation's eligible employees. The Foundation reimburses WKU for the Foundation's share of the contributions made on behalf of eligible employees. As of December 31, 2020, contributions under KERS and KTRS made on behalf of eligible employees represent 49.47% and 15.87% of annual covered payroll, respectively (49.47% and 15.03% as of December 31, 2019, respectively). Employer contributions made under KERS and KTRS on behalf of Foundation employees total approximately \$71,000 and \$61,000 for the years ended December 31, 2020 and 2019, respectively.

Related Party Transactions

Accounts payable as of December 31, 2020 and 2019 include approximately \$0 and \$8,000, respectively, which are payable to WKU.

The Foundation paid off the lease liability related to the AAC that was transferred to WKU as of the December 31, 2019. As such, there is an amount due from Alumni Association as of December 31, 2020 in the amount of \$458,860, net of allowance of \$50,476.

(Continued)

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

Nature of Operations: WKU Student Life Foundation, Inc. (“Student Life”) is a Kentucky nonprofit corporation formed to facilitate the re-capitalization and renovation of the student residential facilities of the University. Student Life is a legally separate, tax-exempt component unit of the University that manages renovations of the student residential facilities (14 residence halls and 4,891 beds on the main campus) on behalf of the University. Student Life also constructed and owns two facilities that provide a total of 290 beds off the main campus. Student Life has a board of directors separate from that of the University; however, the chair and other members of the Western Kentucky University Foundation’s board of trustees are also board members of Student Life. Because Student Life and the Foundation have common boards of trustees, and as the purpose of Student Life is to operate exclusively in support of the Foundation, which is a component unit created to benefit the University as described above, Student Life is considered a component unit of the University and is discretely presented in the University’s financial statement package. Student Life’s revenues and other support are derived principally from rental of living space to students of the University.

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

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

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

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

Conditional contributions having donor stipulations which are satisfied in the period the gift is received are recorded as revenue and net assets without donor restrictions. 100% percent of all contributions were received from one donor in 2020.

WESTERN KENTUCKY UNIVERSITY
NOTES TO FINANCIAL STATEMENTS
June 30, 2021 and 2020

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

Assets Limited as to Use

Assets limited as to use at June 30, 2021 and 2020, consisted of the following:

	<u>2021</u>	<u>2020</u>
Money market accounts	\$ 7,058,835	\$ 35,367,160
Commercial paper	<u>4,272,675</u>	<u>4,273,327</u>
Total	<u>\$ 11,331,510</u>	<u>\$ 39,640,487</u>
Assets limited as to use:		
Restricted by bond indenture	\$ 10,229,492	\$ 38,805,347
Internally restricted for debt principal and interest	<u>1,102,018</u>	<u>835,140</u>
Total	<u>\$ 11,331,510</u>	<u>\$ 39,640,487</u>

Property and Equipment

Property and equipment at June 30, 2021 and 2020, consisted of:

	<u>2021</u>	<u>2020</u>
Land	\$ 6,626,701	\$ 6,654,844
Land improvements	1,331,637	1,331,637
Buildings	88,237,850	68,551,064
Building improvements	73,252,476	73,252,476
Vehicles	155,977	155,977
Furnishings and fixtures	13,496,774	13,136,483
Software for chilled water plant	346,903	346,903
Housing Software	151,050	151,050
Construction in progress	<u>25,477,886</u>	<u>17,952,796</u>
	209,077,254	181,533,230
Less accumulated depreciation and amortization	<u>61,342,566</u>	<u>56,346,401</u>
	<u>\$ 147,734,688</u>	<u>\$ 125,186,829</u>

During July of 2021, Student Life sold certain property for \$405,900 which resulted in an impairment loss of \$56,784 as of June 30, 2021. These assets are presented separately on the financial statements as Property and equipment held for sale.

(Continued)

WESTERN KENTUCKY UNIVERSITY
NOTES TO FINANCIAL STATEMENTS
June 30, 2021 and 2020

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

Long-Term Debt

Long-term debt consisted of the following:

	<u>2021</u>	<u>2020</u>
<p>Series 2017 A – Industrial Building Revenue Bonds - Tax-exempt fixed rate of 3.368%; payable in monthly installments of principal and interest; annual principal payments range from \$1,930,059 to \$6,805,639 through 2026; rate to be renegotiated in March 2027 when balance due will be \$45,435,919; collateralized by all real estate. Unamortized debt issuance costs as of June 30, 2021 and 2020, were \$191,569 and \$201,148, respectively.</p>	\$ 81,337,707	\$ 87,093,446
<p>Series 2019 – Industrial Building Revenue Bonds – Tax-exempt fixed rate of 3.17%; 8-year lockout period payable in monthly installments of principal and interest; annual principal payments range from \$414,045 to \$5,653,476 through 2029; rate to be renegotiated in September 2029 when balance due will be \$26,027,325; collateralized by all real estate. Unamortized debt issuance costs as of June 30, 2021 and 2020 were \$170,907 and \$178,588, respectively.</p>	<u>42,000,000</u> 123,337,707	<u>42,000,000</u> 129,093,446
<p>Less unamortized bond issuance costs</p>	<u>362,476</u>	<u>379,736</u>
	<u>\$ 122,975,231</u>	<u>\$ 128,713,710</u>

Student Life is required to maintain certain financial ratios and a debt reserve account balance in accordance with the bond agreement. Aggregate annual maturities of long-term debt are listed below:

2022	\$ 6,527,342
2023	6,751,723
2024	6,981,731
2025	7,219,684
2026	7,464,914
Thereafter	<u>88,392,313</u>
	<u>\$ 123,337,707</u>

(Continued)

WESTERN KENTUCKY UNIVERSITY
NOTES TO FINANCIAL STATEMENTS
June 30, 2021 and 2020

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

Related Party Transactions

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

	<u>2021</u>	<u>2020</u>
Accounts receivable from WKU – student housing and related fees	\$ 1,159,729	\$ 377,623
Accounts receivable from WKU – other	378,274	835,762
Net investment in direct financing lease	1,525,609	1,569,464
Accounts payable – operating expenses	1,108,635	604,639
Interest income – direct financing lease	101,756	107,634
Hilltopper Hub lease	176,471	117,647
Operating lease income	49,006	48,045
Chilled water service fees	396,739	457,407
Management fees	84,200	84,200

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

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

Student Life receives rent revenue from the University for the lease of retail space at one of Student Life's residence halls. The lease was renewed for a five-year term in August 2017 with annual lease payments ranging from \$46,179 to \$49,986. The rent was \$49,006 and \$48,045 for the years ended June 30, 2021 and 2020, respectively. The revenue from this lease is included in other revenues.

Student Life received prepaid rent from WKU in the amount of approximately \$3 million during the year ended June 30, 2021, for WKU to provide a food service operation. The lease is for the period of November 1, 2019 through October 31, 2036 and subject to five-year renewal terms at the end of October 2036. The revenue from this lease is recorded in other income in the amount of \$176,471 and \$117,647 for the years ended June 30, 2021 and 2020, respectively.

Student Life receives fees from the University relating to chilled water services. The fees were \$396,739 and \$457,407 for the years ended June 30, 2021 and 2020, respectively. These fees are included in other revenues.

A schedule of future rent revenue is presented below:

2022	\$ 226,457
2023	176,471
2024	176,471
2025	176,471
2026	176,471
Thereafter	<u>1,823,529</u>
	<u>\$ 2,755,870</u>

(Continued)

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

Related Party Transactions (Continued)

The University provides certain direct and indirect support to Student Life and Student Life provides certain direct and indirect support to the University. Both organizations have no objective basis for determining the value of these activities. However, as a part of the management agreement, Student Life does provide an annual amount to the University to help offset such related costs. The management fees were \$84,200 for both years ended June 30, 2021 and 2020.

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

Pension Plans

Student Life has no employees; however, the University has designated certain employees to work exclusively or partially for Student Life. The University participates in three multi-employer pension plans maintained by the state of Kentucky. The plans provide defined benefits to eligible University employees providing services to Student Life. Student Life reimburses the University for Student Life's share of the actuarially determined contributions to the plans, which currently range from 8.49% to 49.47% of its covered payroll based upon the individual's retirement category. Contributions reimbursed to the University were \$464,261 and \$483,963 for the years ended June 30, 2021 and 2020, respectively.

Commitments

As of June 30, 2021, Student Life had ongoing commitments to improve all residence halls and continue construction of one new residence hall with the corresponding estimated costs:

	<u>Estimated Cost</u>
Furniture for Normal and Regents Halls	\$ 1,330,265
Chilled water plant upgrades	32,964
Storage tanks for halls	52,510
Information technology upgrade for Normal Hall	104,508
Land Improvements	181,285
Furniture upgrades for halls	49,998
Finish construction of Regents Hall	<u>1,953,077</u>
	<u>\$ 3,704,607</u>

(Continued)

WESTERN KENTUCKY UNIVERSITY
NOTES TO FINANCIAL STATEMENTS
June 30, 2021 and 2020

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

Nature of Operations

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

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

Investments

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

Investments consist of the following at December 31, 2020 and 2019:

	<u>2020</u>	<u>2019</u>
Mutual funds	\$ 42,209,855	\$ 39,134,181
Equity securities	27,330,179	25,648,647
Exchange traded funds	8,847,609	6,609,178
Alternative investments, hedge fund	5,630,654	-
Corporate bonds and other fixed income securities	4,932,108	4,916,846
Real estate	1,661,400	586,400
Certificates of deposit	1,053,926	1,050,962
Alternative investments, private real estate	276,875	-
Alternative investments, futures	137,853	97,285
U. S. government and government agency obligations	<u>27</u>	<u>43</u>
	92,080,486	78,043,542
Investments included above held for:		
University	<u>(3,320,842)</u>	<u>(2,946,249)</u>
	<u>\$ 88,759,644</u>	<u>\$ 75,097,293</u>

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

(Continued)

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

Investments (Continued)

Management considers the carrying value of real estate to approximate fair value at December 31, 2020 and 2019. Real estate investment trust values are reported at fair value based upon an independent valuation performed at least annually.

Investment advisory fees for the years ended December 31, 2020 and 2019 were \$250,567 and \$255,675, respectively.

Related Party Transactions

Western Kentucky University provides the facilities in which College Heights offices are located and also processes College Heights' payroll. No rent or administrative expenses are charged to College Heights by the University and College Heights does not recognize revenue and expense related to these transactions, as the amounts thereof are immaterial. College Heights also owns a parking lot which is used by the University for which no rent is charged. At December 31, 2020 and 2019, the amounts payable to Western Kentucky University were \$1,000,000 and \$0, respectively.

Employees' Retirement Plans

Through the University, College Heights participates in the Kentucky Employees' Retirement System (KERS) and the Kentucky Teachers Retirement System (KTRS), both of which are cost sharing, multiple-employer, defined benefit pension plans administered by the respective KERS and KTRS boards of trustees. College Heights is not represented on either of the boards of trustees. Both KERS and KTRS provide retirement, disability, and death benefits to College Heights' eligible employees. The service retirement benefit is a lifetime benefit. College Heights reimburses the University for College Heights' share of the contributions made on behalf of eligible College Heights employees. Both multiple employer plans pay a defined amount upon retirement based on the length of service and the final average salary of the employee, along with a retirement multiplier. Retirement eligibility is determined by the employee's age and years of service. Total contributions of \$72,491 and \$70,828 in 2020 and 2019 were expensed to salaries and benefits for ongoing participation in these plans.

(Continued)

WESTERN KENTUCKY UNIVERSITY
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULES OF THE UNIVERSITY'S PROPORTIONATE SHARE OF THE NET PENSION LIABILITY
(in thousands)
June 30, 2021 and 2020

KERS – Non-Hazardous

	<u>2021</u>	<u>2020</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>
University's proportion of the net pension liability	1.09%	1.13%	1.26%	1.29%	1.46%	1.47%
University's proportionate share of the net pension liability	\$ 153,739	\$ 159,267	\$ 171,121	\$ 173,895	\$ 166,399	\$ 147,109
University's covered payroll	\$ 17,013	\$ 18,246	\$ 19,527	\$ 20,402	\$ 23,985	\$ 22,769
University's proportionate share of the net pension liability as a percentage of its covered payroll	903.66%	872.89%	876.33%	852.34%	693.76%	646.09%
Plan fiduciary net position as a percentage of the total pension liability	14.01%	13.66%	12.84%	13.30%	14.80%	18.83%

KERS – Hazardous

University's proportion of the net pension liability	0.61%	0.69%	0.63%	0.60%	0.78%	0.90%
University's proportionate share of the net pension liability	\$ 3,402	\$ 3,795	\$ 3,173	\$ 2,992	\$ 3,039	\$ 3,098
University's covered payroll	\$ 1,155	\$ 1,257	\$ 1,229	\$ 1,174	\$ 1,343	\$ 1,310
University's proportionate share of the net pension liability as a percentage of its covered payroll	294.55%	331.23%	258.18%	254.86%	226.28%	236.49%
Plan fiduciary net position as a percentage of the total pension liability	55.18%	55.49%	56.10%	54.75%	57.41%	61.70%

KTRS

University's proportion of the net pension liability	0.54%	0.56%	0.77%	0.73%	1.21%	1.23%
University's proportionate share of the net pension liability	\$ 79,923	\$ 79,901	\$ 105,246	\$ 207,035	\$ 373,414	\$299,522
State's proportionate share of the net pension liability associated with the University	<u>84,053</u>	<u>86,580</u>	<u>78,302</u>	<u>165,003</u>	<u>35,194</u>	<u>30,458</u>
Total	<u>\$ 163,976</u>	<u>\$ 166,481</u>	<u>\$ 183,548</u>	<u>\$ 372,038</u>	<u>\$ 408,608</u>	<u>\$329,980</u>
University's covered payroll	\$ 48,533	\$ 50,972	\$ 54,430	\$ 55,655	\$ 56,509	\$ 56,089
University's proportionate share of the net pension liability as a percentage of its covered payroll	164.68%	156.75%	193.36%	372.00%	660.80%	534.01%
Plan fiduciary net position as a percentage of the total pension liability	58.27%	58.10%	59.30%	39.83%	35.22%	42.49%

(Continued)

WESTERN KENTUCKY UNIVERSITY
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULES OF THE UNIVERSITY'S PROPORTIONATE SHARE OF THE NET PENSION LIABILITY
(in thousands)
June 30, 2021 and 2020

Notes to the Schedule:

Changes in assumptions – In fiscal year 2021, there were no material changes to the KERS plan or the KTRS plan.

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

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

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

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

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

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

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

(Continued)

WESTERN KENTUCKY UNIVERSITY
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULES OF THE UNIVERSITY'S PENSION CONTRIBUTIONS
(in thousands)
June 30, 2021 and 2020

KERS – Non-Hazardous	<u>2021</u>	<u>2020</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>
Contractually required contribution	\$ 5,824	\$ 6,430	\$ 6,868	\$ 8,018	\$ 8,210	\$ 7,397
Contributions in relation to the contractually required contribution	<u>(5,824)</u>	<u>(6,430)</u>	<u>(6,868)</u>	<u>(8,018)</u>	<u>(8,210)</u>	<u>(7,397)</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
University's covered payroll	\$ 15,187	\$ 17,013	\$ 18,246	\$ 19,527	\$ 20,402	\$ 23,985
Contributions as a percentage of covered payroll	38.35%	37.79%	37.64%	41.06%	40.24%	30.84%
 KERS – Hazardous						
Contractually required contribution	\$ 411	\$ 397	\$ 432	\$ 263	\$ 248	\$ 220
Contributions in relation to the contractually required contribution	<u>(411)</u>	<u>(397)</u>	<u>(432)</u>	<u>(263)</u>	<u>(248)</u>	<u>(220)</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
University's covered payroll	\$ 1,142	\$ 1,155	\$ 1,257	\$ 1,229	\$ 1,174	\$ 1,343
Contributions as a percentage of covered payroll	35.99%	34.37%	34.37%	21.40%	21.12%	16.38%
 KTRS						
Contractually required contribution	\$ 5,909	\$ 6,248	\$ 6,539	\$ 9,564	\$ 9,661	\$ 9,624
Contributions in relation to the contractually required contribution	<u>(5,909)</u>	<u>(6,248)</u>	<u>(6,539)</u>	<u>(9,564)</u>	<u>(9,661)</u>	<u>(9,624)</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
University's covered payroll	\$ 45,018	\$ 48,533	\$ 50,972	\$ 54,430	\$ 55,655	\$ 56,509
Contributions as a percentage of covered payroll	13.13%	12.87%	12.83%	17.57%	17.36%	17.03%

(Continued)

WESTERN KENTUCKY UNIVERSITY
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULES OF THE UNIVERSITY'S PENSION CONTRIBUTIONS
(in thousands)
June 30, 2021 and 2020

Notes to the Schedule:

Changes in assumptions – In fiscal year 2021, there were no material changes to the KERS plan or the KTRS plan.

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

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

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

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

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

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

(Continued)

WESTERN KENTUCKY UNIVERSITY
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULES OF THE UNIVERSITY'S PROPORTIONATE SHARE OF THE NET OPEB LIABILITY
(in thousands)
June 30, 2021 and 2020

KERS – Non-Hazardous	<u>2021</u>	<u>2020</u>	<u>2019</u>	<u>2018</u>
University's proportion of the net OPEB liability	1.085%	1.128%	1.257%	1.299%
University's proportionate share of the net OPEB liability	\$ 27,557	\$ 25,068	\$ 29,797	\$ 32,938
University's covered payroll	\$ 17,013	\$ 18,246	\$ 19,527	\$ 20,402
University's proportionate share of the net OPEB liability as a percentage of its covered payroll	161.98%	137.39%	152.59%	161.44%
Plan fiduciary net position as a percentage of the total OPEB liability	29.47%	30.92%	27.32%	24.40%
 KERS – Hazardous				
University's proportion of the net OPEB liability	0.607%	0.693%	0.628%	0.602%
University's proportionate share of the net OPEB liability	\$ 259	\$ (186)	\$ (208)	\$ 36
University's covered payroll	\$ 1,155	\$ 1,257	\$ 1,229	\$ 1,174
University's proportionate share of the net OPEB liability as a percentage of its covered payroll	22.42%	-14.80%	-16.92%	3.07%
Plan fiduciary net position as a percentage of the total OPEB liability	92.42%	105.29%	106.83%	98.80%
 KTRS – Medical Insurance				
University's proportion of the net OPEB liability	0.648%	0.691%	0.728%	0.784%
University's proportionate share of the net OPEB liability	\$ 16,343	\$ 20,219	\$ 25,269	\$ 27,960
University's covered payroll	\$ 48,533	\$ 50,972	\$ 54,430	\$ 55,655
University's proportionate share of the net OPEB liability as a percentage of its covered payroll	33.67%	39.67%	46.42%	50.24%
Plan fiduciary net position as a percentage of the total OPEB liability	39.05%	32.58%	25.50%	21.18%
 KTRS – Life Insurance				
University's proportion of the net OPEB liability	1.399%	1.489%	1.609%	1.677%
University's proportionate share of the net OPEB liability	\$ 485	\$ 463	\$ 454	\$ 368
University's covered payroll	\$ 48,533	\$ 50,972	\$ 54,430	\$ 55,655
University's proportionate share of the net OPEB liability as a percentage of its covered payroll	0.99%	0.91%	0.83%	0.66%
Plan fiduciary net position as a percentage of the total OPEB liability	71.57%	73.40%	75.00%	79.99%

(Continued)

WESTERN KENTUCKY UNIVERSITY
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULES OF THE UNIVERSITY'S PROPORTIONATE SHARE OF THE NET OPEB LIABILITY
(in thousands)
June 30, 2021 and 2020

Notes to the Schedule:

Changes in assumptions – In fiscal year 2021, for KERS the healthcare trend rates for Under Age 65 and Ages 65 and Older increased from 7.00% to 7.25% and 5.00% to 5.10%, respectively. The KTRS Municipal Bond Index rate decreased from 3.50% to 2.19%. The KTRS MIF health care cost trends for Under Age 65 and Ages 65 and Older decreased from 7.50% to 7.25% and 5.50% to 5.25%, respectively. The KTRS MIF Medicare Part B Premiums increased from 2.63% to 6.49%. The KTRS LIF Salary Increases changed from 3.50% – 7.45% to 3.50% - 7.20%.

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

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

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

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

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

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

(Continued)

WESTERN KENTUCKY UNIVERSITY
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULES OF THE UNIVERSITY'S OPEB CONTRIBUTIONS
(in thousands)
June 30, 2021 and 2020

	<u>2021</u>	<u>2020</u>	<u>2019</u>	<u>2018</u>
KERS – Non-Hazardous				
Contractually required contribution	\$ 1,193	\$ 1,317	\$ 1,406	\$ 1,642
Contributions in relation to the contractually required contribution	<u>(1,193)</u>	<u>(1,317)</u>	<u>(1,406)</u>	<u>(1,642)</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
University's covered payroll	\$ 15,187	\$ 17,013	\$ 18,246	\$ 19,527
Contributions as a percentage of covered payroll	7.86%	7.74%	7.71%	8.41%
KERS – Hazardous				
Contractually required contribution	\$ -	\$ 28	\$ 31	\$ 28
Contributions in relation to the contractually required contribution	<u>-</u>	<u>(28)</u>	<u>(31)</u>	<u>(28)</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
University's covered payroll	\$ 1,142	\$ 1,155	\$ 1,257	\$ 1,229
Contributions as a percentage of covered payroll	0.0%	2.42%	2.47%	2.28%
KTRS – Medical Insurance				
Contractually required contribution	\$ 1,073	\$ 1,143	\$ 1,203	\$ 1,294
Contributions in relation to the contractually required contribution	<u>(1,073)</u>	<u>(1,143)</u>	<u>(1,203)</u>	<u>(1,294)</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
University's covered payroll	\$ 45,018	\$ 48,533	\$ 50,972	\$ 54,430
Contributions as a percentage of covered payroll	2.38%	2.36%	2.36%	2.38%
KTRS – Life Insurance				
Contractually required contribution	\$ 27	\$ 23	\$ 20	\$ 16
Contributions in relation to the contractually required contribution	<u>(27)</u>	<u>(23)</u>	<u>(20)</u>	<u>(16)</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
University's covered payroll	\$ 45,018	\$ 48,533	\$ 50,972	\$ 54,430
Contributions as a percentage of covered payroll	0.06%	0.05%	0.04%	0.03%

(Continued)

WESTERN KENTUCKY UNIVERSITY
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULES OF THE UNIVERSITY'S OPEB CONTRIBUTIONS
(in thousands)
June 30, 2021 and 2020

Notes to the Schedule:

Changes in assumptions – In fiscal year, 2021, for KERS the healthcare trend rates for Under Age 65 and Ages 65 and Older increased from 7.00% to 7.25% and 5.00% to 5.10%, respectively. The KTRS Municipal Bond Index rate decreased from 3.50% to 2.19%. The KTRS MIF health care cost trends for Under Age 65 and Ages 65 and Older decreased from 7.50% to 7.25% and 5.50% to 5.25%, respectively. The KTRS MIF Medicare Part B Premiums increased from 2.63% to 6.49%. The KTRS LIF Salary Increases changed from 3.50% – 7.45% to 3.50% - 7.20%.

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

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

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

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

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

* Employer contributions do not include the expected implicit subsidy.

SUPPLEMENTAL INFORMATION

**INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING
AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL
STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the business-type activities, the aggregate discretely presented component units, and the aggregate remaining fund information of Western Kentucky University ("the University") as of and for the year ended June 30, 2021, and the related notes to the financial statements, which collectively comprise the University's basic financial statements, and have issued our report thereon dated October 22, 2021. Our report includes a reference to other auditors who audited the financial statements of Western Kentucky University Foundation, Inc., WKU Student Life Foundation, Inc. and College Heights Foundation, Inc. (discretely presented component units), as described in our report on the University's financial statements. The financial statements of the discretely presented component units were not audited in accordance with *Government Auditing Standards*.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the University's internal control over financial reporting (internal control) 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.

(Continued)

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 entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



Crowe LLP

Louisville, Kentucky
October 22, 2021

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

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

Report on Compliance for Each Major Federal Program

We have audited Western Kentucky University's ("the University") compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of the University's major federal programs for the year ended June 30, 2021. The University's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

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

Auditor's Responsibility

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

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

Opinion on Each Major Federal Program

In our opinion, the University complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2021.

Report on Internal Control over Compliance

Management of the University is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the University's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the University's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. *A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, we identified a deficiency in internal control over compliance, as described in the accompanying schedule of findings and questioned costs as item 2021-001 that we consider to be a significant deficiency.

The University's response to the internal control over compliance finding identified in our audit is described in the accompanying schedule of findings and questioned costs. The University's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

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

We have audited the financial statements of the business-type activities, the aggregate discretely presented component units, and the aggregate remaining fund information of the University as of and for the year ended June 30, 2021, and the related notes to the financial statements, which collectively comprise the University's basic financial statements. We issued our report thereon dated October 2021, which contained unmodified opinions on those financial statements. Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by the Uniform Guidance and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditure of federal awards is fairly stated in all material respects in relation to the basic financial statements as a whole.


Crowe LLP

Louisville, Kentucky
October 22, 2021

WESTERN KENTUCKY UNIVERSITY
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
Year ended June 30, 2021

<u>Federal Agency Cluster/Program</u>	<u>Pass Through Number</u>	<u>Assistance Listing No.</u>	<u>Amount Expended</u>
Student Financial Aid Cluster			
U. S. Department of Education			
Direct Programs			
Federal Supplemental Educational Opportunity Grants	n/a	84.007	\$ 535,381
Federal Work-Study Program	n/a	84.033	739,962
Federal Perkins Loan Program	n/a	84.038	2,160,331
Federal Pell Grant Program	n/a	84.063	21,523,852
Federal Direct Student Loans	n/a	84.268	66,510,805
TEACH Grants	n/a	84.379	<u>12,707</u>
Total U. S. Department of Education-Direct			91,483,038
TOTAL STUDENT FINANCIAL AID CLUSTER			<u>91,483,038</u>
COVID – Education Stabilization Fund – Higher Education			
U. S. Department of Education			
Direct Programs			
COVID-19 – HEERF – Student Aid Portion	n/a	84.425E	7,929,019
COVID-19 – HEERF – Institutional Portion	n/a	84.425F	23,059,771
COVID-19 – HEERF – Strengthening Institutional Program	n/a	84.425M	1,325,381
COVID-19 – Governors Emergency Education Relief	n/a	84.425C	<u>887,457</u>
Total U. S. Department of Education-Direct			33,201,628
TOTAL COVID – EDUCATION STABILIZATION FUND – HIGHER EDUCATION			<u>33,201,628</u>
Research and Development Cluster			
U. S. Department of Agriculture			
Direct Programs			
Agricultural Research Basic and Applied Research	n/a	10.001	<u>460,790</u>
Total U. S. Department of Agriculture-Direct			460,790
Total U.S. Department of Agriculture			<u>460,790</u>
U. S. Department of Commerce			
Pass Through Programs			
Contract Synoptic Data Corp	PO17-00640/TASKS2017-0115	11.CON	32,453
Contract Synoptic Data Corp	52020-147	11.CON	21,512
Contract NOAA Small Business Innovation Research	Agreement Dated 1/17/20	11.021	1,901
Contract NOAA Sci Tech Mesonet	SUBAWARD 00760	11.431	<u>17,781</u>
Total U. S. Department of Commerce-Pass Through			73,647
Total U. S. Department of Commerce			<u>73,647</u>
U. S. Department of Defense			
Pass Through Programs			
Research & Technology Development – Center for Open Science	MOA Signed 1/22/20	12.910	<u>3,760</u>
Total U.S. Department of the Defense-Pass-Through			3,760
Total U. S. Department of Defense			<u>3,760</u>

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

WESTERN KENTUCKY UNIVERSITY
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
Year ended June 30, 2021

<u>Federal Agency Cluster/Program</u>	<u>Pass Through Number</u>	<u>Assistance Listing No.</u>	<u>Amount Expended</u>
Research and Development Cluster (Continued)			
U. S. Department of Interior			
Direct Programs			
National Cooperative Geologic Mapping	n/a	15.810	\$ 8,017
Cooperative Research and Training Programs – Resources of the National Park System	n/a	15.945	<u>43,074</u>
Total U. S. Department of Interior-Direct			51,091
Pass Through Programs			
Endangered Species Conservation – Recovery Implementation Funds	F15AC00293	15.657	1,585
Cooperative Ecosystem Studies Units	101430-18084	15.678	1,142
Assistance to State Water Resources Research Institutes	3200000437-19-282	15.805	547
Assistance to State Water Resources Research Institutes	3200000437-20-250	15.805	4,617
Assistance to State Water Resources Research Institutes	3200000437-20-249	15.805	<u>3,683</u>
Total U.S. Department of the Interior-Pass-Through			11,574
Total U. S. Department of Interior			<u>62,665</u>
National Aeronautics and Space Administration			
Direct Programs			
Science	n/a	43.001	<u>143,571</u>
Total National Aeronautics and Space Administration-Direct			143,571
Pass Through Programs			
Adelphia Technology, Inc	ATL-WKU 20-001	43.CON	<u>6,845</u>
Total National Aeronautics and Space Administration-Pass Through			6,845
Total National Aeronautics and Space Administration			<u>150,416</u>
National Science Foundation			
Direct Programs			
Mathematical and Physical Sciences	n/a	47.049	80,306
Biological Sciences	n/a	47.074	18,976
Social, Behavioral, and Economic Sciences	n/a	47.075	<u>13,212</u>
Total National Science Foundation-Direct			112,494
Pass Through Programs			
North Carolina State University Engineering	2020-1675-01	47.041	687
University of Nebraska Geosciences	25-6238-0877-002	47.050	8,710
University of Kentucky Research Foundation Biological Sciences	3200001363-18-083	47.074	4,408
Education and Human Resources	32000002015-19-043	47.076	4,449
University of South Dakota Education and Human Resources	A00-0363-5001	47.076	9,635
Fisk University Education and Human Resources	2035	47.076	7,523
Kentucky NSF EPSCoR			
Office of Integrative Activities	3200002692-20-031	47.083	148,048
Office of Integrative Activities	3200002692-20-127	47.083	4,321
Office of Integrative Activities	3200002692-20-128	47.083	28,112
Office of Integrative Activities	3200002692-20-130	47.083	12,633
Office of Integrative Activities	3200002692-21-034	47.083	51,569
Office of Integrative Activities	3200002692-21-036	47.083	67,927
Office of Integrative Activities	3200002692-21-033	47.083	8,777
Office of Integrative Activities	3200002692-21-035	47.083	70,927
Office of Integrative Activities	330221-04	47.083	<u>73,388</u>
Total National Science Foundation-Pass Through			501,114
Total National Science Foundation			<u>613,608</u>

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

WESTERN KENTUCKY UNIVERSITY
 SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
 Year ended June 30, 2021

<u>Federal Agency Cluster/Program</u>	<u>Pass Through Number</u>	<u>Assistance Listing No.</u>	<u>Amount Expended</u>
Research and Development Cluster (Continued)			
U. S. Department of Energy			
Pass Through Programs			
Fossil Energy Research and Development	543827-78001	81.089	\$ 14,568
Total U. S. Department of Energy-Pass Through			14,568
Total U. S. Department of Energy			<u>14,568</u>
U. S. Department of Health and Human Services			
Direct Programs			
NIH-Mental Health Research Grants	n/a	93.242	72,149
NIH-Biomedical Research and Research Training	n/a	93.859	19,914
NIA-National Institute of Aging Research Grant	n/a	93.866	<u>66,081</u>
Total U. S. Department of Health and Human Services-Direct			158,144
Pass Through Programs			
University of Louisville			
Biomedical Research & Research Training	ULRF 18-0975A-07	93.859	(674)
Biomedical Research & Research Training	ULRF 18-0680-03	93.859	2,512
Biomedical Research & Research Training	ULRF 18-0975S1	93.859	(71)
Biomedical Research & Research Training	ULRF 13-1493D-01	93.859	(1,108)
Biomedical Research & Research Training	ULRF 18-0975B-07	93.859	511,590
Biomedical Research & Research Training	ULRF 18-0975S-01	93.859	81,648
Biomedical Research & Research Training	ULRF	93.859	1,437
Biomedical Research & Research Training	ULRF	93.859	17,248
Biomedical Research & Research Training	ULRF	93.859	17,329
Biomedical Research & Research Training	ULRF	93.859	7,669
Biomedical Research & Research Training	ULRF	93.859	1,440
Biomedical Research & Research Training	ULRF	93.859	11,758
Biomedical Research & Research Training	ULRF	93.859	17,764
Biomedical Research & Research Training	ULRF	93.859	21,159
Biomedical Research & Research Training	ULRF	93.859	17,467
Biomedical Research & Research Training	ULRF	93.859	3,771
University of Wisconsin at Eau Claire			
Mental Health Research Grants	SUB# AAB4884	93.242	2,866
Cabinet for Health and Family Services			
Opioid STR	PON2 746 200000 4096	93.262	<u>55,036</u>
Total U. S. Department of Health and Human Services-Pass Through			768,841
Total U. S. Department of Health and Human Services			<u>926,985</u>
U. S. Department of Homeland Security			
Pass Through Programs			
Homeland Security Advanced Research Projects	HSHQDC07-3-00005	97.CON	<u>41,972</u>
Total U. S. Department of Homeland Security-Pass Through			41,972
Total U. S. Department of Homeland Security			<u>41,972</u>
TOTAL RESEARCH AND DEVELOPMENT CLUSTER			<u>2,348,411</u>

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

WESTERN KENTUCKY UNIVERSITY
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
Year ended June 30, 2021

<u>Federal Agency Cluster/Program</u>	<u>Pass Through Number</u>	<u>Assistance Listing No.</u>	<u>Amount Expended</u>
TRIO Cluster			
U. S. Department of Education			
Direct Programs			
TRIO Student Support Services	P042A160657	84.042	\$ 272,344
TRIO Student Support Services	P042A2D1237	84.042	89,760
TRIO Talent Search	P044A160304	84.044	459,387
TRIO Talent Search	P044A160554	84.044	271,320
TRIO Talent Search	P044A160564	84.044	281,551
TRIO Upward Bound	P047V1700096	84.047	304,176
TRIO Upward Bound	P047A170478	84.047	345,423
TRIO Educational Opportunity Centers	P066A170180	84.066	<u>256,374</u>
Total U. S. Department of Education-Direct			2,280,335
TOTAL TRIO CLUSTER			<u>2,280,335</u>
Head Start Cluster			
U.S. Department of Health and Human Services			
Direct Programs			
Head Start	n/a	93.600	<u>1,946,775</u>
Total U. S. Department of Health and Human Services-Direct			1,946,775
Pass Through Programs			
Head Start	04CH011242-1	93.600	4,672
Head Start	04CH011242-2	93.600	190,225
Head Start	04CH011242-1	93.600	<u>48,454</u>
Total U. S. Department of Health and Human Services-Pass Through			<u>243,351</u>
TOTAL HEAD START CLUSTER			<u>2,190,126</u>
OTHER FEDERAL			
U. S. Department of Agriculture			
Direct Programs			
Agricultural Research Basic and Applied Research	n/a	10.001	3,490
Farmers Market Promotion Program	n/a	10.168	104,837
Partnership Agreements	n/a	10.699	<u>83,769</u>
Total U. S. Department of Agriculture-Direct			192,096
Total U. S. Department of Agriculture			<u>192,096</u>
U.S. Department of Commerce			
Direct Programs			
Manufacturing Extension Partnership	n/a	11.611	695,751
Manufacturing Extension Partnership	n/a	11.611	612,472
Manufacturing Extension Partnership	n/a	11.611	<u>555,923</u>
Total U. S. Department of Commerce-Direct			1,864,146
Total U. S. Department of Commerce			<u>1,864,146</u>
U.S. Department of Defense			
Pass Through Programs			
Institute of International Education			
The Language Flagship Grants to Institutions of Higher Education	BOR21-WKU-24-CHN-PO1	12.550	16,031
The Language Flagship Grants to Institutions of Higher Education	#0054-WKU-21	12.550	10,000
The Language Flagship Grants to Institutions of Higher Education	#0054-WKU-21-CHN-280-P01	12.550	39,198
The Language Flagship Grants to Institutions of Higher Education	#0054-WKU-21-SSC-280-P06	12.550	293,489
The Language Flagship Grants to Institutions of Higher Education	#0054-WKU-21-CHN-280-P07	12.550	<u>(1,649)</u>
Total U. S. Department of Defense-Pass Through			357,069
Total U. S. Department of Defense			<u>357,069</u>

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

WESTERN KENTUCKY UNIVERSITY
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
Year ended June 30, 2021

<u>Federal Agency Cluster/Program</u>	<u>Pass Through Number</u>	<u>Assistance Listing No.</u>	<u>Amount Expended</u>
Other Federal (Continued)			
U. S. Department of Interior			
Direct Programs			
Cooperative Research & Training Programs- Resources of the NPS	P16AC01652	15.945	\$ <u>24,905</u>
Total U. S. Department of Interior-Direct			24,905
U. S. Department of Interior			<u>24,905</u>
U. S. Department of the Treasury			
Pass Through Programs			
Office of State Budget Director – COVID-19 - Coronavirus Relief Funding	None	21.019	<u>3,390,800</u>
Total U. S. Department of Treasury-Pass Through			3,390,800
Total U. S. Department of the Treasury			<u>3,390,800</u>
National Endowment for Humanities			
Direct Programs			
Promotion of the Arts Grants to Organizations And Individuals	n/a	45.024	71,074
Promotion of the Humanities Division of Preservation and Access	n/a	45.149	9,999
Museums for America	n/a	45.301	<u>1,399</u>
Total National Endowment for Arts-Direct			82,472
Pass Through Programs			
Promotion of the Arts Partnership Agreements- KY Arts Council	9902	45.025	<u>3,339</u>
Total National Endowment for Arts-Pass Through			3,339
Total National Endowment for Humanities			<u>85,811</u>
U. S. Department of Education			
Direct Programs			
Undergraduate Intl Studies & Foreign Lang. Programs	n/a	84.016	65,852
Special Education – Personal Development to Improve Services and Results for Children with Disabilities	n/a	84.325	<u>98,719</u>
Total U. S. Department of Education-Direct			164,571
Pass Through Programs			
Education Professional Standards Board			
Career and Technical Ed.-Basic Grants to States	PON2 540 190000 4984	84.048	2,214
Career and Technical Ed.-Basic Grants to States	PON2 540 210000 0549	84.048	4,519
Title I Grants to Local Educational Agencies	PON2 540 200000 2754	84.010	372,600
Title I Grants to Local Educational Agencies	PON2 540 200000 2806	84.010	147,819
Title I Grants to Local Educational Agencies	PON2 540 190000 4992	84.010	(190)
Special Education – Personnel Development to Improve Services and Results for Children with Disabilities	PON2 540 210000 1665	84.325L	<u>5,670</u>
Total U. S. Department of Education-Pass Through			532,632
Total U.S. Department of Education			<u>697,203</u>
U.S. Department of Health and Human Services			
Direct Programs			
Advanced Education Nursing Traineeships	n/a	93.247	280,707
NIH-Occupational Safety and Health Program	n/a	93.262	<u>210,295</u>
Subtotal U. S. Department of Health and Human Services-Direct			491,002

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

WESTERN KENTUCKY UNIVERSITY
 SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
 Year ended June 30, 2021

<u>Federal Agency Cluster/Program</u>	<u>Pass Through Number</u>	<u>Assistance Listing No.</u>	<u>Amount Expended</u>
Other Federal (Continued)			
U.S. Department of Health and Human Services			
Pass Through Programs			
University of Louisville			
Area Health Education Centers	ULRF 17-1164B-02	93.107	\$ 53,947
Area Health Education Centers	ULRF 17-1164A-02	93.107	38,236
Area Health Education Centers	ULRF 17-116452-02	93.107	9,722
Child Care and Development Block Grant	None	93.575	5,015
Child Care and Development Block Grant	None	93.575	1,033
PPHF Geriatric Education	ULRF 19-0740A1-04	93.969	72
PPHF Geriatric Education	ULRF 19-0740A2-04	93.969	7,499
Eastern Kentucky University			
Foster Care Title IV-E	453927-21-113	93.658	7,503
Foster Care Title IV-E	453922-21-114	93.658	173,517
University of Kentucky			
Biomedical Research and Research Training	3200003706-21-162	93.859	<u>2,268</u>
Total U. S. Department of Health and Human Services-Pass Through			298,812
Total U.S. Department of Health and Human Services			<u>789,814</u>
Executive Office of the President			
Pass Through Programs			
High Intensity Drug Trafficking Areas Program	G19AP0001A	95.001	2,132
High Intensity Drug Trafficking Areas Program	G20AP0001A	95.001	<u>7,459</u>
Total Executive Office of the President-Pass Through			9,591
Total Executive Office of the President			<u>9,591</u>
TOTAL OTHER FEDERAL			<u>7,405,765</u>
TOTAL FEDERAL EXPENDITURES			<u>\$138,914,973</u>

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

WESTERN KENTUCKY UNIVERSITY
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
Year ended June 30, 2021

<u>Program Title</u>	<u>Assistance Listing Number</u>	<u>Federal Expenditures</u>
Subtotals of Multiple Awards:		
Agricultural Research Basic and Applied Research	10.001	\$ 464,280
Manufacturing Extension Partnership	11.611	1,864,146
Contract Synoptic Data Corp	11.CON	53,965
The Language Flagship Grants to Institutions of Higher Education	12.550	357,069
Assistance to State Water Resources Research Institutes	15.805	8,847
Cooperative Research and Training Programs	15.945	67,979
Biological Sciences	47.074	23,384
Education and Human Resources	47.076	21,607
Office of Integrative Activities	47.083	465,702
Title I Grants to Local Educational Agencies	84.010	520,229
TRIO Student Support Services	84.042	362,104
TRIO Talent Search	84.044	1,012,258
TRIP Upward Bound	84.047	649,599
Career and Technical Ed. – Basic Grants to States	84.048	6,733
Area Health Education Centers	93.107	101,905
Mental Health Research Grants	93.242	75,015
NIH-Occupational Safety and Health Program	93.262	265,331
Child Care and Development Block Grant	93.575	6,048
Head Start	93.600	2,190,126
Foster Care Title IV-E	93.658	181,020
Biomedical Research and Research Training	93.859	733,121
PPHF Geriatric Education	93.969	7,571
High Intensity Drug Trafficking Areas Program	95.001	9,591

Of the federal expenditures presented in the schedule, the University provided federal awards to the following subrecipients:

<u>Assistance Listing Number/Federal Program</u>	<u>Subrecipient</u>	<u>Fiscal 2021 Expenditures</u>
10.168 Fresh App-Promote Farmers Markets	Community Farmers Market	\$ 7,854
10.168 Fresh App-Promote Farmers Markets	Foundation for Connecting Communities	36,887
10.168 Fresh App-Promote Farmers Markets	Need More Acres Farm	10,285
10.168 Fresh App-Promote Farmers Markets	SoKY Marketplace LLC	1,771
10.168 Fresh App-Promote Farmers Markets	Southern Kentucky Produce Association	3,602
93.600 Head Start FY20	Audubon Area Community Services, Inc.	244,673
93.600 Head Start FY20	Murray Head Start	205,907
93.600 Head Start Training FY20	Audubon Area Community Services, Inc.	2,113
93.600 Head Start Training FY20	Murray Head Start	2,896
93.600 Head Start FY21	Audubon Area Community Services, Inc.	275,896
93.600 Head Start FY21	Murray Head Start	206,010
93.600 Head Start Training FY21	Audubon Area Community Services, Inc.	547
93.600 Head Start Training FY21	Murray Head Start	<u>4,256</u>
Total Federal Awards Paid to Subrecipients		<u>\$1,002,697</u>

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

WESTERN KENTUCKY UNIVERSITY
NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
Year ended June 30, 2021

NOTE 1 – BASIS OF ACCOUNTING

This schedule includes the federal awards activity of Western Kentucky University (the “University”) and is presented on the accrual basis of accounting. The information in this Schedule is presented in accordance with the requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of the financial statements.

The expenditures are recognized following, as applicable, either the cost principles in OMB Circular A-21, *Cost Principles for Educational Institutions* or the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement. Negative amounts shown on the Schedule represent adjustments or credits made in the normal course of business to amounts reported as expenditures in prior years. The University has elected not to use the 10-percent de minimis indirect cost rate allowed under the Uniform Guidance.

NOTE 2 – LOANS

The University participates in the Federal Direct Loan Programs (including Supplemental Loans for Students, and Parents Loans for Undergraduate Students).

The University administers the Federal Perkins Loan Program (CFDA Number 84.038). The amount presented on the schedule of expenditures of federal awards for the Federal Perkins Loan Program represents loan balances outstanding at July 1, 2019 for which the government imposes continuing compliance requirements. No disbursements are allowed under this program subsequent to July 1, 2019. At June 30, 2021, the University had loans outstanding in the amount of \$1,696,834 with an allowance for doubtful accounts of \$548,366.

NOTE 3 – FEDERAL INSURANCE

The University had no federal insurance in force during the year.

WESTERN KENTUCKY UNIVERSITY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
June 30, 2021

PART I – SUMMARY OF AUDITORS' RESULTS

Financial Statements

Type of report the auditor issued on whether the financial statements audited were prepared in accordance with GAAP:

Unmodified

Internal control over financial reporting:
Material weakness(es) identified?

_____ Yes X No

Significant deficiency(ies) identified not considered to be material weaknesses?

_____ Yes X None Reported

Noncompliance material to financial statements noted?

_____ Yes X No

Federal Awards

Internal control over major programs:
Material weakness(es) identified?

_____ Yes X No

Significant deficiency(ies) identified not considered to be material weakness(es)?

 X Yes _____ None Reported

Type of auditors' report issued on compliance for major federal programs:

Unmodified

Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.200.516(a)?

 X Yes _____ No

Identification of major programs:

<u>CFDA Number(s)</u>	<u>Name of Federal Program or Cluster Number</u>
	Federal Student Aid Cluster (consisting of):
84.007	Federal Supplemental Educational Opportunity Grants
84.033	Federal Work Study Program
84.038	Federal Perkins Loan Program
84.063	Federal Pell Grant Program
84.268	Federal Direct Student Loans
84.379	TEACH Grants
21.019	COVID-19 - Coronavirus Relief Funding
93.600	Head Start Cluster
	Education Stabilization Fund (consisting of):
84.425E	COVID-19 - HEERF – Student Aid Portion
84.425F	COVID-19 - HEERF – Institutional Portion
84.425M	COVID-19 - HEERF – Strengthening Institutional Program
84.425C	COVID-19 - ESF – Governors Emergency Education Relief

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

\$1,422,958

Auditee qualified as low-risk auditee?

 X Yes _____ No

PART II – FINANCIAL STATEMENT FINDINGS

None

PART III – FINDINGS AND QUESTIONED COSTS – MAJOR FEDERAL AWARDS

Finding 2021-001 – Improper Claiming of Expenditures

Information on the federal program: Governor's Emergency Education Relief (GEER) Fund (CFDA Number: 84.425C) – Education Stabilization Fund

Criteria: Any cost allocable to a particular Federal award under the principles provided for in this part may not be charged to other Federal awards to overcome fund deficiencies, to avoid restrictions imposed by Federal statutes, regulations, or terms and conditions of the Federal awards, or for other reasons. However, this prohibition would not preclude the non-Federal entity from shifting costs that are allowable under two or more Federal awards in accordance with existing Federal statutes, regulations, or the terms and conditions of the Federal awards - 2CFR Part 200, Subpart E, § 200.405 Allocable costs (c)

Condition: During the audit, we noted instances in which the same expenditures were claimed for multiple federal programs.

Questioned Cost: \$4,325 (Known)

Context: During our year-end testing of the Governor's Emergency Education Relief (GEER) and Coronavirus Relief Fund (CRF) programs it was determined that some CRF transactions (or invoices) that were claimed within the CRF program were also claimed within the GEER program. Management reviewed the entire population and determined that five transactions (totaling \$169,441), were properly included and allowable under CRF, but shouldn't have also been included as a GEER related expenditure.

Effect: The University did not comply with federal regulations and claimed the same expenses on two different Federal grant programs resulting in an unallowable cost for the GEER program. The granting agency has allowed the University to keep the funds and apply against future GEER expenses. At June 30, 2021, this amount is shown as unearned revenue on the statements of net position.

Cause: The above condition was a result of significant turnover regarding the individuals involved with the program and the program being new to the University during current fiscal year. Additionally, the University did not utilize the grant index fund for the CRF program like they did for other grant programs.

Repeat Finding: N/A

Recommendation: We recommend that management look to implement an additional layer of review related to the expenditure process to further ensure that expenditures being claimed within this program aren't already being used within another program. Crowe also recommends that each expenditure be classified to a specific grant code or index and that grant claims be made based off of the activity in that code or index, thus greatly reducing the chance of claiming the same expense on multiple grants.

Views of responsible officials and planned corrective actions: The University will implement an additional layer of review for any new revenue sources received from an outside entity to ensure all pass-through federal funding is identified and properly recorded using the established grant index fund procedures.