BOARD OF REGENTS
for
KENTUCKY STATE UNIVERSITY

Meeting of the Evaluation and Compensation Committee of the Board of Regents

Tuesday, April 6, 2021
9:00 a.m.

2nd Floor Julian M. Carroll
Academic Service Building
Frankfort, Kentucky 40601

KENTUCKY STATE UNIVERSITY
MISSION STATEMENT

Kentucky State University is a public, comprehensive, historically black land-grant university committed to advancing the Commonwealth of Kentucky, enhancing society, and impacting individuals by providing quality teaching with a foundation in liberal studies, scholarly research, and public service to enable productive lives within the diverse global economy.

KENTUCKY STATE UNIVERSITY
VISION STATEMENT

Kentucky State University prepares today's students as global citizens, lifelong learners and problem solvers. To accomplish this, Kentucky State University must challenge itself and its students to be the best. It must recognize its strengths, expand and excel. Notwithstanding, it must also welcome change and quality improvement. By doing so, KSU will gain widespread recognition as one of the region's strongest universities. As a university of distinction, Kentucky State University will create an environment where:

- Students are first.
- Diversity is valued, understood and respected.
- Diverse, motivated and talented students, staff and faculty are actively recruited and retained.
- An intellectual environment conducive to leadership in teaching, research and community service is encouraged and supported.
- Effective teaching is promoted both inside and outside the classroom.
- Students are taught how to obtain, evaluate and use information.
- Learning is lifelong.
- Effective and efficient fiscal management by the administration is the norm.
- Collegiality is the norm, not the exception.
- Each person is a change agent.
- Excellence starts with me.

KENTUCKY STATE UNIVERSITY
CORE VALUES

Through the core values, we- the faculty, staff, administration and students of Kentucky State University – communicate to all our stakeholders and constituents the way in which we choose to do business. The following values that we hold are essential to achieving the University's mission:

Student Centered Philosophy

In everything we do, our students come first. We strive to create an environment that values the unique backgrounds, perspectives and talents of all our students and provide them with the academic, leadership and social tools to help them grow as responsible, knowledgeable and creative global citizens. We encourage attitudes and behaviors that lead to a desire to learn, a commitment to goals and respect for the dignity of others. Ultimately, we encourage attitudes and behaviors that build success.

Excellence and Innovation

We believe in student's potential to learn and to connect what they learn inside and outside the classroom to solving problems for productive changes. We strive to offer excellent academic programs; to encourage exploration and discovery through providing outstanding instruction, technology and facilities; and to ignite a curiosity toward the world and a passion for lifelong learning. We seek to reward the pursuit and achievement of excellence and innovation in an environment where freedom of thought and expression are valued. We want all members of our campus community to leave a mark through their creativity, curiosity, discovery, exploration and ingenuity.

Ethical Conduct

We encourage the sharing of information in an open and responsible manner while maintaining the highest ethical and moral standards. The standards are reflected in our commitment to accountability and to personal responsibility for our choices and actions. We encourage respect for the dignity, diversity and right of individuals. We welcome all students who commit themselves to learning, knowing that students and faculty with diverse perspective enhance our classroom experience.

Social Responsibility

We share responsibility for each other and are committed to providing opportunities for the participation in the economic, political and cultural life of our local, state, regional, national and global communities. We are sensitive to our surrounding community; therefore, we recognize the value of integrating classroom learning with the community experience. Our commitment is to provide leadership and to establish partnerships for addressing community and workforce needs and to make a positive difference in the city of Frankfort, the Commonwealth of Kentucky and the world.

KENTUCKY STATE UNIVERSITY
COUNCIL OFFICERS

Dr. M. Christopher Brown II
Eighteenth President

Dr. Lucian Yates III
Interim Provost and Vice President for Academic Affairs

Mr. Douglas R. Allen II
Executive Vice President for Finance and Administration / CFO

Ms. Clara Ross Stamps
Senior Vice President for Brand Identity and University Relations

Vacant
Institutional Advancement

Dr. Pernella R. Deams
Interim Vice President for Student Engagement and Campus Life

Ms. Lisa Lang
General Counsel, and Records Custodian

Dr. Tymon M. Graham
Chief of Staff

KENTUCKY STATE UNIVERSITY
BOARD MEMBERS

Mr. Ron Banks (2023)

Ms. Mindy Barfield, Esq. (2021)

Dr. Elaine Farris (2020), *Chairperson*

Ms. Chandee Felder (2022), *Staff Regent*

Mr. Paul C. Harnice, Esq. (2022)

Mr. Dalton Jantzen, MS (2022)

Mr. Kirk Miller (2021), Student Regent

Dr. Joe Moffett (2022), *Faculty Regen*t

Dr. Syamala H.K. Reddy (2021)

Mr. Roger Reynolds (2024)

KENTUCKY STATE UNIVERSITY
ELECTED BOARD OFFICERS

Dr. Elaine Farris, *Chairperson*

Mr. Dalton Jantzen, *Vice Chairperson*

Dr. M. Christopher Brown II, *Secretary*

Mr. Douglas R. Allen II, *Treasurer*

KENTUCKY STATE UNIVERSITY
BOARD COMMITTEES

ACADEMIC AFFAIRS
Regent Dalton Jantzen, *Chair*
Regent Mindy Barfield
Regent Elaine Farris
Regent Kirk Miller
Regent Joe Moffett
Regent Roger Reynolds

BRAND IDENTITY AND UNIVERSITY RELATIONS
Regent Roger Reynolds, Chair Regent
Ron Banks
Regent Elaine Farris
Vacant
Regent Dalton Jantzen
Regent Joe Moffett

INSTITUTIONAL ADVANCEMENT
Regent Ron Banks, *Chair*
Regent Elaine Farris
Regent Chandee Felder
Regent Paul Harnice
Regent Syamala Reddy
Regent Roger Reynolds

FINANCE AND ADMINISTRATION
Regent Mindy Barfield, *Chair*
Regent Elaine Farris
Regent Paul Harnice
Vacant
Regent Dalton Jantzen
Regent Roger Reynolds

STUDENT ENGAGEMENT AND CAMPUS LIFE
Regent Elaine Farris, *Chair*
Regent Ron Banks
Regent Chandee Felder
Regent Paul Harnice
Regent Dalton Jantzen
Regent Kirk Miller

GOVERNANCE
Regent Paul Harnice, *Chair*
Regent Mindy Barfield
Regent Elaine Farris
Regent Chandee Felder
Regent Syamala Reddy
Regent Roger Reynolds

EXECUTIVE AND AUDIT COMMITTEE
Regent Elaine Farris, *Chair*
Regent Ron Banks
Regent Mindy Barfield
Regent Paul Harnice
Regent Dalton Jantzen
Regent Roger Reynolds

KENTUCKY STATE UNIVERSITY BOARD OF REGENTS

Special Called Meeting of the Board of Regents

Tuesday, April 6, 2021, 9:00 a.m.

*** Meeting Will be Conducted by Teleconference***

Zoom Link: https://kysu.zoom.us/s/95118636505
Webinar ID: 951 1863 6505
Phone One-Tap: +16468769923,,95118636505# or +13017158592,,95118636505#

AGENDA

1.	Call to Order	Regent Elaine Farris, Chair, Board of Regents
2.	Roll Call	Dr. M. Christopher Brown II, Board Secretary
3.	Adoption of the Agenda	Regent Elaine Farris
4.	Action Item(s) *A. Approval of Fiscal Year 2020 Audit*	Dr. M. Christopher Brown II
5.	Closed Session *A. Pending Litigation (KRS 61.810 (1)(c))* *B. Individual Personnel Matters (KRS 61.810 (1)(f))*	Regent Elaine Farris
6.	Approve Legal Action(s) or Settlement(s) (if any)	Regent Elaine Farris
7.	Adjournment	Regent Elaine Farris

Kentucky State University Board of Regents
2021 Quarterly Meeting Dates
June 3-4, 2021
September 2-3, 2021
December 2-3, 2021

KENTUCKY STATE UNIVERSITY
BOARD OF REGENTS

DATE: April 6, 2021

SUBJECT: Approval of Fiscal Year 2020 Audit

FROM: FINANCE AND ADMINISTRATION

ACTION ITEM: YES

BACKGROUND: In accordance with KRS164A.170, the corporation shall also cause an audit to be made by a resident independent certified public accountant of its books, accounts, and records, with respect to its receipts, disbursements, contracts, mortgages, leases, assignments, loans and all other matters relating to its financial operations. The persons performing such audit shall furnish copies of the audit report to the secretary of the Finance and Administration Cabinet, where they shall be placed on file and made available for inspection by the general public.

SUMMARY OF PROGRAMS/ACTIVITIES:
FY2020 Audit Summary:

- The University received an unmodified opinion -- the highest level of assurance an external audit firm can provide
- The audit was issued with the inclusion of the completed KSU Foundation, Incorporated audit as a component unit of the University
- The University closed FY2020 with an increase in net position of $2,340,515
- The University reported no material weaknesses in financial reporting
- The University reported no material weaknesses in internal control over federal grant awards
- The University resolved three audit findings from the prior year
- The University received only one audit finding resulting in $0 questioned cost

ALIGNMENT WITH STRATEGIC GOALS:

Goal 3: Increase the University's Financial Strength and Operational Efficiency.

COMMITTEE/PROGRAM ACTION: N/A

PROGRAM IMPLICATIONS: N/A

FISCAL IMPLICATIONS: N/A

RECOMMENDATION: The Kentucky State University Board of Regents approve the Fiscal Year 2020 Audit.

ATTACHMENTS: YES

Crowe

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Independent Member Crowe Global

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INDEPENDENT AUDITOR'S REPORT

Board of Regents
Kentucky State University
Frankfort, Kentucky
and
Kentucky Auditor of Public Accounts
Frankfort, Kentucky
and
Secretary of Finance and Administration Cabinet
Department of Facilities Management of the
Commonwealth of Kentucky
Frankfort, Kentucky
and
Governor of Kentucky
Frankfort, Kentucky
and
Council on Postsecondary Education
Frankfort, Kentucky

We have audited, in accordance with auditing standards generally accepted in the United States of America, the financial statements of the business-type activities and discretely presented component unit of Kentucky State University ("University"), a component unit of the Commonwealth of Kentucky, as of and for the year ended June 30, 2020, and the related notes to the financial statements, and have issued our report thereon dated March 29, 2021.

In connection with our audit, nothing came to our attention that caused us to believe that the provisions of KRS 56.800 through 56.823, KRS 48.111 and KRS 48.190 as well as the Model Audit Program Checklist for Lease Law Compliance for Postsecondary Education Institutions applied to the University during the year ended June 30, 2020, insofar as they relate to accounting matters. However, our audit was not directed primarily toward obtaining knowledge of the applicability of such requirements. Accordingly, had we performed additional procedures, other matters may have come to our attention regarding the applicability of such requirements, insofar as they relate to accounting matters.

This report is intended solely for the information and use of the Board of Regents and management of the University and is not intended to be and should not be used by anyone other than these specified parties.

Crowe LLP
Crowe LLP

Lexington, Kentucky
March 29, 2021

Crowe

Crowe LLP
Independent Member Crowe Global

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH SPECIFIED REQUIREMENTS OF COMMONWEALTH OF KENTUCKY HOUSE BILL 622

Board of Regents
Kentucky State University
Frankfort, Kentucky
and
Secretary of Finance and Administration
Cabinet of the Commonwealth of Kentucky
Frankfort, Kentucky

We have audited, 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 of the United States, the financial statements of Kentucky State University (the "University"), a component unit of the Commonwealth of Kentucky, which are comprised of the statement of net position as of June 30, 2020, and the statement of revenues, expenses and changes in net position and the statement of cash flows, for the year then ended. We have issued our report thereon dated March 29, 2021.

In connection with our audit, nothing came to our attention that caused us to believe the University failed to comply with the provisions set forth in the Commonwealth of Kentucky's House Bill 622 (KRS164A.555 to 164A.630) insofar as they related to accounting matters. However, our audit was not directed primarily toward obtaining knowledge of such noncompliance. Accordingly, had we performed additional procedures, other matters may have come to our attention regarding the University's noncompliance with the above-referenced requirements, insofar as they relate to accounting matters.

The report is intended solely for the information and use of the Board of Regents, management of the University, and Secretary of Finance and Administration Cabinet of the Commonwealth of Kentucky and is not intended to be and should not be used by anyone other than these specified parties.

Crowe LLP

Crowe LLP

Lexington, Kentucky
March 29, 2021

KENTUCKY STATE UNIVERSITY
(A Component Unit of the Commonwealth of Kentucky)

FINANCIAL STATEMENTS
June 30, 2020

KENTUCKY STATE UNIVERSITY

FINANCIAL STATEMENTS
June 30, 2020

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Crowe

Crowe LLP
Independent Member Crowe Global

INDEPENDENT AUDITOR'S REPORT

Members of the Board of Regents
Kentucky State University
Frankfort, Kentucky

Secretary of Finance and
Administration Cabinet of the
Commonwealth of Kentucky

Report on the Financial Statements

We have audited the accompanying financial statements of the business-type activities and discretely presented component unit of Kentucky State University (the University), a component unit of the Commonwealth of Kentucky, as of and for the year ended June 30, 2020, and the related notes to the financial statements which collectively comprise the University's basic financial statements as listed on the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of the Kentucky State University Foundation, Inc. (Foundation) which represents the entire discretely presented component unit of the University. Those financial statements were audited by other auditors whose reports thereon have been furnished to us, and our opinion, insofar as it relates to the amounts included for the Foundation is based solely on the reports of the other auditors. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audit contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement. The financial statements of the Foundation 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.

(Continued)

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 audit and the report of other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities and discretely presented component unit of the University as of June 30, 2020, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matter

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis on pages 3 through 14 and required supplementary information on pages 66 through 72 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.

Prior Year Comparative Information

We have previously audited the University's fiscal year 2019 financial statements, and we expressed an unmodified audit opinion on the financial statements of the business-type activities of the University in our report dated December 3, 2019. In our opinion, the summarized comparative information presented herein for the business-type activities as of and for the year ended June 30, 2019, is consistent, in all material respects, with the audited financial statements from which it has been derived.

Other auditors have previously audited the discretely presented component unit's fiscal year 2019 financial statements and they expressed an unmodified audit opinion on the financial statements in their report dated October 17, 2019. The summarized comparative information for the discretely presented component unit as of June 30, 2019 has not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated March 29, 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

Crowe LLP

Lexington, Kentucky
March 29, 2021

Introduction

Management's Discussion and Analysis of Kentucky State University's (the University) financial statements provide an overview of the financial position and activities of the University for the year ended June 30, 2020, with comparative information for the year ended June 30, 2019. This discussion has been prepared by management and should be read in conjunction with the financial statements and the notes thereto, which follow this section. The financial statements and related notes and this discussion and analysis are the responsibility of management.

Kentucky State University is a Commonwealth of Kentucky coeducational institution for higher education. The University's mission is to build on its legacy of achievement as a historically black, liberal arts, and 1890 land-grant university, afford access to and prepare a diverse student population of traditional and non-traditional students to compete in a multifaceted, ever-changing global society by providing student-centered learning while integrating teaching, research, and service through high-quality undergraduate and select graduate programs. Kentucky State University is committed to keeping relevant its legacy of service by proactively engaging the community in partnerships on civic projects driven by the objective of positively impacting the quality of life of the citizens of the Commonwealth.

Basis of Presentation

The annual financial report and statements include the University and Kentucky State University Foundation, a component unit of the University. Kentucky State University Foundation, Inc. (the Foundation) is a not-for-profit Kentucky corporation which was established to receive, invest and expend funds to promote and implement educational and developmental activities at Kentucky State University (the University). The Foundation is managed by a Board of Trustees independent from that of the University. The Foundation is supported primarily through contributions from alumni.

Financial Highlights

The University's financial position at June 30, 2020, reflected total assets and deferred outflows of $136.1 million and total liabilities and deferred inflows of $137.6 million. Total net position was ($1.6) million.

Total assets and deferred outflows increased by $18.4 million or 16%, primarily due to an increase in capital assets. Total liabilities and deferred inflows increased by $16.1 million or 13% primarily due to increases in the net pension liability related to KTRS, accounts payable, and accrued liabilities.

Unrestricted net position, which the University reserves for spending in programs and other capital-related contingencies, decreased $5.2 million.

The University classifies amounts earned on endowments as spendable or non-spendable in accordance with the endowment's donor stipulations. Nonexpendable restricted net assets represent amounts, which must be maintained in perpetuity. Expendable restricted net assets include private grants and contributions restricted for specific purposes and accumulated earnings on endowment assets.

Operating revenues were nearly $39.9 million and operating expenditures were $68.5 million, resulting in a loss from operations of $28.6 million. Net non-operating revenues were $30.9 million, including $25.8 million in state appropriations, which, when combined with the loss from operations and capital appropriations, resulted in an overall increase in net position of $2.3 million.

Using the Financial Statements

The University's Financial Statements consist of three financial statements: a Statement of Net Position (Balance Sheet); a Statement of Revenues, Expenses and Changes in Net Position (Income Statement); and a Statement of Cash Flows, along with the accompanying Notes to the Financial Statements. These financial statements are prepared in accordance with Governmental Accounting Standards Board (GASB) Statement No. 35, Basic Financial Statements – and Management's Discussion and Analysis – for Public Colleges and Universities.

Kentucky State University is a component unit of the Commonwealth of Kentucky.

Statement of Net Position

The Statement of Net Position presents the financial position of the University at the end of the fiscal year and includes all assets, deferred outflows of resources, liabilities, and deferred inflows of resources. Net position, the difference between total assets and deferred outflows and total liabilities and deferred inflows, is an important indicator of the current financial condition, while the change in net position is an indicator of whether the overall financial position has improved or worsened during the year.

Condensed Statement of Net Position

	2020	2019
ASSETS		
Current assets	$ 6,148,240	$ 8,633,556
Noncurrent assets	111,324,681	93,824,063
Total assets	117,472,921	102,457,619
DEFERRED OUTFLOWS OF RESOURCES	$ 18,594,112	15,179,797
LIABILITIES		
Current liabilities	18,278,047	12,346,476
Non-current liabilities	92,294,267	68,680,752
Total liabilities	110,572,314	81,027,228
DEFERRED INFLOWS OF RESOURCES	$ 27,065,849	$ 40,521,833
NET POSITION		
Net investment in capital assets	77,317,900	69,736,441
Restricted		
Nonexpendable - endowment	3,562,238	3,562,238
Expendable	4,220,806	4,800,330
Unrestricted	(86,672,074)	(82,010,654)
Total net position	$ ($1,571,130)	$ (3,911,645)

Assets and Deferred Outflows: As of June 30, 2020, total assets and deferred outflows amounted to $136.1 million. Of this amount, investment in capital assets (net of depreciation) of $93.5 million, or 79% of total assets, represented the largest asset class. Investments amounted to $17.2 million or 14% of total assets. During the year, total assets and deferred outflows increased by $18.4 million, primarily due to increases in capital assets.

Liabilities and Deferred Inflows: As of June 30, 2020, total liabilities and deferred inflows amounted to $137.1 million. Net pension and OPEB liabilities amounted to $76.3 million. The University's proportion of the net pension liability and net OPEB liability of the Kentucky Employees Retirement System and the Kentucky Teachers' Retirement System was based on a projection of the University's long-term share of contributions to the pension and OPEB plans relative to the projected contributions of all participating universities, actuarially determined. Long-term debt includes bonds payable for the housing and dining system and energy-related equipment and technology equipment purchased under a Master Lease Agreement. During the year, total liabilities and deferred inflows increased by $16.1 million, primarily due to the decrease in the net pension liability and accounts payable and accrued liabilities.

Net Position: Net position of the University was $(1.6) million at June 30, 2020 and was reported in three net position categories: net investment in capital assets $77.3 million, restricted nonexpendable $3.6 million, restricted expendable $4.2 million, and unrestricted $(86.7) million.

Statement of Revenues, Expenses and Changes in Net Position

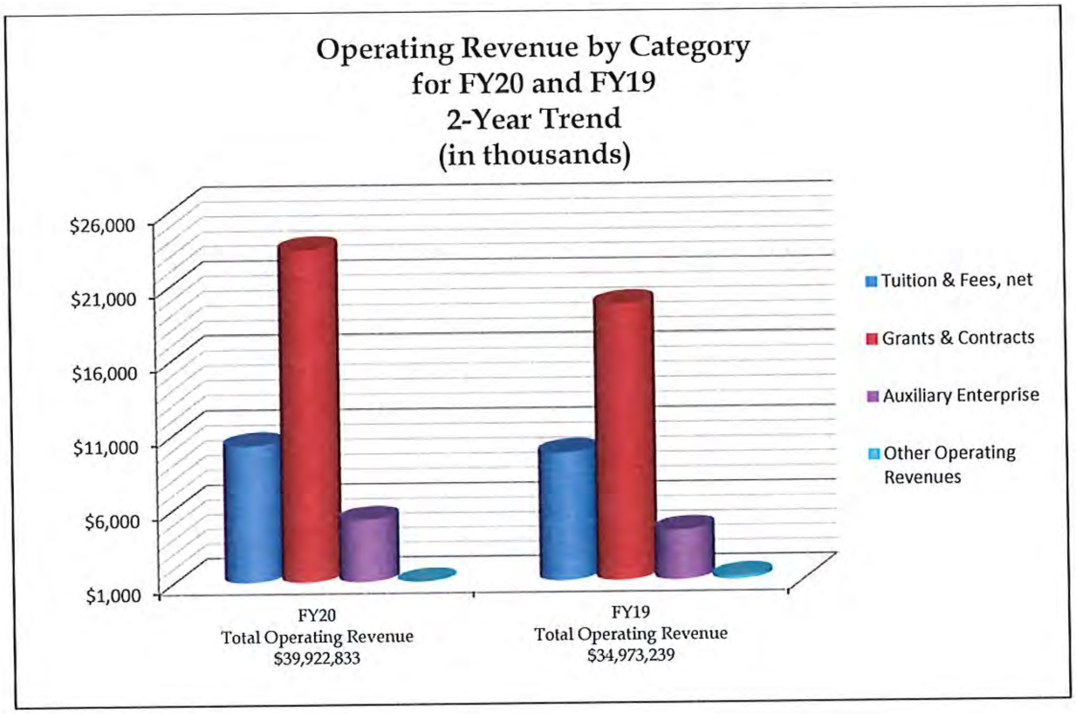
The Statement of Revenues, Expenses and Changes in Net Position is prepared on the accrual basis of accounting, whereby revenues and assets are recognized when the service is provided and expenses and liabilities are recognized when others provide the service, regardless of when cash is exchanged. All items that increase or decrease net position must appear on the Statement of Revenues, Expenses and Changes in Net Position as revenues, expenses, gains or losses.

Financial activities are reported as either operating or non-operating. GASB Statement No. 35 requires state appropriations, gifts, investment income and endowment income to be classified as non-operating revenues. Accordingly, the University reports an operating loss prior to the addition of non-operating revenues. The utilization of long-lived capital assets is reflected in the financial statements as depreciation, which amortizes the cost of an asset over its expected useful life. Tuition revenue is reduced by gift scholarships and institutional aid and is reported net of scholarship allowances in the financial statements. A summarized comparison of the University's revenues, expenses and changes in net position for the years ended June 30, 2020 and 2019 is as follows.

Condensed Statement of Revenues, Expenses and Changes in Net Position

	2020	2019
REVENUES		
Student tuition and fees, net	$ 10,290,971	$ 9,710,046
Grants and contracts	23,396,504	19,615,052
Auxiliary enterprises	5,263,410	4,426,675
Other operating revenue	971,948	1,221,466
Total operating revenues	39,922,833	34,973,239
EXPENSES		
Educational and general	63,057,725	65,992,835
Auxiliary enterprises	5,466,801	4,726,810
Total operating expenses	68,524,526	70,719,645
Operating loss	(28,601,693)	(35,746,406)
NONOPERATING REVENUES (EXPENSES)		
State appropriations	25,766,500	25,749,000
Federal grants and contracts	4,703,308	4,261,886
Investment income	590,615	871,874
Interest on capital asset – related debt	(118,215)	(276,798)
Total non-operating revenues	30,942,208	30,605,962
Income before capital appropriations	2,340,515	(5,140,444)
Capital appropriations	-	151,277
Change in net position	2,340,515	(4,989,167)
NET POSITION		
Net position, beginning of year	(3,911,645)	1,077,522
Net position, end of year	$ (1,571,130)	$ (3,911,645)

Figure1


Operating Revenue by Category
for FY20 and FY19
2-Year Trend
(in thousands)
$26,000
$21,000
$16,000
$11,000
$6,000
$1,000
FY20
Total Operating Revenue
$39,922,833
FY19
Total Operating Revenue
$34,973,239
Tuition & Fees, net
Grants & Contracts
Auxiliary Enterprise
Other Operating Revenues


FY 2020 Operating Revenue Categories as a % of Total Operating Revenues
13.2%
2.4%
25.8%
58.6%
Tuition & Fees, net
Grants & Contracts
Auxiliary Enterprise
Other Operating Revenues

Operating Revenue

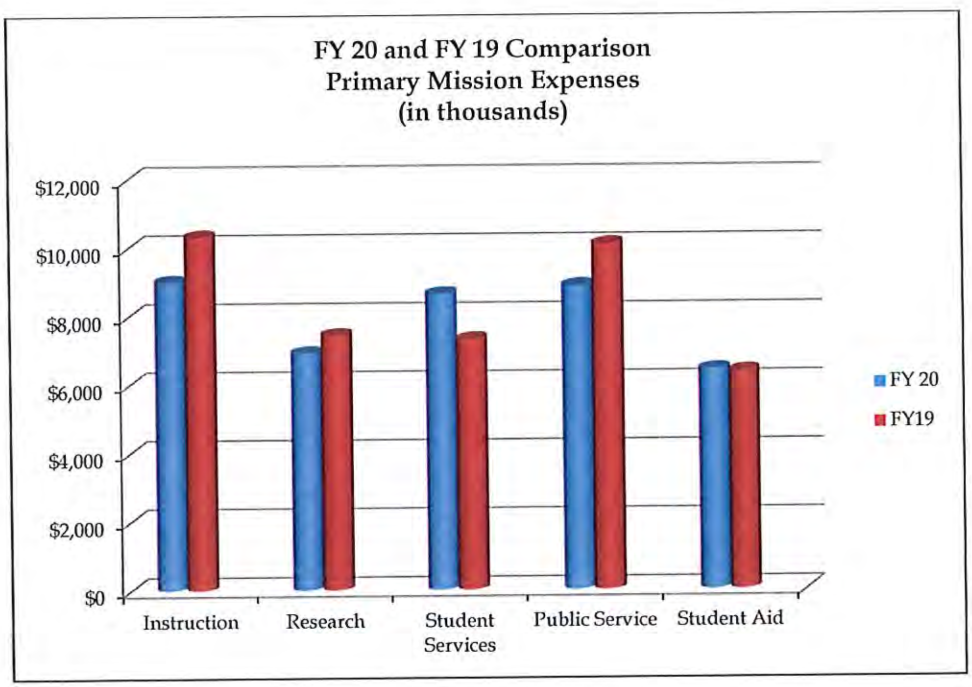
Total operating revenues were $39.9 million for the year ended June 30, 2020, as compared with $35.0 million in FY19. The primary components of operating revenue were federal, state and local grants and contracts of $23.4 million (58.6%), student tuition and fees, net, of $10.3 million (25.8%) and auxiliary services and other revenues of $6.2 million (15.6%). FY20 net student tuition and fees revenue increased by $0.6 million compared to FY19. FY20 grants and contracts revenue increased $3.8 million compared to FY19 due to increased awards and spending. FY20 auxiliary services and other revenue increased $587,218 compared to FY19. Refer to ***Figure 1*** for the two-year trend of the operating revenues as a percent to total operating revenues and revenue by category.

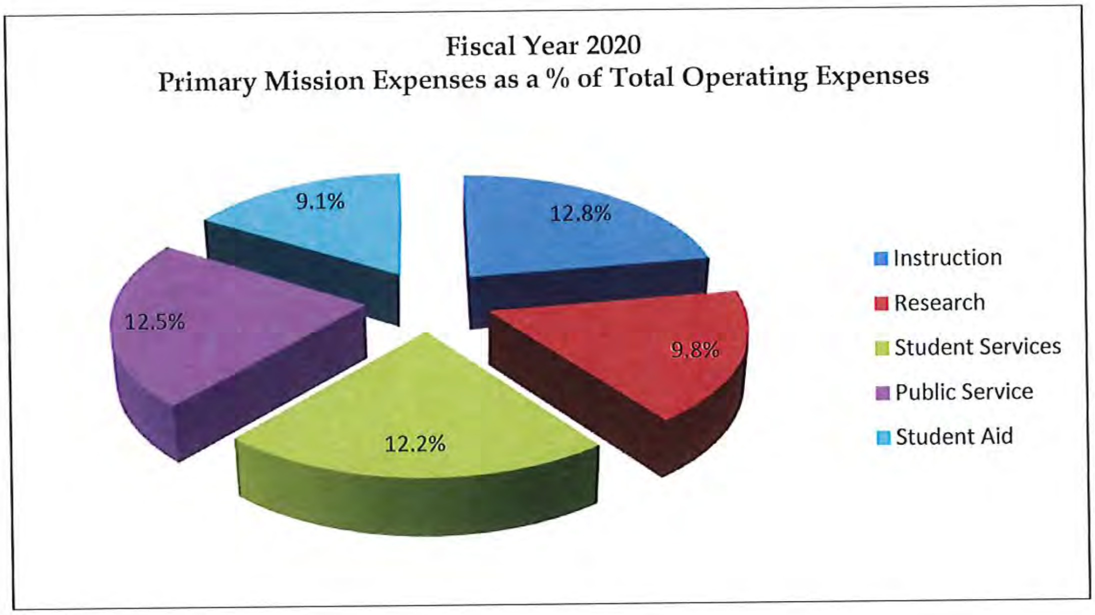
Operating Expenses

Operating expenses totaled $68.5 million, a decrease of $2.2 from last year. Of this amount, $41.7 million (60%) was expended directly for the primary mission of the University – instruction (13%), research (10%), student services (12%), student aid (12%), and public service (13%). Instruction is the main component of Primary Mission expenses amounting to $9.8 million in fiscal year 2020 or 13%. Refer to ***Figure 2*** for the operating expenses categorized into the Primary Mission of the University.

(Percentages below do not include depreciation or operations/maintenance allocations.)

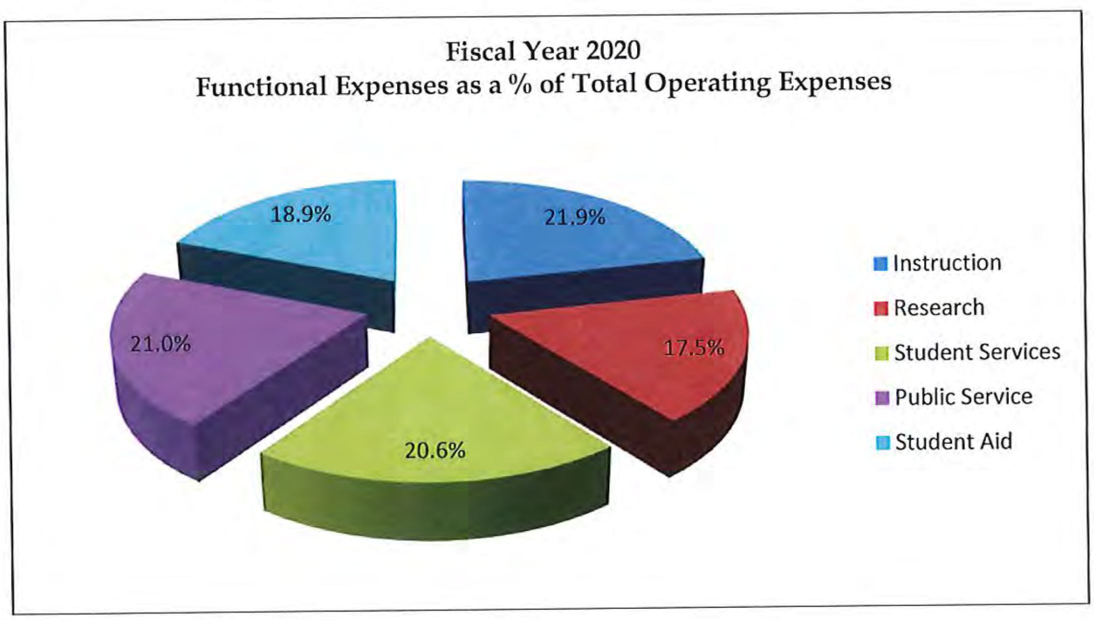
Figure 2





In addition to the Primary Mission expenses of the University, there are expenses from depreciation and operations & maintenance that are allocated to the various functional classifications (See Note 13 – Schedule of Expenses by Program). See below for the operating expenses categorized into the Functional Expenses of the University.

(Percentages below include depreciation and operations/maintenance allocations.)



The University continued to invest in student aid and support services to provide students with opportunities to be successful in fiscal year 2020. For the year ended June 30, 2020, student aid expenses totaled $6.4 million and scholarship allowances totaled $4.9 million.

The University had an overall decrease in institutional support of $0.3 million, which was consistent with the overall expenditure decrease University wide. The large expenditures in the primary areas of instruction, research and student services, in conjunction with minimal increases to fixed cost areas, confirms the University resource allocations are clearly aligned with the University's strategic priorities to support academic and student excellence.

The net loss from operations for the year amounted to ($28.6) million. Non-operating revenues, net of expenses, amounted to $30.9 million, resulting in an increase of net position of $2.3 million for the year. Non-operating revenues include state appropriations of $25.8 million and non-operating federal grants and contracts of $4.7 million.

Statement of Cash Flows

The Statement of Cash Flows presents information related to the University's cash inflows and outflows summarized by operating activities, noncapital financing activities, capital financing activities and investing activities. The primary purpose of the Statement of Cash Flows is to provide information about the cash receipts and cash payments made by the University during the year, to allow financial statement readers to assess the University's ability to generate future net cash flows, its ability to meet obligations as they become due and its possible need for external financing.

Condensed Statement of Cash Flows

	2020	2019
Cash (used) provided by:		
Operating activities	$ (22,787,888)	$ (40,996,680)
Non-capital financing activities	31,301,874	30,010,886
Capital and related financing activities	(9,309,928)	(1,085,825)
Investing activities	1,032,291	84,633
Change in cash balances	236,349	(11,986,986)
Cash and cash equivalents, beginning year	2,909,505	14,896,491
Cash and cash equivalents, end of year	$ 3,145,854	$ 2,909,505

Cash and Investments

Major sources of cash received from operating activities are student tuition and fees of $12.0 million and grants and contracts of $28.7 million. Major uses of cash for operating activities were payments to employees for salaries and benefits of $42.1 million and to vendors and contractors of $18.2 million.

Noncapital financing activities included state appropriations from the Commonwealth of Kentucky of $25.8 million.

Capital and related financing activities include purchases and payments of $9.3 million expended for construction and acquisition of capital assets and for principal and interest payments on the retirement of the University's bonds and other capital related debt.

State Appropriations

State appropriations represent approximately 35% of all operating and non-operating revenues. The level of state support is a key factor influencing the University's overall financial condition. State appropriation is unrestricted revenue and is included as non-operating revenue. State appropriations are used to support payroll and benefits for University employees.

The following details the net Commonwealth appropriations received by the University for fiscal years ending June 30, 2020 and 2019.

	2020	2019
Commonwealth appropriations	$ 25,766,500	$ 25,749,000

Capital Appropriations for the Commonwealth

The University faces financial challenges to maintain and upgrade its capital assets including its infrastructure, buildings and grounds. A combination of revenue sources funds the University's investment in capital improvements, including appropriations provided by the Commonwealth of Kentucky. In fiscal year 2020, the Commonwealth provided capital appropriations of $0 to the University. State capital appropriations plus federal sources play an important role in the University's efforts to address deferred maintenance projects.

Grant and Contract Revenue

The following table details the University's grant and contract revenue for fiscal years ended June 30, 2020 and 2019.

	2020	2019
Federal grants and contracts, operating	$ 21,403,764	$ 18,007,131
Federal grants and contracts, non-operating	4,703,308	4,261,886
State grants and contracts	1,992,740	1,607,921
Total grants and contracts	$ 28,099,812	$ 23,876,938

Capital Plan

The University continues to face financial challenges to maintain and upgrade its capital assets including its infrastructure, buildings and grounds. A combination of revenue sources fund the University's investment in capital improvements. Those include appropriations provided by the Commonwealth of Kentucky. In fiscal year 2016-17, the Commonwealth funded one capital project, appropriating state bond funds toward Repair Boilers and Aging Distribution Lines. As of June 30, 2020, $8.9 million has been expended on this project. State capital appropriations for deferred maintenance were not appropriated. Federal funds are the primary source for the University's College of Agriculture and Land Grant departments.

Designated and Non-designated Spending

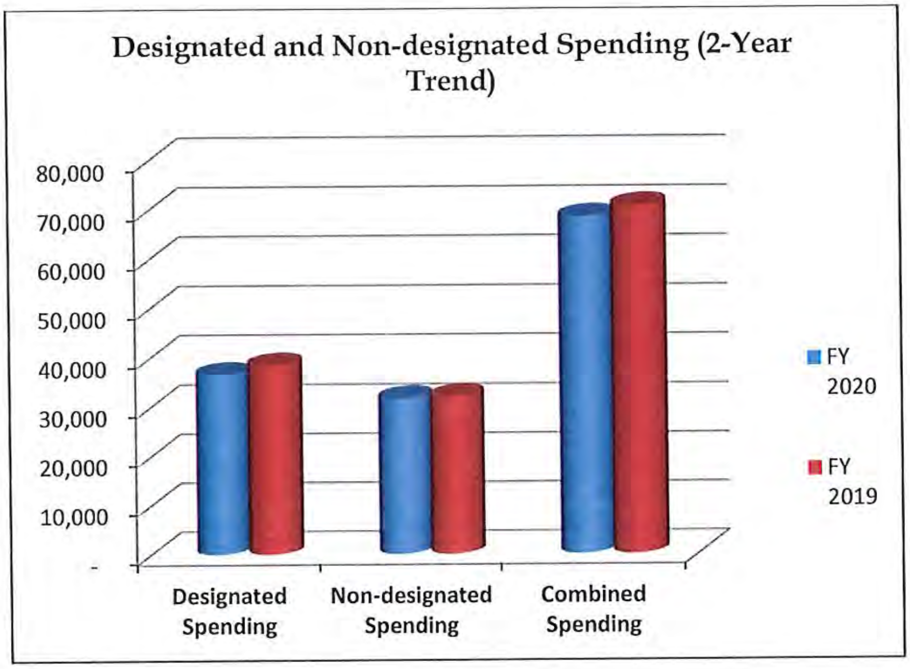
In the tables below, expenses have been categorized into designated or non-designated spending categories. The designated spending category includes funds expended by function from contracts and grants, land grant, auxiliary and depreciation. These funds must be expended for the purposes for which the funds were received or budgeted. This category also includes funds for student aid. All other spending is categorized as non-designated spending. Total spending for all functions in 2020 in the non-designated category is consistent with 2019.

	2020		
	Designated Spending	Non-designated Spending	Combined Spending
Instruction	$ 434,006	$ 8,588,467	$ 9,022,473
Research	7,479,608	(550,253)	6,929,355
Public service	9,214,216	(339,101)	8,875,115
Academic support	100,537	177,823	278,360
Student services	809,688	7,836,726	8,646,414
Institutional support	3,456,969	11,043,954	14,500,923
Operation and maintenance of plant	-	4,997,765	4,997,765
Student aid	6,361,730	58,999	6,420,729
Auxiliary	5,167,732	-	5,167,732
Depreciation	3,685,660	-	3,685,660
Total	$ 36,710,146	$ 31,814,380	$ 68,524,526

	2019		
	Designated Spending	Non-designated Spending	Combined Spending
Instruction	$ 1,130,410	$ 9,200,223	$ 10,330,633
Research	8,418,721	(969,604)	7,449,117
Public service	11,171,830	(1,084,496)	10,087,334
Academic support	54,114	571,470	625,584
Student services	620,450	6,703,156	7,323,606
Institutional support	2,988,829	11,850,139	14,838,968
Operation and maintenance of plant	-	5,399,949	5,399,949
Student aid	5,898,427	465,536	6,363,963
Auxiliary	4,423,814	-	4,423,814
Depreciation	3,876,677	-	3,876,677
Total	$ 38,583,272	$ 32,136,373	$ 70,719,645

The graph in ***Figure 3*** shows a two-year trend of designated, non-designated, and combined spending. Designated spending decreased $1.9 million in 2020. Non-designated spending increased $1.4 million in 2020. Combined spending decreased $0.4 million in 2020.

Figure 3



Capital Asset and Debt Administration

Capital Assets

Capital assets, net of accumulated depreciation, totaled $93.4 million at June 30, 2020, an increase of $18.2 million. Capital assets as of June 30, 2020 and significant changes in capital assets during the year are as follows (in millions):

	June 30, 2020	Net Additions (Reductions) FY 19-20	June 30, 2019
Land and land improvements	$ 6.3	$ -	$ 6.3
Buildings, fixed equipment and infrastructure	155.8	-	155.8
Equipment, vehicles and capitalized software	32.6	0.8	31.8
Library materials and art	10.6	-	10.6
Construction in progress	31.8	21.1	10.7
Accumulated depreciation	(143.7)	(3.7)	(140.0)
Total	$ 93.4	$ 18.2	$ 75.2

Long-Term Debt

At June 30, 2020, bonds and lease payable amounted to $16.1 million, as summarized below:

	2020	2019
Lease obligations	$ 14,133,959	$ 1,170,167
General receipts bonds	2,035,000	2,285,000
Bond discount	(27,377)	(31,861)
Total	$ 16,141,582	$ 3,423,306

Economic Factors Impacting Future Periods

University management continues its strategic mission to uniquely position Kentucky State University as Kentucky's small public liberal arts institution of excellence for the citizens of the Commonwealth and for advancing higher education in Kentucky by inspiring innovation, growing leaders and advancing Kentucky. Executive management continues to work with the Council on Postsecondary Education to address the needs of the Commonwealth and believes it is positioning the University to become a strong, financially viable and efficient institution of higher learning.

Future economic factors impacting Kentucky State University include the following known facts:

- Tuition and costs of attendance – Kentucky State University continues to weigh its costs of attendance with the funding provided by the General Assembly to successfully deliver its programs and remain one of the most affordable public institutions in the Commonwealth. Funding levels and methodologies used for institutions of higher education in the Commonwealth are developed and approved by the Council on Postsecondary Education.
- Enrollment growth and student retention – Kentucky State University recruits a diverse student body of traditional, nontraditional and transfer students seeking baccalaureate and advanced degrees. Enrollment stabilization is a priority of University management and specifically, an increased strategy for recruiting in-state students.
- Program expansion – the University is well positioned to meet the needs of Kentuckians through its programs and educational activities. The University offers the following programs: Bachelors in Mass Communications and Journalism, a Masters of Arts in Special Education, and a Masters in Business Administration, a Masters in Public Administration, a Masters in Computer Science, a Masters in Environmental Studies, a Masters of Science in Interdisciplinary Behavioral Studies and a Doctorate in Nursing Practice.
- Regional Stewardship – Kentucky State University continues to meet the economic and community needs of its area of geographic responsibility through collaborative initiatives with businesses, community-based organizations, schools and other educational agencies, citizens and local and state officials.
- Land Grant – Kentucky State University continues to fulfill its mission as a land grant institution providing innovative research opportunities on its research vessel, the Kentucky River Thorobred and community-based extension through the Rosenwald Center for Families and Children

The overall financial position of the University was stable during fiscal year 2020. Revenue streams were stressed. As the University adapts to present economic environments, new opportunities for funding will be explored to complement state support. Executive management's goal is to deliver exceptional programs and services to students and constituents while maintaining financial stability. Management believes Kentucky State University is able to sustain its financial position and solidify its standing as a regional university of excellence.

KENTUCKY STATE UNIVERSITY
STATEMENTS OF NET POSITION
June 30, 2020
(with summarized comparative amounts at June 30, 2019)

	2020	2019
ASSETS		
Current assets		
Cash and cash equivalents	$ 3,145,854	$ 2,002,952
Accounts, grants and loans receivable, net	3,002,386	6,630,604
Total current assets	6,148,240	8,633,556
Noncurrent assets		
Accounts, grants and loans receivable, net	692,396	81,633
Investments	17,172,803	18,521,033
Capital assets, net	93,459,482	75,221,397
Total noncurrent assets	111,324,681	93,824,063
DEFERRED OUTFLOWS OF RESOURCES		
Deferred outflows – pension	15,184,317	13,661,275
Deferred outflows – other postemployment benefits	3,409,795	1,518,522
Total deferred outflows	18,594,112	15,179,797
Total assets and deferred outflows of resources	136,067,033	117,637,416
LIABILITIES		
Current liabilities		
Accounts payable and accrued liabilities	10,698,078	7,407,298
Accrued compensated absences	2,338,515	1,726,772
Unearned revenue	1,009,463	184,492
Line of credit	2,893,716	2,061,650
Deposits and other current liabilities	195,887	148,079
Long-term debt, current portion	1,142,388	818,185
Total current liabilities	18,278,047	12,346,476
Non-current liabilities		
Net pension liability	64,627,263	54,555,554
Net OPEB liability	11,656,173	10,962,235
Long-term debt, non-current portion	14,999,194	2,605,121
Federal grants refundable	525,758	557,842
Other noncurrent liabilities	485,879	-
Total noncurrent liabilities	92,294,267	68,680,752
DEFERRED INFLOWS OF RESOURCES		
Deferred inflows – pension	24,290,634	39,161,111
Deferred inflows – other postemployment benefits	2,775,215	1,360,722
Total deferred inflows	27,065,849	40,521,833
Total liabilities and deferred inflows of resources	137,638,163	121,549,061
NET POSITION		
Net investment in capital assets	77,317,900	69,736,441
Restricted		
Nonexpendable - endowment	3,562,238	3,562,238
Expendable	4,220,806	4,800,330
Unrestricted	(86,672,074)	(82,010,654)
Total net position	$ (1,571,130)	$ (3,911,645)

See accompanying notes to financial statements.

KENTUCKY STATE UNIVERSITY FOUNDATION, INC.
STATEMENTS OF FINANCIAL POSITION
June 30, 2020
(with summarized comparative amounts at June 30, 2019)

	2020	2019
ASSETS		
Current assets		
Cash and cash equivalents	$ 1,205,650	$ 1,705,717
Total current assets	1,205,650	1,705,717
Investments, at fair value	9,658,675	9,722,111
Property and equipment		
Equipment	140,400	140,400
Buildings and improvements	65,526	65,526
	205,926	205,926
Accumulated depreciation	(189,634)	(186,759)
Property and equipment, net	16,292	19,167
Other assets	32,119	37,833
Total assets	$ 10,912,736	$ 11,484,828
LIABILITIES AND NET ASSETS		
Current liabilities		
Accounts payable	$ 12,250	$ 3,463
Accrued liabilities	4,697	3,618
Total liabilities	16,947	7,081
Net assets		
Without donor restrictions:		
Undesignated	85,268	192,739
Board Designated for endowment	1,884,774	2,240,078
Total without donor restrictions	1,970,042	2,432,817
With donor restrictions:		
Purpose restriction	4,837,222	5,052,179
Time-restricted for future periods	82,000	82,000
Perpetual in nature	4,006,525	3,910,751
Total with donor restrictions	8,925,747	9,044,930
Total net assets	10,895,789	11,477,747
Total liabilities and net assets	$ 10,912,736	$ 11,484,828

See accompanying notes to financial statements.

KENTUCKY STATE UNIVERSITY
STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
Year ended June 30, 2020
(with summarized comparative amounts for the year ended June 30, 2019)

	2020	2019
REVENUES		
Operating revenues		
Student tuition and fees (net of scholarship allowances of $4,880,611 and $6,392,830)	$ 10,290,971	$ 9,710,046
Federal grants and contracts	21,403,764	18,007,131
State and local grants and contracts	1,992,740	1,607,921
Other operating revenues	971,948	1,221,466
Auxiliary enterprises:		
Residence halls	2,675,932	2,244,306
Dining	2,552,342	2,055,561
Bookstore	35,136	113,190
Other auxiliaries	-	13,618
Total operating revenues	39,922,833	34,973,239
EXPENSES		
Operating expenses		
Educational and general		
Instruction	9,022,473	10,330,633
Research	6,929,355	7,449,117
Public service	8,875,115	10,087,334
Academic support	278,360	625,584
Student services	8,646,414	7,323,606
Institutional support	14,500,923	14,838,968
Operation and maintenance of plant	4,997,765	5,399,949
Student aid	6,420,729	6,363,963
Depreciation	3,386,591	3,573,681
Auxiliary enterprises		
Residence halls	1,212,849	406,049
Dining	1,944,308	2,147,410
Other auxiliaries	1,003,413	800,293
Bookstore	1,007,162	1,070,062
Depreciation	299,069	302,996
Total operating expenses	68,524,526	70,719,645
Operating loss	(28,601,693)	(35,746,406)
NONOPERATING REVENUES (EXPENSES)		
State appropriations	25,766,500	25,749,000
Federal grants and contracts	4,703,308	4,261,886
Investment income (net of investment expense)	590,615	871,874
Interest on capital asset-related debt	(118,215)	(276,798)
Net non-operating revenues	30,942,208	30,605,962
Income before capital appropriations	2,340,515	(5,140,444)
Capital appropriations	-	151,277
Change in net position	2,340,515	(4,989,167)
NET POSITION		
Net position, beginning of year	(3,911,645)	1,077,522
Net position, end of year	$ (1,571,130)	$ (3,911,645)

See accompanying notes to financial statements.

KENTUCKY STATE UNIVERSITY FOUNDATION, INC.
STATEMENT OF ACTIVITIES
Year ended June 30, 2020

	Without Donor Restrictions	With Donor Restrictions	Total
Revenues, gains and other support			
Contributions	$ 22,914	$ 538,770	$ 561,684
Investment income:			
Interest and dividends	100,451	144,325	244,776
Realized and unrealized gains	14,651	67,705	82,356
Other, net of investment and management expense	(62,754)	-	(62,754)
Total investment income, net	52,348	212,030	264,378
Releases from restrictions	875,383	(875,383)	-
Total revenues, gain and other support	950,645	(124,583)	826,062
Expenses:			
Program services expenses:			
Student support	635,157	-	635,157
University support	425,192	-	425,192
Total program services expenses	1,060,349	-	1,060,349
Management and general	347,671	-	347,671
Total expenses	1,408,020	-	1,408,020
Change in net assets	(457,375)	(124,583)	(581,958)
Net assets, beginning of year	2,432,817	9,044,930	11,477,747
Reclassifications	(5,400)	5,400	-
Net assets, end of year	$ 1,970,042	$ 8,925,747	$ 10,895,789

See accompanying notes to financial statements.

KENTUCKY STATE UNIVERSITY FOUNDATION, INC.
STATEMENT OF ACTIVITIES
Year ended June 30, 2019

	Without Donor Restrictions	With Donor Restrictions	Total
Revenues, gains and other support			
Contributions	$ 5,550	$ 669,220	$ 674,770
Investment income:			
Interest and dividends	105,119	136,259	241,378
Realized and unrealized gains	263,278	382,187	645,465
Other, net of investment and management expense	(60,191)	-	(60,191)
Total investment income, net	308,206	518,446	826,652
Releases from restrictions	533,570	(533,570)	-
Total revenues, gain and other support	847,326	654,096	1,501,422
Expenses:			
Program services expenses:			
Student support	152,110	-	152,110
University support	579,329	-	579,329
Total program services expenses	731,439	-	731,439
Management and general	239,782	-	239,782
Total expenses	971,221	-	971,221
Change in net assets	(123,895)	654,096	530,201
Net assets, beginning of year	2,556,712	8,390,834	10,947,546
Net assets, end of year	$ 2,432,817	$ 9,044,930	$ 11,477,747

See accompanying notes to financial statements.

KENTUCKY STATE UNIVERSITY
STATEMENTS OF CASH FLOWS
Year ended June 30, 2020
(with summarized comparative amounts for the year ended June 30, 2019)

	2020	2019
Cash flows from operating activities		
Tuition and fees	$ 10,266,987	$ 9,620,776
Grants and contracts	28,603,517	18,210,886
Payments to suppliers	(18,192,160)	(25,529,497)
Payments to employees	(42,081,381)	(43,025,130)
Payments to students	(6,231,551)	(6,037,006)
Loans issued to students	(610,763)	-
Collection of loans issued to students	(32,084)	106,884
Auxiliary enterprises:		
Residence halls and dining	5,212,302	4,334,243
Bookstore	35,136	113,190
Other auxiliaries	-	13,618
Other payments	242,109	1,195,356
Net cash from operating activities	(22,787,888)	(40,996,680)
Cash flows from non-capital financing activities		
State appropriations	25,766,500	25,749,000
Federal grants and contracts	4,703,308	4,261,886
Draws on line of credit	832,066	-
Net cash from non-capital financing activities	31,301,874	30,010,886
Cash flows from capital financing activities		
Purchases of capital assets	(8,676,658)	(2,180,306)
Draws on line of credit	-	2,061,650
Principal paid on capital debt	(528,811)	(834,386)
Interest paid on capital debt	(104,459)	(284,060)
Capital appropriations	-	151,277
Net cash from capital financing activities	(9,309,928)	(1,085,825)
Cash flows from investing activities		
Investment income	376,186	871,874
Proceeds from sale of investments	22,029,736	21,916,724
Purchases of investments	(21,373,631)	(22,703,965)
Net cash from investing activities	1,032,291	84,633
Net change in cash and cash equivalents	236,349	(11,986,986)
Cash and cash equivalents at beginning of year	2,909,505	14,896,491
Cash and cash equivalents at end of year	$ 3,145,854	$ 2,909,505
Non-cash capital financing activities:		
Construction in progress acquired by capital lease	$ 13,247,087	$ -

(Continued)

KENTUCKY STATE UNIVERSITY
STATEMENTS OF CASH FLOWS
Year ended June 30, 2020
(with summarized comparative amounts for the year ended June 30, 2019)

	2020	2019
Reconciliation of net operating loss to net cash from operating activities		
Operating loss	$ (28,601,693)	$ (35,746,406)
Adjustments to reconcile operating loss to net cash from operating activities:		
Depreciation expense	3,685,660	3,876,677
Changes in assets and liabilities:		
Receivables, net	3,628,218	(1,542,839)
Collection of loans issued to students	(642,847)	114,550
Accounts payable and accrued liabilities	4,438,426	3,143,314
Unearned revenue	824,971	23,293
Deposits	(15,971)	34,376
Deferred outflows – pension and OPEB	(3,414,315)	(690,833)
Deferred inflows – pension and OPEB	(13,455,984)	9,728,278
Net pension liability	10,071,709	(18,838,058)
Net OPEB liability	693,938	(1,099,032)
Net cash from operating activities	$ (22,787,888)	$ (40,996,680)

See accompanying notes to financial statements.

NOTE 1 – ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity: Kentucky State University (the University) is a component unit of the Commonwealth of Kentucky (the Commonwealth) and is included in the general-purpose financial statements of the Commonwealth. The Kentucky State University Foundation, Inc. (the Foundation) is a legally separate, tax-exempt organization supporting the University. The Foundation acts primarily as a fund-raising organization to supplement the resources that are available to the University in support of its programs. The Foundation's Board of Directors is self-perpetuating and consists of graduates and friends of the University. Although the University does not control the timing or amount of receipts from the Foundation, the majority of resources or income thereon that 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 statements.

Basis of Presentation: The accompanying financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America as prescribed by the Governmental Accounting Standards Board (GASB), including Statement No. 34, Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments, and Statement No. 35, Basic Financial Statements and Management's Discussion and Analysis of Public College and Universities, issued in June and November, 1999, respectively. The University reports as a Business Type Activity (BTA), as defined by GASB Statement No. 35. BTA's are those activities that are financed in whole or in part by fees charged to external parties for goods and services.

Basis of Accounting: The 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.

GASB Statement No. 35 establishes standards for external financial reporting for public colleges and universities and requires that resources be classified for accounting and reporting purposes into the following net asset categories:

- **Net investment in capital assets:** Capital assets, net of accumulated depreciation and outstanding principal balances of debt attributable to the acquisition, construction or improvement of those assets.

- **Restricted:**
  Nonexpendable – Net position subject to externally imposed stipulations that they be maintained permanently by the University. Such positions include the University's permanent endowment funds.
  Expendable – Net position whose use by the University is subject to externally imposed stipulations that can be fulfilled by actions of the University pursuant to those stipulations or that expire by the passage of time.

- **Unrestricted**: Net position whose use by the University is not subject to externally imposed stipulations. Unrestricted net position may be designated for specific purposes by action of management or the Board of Regents or may otherwise be limited by contractual agreements with outside parties.

(Continued)

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

The financial statement presentation required by GASB Statement No. 35 is intended to provide a comprehensive, entity-wide perspective of the University's assets, liabilities, net position, revenues, expenses, changes in net position and cash flows.

Cash Equivalents: For the Statement of Cash Flows, the University considers all highly liquid investments with an original maturity of three months or less to be cash equivalents.

Accounts, Grants, and Loans Receivable, Net: Accounts receivables consist of tuition and fee charges, loans to students and amounts due from federal and state governments, non-governmental sources, in connection with reimbursements of allowable expenses made pursuant to grants and contracts. Accounts receivables are recorded net of allowance for doubtful accounts.

Allowance for Doubtful Accounts: The allowance for doubtful accounts is established through a provision for doubtful accounts charged to expense. The allowance represents an amount, which, in management's judgment, will be adequate to absorb probable losses on existing accounts that may become uncollectible.

Inventories: Inventories are stated at the lower of cost (first-in, first-out method) or market and consist of physical plant items. Inventories consist of physical plant, postage and printing supplies.

Endowment Funds: Kentucky State University recognizes its fiduciary duty not only to invest the University's endowment holdings in formal compliance with the Uniform Prudent Management of Institutional Funds Act (UPMIFA) but also to manage those funds in continued recognition of the basic long-term nature of the University. The University interprets this to mean, in addition to the adopted spending guidelines and restrictions described below, that the assets of the University shall be actively managed, that is, investment decisions regarding the particular securities to be purchased or sold shall be the result of the conscious exercise of discretion. The University recognizes that, commensurate with its overall objective of maximizing long-range return while maintaining a high standard of portfolio quality and consistency of return, it is necessary that proper diversification of assets be maintained both among and within the classes of securities held. Within this context of active management and the necessity of adherence to proper diversification, the University relies upon appropriate professional advice.

The University recognizes that long-term objectives are most important, but it is also necessary that shorter-term benchmarks be used to assess the periodic performance of the investment program. The University anticipates annual spending of five percent (5%) of the average market value for the past three years, the amount of which shall be determined in January of each year.

The University believes that it is prudent to diversify endowment investments so as to minimize the risks of large losses and has established asset allocation ranges based upon the University's participation demographics, anticipated cash flow requirements and the expected returns of the capital markets.

Investments: Investments are valued at fair value based on quoted market prices.

Capital Assets: Capital assets are stated at cost at date of acquisition or, in the case of gifts, at acquisition value at date of gift. Equipment with a unit cost of $5,000 or more and having an estimated useful life of greater than one year is capitalized. Renovations to buildings and infrastructure and land improvements that significantly increase the value or extend the useful life of the structure are capitalized. Routine repairs and maintenance are charged to operating expense in the year in which the expense is incurred.

(Continued)

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

Depreciation of capital assets is computed on a straight-line basis over the estimated useful lives of the respective assets. Estimated lives used for depreciation purposes are as follows:

Classification	Estimated Life
Improvements	20 years
Buildings	40 years
Transportation equipment	5-15 years
Equipment	5-20 years
Enterprise Resource Software	7 years
Library holdings	10 years

Compensated Absences: The liability and expense incurred for employee vacation and sick pay are recorded as accrued compensated absences in the statement of net position and as a component of compensation and benefit expense in the statement of revenues, expenses and changes in net position.

Unearned Revenue: Unearned revenue includes amounts received for tuition and fees prior to the end of the fiscal year but related to the subsequent reporting period. Unearned revenues also include amounts received from grant and contract sponsors and state deferred maintenance funds that have not yet been earned.

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

Income Taxes: The University is an agency and instrumentality of the Commonwealth of Kentucky, pursuant to Kentucky Revised Statutes sections 164.290 through 164.475. Accordingly, the University is generally exempt from federal income taxes as an organization described in Section 115 of the Internal Revenue Code of 1986, as amended. The Foundation has received a determination from the Internal Revenue Service granting exemption from federal income taxation pursuant to the provisions of the Internal Revenue Code section 501(c)(3).

Restricted Asset Spending Policy: The University's policy is that restrictions on assets cannot be fulfilled by the expenditure of unrestricted funds for similar purposes. The determination on whether restricted or unrestricted funds are expended for a particular purpose is made on a case-by-case basis. Restricted funds remain restricted until spent for the intended purpose.

Operating Activities: The University defines operating activities, as reported on the statement of revenues, expenses and changes in net position, as those that generally result from exchange transactions, such as payments received for providing goods and services and payments made for services and goods received. Nearly all of the University's expenses are from exchange transactions. Certain significant revenues relied upon for operations, such as state and certain federal appropriations, gifts and investment income, are recorded as non-operating revenues, in accordance with GASB Statement No. 35.

(Continued)

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

Scholarship Discounts and Allowances: Financial aid to students is reported in the financial statements under the alternative method as prescribed by the National Association of College and University Business Officers (NACUBO). Certain aid, such as loans and funds provided to students awarded by third parties, is accounted for as third party payments (credited to the student's account as if the student made the payment). All other aid is reflected in the financial statements as operating expenses, or scholarship allowances, which reduce revenues. The amount reported as operating expenses represents the portion of aid that was provided to the student in the form of cash. Scholarship allowances represent the portion of aid provided to the student in the form of reduced tuition. Under the alternative method, these amounts are computed by allocating the cash payments to students, excluding payments for services, on the ratio of total aid to the aid not considered to be third party aid.

Federal Grants and Contracts: Per GASB Statement No. 24, pass-through grants should be reported as revenues and expenses in the financial statements if that entity has any administrative or direct financial involvement in the program. An entity has administrative involvement if it determines eligible secondary recipients or projects, even if using grantor-established criteria. Therefore, Pell Grants are considered non-exchange transactions and are recorded as non-operating revenues in the accompanying financial statements.

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

Component Unit Disclosure: The accompanying financial statements of the Foundation have been prepared in accordance with accounting principles generally accepted in the United States of America as prescribed by the FASB. As such, certain revenue recognition criteria and presentation features are different from GASB revenue recognition criteria and presentation features.

During the year ended June 30, 2020, the Foundation made distributions of approximately $425,192 on behalf of the University for both net assets and unrestricted purposes. Complete financial statements for the Foundation can be obtained from the Kentucky State University Foundation, Inc. at P.O. Box 4210, Frankfort, KY 40604.

Comparative Data: The financial statements include certain prior-year summarized comparative information in total but not at the level of detail required for a presentation in conformity with generally accepted accounting principles. The comparative data has been presented in the basic financial statements in order to provide an understanding of the changes in the financial position and operations of the University. Accordingly, such information should be read in conjunction with the University's financial statements for the year ended June 30, 2019, from which the business-type summarized information was derived, and the Foundation's financial statements for the year ended June 30, 2019, from which the component unit's summarized comparative information was derived.

Recent Accounting Pronouncements Implemented: During fiscal year 2020, the University adopted the following accounting pronouncements:

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

(Continued)

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

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

- GASB Statement No. 84, *Fiduciary Activities*, effective for periods beginning after December 15, 2019.
- GASB Statement No. 87, *Leases*, effective for periods beginning after June 15, 2021
- GASB Statement No. 89, *Accounting for Interest Cost Incurred before the End of a Construction Period,* effective for periods beginning after December 15, 2020.
- GASB Statement No. 90, *Majority Equity Interests, an amendment of GASB Statements No. 14 and No. 61*, effective for periods beginning after December 15, 2019.
- GASB Statement No. 91, *Conduit Debt Obligations*, effective for periods beginning after December 15, 2021.
- GASB Statement No. 92, *Omnibus 2020*, effective for periods beginning after June 15, 2021.
- GASB Statement No. 93, *Replacement of Interbank Offered Rates*, effective for periods beginning after June 15, 2021.
- GASB Statement No. 94, *Public-Private and Public-Private Partnerships and Availability Payment Arrangements*, effective for periods beginning after June 15, 2022.
- GASB Statement No. 96, *Subscription-Based Information Technology Arrangements*, effective for periods beginning after June 15, 2022.
- GASB Statement No. 97, *Certain Component Units Criteria, and Accounting and Financial Reporting for Internal Revenue Code (IRC) Section 457 Deferred Compensation Plans – an amendment of GASB Statements No. 14 and No. 84, and a supersession of GASB Statement No. 32*, effective for periods beginning after June 15, 2021.

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

Business Disruption: In March 2020, the World Health Organization declared the coronavirus (COVID-19) outbreak to be a global pandemic. COVID-19 has impacted economic activity and financial markets globally and has resulted in a decrease in various auxiliary revenues that the University is dependent upon due to closing the campus in March 2020. The continued spread of the disease represents a risk that operations could be disrupted in the near future. The extent to which COVID-19 impacts the University will depend on future developments, which are still highly uncertain and cannot be predicted. As a result of the COVID-19 pandemic, the University received an allocation of Higher Education Emergency Relief Funding through the CARES Act totaling $3,730,489, of which $1,827,277 was expended during the year ended June 30, 2020. The remaining $1,903,212 is expected to be expended and recognized as revenue when allowable expenses are incurred during fiscal year 2021. As of June 30, 2020, the University also deferred employer Social Security taxes in the amount of $485,879 as allowed under the CARES Act to provide more liquidity to the University during the pandemic. The University is expected to make payment of half of the deferred taxes by December 31, 2021 and deposit the remaining liability by December 31, 2022.

(Continued)

NOTE 2 – CASH, CASH EQUIVALENTS, AND INVESTMENTS

The statement of net position classification "cash and cash equivalents" includes all readily available sources of cash such as petty cash and demand deposits.

At June 30, 2020, the University had petty cash funds totaling zero, and deposits as reflected by bank balances as follows:

	2020
Insured, commercial banks	$ 250,000
Uninsured and uncollateralized, commercial banks	293,114
Maintained by Commonwealth of Kentucky, collateral held by the Commonwealth in the Commonwealth's name	1,008,953
Cash balances held at ARGI Investment Services	982,360
	$ 2,534,427

The difference in the cash carrying amount per the statement of net position and the above balances represented items in transit. At June 30, 2020, the University had no cash and cash equivalents that are restricted for capital expenditures.

As of June 30, 2020, the University had the following investments and maturities:

Investment Maturities (in years)

Investment Type	Fair Value	< 1	1-5	6-10	11-20
Exchange traded funds	$ 12,739,328	$12,739,328	$ -	$ -	$ -
Corporate bonds	3,035,043	356,523	1,870,706	807,813	-
Government bonds	1,398,433	855,570	285,626	257,238	-
	$ 17,172,804	$13,951,421	$ 2,156,332	$1,065,051	$ -

The University has an investment management agreement with ARGI Investment Services, LLC (ARGI). ARGI serves individual and institutional clients.

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

	Total	Level 1	Level 2	Level 3
Exchange traded funds	$ 12,739,328	$ 12,739,328	$ -	$ -
Corporate bonds	3,035,043	3,035,043	-	-
Government bonds	1,398,433	1,398,433	-	-
	$ 17,172,804	$ 17,172,804	$ -	$ -

(Continued)

NOTE 2 – CASH, CASH EQUIVALENTS, AND INVESTMENTS (Continued)

All securities classified in level 1 of the fair value hierarchy are valued using prices quoted in active markets for those securities.

Credit Risk: The University's average credit quality rating according to Moody's is Aa3.

Interest Rate Risk: Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. The University does not have a formal policy to specifically limit investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

Concentration of Credit Risk: Concentration of credit risk is the risk of loss attributed to the magnitude of a government's investment in a single issuer. The University does not have a formal policy for concentration of 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 does not have a formal policy for custodial credit risk.

NOTE 3 – ACCOUNTS, GRANTS AND LOAN RECEIVABLE

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

Student tuition and fees	$ 2,636,444
Student loans	989,467
Grants and contracts	735,174
Other	773,300
	5,134,385
Less: allowance for doubtful accounts	(1,439,603)
	3,694,782
Less: non-current portion	(692,396)
Current portion	$ 3,002,386

(Continued)

NOTE 4 – CAPITAL ASSETS, NET

Capital assets as of June 30, 2020, are summarized as follows:

	Beginning Balance	Additions	Reductions/ Transfers	Ending Balance
Cost				
Land and improvements	$ 6,275,031	$ -	$ -	$ 6,275,031
Buildings	155,846,869	11,831	-	155,858,700
Equipment	25,714,538	600,092	-	26,314,630
Computer software	1,658,071	182,050	-	1,840,121
Library holdings	10,648,071	15,547	-	10,663,618
Transportation equipment	4,379,061	18,435	-	4,397,496
Construction in progress	10,681,986	21,253,223	134,661	31,800,549
	215,203,627	22,081,178	134,661	237,150,145
Accumulated depreciation				
Buildings	104,065,002	2,188,521	-	106,253,524
Equipment	21,395,830	1,317,303	-	22,713,133
Library holdings	10,417,450	55,493	-	10,472,943
Transportation equipment	4,103,948	147,115	-	4,251,063
	139,982,230	3,708,432	-	143,690,663
Capital assets, net	$ 75,221,397	$ 18,372,746	$ 134,661	$ 93,459,482

Construction in progress consists primarily of projects to repair and replace boilers and distribution lines and energy savings projected funded by capital lease agreement with the Commonwealth of Kentucky disclosed in Note 7. The project is projected to be completed in fiscal year 2021. Estimated cost to complete the project is approximately $3.1 million.

NOTE 5 – UNEARNED REVENUE

Unearned revenue consists of the following as of June 30, 2020:

Unearned summer school tuition and fees	$ 94,697
Unearned grants and contracts	914,766
	$ 1,009,463

NOTE 6 – LINE OF CREDIT

During fiscal year 2020, the University entered into a line of credit agreement with Fifth Third Bank for a maximum borrowing amount of $5,000,000, maturing on June 30, 2020. At June 30, 2020, borrowings on the line of credit totaled $2,893,716. The line bears interest at the Adjusted LIBOR rate and the interest rate at June 30, 2020 was 1.8%. The agreement was renewed as of July 1, 2020 for $5,000,000, maturing on June 30, 2021.

(Continued)

NOTE 7 – LONG-TERM LIABILITIES

Long-term liabilities as of June 30, 2020, are summarized as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Current Portion	Non-current Portion
Debt						
General receipts bonds	$ 2,285,000	$ -	$ 250,000	$ 2,035,000	$ 260,000	$ 1,775,000
Bond discount	(31,861)	-	(4,484)	(27,377)	(4,484)	(22,893)
Total bonds	2,253,139	-	245,516	2,007,623	255,516	1,752,107
Other long-term liabilities						
Capital lease obligations - energy savings	1,170,167	13,247,087	283,296	14,133,958	886,872	13,247,087
Federal grants refundable	557,842	-	32,084	525,758	-	525,758
Total long-term liabilities	$ 3,981,148	$13,247,087	$ 560,896	$16,667,339	$1,142,388	$15,524,952

The outstanding General Receipts Bonds Series A Bonds have interest rates from 3.625% - 3.875%. The bonds mature through 2027. The reserve requirements for these issues have been fully funded as of June 30, 2020.

All bonds are collateralized by University property and the pledge of certain revenues, tuition and fees.

The net book value of assets acquired through the capital leases included in the above schedule was $15,516,877 as of June 30, 2020.

The principal and interest repayment requirements relating to the outstanding bonds payable at June 30, 2020, are as follows:

Year ending June 30	Principal	Interest	Total
2021	$ 260,000	$ 78,791	$ 338,791
2022	270,000	68,781	338,781
2023	280,000	58,319	338,319
2024	290,000	47,469	337,469
2025	300,000	36,231	336,231
2026-2028	635,000	37,200	672,200
Total	$ 2,035,000	$ 326,791	$ 2,361,791

During 2005, the University entered into a capital lease for an energy management project. The lease obligation has an interest rate of 4.29% and requires annual payments of principal and interest through 2021. The lease obligation will be paid with guaranteed energy savings.

During 2020, the University entered into a capital lease for an additional energy management project. The lease obligation has an interest rate of 2.7095% and requires semi-annual payments of principal and interest beginning in fiscal 2022 through 2036. The lease obligation will be paid with guaranteed energy savings.

(Continued)

NOTE 7 – LONG-TERM LIABILITIES (Continued)

The following is a schedule of future minimum payments required for the capital lease obligations at June 30, 2020:

Year ending June 30,	
2021	$ 925,188
2022	1,353,014
2023	1,353,014
2024	1,353,014
2025	1,353,014
2026-2036	7,835,029
Total minimum lease payments	14,172,273
Less: amounts representing interest	(38,314)
Present value of minimum lease payment	$ 14,133,959

NOTE 8 – OPERATING LEASES

The University leases certain assets under operating lease agreements. The operating leases expire in various years through 2025. These leases do not transfer assets at the end of the lease term. Periods on these leases range from one to five years and requires the University to pay all executor costs (maintenance, insurance, taxes).

Future minimum lease payments at June 30, 2020, are as follows:

Year ending June 30,	
2021	$ 317,592
2022	305,692
2023	228,493
2024	198,329
2025	34,954
	$ 1,085,060

Lease expense was $293,600 for the year ended June 30, 2020.

NOTE 9 – DEFINED BENEFIT PENSION PLANS

Kentucky Employees' Retirement System - Defined Benefit Plan

Plan Description – The University contributes to the Kentucky Employees' Retirement System (KERS), a cost sharing - multiple employer public employee retirement system. KERS 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. KERS 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 Retirement Systems, Perimeter Park West, 1260 Louisville Road, Frankfort, Kentucky, 40601-6124 or by calling (502) 696-8800.

Benefits Provided

	Tier 1 Participation Prior to September 1, 2008	Tier 2 Participation September 1, 2008 through December 31, 2013	Tier 3 Participation January 1, 2014
Non-Hazardous			
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.	

(Continued)

NOTE 9 – DEFINED BENEFIT PENSION PLANS (Continued)

	Tier 1 Participation Prior to September 1, 2008	Tier 2 Participation September 1, 2008 through December 31, 2013	Tier 3 Participation January 1, 2014
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	Tier 2	Tier 3
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.

Contributions - Benefit and contribution rates are established by state statute. Per Kentucky Revised Statute 61.565(3) contribution requirements of the active employees and the participating organizations are established and may be amended by the KRS Board. For the fiscal year ended June 30, 2020, University non-hazardous and hazardous employees were required to contribute 5 percent of their annual covered salary for retirement benefits for the year ended June 30, 2020. Non-hazardous and hazardous employees with a participation date after September 1, 2008 were required to contribute an additional 1 percent of their covered salary for retiree healthcare benefits. The University was contractually required to contribute 49.47 percent (41.06 percent allocated to pension and 8.41 percent allocated to OPEB) of annual covered payroll for non-hazardous pay and 36.85 percent (34.39 percent allocated to pension and 2.46 percent allocated to OEPB) for hazardous pay to the pension plan for the year ended June 30, 2020. These amounts were

(Continued)

NOTE 9 – DEFINED BENEFIT PENSION PLANS (Continued)

actuarially determined as an amount that, 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's total pension contributions to KERS for the year ended June 30, 2020 was $1,956,298, equal to the required contributions for the year.

Pension liabilities, pension expense, and deferred outflows of resources and deferred inflows of resources related to pensions - At June 30, 2020, the University reported a liability of $42,075,248 for its proportionate share of the non-hazardous net pension liability and $393,085 for hazardous. The net pension liability was measured as of June 30, 2019 and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of June 30, 2018, rolled-forward for June 30, 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, 2020, the University's proportion was 0.30 percent for non-hazardous and 0.07 percent for hazardous, respectively.

For the year ended June 30, 2020, the University's actuarially calculated pension expense was $6,557,666 for non-hazardous and $140,261 for hazardous. At June 30, 2020, the University reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
2020		
Non-hazardous:		
Difference between expected and actual experience	$ 248,853	$ -
Net difference between projected and actual earnings on investments	-	85,733
Changes of assumptions	1,281,099	-
Changes in proportion and differences between employer contributions and proportionate share of contributions	4,901,183	480,130
University contributions subsequent to measurement date	1,923,866	-
	$ 8,355,001	$ 565,863
Hazardous:		
Difference between expected and actual experience	$ 7,478	$ -
Net difference between projected and actual earnings on investments	-	6,759
Changes of assumptions	27,550	-
Changes in proportion and differences between employer contributions and proportionate share of contributions	191,023	330,298
University contributions subsequent to measurement date	32,432	-
	$ 258,483	$ 337,057

(Continued)

NOTE 9 – DEFINED BENEFIT PENSION PLANS (Continued)

At June 30, 2020, the University reported $1,956,298 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:

	Non-Hazardous	Hazardous
2021	$ 3,635,695	$ 30,632
2022	2,259,496	(140,739)
2023	(27,494)	(4,464)
2024	(2,425)	566
	$ 5,865,272	$ (114,005)

Actuarial assumptions - The total pension liability for KERS measured as of June 30, 2019 was determined by applying procedures to the actuarial valuation as of June 30, 2018, using the following actuarial assumptions, applied to all periods included in the measurement.

	2019
Actuarial cost method	Entry age normal
Amortization method	Level percent of pay
Remaining amortization period	26 years, closed
Asset valuation method	20% of the difference between Market value of assets the expected actuarial value of assets is recognized
Inflation	2.30%
Payroll growth rate	0.0
Salary increases, varies by service, non-hazardous	3.55 to 15.55
Salary increases, varies by service, hazardous	3.55 to 19.55
Investment rate of return, non-hazardous	5.25
Investment rate of return, hazardous	6.25

The mortality table used for active members was a Pub-2010 General Mortality table for the non-hazardous system and the Pub-2010 Public Safety Mortality table for the hazardous system, 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 was 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. The mortality table used for the disabled members was 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.

The long-term expected rate of return was determined using a building-block method in which best-estimate ranges of expected future real rates 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 net pension liability as of June 30, 2019 is based on the June 30, 2018 actuarial valuation rolled-forward. Deferred outflows and inflows related to differences between projected and actual earnings on plan investments are netted and amortized over a closed five-year period.

(Continued)

NOTE 9 – DEFINED BENEFIT PENSION PLANS (Continued)

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

	Non-hazardous	
Asset Class	Target Allocation	Long-Term Nominal Rate of Return
2020		
U.S. Equity	15.75%	4.30%
International Equity	15.75	4.80
Core Bonds	20.50	1.35
Specialty Credit/High Yield	15.00	2.60
Real Estate	5.00	4.85
Opportunistic	3.00	2.97
Real Return	15.00	4.10
Private Equity	7.00	6.65
Cash Equivalents	3.00	0.20
Total	100.00%	

	Hazardous	
Asset Class	Target Allocation	Long-Term Nominal Rate of Return
2020		
U.S. Equity	18.75%	4.30%
International Equity	18.75	4.80
Core Bonds	13.50	1.35
Specialty Credit/High Yield	15.00	2.60
Real Estate	5.00	4.85
Opportunistic	3.00	2.97
Real Return	15.00	4.10
Private Equity	10.00	6.65
Cash Equivalents	1.00	0.20
Total	100.00%	

Changes in Assumptions and Benefit Terms Since Prior Measurement Date – The Board of Trustees of KERS adopted new actuarial assumptions since June 30, 2018. These assumptions are documented in the report titled "Kentucky Retirement Systems 2018 Actuarial Experience Study for the Period Ending June 30, 2018". The Total Pension liability as of June 30, 2019, was determined using these updated assumptions.

(Continued)

NOTE 9 – DEFINED BENEFIT PENSION PLANS (Continued)

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

Discount rate - The discount rate used to measure the total pension liability was 5.25% (Non-hazardous) and 6.25% (Hazardous). The projection of cash flows used to determine the discount rate assumed that contributions from plan members and employers will be made at the actuarially determined contribution rate. Based on those assumptions, the pension plan's fiduciary net position and future contributions were projected to be available to make all projected future benefit payments of current plan members. Therefore, the long–term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability. The projection of cash flows used to determine the single discount rate assumes that the Commonwealth of Kentucky contributes the actuarially determined contribution in all future years.

Sensitivity of the University's proportionate share of the net pension liability to changes in the discount rate - The University's proportionate share of the net pension liability has been calculated using a discount rate of 5.25% (Non-hazardous) and a discount rate of 6.25% (Hazardous) for the June 30, 2019 actuarial valuation. The following presents the University's proportionate share of the net pension liability calculated using a discount rate 1% higher and 1% lower than the current rate as of June 30, 2020:

	1% Decrease (4.25%)	Current Discount Rate (5.25%)	1% Increase (6.25%)
Non-Hazardous			
Proportionate share of the Collective Net Pension Liability	$ 48,233,688	$ 42,075,248	$ 36,985,856

	1% Decrease (5.25%)	Current Discount Rate (6.25%)	1% Increase (7.25%)
Hazardous			
Proportionate share of the Collective Net Pension Liability	$ 506,862	$ 393,085	$ 299,617

Kentucky Teachers' Retirement System - Defined Benefit Plan

Plan Description –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 or by calling (502) 573-3266.

NOTE 9 – DEFINED BENEFIT PENSION PLANS (Continued)

Benefits Provided

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

(Continued)

NOTE 9 – DEFINED BENEFIT PENSION PLANS (Continued)

	Tier 1 Participation Prior to July 1, 2008	Tier 2 Participation on or After July 1, 2008
Unreduced Retirement Benefit:	Any age with 27 years of Kentucky service. Age 55 with 5 years of Kentucky service.	Any age with 27 years of Kentucky service. Age 60 with 5 years of Kentucky service. Age 55 with 10 years of Kentucky service.
Reduced Retirement Benefit:	Must be retired for service or disability to be eligible. Retired members are given a supplement based upon a contribution supplement table approved by the KTRS Board of Trustees. The retired member pays premiums in excess of the monthly supplement.	

Contributions - Benefit and contribution rates are established by state statute. Per Kentucky Revised Statutes 161.340, 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, 2019, University employees were required to contribute 7.625 percent of their annual covered salary for retirement benefits. The University was contractually required to contribute 15.865 percent of covered payroll for the year ended June 30, 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's total contributions to KTRS for the year ending June 30, 2020 was $1,813,761 and were equal to the required contributions for the year. 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 $1,965,387 for the year ending June 30, 2020.

Pension liabilities, pension expense, and deferred outflows of resources and deferred inflows of resources related to pensions - At June 30, 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:

	2020
University's proportionate share of the net pension liability	$ 22,158,930
Commonwealth of Kentucky's proportionate share of the net pension liability associated with the University	24,011,362
	$ 46,170,292

The net pension liability was measured as of June 30, 2019 and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of June 30, 2018. The University's proportion of the net pension liability was based on actual contributions to the pension plan during the measurement period of July 1, 2018 through June 30, 2019. At June 30, 2020, the University's proportion was 0.16 percent and the Commonwealth's proportion was 0.17 percent.

NOTE 9 – DEFINED BENEFIT PENSION PLANS (Continued)

For the year ended June 30, 2020, the University was allocated pension expense of $(11,551,057). The University also recognized revenue of $2,388,987 for support provided by the Commonwealth. At June 30, 2020, the University reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
2020		
Net difference between projected and actual earnings on investments	$ -	$ 185,884
Change in assumptions	1,877,989	11,799,404
Differences between expected an actual experience	66,061	1,413,681
Changes in proportion and differences between employer contributions and proportionate share of contributions	2,686,182	9,987,269
Contributions subsequent to the measurement date	1,940,601	-
	$ 6,570,833	$ 23,386,238

At June 30, 2020, the University reported $1,940,601 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. Net deferred outflow (inflows) of resources at June 30, 2020, related to pensions will be recognized in pension expense as follows:

2021	$ (10,264,089)
2022	(6,521,051)
2023	(1,958,510)
2024	(12,356)
	$ (18,756,006)

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

Valuation date	June 30, 2018
Inflation	3.00%
Salary Increases	3.50 – 7.30%, average, including inflation
Investment Rate of Return	7.50%, net of pension plan investment expense, including inflation
Municipal bond index rate	3.50%
Single equivalent interest rate	7.50%

Mortality rates were based on the RP-2000 Combined Mortality Table for Males or Females, as appropriate, with adjustments for mortality improvements based on a projection of Scale BB to 2025, set forward two years for males and one year for females.

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

NOTE 9 – DEFINED BENEFIT PENSION PLANS (Continued)

The long-term expected return on pension 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 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 for the June 30, 2019 actuarial valuation, are summarized in the following table:

Asset Class	Target Allocation	Long-Term Nominal Rate of Return
U.S. Equity	40.0%	4.2%
International Equity	22.0	5.2
Fixed Income	15.0	1.2
Additional Categories (Incl. Hedge Funds, High Yield, Non-U.S. Developed Bonds, and Private Credit Strategies)	8.0	3.3
Real Estate	6.0	3.8
Private Equity	7.0	6.3
Cash	2.0	0.9
Total	100.0%	

Changes in Assumptions and Benefit Terms Since Prior Measurement Date – The TPL as of June 30, 2019 reflects the assumed municipal bond index rate decrease from 3.89 percent to 3.50 percent. The Single Equivalent Interest Rate (SEIR) remained at 7.50 percent.

Changes in Assumptions and Benefit Terms Since Prior Measurement Date – There were no changes in assumptions or benefit terms as of June 20, 2019 from the June 30, 2018 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, 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 that employer contributions will be made at the actuarially determined contribution rates for all fiscal years in the future. Based on those assumptions, at the June 30, 2019 measurement date, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

NOTE 9 – DEFINED BENEFIT PENSION PLANS (Continued)

Sensitivity of the University's proportionate share of the net pension liability to changes in the discount rate - The following table presents the net pension liability of the University as of June 30, 2020, calculated using the discount rate of 7.50%, as well as what the University's net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (6.50%) or 1-percentage-point higher (8.50%) than the current rate:

	1% Decrease (6.50%)	Current Discount Rate (7.50%)	1% Increase (8.50%)
Proportionate share of the Collective Net Pension Liability	$ 28,273,635	$ 22,158,930	$ 16,984,188

Summary Pension Plan Information:

June 30, 2020	KERS Hazardous/ Non-hazardous	KTRS	Total
Net pension liability	$ 42,468,333	$ 22,158,930	$ 64,627,263
Deferred outflows of resources	8,613,484	6,570,833	15,184,317
Deferred inflows of resources	902,920	23,386,238	24,289,158
Pension expense (income)	6,697,927	(11,551,057)	(4,853,130)

NOTE 10 - OTHER POSTEMPLOYMENT BENEFITS PLANS (OPEB)

In addition to the pension plans disclosed in Note 9, the University's employees participate in either the Kentucky Teachers Retirement System (KTRS) OPEB Plan or the Kentucky Employees Retirement System (KERS) OPEB Plan depending on the retirement plan in which they participate. Each OPEB plan is described in detail below.

Kentucky Employees Retirement System (KERS) OPEB Plan

Plan Description: The KERS OPEB Plan is a cost-sharing multiple-employer defined benefit OPEB plan, which was available to University employees hired prior to January 1, 2014. This plan provides medical insurance for eligible retirees and is administered by Kentucky Retirement System (KRS) who publishes a financial report located at https://kyret.ky.gov.

OPEB Benefits Provided: The information below summarizes the major other postemployment 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.

(Continued)

NOTE 10 – OTHER POSTEMPLOYMENT BENEFITS PLANS (OPEB) (Continued)

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 year ended June 30, 2020, participating employers in the non-hazardous plan contributed 49.47% (41.06% allocated to pension and 8.41% allocated to OPEB) as set by KRS of each non-hazardous employee's creditable compensation. For the fiscal year ended June 30, 2020, participating employers in the Hazardous plan contributed 36.85% (34.39% allocated to pension and 2.46% allocated to OPEB) as set by KRS 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 investment earnings.

The University has met 100% of the contribution funding requirement for the fiscal years ended June 30, 2020. Total current year contributions recognized by the Plan were $2,356,992 ($1,956,298 related to pension and $400,693 related to OPEB) for the year ended June 30, 2020. The OPEB contributions amount does not include the implicit subsidy reported in the amount of $80,786.

Members whose participation began before 9/1/2008:

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

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

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

(Continued)

NOTE 10 – OTHER POSTEMPLOYMENT BENEFITS PLANS (OPEB) (Continued)

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

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

Total OPEB Liability: The total other postemployment benefits ("OPEB") liability was measured as of June 2019 using an actuarial valuation as of June 30, 2018. The financial reporting actuarial valuation as of June 30, 2019, used the following actuarial methods and assumptions, applied to all periods included in the measurement:

Inflation	2.30 percent
Payroll growth rate	0.00 percent for KERS non-hazardous and hazardous
Salary increases	3.55 to 15.30 percent, 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, 2019 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:

(a) **Discount Rate:** The discount rate used to measure the total Non-hazardous OPEB liability was 5.73%, which was reduced from the 5.86% discount rate used in the prior year. The discount rate used to measure the total Hazardous OPEB liability was 5.66%, which was decreased from the 5.88% discount rate used in the prior year.

(b) the local employers and plan members would contribute the actuarially determined contribution rate of projected compensation over the remaining 24-year closed amortization period of the unfunded actuarial accrued liability.

(Continued)

NOTE 10 – OTHER POSTEMPLOYMENT BENEFITS PLANS (OPEB) (Continued)

(c) **Long-Term Rate of Return:** The long-term expected return on plan assets is reviewed as part of the regular experience studies prepared every five years for the System. The most recent analysis, performed for the period covering fiscal years 2008 through 2013 is outlined in a report dated April 30, 2014. However, the Board of KRS has the authority to review the assumptions on a more frequent basis and adopt new assumptions prior to the next scheduled experience study. The long-term expected rate of return was determined by using a building-block method in which best-estimate ranges of expected future real rate of returns are developed for each asset class. The ranges are combined by weighting the expected future real rate of return by the target asset allocation percentage.

(d) **Municipal Bond Rate**: The discount rate determination used a municipal bond rate of 3.13% as reported in Fidelity Index's "20 – Year Municipal GO AA Index" as of June 30, 2019.

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

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

	June 30, 2020	
Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
US Equity	18.75%	4.30%
International Equity	18.75	4.80
Private Equity	10.00	6.65
Special Credit/High Yield	15.00	2.60
Core Bonds	13.50	1.35
Real Estate	5.00	4.85
Opportunistic	3.00	2.97
Real Return	15.00	4.10
Cash	1.00	0.20
Total	100.00%	

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.

(Continued)

NOTE 10 – OTHER POSTEMPLOYMENT BENEFITS PLANS (OPEB) (Continued)

Non-hazardous

The following presents the University's allocated portion of the Non-hazardous net OPEB liability of the System, calculated using the discount rate of 5.73% percent, as well as what the University's allocated portion of the System's net OPEB liability would be if it were calculated using a discount rate that is 1-percentage-point lower (4.73 percent) or 1-percentage-point higher (6.73 percent) than the current rate for Non-hazardous:

	1% Decrease (4.73%)	Current Discount Rate (5.73%)	1% Increase (6.73%)
The University's Net OPEB liability – Non-hazardous	$ 7,885,416	$ 6,622,452	$ 5,582,769

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:

	1% Decrease	Current Healthcare Cost Trend Rate	1% Increase
The University's Net OPEB liability – Non-hazardous	$ 5,626,219	$ 6,622,452	$ 7,827,556

Hazardous

The following presents The University's allocated portion of the Hazardous net OPEB liability of the System, calculated using the discount rate of 5.66% percent, as well as what the University's allocated portion of the System's net OPEB liability would be if it were calculated using a discount rate that is 1-percentage-point lower (4.66 percent) or 1-percentage-point higher (6.66 percent) than the current rate for Hazardous:

	1% Decrease (4.66%)	Current Discount Rate (5.66%)	1% Increase (6.66%)
The University's Net OPEB liability – Hazardous	$ 32,385	$ (19,278)	$ (61,077)

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

	1% Decrease	Current Healthcare Cost Trend Rate	1% Increase
The University's Net OPEB liability – Hazardous	$ (56,085)	$ (19,278)	$ 25,509

(Continued)

NOTE 10 – OTHER POSTEMPLOYMENT BENEFITS PLANS (OPEB) (Continued)

Employer's Portion of the Collective OPEB Liability: The University's proportionate share of the Non-hazardous net OPEB liability, as indicated in the prior table, is $6,622,452, or approximately .30%. The University's proportionate share of the Hazardous net OPEB liability (asset), as indicated in the prior table, is $(19,278), or approximately .07%. The net pension liabilities were distributed based on 2019 actual employer contributions to the plan.

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

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

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

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

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

OPEB Expense: The University was allocated pension expense of $778,191 related to the KERS Non-Hazardous and $3,238 related to the KERS Hazardous for the year ending June 30, 2020.

(Continued)

NOTE 10 – OTHER POSTEMPLOYMENT BENEFITS PLANS (OPEB) (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 OPEB expense they are labeled as deferred inflows. If they will increase OPEB expense they are labeled deferred outflows. The amortization of these amounts is accomplished on a level dollar basis, with no interest included in the deferred amounts. Experience gains/losses and the impact of changes in actuarial assumptions, if any, are amortized over the average remaining service life of the active and inactive System members at the beginning of the fiscal year. Investment gains and losses are amortized over a fixed five-year period. Deferred inflows and outflows as of the Measurement Date include:

Non-hazardous

	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between expected and actual experience	$ -	$ 1,056,325
Change of assumptions	868,489	19,920
Changes in proportion and differences between employer contributions and proportionate shares of contributions	1,158,354	246,124
Differences between expected and actual investment earning on plan investments	28,047	71,481
Contributions subsequent to the measurement date	433,081	-
Total	$ 2,487,971	$ 1,393,850

Deferred outflows of resources resulting from employer contributions subsequent to the measurement date of $433,081, which include the implicit subsidy reported of $79,830, will be recognized as a reduction of net OPEB liability in the year ending June 30, 2020. The remainder of the deferred outflows and deferred inflows of resources are amortized over three to five years with remaining amortization as follows:

Year ending June 30:	
2021	$ 225,381
2022	225,381
2023	30,997
2024	179,281
	$ 661,040

(Continued)

NOTE 10 – OTHER POSTEMPLOYMENT BENEFITS PLANS (OPEB) (Continued)

Hazardous

	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between expected and actual experience	$ -	$ 34,419
Change of assumptions	52,700	286
Changes in proportion and differences between employer contributions and proportionate share of plan contributions	37,917	46,395
Differences between expected and actual investment earning on plan investments	2,097	13,266
Contributions subsequent to the measurement date	7,599	-
Total	$ 100,313	$ 94,366

Deferred outflows of resources resulting from employer contributions subsequent to the measurement date of $7,599, which include the implicit subsidy reported of $956, will be recognized as a reduction of net OPEB liability in the year ending June 30, 2020. The remainder of the deferred outflows and deferred inflows of resources are amortized over three to five years with remaining amortization as follows:

Year ending June 30:	
2021	$ (2,136)
2022	(2,136)
2023	1,741
2024	(3,526)
2025	2,440
Thereafter	1,965
	$ (1,652)

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

Kentucky Teachers' Retirement System

Medical Insurance Plan

Plan Description - In addition to the pension 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. 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.

(Continued)

NOTE 10 – OTHER POSTEMPLOYMENT BENEFITS PLANS (OPEB) (Continued)

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

Contributions - In order to fund the post-retirement healthcare benefit, seven and one-half percent (7.50%) of the gross annual payroll of members is contributed. Three percent (3.75%) is paid by member contributions and three quarters percent (0.75%) from state appropriation and three percent (3.00%) from the employer. The state contributes the net cost of health insurance premiums for members who retired on or after July 1, 2010 who are in the non-Medicare eligible group. Also, the premiums collected from retirees as described in the plan description and investment interest help meet the medical expenses of the plan. For the year ended June 30, 2020, the University contributed $304,439 to the KTRS medical insurance plan.

OPEB Liabilities, OPEB Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEBs - At June 30, 2020, the University reported a liability of $4,927,000 for its proportionate share of the collective net OPEB liability that reflected a reduction for state OPEB support provided to the University. The collective net OPEB liability was measured as of June 30, 2019, and the total OPEB liability used to calculate the collective net OPEB liability was based on a projection of the University's long-term share of contributions to the OPEB plan relative to the projected contributions of all participating employers, actuarially determined. At June 30, 2020, the University's proportion was .16%.

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

University's proportionate share of the net OPEB liability	$ 4,927,000
State's proportionate share of the net OPEB liability associated with the University	2,198,000
Total	$ 7,125,000

(Continued)

NOTE 10 – OTHER POSTEMPLOYMENT BENEFITS PLANS (OPEB) (Continued)

For the year ended June 30, 2020, the University recognized OPEB expense of $177,000 and revenue of $30,000 for support provided by the State. At June 30, 2020, the University reported deferred outflows of resources and deferred inflows of resources related to OPEBs from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Net difference between projected and actual earnings on OPEB plan investments	$ 131,000	$ -
Changes of assumptions	21,000	-
Differences between expected and actual experience	-	1,193,000
Changes in proportion and differences between employer Contributions and proportionate share of contributions	289,000	91,000
University's contributions subsequent to the measurement date	304,439	-
Total	$ 745,439	$ 1,284,000

Of the total amount reported as deferred outflows of resources related to OPEB, $304,439 resulting from University contributions subsequent to the measurement date and before the end of the fiscal year will be included as a reduction of the collective net OPEB liability in the year ended June 30, 2021. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized in the University's OPEB expense as follows:

Year ended June 30:	
2021	$ (163,000)
2022	(163,000)
2023	(153,000)
2024	(155,000)
2025	(132,000)
Thereafter	(77,000)
	$ (843,000)

NOTE 10 – OTHER POSTEMPLOYMENT BENEFITS PLANS (OPEB) (Continued)

Actuarial Assumptions - The total OPEB liability in the June 30, 2018 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Investment rate of return	8.00%, net of OPEB plan investment expense, including inflation.
Projected salary increases	3.50-7.20%, including inflation
Inflation rate	3.00%
Real Wage Growth	0.50%
Wage Inflation	3.50%
Healthcare cost trend rates	
Under 65	7.50% for FY2019 decreasing to an ultimate rate of 5.00% by FY 2024
Ages 65 and Older	5.50% for FY 2019 decreasing to an ultimate rate of 5.00% by FY 2021
Medicare Part B Premiums	2.63% for FY 2019 with an ultimate rate of 5.00% by 2031
Municipal Bond Index Rate	3.50%
Discount Rate	8.00%
Single Equivalent Interest Rate	8.00%, net of OPEB plan investment expense, including price 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 for the period after service retirement and for dependent beneficiaries. The RP-2000 Disabled Mortality Table set forward two years for males and seven years for females is used for the period after disability retirement.

The demographic actuarial assumptions for retirement, disability incidence, withdrawal, rates of plan participation, and rates of plan election used in the June 30, 2018 valuation were based on the results of the most recent actuarial experience studies for the System, which covered the five-year period ending June 30, 2015. The remaining actuarial assumptions used in the June 30, 2018 valuation of the MIF were based on a review of recent plan experience done concurrently with the June 30, 2018 valuation. The health care cost trend rate assumption was updated for the June 30, 2018 valuation and was shown as an assumption change in the TOL roll forward while the change in initial per capita claims costs were included with experience in the TOL roll forward.

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

KTRS Medical Plan Changes in Assumptions Since Prior Measurement Date – The healthcare cost trend rate for Pre-65 decreased from 7.75 percent for fiscal year 2019 to 7.50 percent for fiscal year 2020 and Post-65 decreased from 5.75 percent for fiscal year 2019 to 5.50 percent for fiscal year 2020. Medicare Part B premiums increased to 2.63 percent for fiscal year 2020 from 0.0 percent for fiscal year 2019. The municipal bond index rate decreased from 3.89 percent to 3.50 percent.

NOTE 10 – OTHER POSTEMPLOYMENT BENEFITS PLANS (OPEB) (Continued)

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

Asset Class	Target Allocation	30 Year Expected Geometric Rate of Return
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)	1.0	0.9
Total	100.0%	

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

Discount Rate - The discount rate used to measure the total OPEB liability was 8.00%. The projection of cash flows used to determine the discount rate assumed that 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 rate The following table presents the University's proportionate share of the collective net OPEB liability of the System, calculated using the discount rate of 8.00%, as well as what the University's proportionate share of the collective net OPEB liability would be if it were calculated using a discount rate that is 1-percentage-point lower (7.00%) or 1-percentage-point higher (9.00%) than the current rate:

	1% Decrease (7.00%)	Current Discount Rate (8.00%)	1% Increase (9.00%)
University's net OPEB liability (MI)	$ 5,837,000	$ 4,927,000	$ 4,165,000

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:

	1% Decrease	Current Trend Rate	1% Increase
University's net OPEB liability (MI)	$ 4,011,000	$ 4,927,000	$ 6,054,000

(Continued)

NOTE 10 – OTHER POSTEMPLOYMENT BENEFITS PLANS (OPEB) (Continued)

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

Changes of benefit terms – There were no changes for the year ended June 30, 2020.

Life Insurance Plan

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

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

Contributions – In order to fund the post-retirement life insurance benefit, three hundredths of one percent (0.03%) of the gross annual payroll of members is contributed by the state. For the year ended June 30, 2020, the University contributed $4,274 to the KTRS life insurance plan.

OPEB Liabilities, OPEB Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEBs: At June 30, 2020, the University reported a liability of $126,000 for its proportionate share of the collective net OPEB liability that reflected a reduction for state OPEB support provided to the University. The collective net OPEB liability was measured as of June 30, 2019, and the total OPEB liability used to calculate the collective net OPEB liability was based on a projection of the University's long-term share of contributions to the OPEB plan relative to the projected contributions of all participating employers, actuarially determined. At June 30, 2019, the University's proportion was 0.41%.

For the year ended June 30, 2020, the University recognized actuarially determined OPEB expense of $23,000 and revenue of $1,000 for support provided by the State. At June 30, 2020, the University reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Net difference between projected and actual earnings on OPEB plan investments	$ 26,000	$ -
Net changes in proportion and differences between employer Contributions and proportionate share of contributions	5,000	-
Difference between expected and actual experience	-	3,000
University's contributions subsequent to the measurement date	4,274	-
Total	$ 35,274	$ 3,000

(Continued)

NOTE 10 – OTHER POSTEMPLOYMENT BENEFITS PLANS (OPEB) (Continued)

Of the total amount reported as deferred outflows of resources related to OPEB, $4,274 resulting from University contributions subsequent to the measurement date and before the end of the fiscal year will be included as a reduction of the collective net OPEB liability in the year ended June 30, 2020. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized in the University's OPEB expense as follows:

Year ended June 30:	
2021	$ 10,000
2022	10,000
2023	6,000
2024	1,000
2025	(2,000)
Thereafter	3,000
	$ 28,000

Actuarial Assumptions – The total OPEB liability measured as of June 20, 2019 was determined using an actuarial valuation as of June 30, 2018 using the following actuarial assumptions, applied to all periods included in the measurement:

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

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

The remaining actuarial assumptions (e.g., initial per capita costs, health care cost trends) used in the June 30, 2018 valuation were based on a review of recent plan experience done concurrently with the June 30, 2018 valuation. The health care cost trend assumption was updated for the June 30, 2018 valuation and was shown as an assumption change in the TOL roll forward while the change in initial per capita claims costs were included with experience in the TOL roll forward.

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

(Continued)

NOTE 10 – OTHER POSTEMPLOYMENT BENEFITS PLANS (OPEB) (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:

	June 30, 2020	
Asset Class*	Target Allocation	Long-Term Nominal Rate of Return
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
Additional Categories**	6.0	3.2
Cash	2.0	0.9
Total	100.0%	

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

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

KTRS Life Plan Changes in Assumptions Since Prior Measurement Date – For the fiscal year ended, June 30, 2020, the municipal bond index rate decreased from 3.89 percent to 3.50 percent. There were no changes for the fiscal year ended June 30, 2019.

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

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:

	1% Decrease (6.50%)	Current Discount Rate (7.50%)	1% Increase (8.50%)
University's net OPEB (LI) liability	$ 186,000	$ 126,000	$ 76,000

KTRS Life Plan Changes of Benefit Terms - There were no changes for fiscal years ended June 30, 2020.

(Continued)

NOTE 10 – OTHER POSTEMPLOYMENT BENEFITS PLANS (OPEB) (Continued)

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

Summary OPEB Information:

	KERS	KTRS	Total
June 30, 2020			
Net OPEB liability	$ 6,603,174	$ 5,053,000	$ 11,656,174
Deferred outflows of resources	2,629,084	780,713	3,409,797
Deferred inflows of resources	1,488,216	1,287,000	2,775,216
Actuarially determined pension expense	781,429	200,000	981,429

NOTE 11 – COMMITMENTS AND CONTINGENCIES

The University is a party to various lawsuits and other claims in the ordinary course of business. University officials are of the opinion, based upon the advice of legal counsel, that the ultimate resolution of these matters will not have a material effect on the financial statements of the University.

The University receives financial assistance from federal and state agencies in the form of grants and awards. The expenditure of funds received from these programs generally requires compliance with terms and conditions specified in the grant agreements and are subject to audit by the grantor agencies. Any disallowed claims resulting from such audit could become a liability of the applicable fund.

NOTE 12 – RISK MANAGEMENT

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

During fiscal year 2020, the University started a self-insurance program for employee's health insurance. Under this plan, the University pays premiums based on estimated claims. The University pays approximately 62% of the expenses of the plan for permanent full-time employees and their families. Expenses incurred to cover claims paid by the University under the plan for year ended June 30, 2020 totaled $2,227,653. Administrative fees incurred for the year ended June 30, 2020 was $97,475

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

	2020
Liability – beginning of year	$ -
Accruals for current year claims and changes in estimate	2,227,653
Claims paid	2,100,440
Liability – end of year	$ 127,213

(Continued)

NOTE 13 – SCHEDULE OF EXPENSES BY PROGRAM

In the Statement of Revenues, Expenses and Changes in Net Position, operating expenses are presented by functional expense purpose. Depreciation is allocated below based on functional classification as required by IPEDS for Fiscal Year 2020. Functional expense purpose is classified by natural classification as follows:

	Compensation and Benefits	Supplies and Services	Scholarships and Fellowships	Depreciation	Operations and Maintenance	Total
Instruction	$ 8,006,851	$ 1,015,622	$ -	$ 641,970	$ 828,596	$ 10,493,039
Research	4,595,955	2,333,401	-	786,513	661,532	8,377,401
Public service	5,739,678	3,135,437	-	395,290	794,812	10,065,217
Academic support	202,864	75,496	-	105,024	32,870	416,254
Student services	5,441,031	3,205,382	-	449,348	778,427	9,874,188
Institutional support	10,927,950	3,595,746	-	430,728	1,282,140	16,236,564
Operation & maintenance of plant	1,706,144	3,291,620	-	552,190	(5,549,954)	-
Auxiliary enterprises	628,430	4,408,534	-	299,069	458,905	5,794,938
Student financial aid	297,174	-	6,231,551	25,528	712,672	7,266,925
Total operating expense	$ 37,546,077	$ 21,061,238	$ 6,231,551	$ 3,685,660	$ -	$ 68,524,526

(Continued)

NOTE 14 – KENTUCKY STATE UNIVERSITY FOUNDATION, INC.

Description of the Organization

Kentucky State University Foundation, Inc. (the Foundation) is a Kentucky not-for-profit corporation formed to receive, invest and expend funds to promote and implement educational and developmental activities at Kentucky State University (the University). The Foundation is managed by a Board of Trustees independent from that of the University. The Foundation is supported primarily through contributions from alumni.

Summary of Significant Accounting Policies

The financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) which require management to make estimates and assumptions that affect the reported amounts and disclosures in the financial statements. Actual results could differ from those estimates. The following is a summary of the significant accounting policies consistently followed by the Foundation in the preparation of its financial statements.

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

> Net assets without donor restrictions – net assets available for use in general operations and not subject to donor restrictions. The governing body has designated, from net assets without donor restrictions, net assets for an operating reserve and board-designated endowment.
>
> Net assets with donor restrictions – net assets subject to donor-imposed restrictions. Some donor restrictions are temporary in nature, such as those that will be met by the passage of time or other events specified by the donor. Other donor-imposed restrictions are perpetual in nature, where the donor stipulates that resources be maintained in perpetuity. Donor-imposed restrictions are released when a restriction expires, that is, when the stipulated time has elapsed, when the stipulated purpose for which the restriction has been fulfilled, or both. The investment return on net assets with donor restrictions may be restricted or unrestricted according to the donor's wishes.

When a donor restriction expires, net assets with donor restrictions are classified to net assets without donor restrictions and reported on the statements of activities as net assets released from restrictions. The Foundation treats donor-restricted contributions whose restrictions are met in the same reporting period as unrestricted support.

Cash and Cash Equivalents: The Foundation considers all highly liquid investments purchased with a maturity of three months or less to be cash equivalents. The Foundation has a concentration of credit risk in that it periodically maintains bank accounts which, at times, may exceed the coverage provided by the Federal Deposit Insurance Corporation (FDIC). The Foundation has not experienced any losses on such amounts. The Foundation believes it is not exposed to any significant credit risk on cash.

Investments: Investments are stated at fair value based on closing market quotations for such securities or similar securities.

(Continued)

NOTE 14 – KENTUCKY STATE UNIVERSITY FOUNDATION, INC. (Continued)

Summary of Significant Accounting Policies (Continued)

Property and Equipment: Property and equipment is recorded at cost if purchased or fair market value at date of contribution if contributed. If the donors stipulate how long the assets must be used, the contributions of property and equipment are recorded as restricted support. In the absence of such stipulations, these contributions are recorded as unrestricted support. Depreciation is computed on a straight-line basis over the estimated useful lives of the respective assets.

Revenue Recognition: Contributions are generally recognized when received. However, pledges are recognized when the donor makes a promise to give to the Foundation that is, in substance, unconditional. Amounts received that are designated for future periods or restricted by donor for specific purposes are reported as additions to net assets with donor restrictions. When a donor restriction expires, net assets without donor restrictions are reclassified to net assets without donor restrictions.

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

Functional Allocation of Expenses: The costs of providing the program and other activities have been summarized on a functional basis in the statement of activities. Accordingly, certain costs have been allocated between the program and supporting services benefited.

Recent Accounting Pronouncements:

For the year ended June 30, 2020, Accounting Standards Update (ASU) 2014-09, Revenue from Contracts with Customers (Topic 606), became effect and was adopted by the Foundation. This standard requires an entity to recognize the amount of revenue to which it expects to be entitled for the transfer of promised goods or services to customers. The standard replaced most existing revenue recognition guidance in GAAP and permits the use of either a full retrospective or modified retrospective transition method.

For the year ended June 30, 2020, Accounting Standards Update (ASU) 2018-08, *Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made* (Topic 958 became effective and was adopted by the Foundation. This standard assists entities in 1) evaluating whether transactions should be accounted for as contributions (non-reciprocal transactions) within the scope of Topic 958, or as exchange (reciprocal) transactions subject to other guidance, and 2) determining whether a contribution is conditional.

(Continued)

NOTE 14 – KENTUCKY STATE UNIVERSITY FOUNDATION, INC. (Continued)

Liquidity and Availability

As of June 30, 2020, the following financial assets held by the Foundation could readily be made available within one year of the balance sheet date to meet general expenditures:

Cash and cash equivalents	$ 51,956
Operating investments	234,044
Endowment appropriations	258,339
Total investments	$ 544,339

The Foundation regularly monitors liquidity required to meet its operating needs and other contractual commitments, while also striving to maximize the investment of its available funds. The Foundation has various sources of liquidity at its disposal, including cash and cash equivalents, as well as marketable debt and equity securities. The Foundation strives to maintain financial assets available to meet general expenditures at a level that represents 100% of annual expenses. The Finance Committee meetings semi-annually to review cash needs and funds availability for the following six-month period.

For purposes of analyzing resources available to meet general expenditures over a 12-month period, the Foundation considers all expenditures related to its ongoing activities of providing scholarships and other reimbursements to the University, restricted expenditures on behalf of the University, as well as its own operating needs to be general expenditures. The Foundation operates with a balanced budget and anticipates collecting sufficient revenue to cover general expenditures not covered by donor restriction.

Investments

Investments as of June 30, 2020 are summarized as follows:

Equity securities	$ 6,840,254
Debt securities	2,767,288
U.S. government securities	51,133
Total investments	$ 9,658,675

(Continued)

NOTE 14 – KENTUCKY STATE UNIVERSITY FOUNDATION, INC. (Continued)

Fair Value Measurements

The Foundation classifies its investments based on a hierarchy consisting of: Level 1 (valued using quoted prices from active markets for identical assets), Level 2 (not traded on an active market but for which observable market inputs are readily available), and Level 3 (valued based on significant unobservable inputs). The investment's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs.

The following is a description of the valuation methodologies used for assets measured at fair value. There have been no changes in the methodologies used as of June 30, 2020.

Common stocks, municipal bonds, corporate bonds, U.S. government securities, and equity exchange traded funds: Valued at the closing price reported on the active market on which the individual securities are traded. Some level 2 inputs are used for pricing of municipal and corporate bonds; therefore, they are all classified as level 2.

Mutual funds: Valued at the daily closing price as reported by the fund. Mutual funds held by the Foundation are open-end mutual funds that are registered with the Securities and Exchange Commission. These funds are required to publish their daily net asset value (NAV) and to transact at that price. The mutual funds held by the Foundation are deemed to be actively traded.

The methods described above may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, while the Foundation believes its valuation methods are appropriate and consistent with those of other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

Fair value measurements as of June 30, 2020 are as follows:

	Level 1	Level 2	Level 3	Total
Common stocks	$ 4,105,838	$ -	$ -	$ 4,105,838
Mutual funds	2,709,613	-	-	2,709,613
Equity exchange traded funds	24,803	-	-	24,803
Municipal bonds	-	360,469	-	360,469
Corporate bonds	-	2,406,819	-	2,406,819
U.S government securities	51,133	-	-	51,133
Total	$ 6,891,387	$ 2,767,288	$ -	$ 9,658,675

(Continued)

NOTE 14 – KENTUCKY STATE UNIVERSITY FOUNDATION, INC. (Continued)

Net Assets With Donor Restrictions

Net assets with donor restrictions as of June 30, 2020 are restricted for the following purpose:

Subject to expenditure for specified purpose:	
Instruction and institutional support	$ 1,893,497
Scholarships	1,256,788
Total subject to expenditure for specified purpose	3,150,285
Subject to the passage of time	82,000
Subject to endowment spending policy and appropriation:	
Investments in perpetuity (including amounts above the original gift amount of $4,006,525), which once appropriated, are expendable to support the following programs:	
Instruction and institutional support	1,341,442
Scholarships	4,352,020
Total subject to endowment spending policy and appropriation	5,693,462
Total net assets with donor restrictions	$ 8,925,747

Net Assets Released from Restriction

For the year ended June 30, 2020, net assets were released from donor restrictions by incurring expenses satisfying the purpose of the restrictions specified by donors as follows:

Endowment spending allocation	$ 10,225
University support	142,685
Scholarships	399,328
Operating and other expenses	188,144
Student support	99,354
Travel and other expenses	35,647
Total release from restrictions	$ 875,383

(Continued)

NOTE 14 – KENTUCKY STATE UNIVERSITY FOUNDATION, INC. (Continued)

Endowment Composition

The Foundation's endowment consists of approximately 52 individual funds established by donors to provide annual funding for specific activities and general operations. The endowment also includes certain net assets without donor restrictions that have been designated for endowment by the Board of Trustees.

The Foundation's Board of Trustees has interpreted the Commonwealth of Kentucky Uniform Prudent Management of Institutional Funds Act (UPMIFA) as requiring the preservation of the fair value of the original gift as of the date of the donor-restricted endowment funds, unless there are explicit donor stipulations to the contrary. As of June 30, 2020, there were no such donor stipulations. As a result of this interpretation, the Foundation retains in perpetuity (a) the original value of initial and subsequent gift amounts including promises to give net of discount and allowance for doubtful accounts donated to the endowment and (b) any accumulations to the endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added. Donor-restricted amounts not retained in perpetuity are subject to appropriation for expenditure by the Foundation in a manner consistent with the standard of prudence prescribed by UPMIFA. The Foundation considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

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

Endowment net asset composition by type of fund as of June 30, 2020 is as follows:

	Without Donor Restrictions	With Donor Restrictions	Total Net Endowment Assets
Board-designated endowment fund	$ 1,884,774	$ -	$ 1,884,774
Original donor-restricted gift amount and amounts required by to be maintained in perpetuity by donor	-	4,006,525	4,006,525
Accumulated investment gains	-	1,686,937	1,686,937
Donor-restricted endowment funds	$ 1,884,774	$ 5,693,462	$ 7,578,236

From time to time, certain donor-restricted endowment funds may have fair value less than the amount required to be maintained by donors or by law (underwater endowments). The Foundation has interpreted UPMIFA to permit spending from underwater endowments in accordance with prudent measures required under law. There were no such deficiencies as of June 30, 2020.

(Continued)

NOTE 14 – KENTUCKY STATE UNIVERSITY FOUNDATION, INC. (Continued)

Endowment Composition (Continued)

Spending Policy: The Foundation spending policy is to distribute an amount at least equal to 3-5% of a moving sixteen quarter average of the fair value of the endowment funds. Accordingly, over the long term, the Foundation expects its spending policy to allow its endowment assets to grow at an average rate of 3% annually. This is consistent with the Foundation's objective to maintain the purchasing power of endowment assets as well as to provide additional real growth through investment return.

Changes in endowment net assets as of June 30, 2020 are as follows:

	Without Donor Restrictions	With Donor Restrictions	Total Net Endowment Assets
Endowment net assets, beginning of year	$ 2,240,078	$ 5,559,606	$ 7,799,684
Contributions	-	82,869	82,869
Interest and dividends	98,931	102,181	201,112
Realized and unrealized gains	11,424	53,060	64,484
Other, net of investment expense	-	(101,765)	(101,765)
Amounts appropriated for expenditure	(373,840)	(10,225)	(384,065)
Reclassifications	(91,819)	7,736	(84,083)
Endowment net assets, end of year	$ 1,884,774	$ 5,693,462	$ 7,578,236

Retirement Plan

The Foundation has a defined contribution profit sharing plan which covers all employees who meet certain requirements. Foundation contributions are discretionary. No contributions were made for the year ended June 30, 2020.

REQUIRED SUPPLEMENTARY INFORMATION

KENTUCKY STATE UNIVERSITY
SCHEDULE OF THE UNIVERSITY'S (KSU)
PROPORTIONATE SHARE OF THE NET PENSION LIABILITY
KENTUCKY EMPLOYEES' RETIREMENT SYSTEM
June 30, 2020
(Amounts in thousands)

Non-hazardous

	2020	2019	2018	2017	2016	2015
KSU's proportion of the net pension liability	$ 42,075	$ 30,999	$ 32,618	$ 29,146	$ 29,408	$ 28,555
KSU's proportionate share of the net pension liability	0.30%	0.23%	0.24%	0.26%	0.29%	0.32%
KSU's covered payroll	$ 4,358	$ 3,583	$ 3,888	$ 4,321	$ 5,390	$ 5,453
KSU's proportionate share of the net pension liability as a share of its covered payroll	956.47%	865.17%	838.94%	674.52%	545.60%	523.66%
Plan fiduciary net position as a percentage of total pension liability	13.66%	12.84%	13.30%	14.80%	18.83%	22.32%

Hazardous

	2020	2019	2018
KSU's proportion of the net pension liability	$ 393	$ 939	$ 237
KSU's proportionate share of the net pension liability	0.07%	0.19%	0.05%
KSU's covered payroll	$ 39	$ 61	$ 79
KSU's proportionate share of the net pension liability as a share of its covered payroll	1,007.69%	1,539.34%	300.00%
Plan fiduciary net position as a percentage of total pension liability	55.49%	56.10%	54.80%

Notes: This table represents data that is one year in arrears.

Changes in Assumptions: For fiscal year 2020, there was an increase to the salary increase assumptions for individual members and the base retiree mortality tables were replaced with a KERS-specific mortality table developed using the actual mortality experience of non-disabled retirees in KERS. Mortality tables for disable retirees and active members were updated with Public Retirement Mortality tables. Termination rates and rates of disability incidence were increased. Retirement rates were decreased slightly for members with participation date prior to July 1, 2003. For members with 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. There were no changes for fiscal year 2019. For fiscal year 2018, the demographic and economic assumptions that affect the measurement of the total pension liability have been updated as follows:

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

Changes in Benefit Terms: During the 2018 legislative session, House Bill 185 was enacted, which updated the benefit provisions for active members who die in the line of duty. Benefits paid to the spouses of deceased members have been increased from 25% of the member's final rate of pay to 75% of the member's average pay. If the member does not have a surviving spouse, benefits paid to surviving dependent children have been increased from 10% of the member's final pay rate to 50% of average pay for one child, 65% of average pay for two children, or 75% of average pay for three children. The TPL as of June 30, 2018 is determined using these updated benefit provisions.

KENTUCKY STATE UNIVERSITY
SCHEDULE OF THE UNIVERSITY'S CONTRIBUTION
KENTUCKY EMPLOYEES' RETIREMENT SYSTEM
June 30, 2020
(Amounts in thousands)

Non-hazardous

	2020	2019	2018	2017	2016	2015
Contractually required contribution	$ 1,924	$ 1,830	$ 1,471	$ 1,516	$ 1,312	$ 1,515
Contributions in relation to the contractually required contribution	$ 1,924	$ 1,830	$ 1,471	$ 1,516	$ 1,312	$ 1,515
Contribution deficiency (excess)	$ -	$ -	$ -	$ -	$ -	$ -
KSU covered payroll	$ 4,686	$ 4,457	$ 3,583	$ 3,888	$ 4,321	$ 5,390
Contributions as a percentage of covered payroll	41.07%	41.06%	41.05%	38.99%	30.36%	28.11%

Hazardous

	2020	2019	2018
Contractually required contribution	$ 32	$ 35	$ 61
Contributions in relation to the contractually required contribution	$ 32	$ 35	$ 61
Contribution deficiency (excess)	$ -	$ -	$ -
KSU covered payroll	$ 106	$ 114	$ 309
Contributions as a percentage of covered payroll	30.19%	30.70%	19.74%

Note: These are 10-year schedules. 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.

KENTUCKY STATE UNIVERSITY
SCHEDULE OF THE UNIVERSITY'S (KSU)
PROPORTIONATE SHARE OF THE NET PENSION LIABILITY
KENTUCKY TEACHERS' RETIREMENT SYSTEM
June 30, 2020
(Amounts in thousands)

	2020	2019	2018	2017	2016	2015
KSU's proportion of the net pension liability	$ 22,159	$ 22,617	$ 40,538	$ 68,926	$ 63,956	$ 64,987
State's proportionate share of the collective net pension liability	24,011	16,827	32,308	6,496	6,503	7,374
Total	$ 46,170	$ 39,444	$ 72,846	$ 75,422	$ 70,459	$ 72,361
KSU's proportionate share of the net pension liability	0.16%	0.16%	0.14%	0.22%	0.23%	0.30%
KSU's covered payroll	$ 22,544	$ 19,083	$ 17,779	$ 16,961	$ 19,076	$ 21,451
KSU's proportionate share of the net pension liability as a share of its covered payroll	98.29%	118.52%	228.01%	406.38%	335.27%	302.96%
Plan fiduciary net position as a percentage of total pension liability	58.10%	59.30%	39.83%	35.22%	42.49%	45.59%

Note: This table represents data that is one year in arrears.

Changes in assumptions: For fiscal year 2020, the assumed municipal bond index rate decreased from 3.89% to 3.50%. For fiscal year 2019, the KTRS plan discount increased from 4.49% to 7.50%. For fiscal year 2018, the KTRS plan discount rate increased from 4.20 percent to 4.49 percent. For fiscal year 2017, the KTRS plan discount rate decreased from 4.88 percent to 4.20 percent. For fiscal year 2016, there was a decrease in the assumed investment rate of return from 7.75 percent to 7.50 percent; a decrease in the assumed rate of inflation from 3.50 percent to 3.25 percent; a decrease in the assumed rate of wage inflation from 1.00 percent to 0.75 percent and a decrease in the payroll growth assumption from 4.50 percent to 4.00 percent.

KENTUCKY STATE UNIVERSITY
SCHEDULE OF THE UNIVERSITY'S CONTRIBUTION
KENTUCKY TEACHERS' RETIREMENT SYSTEM
June 30, 2020
(Amounts in thousands)

	2020	2019	2018	2017	2016	2015
Contractually required contribution	$ 1,941	$ 1,815	$ 1,730	$ 1,879	$ 1,773	$ 2,059
Contributions in relation to the contractually required contribution	$ 1,941	$ 1,815	$ 1,730	$ 1,879	$ 1,773	$ 2,059
Contribution deficiency (excess)	$ -	$ -	$ -	$ -	$ -	$ -
KSU covered payroll	$ 23,652	$ 22,544	$ 19,083	$ 17,779	$ 16,961	$ 19,076
Contributions as a percentage of covered payroll	8.21%	8.05%	9.07%	10.57%	10.45%	10.79%

Note: These are 10-year schedules. 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.

KENTUCKY STATE UNIVERSITY
SCHEDULE OF THE UNIVERSITY'S (KSU)
PROPORTIONATE SHARE OF THE NET OPEB LIABILITY
KENTUCKY EMPLOYEES RETIREMENT SYSTEM
June 30, 2020
(Amounts in thousands)

Non-hazardous	2020	2019	2018
KSU's proportion of the net OPEB liability	$ 6,622	$ 5,398	$ 6,178
KSU's proportionate share of the net OPEB liability	0.30%	0.23%	0.24%
KSU's covered payroll	$ 4,358	$ 3,583	$ 3,888
KSU's proportionate share of the net OPEB liability as a share of its covered payroll	151.95%	150.66%	158.90%
Plan fiduciary net position as a percentage of total OPEB liability	30.92%	27.32%	24.40%
Hazardous	2020	2019	2018
KSU's proportion of the net OPEB liability	$ (19)	$ (62)	$ 3
KSU's proportionate share of the net OPEB liability	0.07%	0.19%	0.05%
KSU's covered payroll	$ 39	$ 61	$ 79
KSU's proportionate share of the net OPEB liability as a share of its covered payroll	(48.72)%	(101.64)%	3.80%
Plan fiduciary net position as a percentage of total OPEB liability	105.29 %	106.83%	98.80%

Note: This table represents data that is one year in arrears.

Changes in assumptions: For fiscal year 2020, the discount rate was changed from 5.86% to 5.73% for non-hazardous and from 5.88% to 5.66% for hazardous. In addition, the KERS Board of Trustees adopted new actuarial assumptions based on an actuarial experience study for the period ending June 30, 2018. Key assumptions include replacing the base retiree mortality tables were replaced with a KERS-specific mortality table developed using the actual mortality experience of non-disabled retirees in KERS. Mortality tables for disable retirees and active members were updated with Public Retirement Mortality tables. Termination rates and rates of disability incidence were increased. Retirement rates were decreased slightly for members with participation date prior to July 1, 2003. For members with 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.For fiscal year 2019, the discount rate used to measure the total Non-hazardous OPEB liability was 5.86%, which was reduced from the 6.90% discount rate used in the prior year. The discount rate used to measure the total Hazardous OPEB liability was 5.88%, which was increased from the 5.87% discount rate used in the prior year. For fiscal year 2018, the assumed investment rate of return was changed from 7.50% to 6.25%. The inflation assumption was changed from 3.25% to 2.30%. The payroll growth assumption was changed from 4.00% to 0.00%.

Changes in benefit terms: However, during the 2018 legislative session, House Bill 185 was enacted, which updated the benefit provisions for active members who die in the line of duty. The system shall now pay 100% of the insurance premium for spouses and children of all active members who die in the line of duty. The total OPEB liability as of June 30, 2018, is determined using these updated benefit provisions.

KENTUCKY STATE UNIVERSITY
SCHEDULE OF THE UNIVERSITY'S OPEB CONTRIBUTIONS
KENTUCKY EMPLOYEES RETIREMENT SYSTEM
June 30, 2020
(Amounts in thousands)

Non-hazardous	2020	2019	2018
Contractually required contribution	$ 394	$ 375	$ 301
Contributions in relation to the contractually required contribution	$ 394	$ 375	$ 301
Contribution deficiency (excess)	$ -	$ -	$ -
KSU covered payroll	$ 4,686	$ 4,358	$ 3,583
Contributions as a percentage of covered payroll	8.41%	8.41%	8.40%

Hazardous	2020	2019	2018
Contractually required contribution	$ 7	$ 7	$ 12
Contributions in relation to the contractually required contribution	$ 7	$ 7	$ 12
Contribution deficiency (excess)	$ -	$ -	$ -
KSU covered payroll	$ 106	$ 114	$ 309
Contributions as a percentage of covered payroll	6.60%	6.14%	3.88%

Note: These are 10-year schedules. 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.

KENTUCKY STATE UNIVERSITY
SCHEDULE OF THE UNIVERSITY'S (KSU)
PROPORTIONATE SHARE OF THE NET OPEB LIABILITY
KENTUCKY TEACHERS' RETIREMENT SYSTEM
June 30, 2020
(Amounts in thousands)

	2020	2019	2018
KSU's proportion of the net OPEB liability	$ 5,053	$ 5,626	$ 5,880
State's proportionate share of the net OPEB liability	2,198	2,700	2,630
Total	$ 7,251	$ 8,326	$ 8,510
KSU's proportionate share of the net OPEB liability	0.30%	0.16%	0.16%
KSU's covered payroll	$ 22,544	$ 19,083	$ 17,779
KSU's proportionate share of the net OPEB liability as a share of its covered employee payroll	22.41%	29.48%	33.07%
Plan fiduciary net position as a percentage of total OPEB liability	32.58%	25.50%	21.18%

Note: This table represents data that is one year in arrears.

Changes in assumptions: For fiscal year 2020, the healthcare cost trend rate decreased from 7.75% and 5.75% to 7.50% and 5.50% for Pre-65 and Post-65, respectively. Medicare Part B premiums increased 2.63% from 0.00%. The municipal bond rate decreased from 3.89% to 3.50%. For fiscal year 2019, healthcare cost trend rates decreased to 0.00% from 1.02% for Medicare Part B Premiums. The municipal bond index rate increased from 3.56% to 3.89%.

Change in benefit terms: There were no changes for fiscal years 2020 and 2019. For fiscal year 2018, 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.

SCHEDULE OF THE UNIVERSITY'S OPEB CONTRIBUTIONS
KENTUCKY TEACHERS' RETIREMENT SYSTEM
June 30, 2020
(Amounts in thousands)

	2020	2019	2018
Contractually required contribution	$ 298	$ 297	$ 287
Contributions in relation to the contractually required contribution	$ 298	$ 297	$ 287
Contribution deficiency (excess)	$ -	$ -	$ -
KSU covered payroll	$ 23,652	$ 22,544	$ 19,083
Contributions as a percentage of covered payroll	1.26%	1.32%	1.50%

Note: These are 10-year schedules. 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.

Crowe LLP
Independent Member Crowe Global

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*

Members of the Board of Regents
Kentucky State University
Frankfort, Kentucky

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the business-type activities and the discretely presented component unit of Kentucky State University (the University), a component unit of the Commonwealth of Kentucky, as of and for the year ended June 30, 2020, and the related notes to the financial statements, which collectively comprise the University's basic financial statements and have issued our report thereon dated March 29, 2021. Our report includes a reference to other auditors who audited the financial statements of Kentucky State University Foundation, Inc. (Foundation) as described in our report on the University's financial statements. The financial statements of the Foundation 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

Crowe LLP

Lexington, Kentucky
March 29, 2021

KENTUCKY STATE UNIVERSITY
(A Component Unit of the Commonwealth of Kentucky)

FINANCIAL STATEMENTS
June 30, 2020

KENTUCKY STATE UNIVERSITY

FINANCIAL STATEMENTS
June 30, 2020

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Crowe

Crowe LLP
Independent Member Crowe Global

INDEPENDENT AUDITOR'S REPORT

Members of the Board of Regents
Kentucky State University
Frankfort, Kentucky

Secretary of Finance and
Administration Cabinet of the
Commonwealth of Kentucky

Report on the Financial Statements

We have audited the accompanying financial statements of the business-type activities and discretely presented component unit of Kentucky State University (the University), a component unit of the Commonwealth of Kentucky, as of and for the year ended June 30, 2020, and the related notes to the financial statements which collectively comprise the University's basic financial statements as listed on the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of the Kentucky State University Foundation, Inc. (Foundation) which represents the entire discretely presented component unit of the University. Those financial statements were audited by other auditors whose reports thereon have been furnished to us, and our opinion, insofar as it relates to the amounts included for the Foundation is based solely on the reports of the other auditors. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audit contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement. The financial statements of the Foundation were not audited in accordance with *Government Auditing Standards.*

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

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

Opinions

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

(Continued)

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis on pages 3 through 14 and required supplementary information on pages 66 through 72 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Supplementary Information

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

The schedule of expenditures of federal awards is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditures of federal awards is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Prior Year Comparative Information

We have previously audited the University's fiscal year 2019 financial statements, and we expressed an unmodified audit opinion on the financial statements of the business-type activities of the University in our report dated December 3, 2019. In our opinion, the summarized comparative information presented herein for the business-type activities as of and for the year ended June 30, 2019, is consistent, in all material respects, with the audited financial statements from which it has been derived.

Other auditors have previously audited the discretely presented component unit's fiscal year 2019 financial statements and they expressed an unmodified audit opinion on the financial statements in their report dated October 17, 2019. The summarized comparative information for the discretely presented component unit as of June 30, 2019 has not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated March 29, 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

Crowe LLP

Lexington, Kentucky
March 29, 2021

Introduction

Management's Discussion and Analysis of Kentucky State University's (the University) financial statements provide an overview of the financial position and activities of the University for the year ended June 30, 2020, with comparative information for the year ended June 30, 2019. This discussion has been prepared by management and should be read in conjunction with the financial statements and the notes thereto, which follow this section. The financial statements and related notes and this discussion and analysis are the responsibility of management.

Kentucky State University is a Commonwealth of Kentucky coeducational institution for higher education. The University's mission is to build on its legacy of achievement as a historically black, liberal arts, and 1890 land-grant university, afford access to and prepare a diverse student population of traditional and non-traditional students to compete in a multifaceted, ever-changing global society by providing student-centered learning while integrating teaching, research, and service through high-quality undergraduate and select graduate programs. Kentucky State University is committed to keeping relevant its legacy of service by proactively engaging the community in partnerships on civic projects driven by the objective of positively impacting the quality of life of the citizens of the Commonwealth.

Basis of Presentation

The annual financial report and statements include the University and Kentucky State University Foundation, a component unit of the University. Kentucky State University Foundation, Inc. (the Foundation) is a not-for-profit Kentucky corporation which was established to receive, invest and expend funds to promote and implement educational and developmental activities at Kentucky State University (the University). The Foundation is managed by a Board of Trustees independent from that of the University. The Foundation is supported primarily through contributions from alumni.

Financial Highlights

The University's financial position at June 30, 2020, reflected total assets and deferred outflows of $136.1 million and total liabilities and deferred inflows of $137.6 million. Total net position was ($1.6) million.

Total assets and deferred outflows increased by $18.4 million or 16%, primarily due to an increase in capital assets. Total liabilities and deferred inflows increased by $16.1 million or 13% primarily due to increases in the net pension liability related to KTRS, accounts payable, and accrued liabilities.

Unrestricted net position, which the University reserves for spending in programs and other capital-related contingencies, decreased $5.2 million.

The University classifies amounts earned on endowments as spendable or non-spendable in accordance with the endowment's donor stipulations. Nonexpendable restricted net assets represent amounts, which must be maintained in perpetuity. Expendable restricted net assets include private grants and contributions restricted for specific purposes and accumulated earnings on endowment assets.

Operating revenues were nearly $39.9 million and operating expenditures were $68.5 million, resulting in a loss from operations of $28.6 million. Net non-operating revenues were $30.9 million, including $25.8 million in state appropriations, which, when combined with the loss from operations and capital appropriations, resulted in an overall increase in net position of $2.3 million.

Using the Financial Statements

The University's Financial Statements consist of three financial statements: a Statement of Net Position (Balance Sheet); a Statement of Revenues, Expenses and Changes in Net Position (Income Statement); and a Statement of Cash Flows, along with the accompanying Notes to the Financial Statements. These financial statements are prepared in accordance with Governmental Accounting Standards Board (GASB) Statement No. 35, Basic Financial Statements – and Management's Discussion and Analysis – for Public Colleges and Universities.

Kentucky State University is a component unit of the Commonwealth of Kentucky.

Statement of Net Position

The Statement of Net Position presents the financial position of the University at the end of the fiscal year and includes all assets, deferred outflows of resources, liabilities, and deferred inflows of resources. Net position, the difference between total assets and deferred outflows and total liabilities and deferred inflows, is an important indicator of the current financial condition, while the change in net position is an indicator of whether the overall financial position has improved or worsened during the year.

Condensed Statement of Net Position

	2020	2019
ASSETS		
Current assets	$ 6,148,240	$ 8,633,556
Noncurrent assets	111,324,681	93,824,063
Total assets	117,472,921	102,457,619
DEFERRED OUTFLOWS OF RESOURCES	$ 18,594,112	15,179,797
LIABILITIES		
Current liabilities	18,278,047	12,346,476
Non-current liabilities	92,294,267	68,680,752
Total liabilities	110,572,314	81,027,228
DEFERRED INFLOWS OF RESOURCES	$ 27,065,849	$ 40,521,833
NET POSITION		
Net investment in capital assets	77,317,900	69,736,441
Restricted		
Nonexpendable - endowment	3,562,238	3,562,238
Expendable	4,220,806	4,800,330
Unrestricted	(86,672,074)	(82,010,654)
Total net position	$ ($1,571,130)	$ (3,911,645)

Assets and Deferred Outflows: As of June 30, 2020, total assets and deferred outflows amounted to $136.1 million. Of this amount, investment in capital assets (net of depreciation) of $93.5 million, or 79% of total assets, represented the largest asset class. Investments amounted to $17.2 million or 14% of total assets. During the year, total assets and deferred outflows increased by $18.4 million, primarily due to increases in capital assets.

Liabilities and Deferred Inflows: As of June 30, 2020, total liabilities and deferred inflows amounted to $137.1 million. Net pension and OPEB liabilities amounted to $76.3 million. The University's proportion of the net pension liability and net OPEB liability of the Kentucky Employees Retirement System and the Kentucky Teachers' Retirement System was based on a projection of the University's long-term share of contributions to the pension and OPEB plans relative to the projected contributions of all participating universities, actuarially determined. Long-term debt includes bonds payable for the housing and dining system and energy-related equipment and technology equipment purchased under a Master Lease Agreement. During the year, total liabilities and deferred inflows increased by $16.1 million, primarily due to the decrease in the net pension liability and accounts payable and accrued liabilities.

Net Position: Net position of the University was $(1.6) million at June 30, 2020 and was reported in three net position categories: net investment in capital assets $77.3 million, restricted nonexpendable $3.6 million, restricted expendable $4.2 million, and unrestricted $(86.7) million.

Statement of Revenues, Expenses and Changes in Net Position

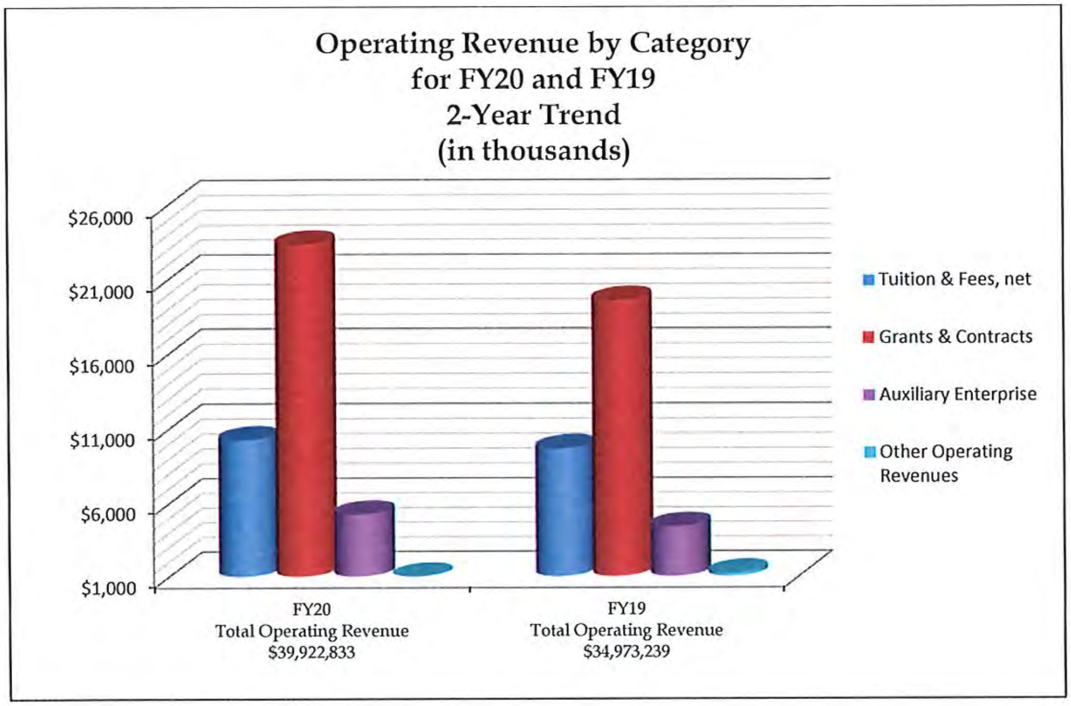
The Statement of Revenues, Expenses and Changes in Net Position is prepared on the accrual basis of accounting, whereby revenues and assets are recognized when the service is provided and expenses and liabilities are recognized when others provide the service, regardless of when cash is exchanged. All items that increase or decrease net position must appear on the Statement of Revenues, Expenses and Changes in Net Position as revenues, expenses, gains or losses.

Financial activities are reported as either operating or non-operating. GASB Statement No. 35 requires state appropriations, gifts, investment income and endowment income to be classified as non-operating revenues. Accordingly, the University reports an operating loss prior to the addition of non-operating revenues. The utilization of long-lived capital assets is reflected in the financial statements as depreciation, which amortizes the cost of an asset over its expected useful life. Tuition revenue is reduced by gift scholarships and institutional aid and is reported net of scholarship allowances in the financial statements. A summarized comparison of the University's revenues, expenses and changes in net position for the years ended June 30, 2020 and 2019 is as follows.

Condensed Statement of Revenues, Expenses and Changes in Net Position

	2020	2019
REVENUES		
Student tuition and fees, net	$ 10,290,971	$ 9,710,046
Grants and contracts	23,396,504	19,615,052
Auxiliary enterprises	5,263,410	4,426,675
Other operating revenue	971,948	1,221,466
Total operating revenues	39,922,833	34,973,239
EXPENSES		
Educational and general	63,057,725	65,992,835
Auxiliary enterprises	5,466,801	4,726,810
Total operating expenses	68,524,526	70,719,645
Operating loss	(28,601,693)	(35,746,406)
NONOPERATING REVENUES (EXPENSES)		
State appropriations	25,766,500	25,749,000
Federal grants and contracts	4,703,308	4,261,886
Investment income	590,615	871,874
Interest on capital asset – related debt	(118,215)	(276,798)
Total non-operating revenues	30,942,208	30,605,962
Income before capital appropriations	2,340,515	(5,140,444)
Capital appropriations	-	151,277
Change in net position	2,340,515	(4,989,167)
NET POSITION		
Net position, beginning of year	(3,911,645)	1,077,522
Net position, end of year	$ (1,571,130)	$ (3,911,645)

Figure1


Operating Revenue by Category
for FY20 and FY19
2-Year Trend
(in thousands)
$26,000
$21,000
$16,000
$11,000
$6,000
$1,000
FY20
Total Operating Revenue
$39,922,833
FY19
Total Operating Revenue
$34,973,239
Tuition & Fees, net
Grants & Contracts
Auxiliary Enterprise
Other Operating Revenues


FY 2020 Operating Revenue Categories as a % of Total Operating Revenues
13.2%
2.4%
25.8%
58.6%
Tuition & Fees, net
Grants & Contracts
Auxiliary Enterprise
Other Operating Revenues

Operating Revenue

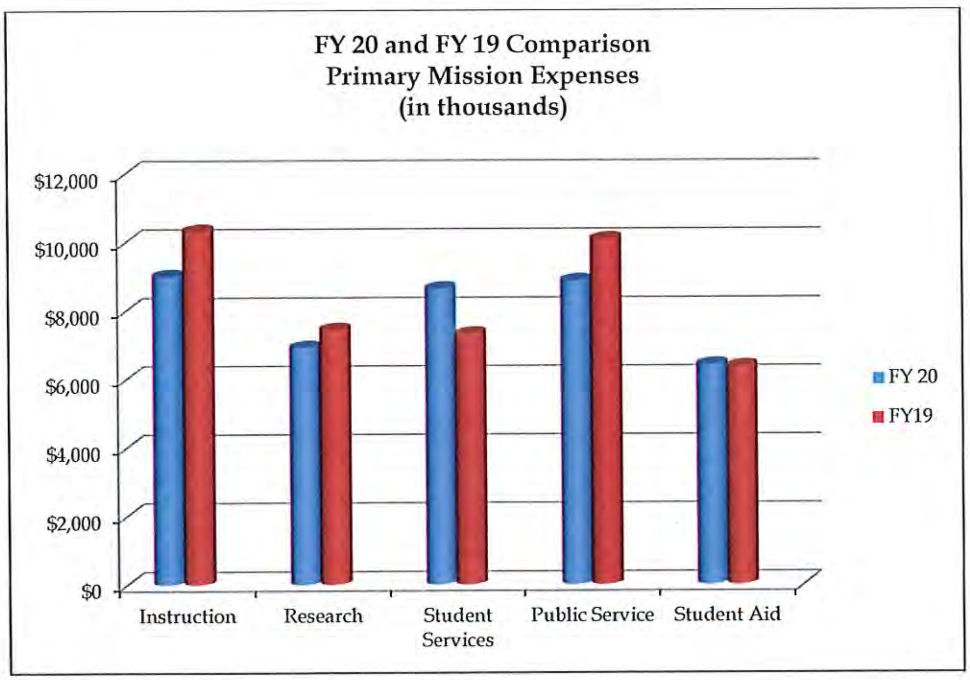
Total operating revenues were $39.9 million for the year ended June 30, 2020, as compared with $35.0 million in FY19. The primary components of operating revenue were federal, state and local grants and contracts of $23.4 million (58.6%), student tuition and fees, net, of $10.3 million (25.8%) and auxiliary services and other revenues of $6.2 million (15.6%). FY20 net student tuition and fees revenue increased by $0.6 million compared to FY19. FY20 grants and contracts revenue increased $3.8 million compared to FY19 due to increased awards and spending. FY20 auxiliary services and other revenue increased $587,218 compared to FY19. Refer to ***Figure 1*** for the two-year trend of the operating revenues as a percent to total operating revenues and revenue by category.

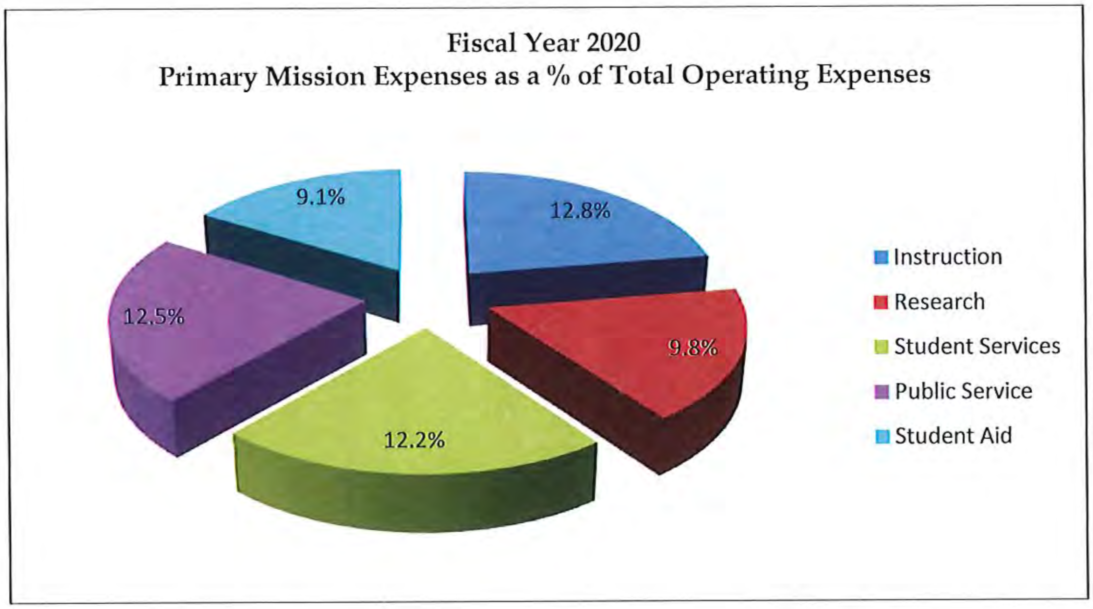
Operating Expenses

Operating expenses totaled $68.5 million, a decrease of $2.2 from last year. Of this amount, $41.7 million (60%) was expended directly for the primary mission of the University – instruction (13%), research (10%), student services (12%), student aid (12%), and public service (13%). Instruction is the main component of Primary Mission expenses amounting to $9.8 million in fiscal year 2020 or 13%. Refer to ***Figure 2*** for the operating expenses categorized into the Primary Mission of the University.

(Percentages below do not include depreciation or operations/maintenance allocations.)

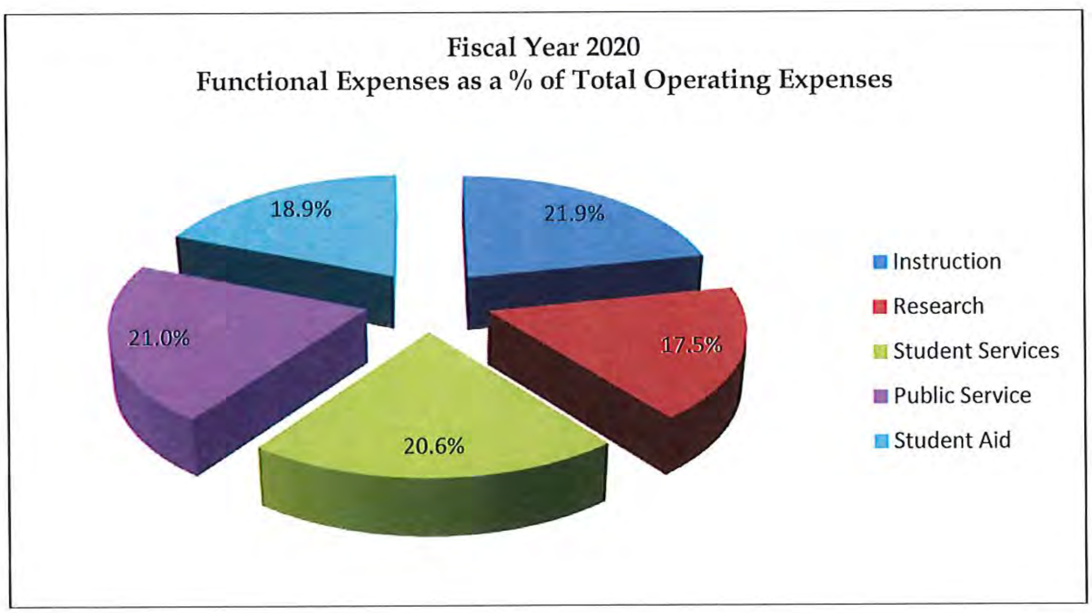
Figure 2





In addition to the Primary Mission expenses of the University, there are expenses from depreciation and operations & maintenance that are allocated to the various functional classifications (See Note 13 – Schedule of Expenses by Program). See below for the operating expenses categorized into the Functional Expenses of the University.

(Percentages below include depreciation and operations/maintenance allocations.)



The University continued to invest in student aid and support services to provide students with opportunities to be successful in fiscal year 2020. For the year ended June 30, 2020, student aid expenses totaled $6.4 million and scholarship allowances totaled $4.9 million.

The University had an overall decrease in institutional support of $0.3 million, which was consistent with the overall expenditure decrease University wide. The large expenditures in the primary areas of instruction, research and student services, in conjunction with minimal increases to fixed cost areas, confirms the University resource allocations are clearly aligned with the University's strategic priorities to support academic and student excellence.

The net loss from operations for the year amounted to ($28.6) million. Non-operating revenues, net of expenses, amounted to $30.9 million, resulting in an increase of net position of $2.3 million for the year. Non-operating revenues include state appropriations of $25.8 million and non-operating federal grants and contracts of $4.7 million.

Statement of Cash Flows

The Statement of Cash Flows presents information related to the University's cash inflows and outflows summarized by operating activities, noncapital financing activities, capital financing activities and investing activities. The primary purpose of the Statement of Cash Flows is to provide information about the cash receipts and cash payments made by the University during the year, to allow financial statement readers to assess the University's ability to generate future net cash flows, its ability to meet obligations as they become due and its possible need for external financing.

Condensed Statement of Cash Flows

	2020	2019
Cash (used) provided by:		
Operating activities	$ (22,787,888)	$ (40,996,680)
Non-capital financing activities	31,301,874	30,010,886
Capital and related financing activities	(9,309,928)	(1,085,825)
Investing activities	1,032,291	84,633
Change in cash balances	236,349	(11,986,986)
Cash and cash equivalents, beginning year	2,909,505	14,896,491
Cash and cash equivalents, end of year	$ 3,145,854	$ 2,909,505

Cash and Investments

Major sources of cash received from operating activities are student tuition and fees of $12.0 million and grants and contracts of $28.7 million. Major uses of cash for operating activities were payments to employees for salaries and benefits of $42.1 million and to vendors and contractors of $18.2 million.

Noncapital financing activities included state appropriations from the Commonwealth of Kentucky of $25.8 million.

Capital and related financing activities include purchases and payments of $9.3 million expended for construction and acquisition of capital assets and for principal and interest payments on the retirement of the University's bonds and other capital related debt.

State Appropriations

State appropriations represent approximately 35% of all operating and non-operating revenues. The level of state support is a key factor influencing the University's overall financial condition. State appropriation is unrestricted revenue and is included as non-operating revenue. State appropriations are used to support payroll and benefits for University employees.

The following details the net Commonwealth appropriations received by the University for fiscal years ending June 30, 2020 and 2019.

	2020	2019
Commonwealth appropriations	$ 25,766,500	$ 25,749,000

Capital Appropriations for the Commonwealth

The University faces financial challenges to maintain and upgrade its capital assets including its infrastructure, buildings and grounds. A combination of revenue sources funds the University's investment in capital improvements, including appropriations provided by the Commonwealth of Kentucky. In fiscal year 2020, the Commonwealth provided capital appropriations of $0 to the University. State capital appropriations plus federal sources play an important role in the University's efforts to address deferred maintenance projects.

Grant and Contract Revenue

The following table details the University's grant and contract revenue for fiscal years ended June 30, 2020 and 2019.

	2020	2019
Federal grants and contracts, operating	$ 21,403,764	$ 18,007,131
Federal grants and contracts, non-operating	4,703,308	4,261,886
State grants and contracts	1,992,740	1,607,921
Total grants and contracts	$ 28,099,812	$ 23,876,938

Capital Plan

The University continues to face financial challenges to maintain and upgrade its capital assets including its infrastructure, buildings and grounds. A combination of revenue sources fund the University's investment in capital improvements. Those include appropriations provided by the Commonwealth of Kentucky. In fiscal year 2016-17, the Commonwealth funded one capital project, appropriating state bond funds toward Repair Boilers and Aging Distribution Lines. As of June 30, 2020, $8.9 million has been expended on this project. State capital appropriations for deferred maintenance were not appropriated. Federal funds are the primary source for the University's College of Agriculture and Land Grant departments.

Designated and Non-designated Spending

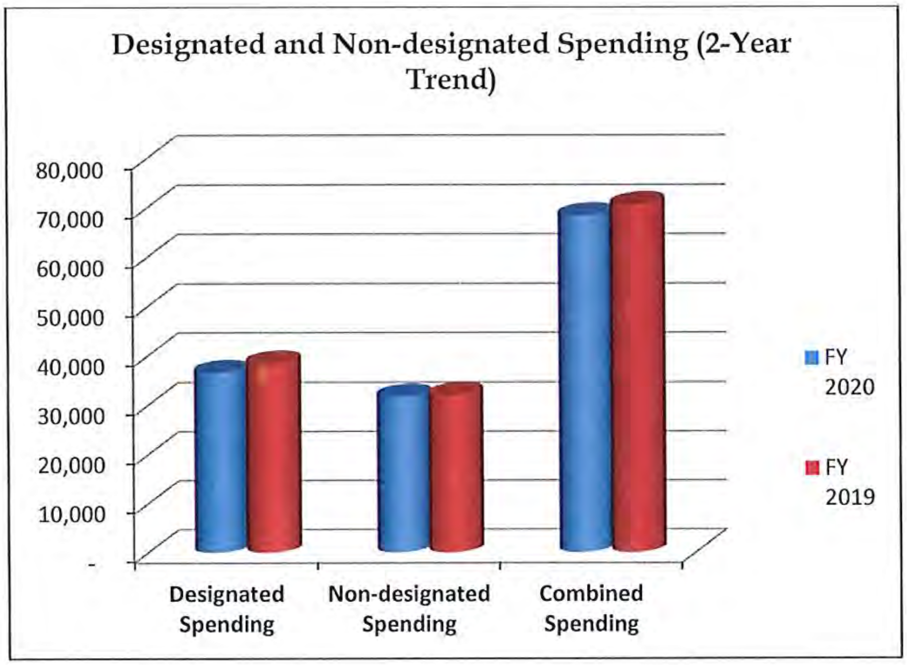
In the tables below, expenses have been categorized into designated or non-designated spending categories. The designated spending category includes funds expended by function from contracts and grants, land grant, auxiliary and depreciation. These funds must be expended for the purposes for which the funds were received or budgeted. This category also includes funds for student aid. All other spending is categorized as non-designated spending. Total spending for all functions in 2020 in the non-designated category is consistent with 2019.

	2020		
	Designated Spending	Non-designated Spending	Combined Spending
Instruction	$ 434,006	$ 8,588,467	$ 9,022,473
Research	7,479,608	(550,253)	6,929,355
Public service	9,214,216	(339,101)	8,875,115
Academic support	100,537	177,823	278,360
Student services	809,688	7,836,726	8,646,414
Institutional support	3,456,969	11,043,954	14,500,923
Operation and maintenance of plant	-	4,997,765	4,997,765
Student aid	6,361,730	58,999	6,420,729
Auxiliary	5,167,732	-	5,167,732
Depreciation	3,685,660	-	3,685,660
Total	$ 36,710,146	$ 31,814,380	$ 68,524,526

	2019		
	Designated Spending	Non-designated Spending	Combined Spending
Instruction	$ 1,130,410	$ 9,200,223	$ 10,330,633
Research	8,418,721	(969,604)	7,449,117
Public service	11,171,830	(1,084,496)	10,087,334
Academic support	54,114	571,470	625,584
Student services	620,450	6,703,156	7,323,606
Institutional support	2,988,829	11,850,139	14,838,968
Operation and maintenance of plant	-	5,399,949	5,399,949
Student aid	5,898,427	465,536	6,363,963
Auxiliary	4,423,814	-	4,423,814
Depreciation	3,876,677	-	3,876,677
Total	$ 38,583,272	$ 32,136,373	$ 70,719,645

The graph in ***Figure 3*** shows a two-year trend of designated, non-designated, and combined spending. Designated spending decreased $1.9 million in 2020. Non-designated spending increased $1.4 million in 2020. Combined spending decreased $0.4 million in 2020.

Figure 3



Capital Asset and Debt Administration

Capital Assets

Capital assets, net of accumulated depreciation, totaled $93.4 million at June 30, 2020, an increase of $18.2 million. Capital assets as of June 30, 2020 and significant changes in capital assets during the year are as follows (in millions):

	June 30, 2020	Net Additions (Reductions) FY 19-20	June 30, 2019
Land and land improvements	$ 6.3	$ -	$ 6.3
Buildings, fixed equipment and infrastructure	155.8	-	155.8
Equipment, vehicles and capitalized software	32.6	0.8	31.8
Library materials and art	10.6	-	10.6
Construction in progress	31.8	21.1	10.7
Accumulated depreciation	(143.7)	(3.7)	(140.0)
Total	$ 93.4	$ 18.2	$ 75.2

Long-Term Debt

At June 30, 2020, bonds and lease payable amounted to $16.1 million, as summarized below:

	2020	2019
Lease obligations	$ 14,133,959	$ 1,170,167
General receipts bonds	2,035,000	2,285,000
Bond discount	(27,377)	(31,861)
Total	$ 16,141,582	$ 3,423,306

Economic Factors Impacting Future Periods

University management continues its strategic mission to uniquely position Kentucky State University as Kentucky's small public liberal arts institution of excellence for the citizens of the Commonwealth and for advancing higher education in Kentucky by inspiring innovation, growing leaders and advancing Kentucky. Executive management continues to work with the Council on Postsecondary Education to address the needs of the Commonwealth and believes it is positioning the University to become a strong, financially viable and efficient institution of higher learning.

Future economic factors impacting Kentucky State University include the following known facts:

- Tuition and costs of attendance – Kentucky State University continues to weigh its costs of attendance with the funding provided by the General Assembly to successfully deliver its programs and remain one of the most affordable public institutions in the Commonwealth. Funding levels and methodologies used for institutions of higher education in the Commonwealth are developed and approved by the Council on Postsecondary Education.
- Enrollment growth and student retention – Kentucky State University recruits a diverse student body of traditional, nontraditional and transfer students seeking baccalaureate and advanced degrees. Enrollment stabilization is a priority of University management and specifically, an increased strategy for recruiting in-state students.
- Program expansion – the University is well positioned to meet the needs of Kentuckians through its programs and educational activities. The University offers the following programs: Bachelors in Mass Communications and Journalism, a Masters of Arts in Special Education, and a Masters in Business Administration, a Masters in Public Administration, a Masters in Computer Science, a Masters in Environmental Studies, a Masters of Science in Interdisciplinary Behavioral Studies and a Doctorate in Nursing Practice.
- Regional Stewardship – Kentucky State University continues to meet the economic and community needs of its area of geographic responsibility through collaborative initiatives with businesses, community-based organizations, schools and other educational agencies, citizens and local and state officials.
- Land Grant – Kentucky State University continues to fulfill its mission as a land grant institution providing innovative research opportunities on its research vessel, the Kentucky River Thorobred and community-based extension through the Rosenwald Center for Families and Children

The overall financial position of the University was stable during fiscal year 2020. Revenue streams were stressed. As the University adapts to present economic environments, new opportunities for funding will be explored to complement state support. Executive management's goal is to deliver exceptional programs and services to students and constituents while maintaining financial stability. Management believes Kentucky State University is able to sustain its financial position and solidify its standing as a regional university of excellence.

KENTUCKY STATE UNIVERSITY
STATEMENTS OF NET POSITION
June 30, 2020
(with summarized comparative amounts at June 30, 2019)

	2020	2019
ASSETS		
Current assets		
Cash and cash equivalents	$ 3,145,854	$ 2,002,952
Accounts, grants and loans receivable, net	3,002,386	6,630,604
Total current assets	6,148,240	8,633,556
Noncurrent assets		
Accounts, grants and loans receivable, net	692,396	81,633
Investments	17,172,803	18,521,033
Capital assets, net	93,459,482	75,221,397
Total noncurrent assets	111,324,681	93,824,063
DEFERRED OUTFLOWS OF RESOURCES		
Deferred outflows – pension	15,184,317	13,661,275
Deferred outflows – other postemployment benefits	3,409,795	1,518,522
Total deferred outflows	18,594,112	15,179,797
Total assets and deferred outflows of resources	136,067,033	117,637,416
LIABILITIES		
Current liabilities		
Accounts payable and accrued liabilities	10,698,078	7,407,298
Accrued compensated absences	2,338,515	1,726,772
Unearned revenue	1,009,463	184,492
Line of credit	2,893,716	2,061,650
Deposits and other current liabilities	195,887	148,079
Long-term debt, current portion	1,142,388	818,185
Total current liabilities	18,278,047	12,346,476
Non-current liabilities		
Net pension liability	64,627,263	54,555,554
Net OPEB liability	11,656,173	10,962,235
Long-term debt, non-current portion	14,999,194	2,605,121
Federal grants refundable	525,758	557,842
Other noncurrent liabilities	485,879	-
Total noncurrent liabilities	92,294,267	68,680,752
DEFERRED INFLOWS OF RESOURCES		
Deferred inflows – pension	24,290,634	39,161,111
Deferred inflows – other postemployment benefits	2,775,215	1,360,722
Total deferred inflows	27,065,849	40,521,833
Total liabilities and deferred inflows of resources	137,638,163	121,549,061
NET POSITION		
Net investment in capital assets	77,317,900	69,736,441
Restricted		
Nonexpendable - endowment	3,562,238	3,562,238
Expendable	4,220,806	4,800,330
Unrestricted	(86,672,074)	(82,010,654)
Total net position	$ (1,571,130)	$ (3,911,645)

See accompanying notes to financial statements.

KENTUCKY STATE UNIVERSITY FOUNDATION, INC.
STATEMENTS OF FINANCIAL POSITION
June 30, 2020
(with summarized comparative amounts at June 30, 2019)

	2020	2019
ASSETS		
Current assets		
Cash and cash equivalents	$ 1,205,650	$ 1,705,717
Total current assets	1,205,650	1,705,717
Investments, at fair value	9,658,675	9,722,111
Property and equipment		
Equipment	140,400	140,400
Buildings and improvements	65,526	65,526
	205,926	205,926
Accumulated depreciation	(189,634)	(186,759)
Property and equipment, net	16,292	19,167
Other assets	32,119	37,833
Total assets	$ 10,912,736	$ 11,484,828
LIABILITIES AND NET ASSETS		
Current liabilities		
Accounts payable	$ 12,250	$ 3,463
Accrued liabilities	4,697	3,618
Total liabilities	16,947	7,081
Net assets		
Without donor restrictions:		
Undesignated	85,268	192,739
Board Designated for endowment	1,884,774	2,240,078
Total without donor restrictions	1,970,042	2,432,817
With donor restrictions:		
Purpose restriction	4,837,222	5,052,179
Time-restricted for future periods	82,000	82,000
Perpetual in nature	4,006,525	3,910,751
Total with donor restrictions	8,925,747	9,044,930
Total net assets	10,895,789	11,477,747
Total liabilities and net assets	$ 10,912,736	$ 11,484,828

See accompanying notes to financial statements.

KENTUCKY STATE UNIVERSITY
STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
Year ended June 30, 2020
(with summarized comparative amounts for the year ended June 30, 2019)

	2020	2019
REVENUES		
Operating revenues		
Student tuition and fees (net of scholarship allowances of $4,880,611 and $6,392,830)	$ 10,290,971	$ 9,710,046
Federal grants and contracts	21,403,764	18,007,131
State and local grants and contracts	1,992,740	1,607,921
Other operating revenues	971,948	1,221,466
Auxiliary enterprises:		
Residence halls	2,675,932	2,244,306
Dining	2,552,342	2,055,561
Bookstore	35,136	113,190
Other auxiliaries	-	13,618
Total operating revenues	39,922,833	34,973,239
EXPENSES		
Operating expenses		
Educational and general		
Instruction	9,022,473	10,330,633
Research	6,929,355	7,449,117
Public service	8,875,115	10,087,334
Academic support	278,360	625,584
Student services	8,646,414	7,323,606
Institutional support	14,500,923	14,838,968
Operation and maintenance of plant	4,997,765	5,399,949
Student aid	6,420,729	6,363,963
Depreciation	3,386,591	3,573,681
Auxiliary enterprises		
Residence halls	1,212,849	406,049
Dining	1,944,308	2,147,410
Other auxiliaries	1,003,413	800,293
Bookstore	1,007,162	1,070,062
Depreciation	299,069	302,996
Total operating expenses	68,524,526	70,719,645
Operating loss	(28,601,693)	(35,746,406)
NONOPERATING REVENUES (EXPENSES)		
State appropriations	25,766,500	25,749,000
Federal grants and contracts	4,703,308	4,261,886
Investment income (net of investment expense)	590,615	871,874
Interest on capital asset-related debt	(118,215)	(276,798)
Net non-operating revenues	30,942,208	30,605,962
Income before capital appropriations	2,340,515	(5,140,444)
Capital appropriations	-	151,277
Change in net position	2,340,515	(4,989,167)
NET POSITION		
Net position, beginning of year	(3,911,645)	1,077,522
Net position, end of year	$ (1,571,130)	$ (3,911,645)

See accompanying notes to financial statements.

KENTUCKY STATE UNIVERSITY FOUNDATION, INC.
STATEMENT OF ACTIVITIES
Year ended June 30, 2020

	Without Donor Restrictions	With Donor Restrictions	Total
Revenues, gains and other support			
Contributions	$ 22,914	$ 538,770	$ 561,684
Investment income:			
Interest and dividends	100,451	144,325	244,776
Realized and unrealized gains	14,651	67,705	82,356
Other, net of investment and management expense	(62,754)	-	(62,754)
Total investment income, net	52,348	212,030	264,378
Releases from restrictions	875,383	(875,383)	-
Total revenues, gain and other support	950,645	(124,583)	826,062
Expenses:			
Program services expenses:			
Student support	635,157	-	635,157
University support	425,192	-	425,192
Total program services expenses	1,060,349	-	1,060,349
Management and general	347,671	-	347,671
Total expenses	1,408,020	-	1,408,020
Change in net assets	(457,375)	(124,583)	(581,958)
Net assets, beginning of year	2,432,817	9,044,930	11,477,747
Reclassifications	(5,400)	5,400	-
Net assets, end of year	$ 1,970,042	$ 8,925,747	$ 10,895,789

See accompanying notes to financial statements.

KENTUCKY STATE UNIVERSITY FOUNDATION, INC.
STATEMENT OF ACTIVITIES
Year ended June 30, 2019

	Without Donor Restrictions	With Donor Restrictions	Total
Revenues, gains and other support			
Contributions	$ 5,550	$ 669,220	$ 674,770
Investment income:			
Interest and dividends	105,119	136,259	241,378
Realized and unrealized gains	263,278	382,187	645,465
Other, net of investment and management expense	(60,191)	-	(60,191)
Total investment income, net	308,206	518,446	826,652
Releases from restrictions	533,570	(533,570)	-
Total revenues, gain and other support	847,326	654,096	1,501,422
Expenses:			
Program services expenses:			
Student support	152,110	-	152,110
University support	579,329	-	579,329
Total program services expenses	731,439	-	731,439
Management and general	239,782	-	239,782
Total expenses	971,221	-	971,221
Change in net assets	(123,895)	654,096	530,201
Net assets, beginning of year	2,556,712	8,390,834	10,947,546
Net assets, end of year	$ 2,432,817	$ 9,044,930	$ 11,477,747

See accompanying notes to financial statements.

KENTUCKY STATE UNIVERSITY
STATEMENTS OF CASH FLOWS
Year ended June 30, 2020
(with summarized comparative amounts for the year ended June 30, 2019)

	2020	2019
Cash flows from operating activities		
Tuition and fees	$ 10,266,987	$ 9,620,776
Grants and contracts	28,603,517	18,210,886
Payments to suppliers	(18,192,160)	(25,529,497)
Payments to employees	(42,081,381)	(43,025,130)
Payments to students	(6,231,551)	(6,037,006)
Loans issued to students	(610,763)	-
Collection of loans issued to students	(32,084)	106,884
Auxiliary enterprises:		
Residence halls and dining	5,212,302	4,334,243
Bookstore	35,136	113,190
Other auxiliaries	-	13,618
Other payments	242,109	1,195,356
Net cash from operating activities	(22,787,888)	(40,996,680)
Cash flows from non-capital financing activities		
State appropriations	25,766,500	25,749,000
Federal grants and contracts	4,703,308	4,261,886
Draws on line of credit	832,066	-
Net cash from non-capital financing activities	31,301,874	30,010,886
Cash flows from capital financing activities		
Purchases of capital assets	(8,676,658)	(2,180,306)
Draws on line of credit	-	2,061,650
Principal paid on capital debt	(528,811)	(834,386)
Interest paid on capital debt	(104,459)	(284,060)
Capital appropriations	-	151,277
Net cash from capital financing activities	(9,309,928)	(1,085,825)
Cash flows from investing activities		
Investment income	376,186	871,874
Proceeds from sale of investments	22,029,736	21,916,724
Purchases of investments	(21,373,631)	(22,703,965)
Net cash from investing activities	1,032,291	84,633
Net change in cash and cash equivalents	236,349	(11,986,986)
Cash and cash equivalents at beginning of year	2,909,505	14,896,491
Cash and cash equivalents at end of year	$ 3,145,854	$ 2,909,505
Non-cash capital financing activities:		
Construction in progress acquired by capital lease	$ 13,247,087	$ -

(Continued)

KENTUCKY STATE UNIVERSITY
STATEMENTS OF CASH FLOWS
Year ended June 30, 2020
(with summarized comparative amounts for the year ended June 30, 2019)

	2020	2019
Reconciliation of net operating loss to net cash from operating activities		
Operating loss	$ (28,601,693)	$ (35,746,406)
Adjustments to reconcile operating loss to net cash from operating activities:		
Depreciation expense	3,685,660	3,876,677
Changes in assets and liabilities:		
Receivables, net	3,628,218	(1,542,839)
Collection of loans issued to students	(642,847)	114,550
Accounts payable and accrued liabilities	4,438,426	3,143,314
Unearned revenue	824,971	23,293
Deposits	(15,971)	34,376
Deferred outflows – pension and OPEB	(3,414,315)	(690,833)
Deferred inflows – pension and OPEB	(13,455,984)	9,728,278
Net pension liability	10,071,709	(18,838,058)
Net OPEB liability	693,938	(1,099,032)
Net cash from operating activities	$ (22,787,888)	$ (40,996,680)

See accompanying notes to financial statements.

NOTE 1 – ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity: Kentucky State University (the University) is a component unit of the Commonwealth of Kentucky (the Commonwealth) and is included in the general-purpose financial statements of the Commonwealth. The Kentucky State University Foundation, Inc. (the Foundation) is a legally separate, tax-exempt organization supporting the University. The Foundation acts primarily as a fund-raising organization to supplement the resources that are available to the University in support of its programs. The Foundation's Board of Directors is self-perpetuating and consists of graduates and friends of the University. Although the University does not control the timing or amount of receipts from the Foundation, the majority of resources or income thereon that 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 statements.

Basis of Presentation: The accompanying financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America as prescribed by the Governmental Accounting Standards Board (GASB), including Statement No. 34, Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments, and Statement No. 35, Basic Financial Statements and Management's Discussion and Analysis of Public College and Universities, issued in June and November, 1999, respectively. The University reports as a Business Type Activity (BTA), as defined by GASB Statement No. 35. BTA's are those activities that are financed in whole or in part by fees charged to external parties for goods and services.

Basis of Accounting: The 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.

GASB Statement No. 35 establishes standards for external financial reporting for public colleges and universities and requires that resources be classified for accounting and reporting purposes into the following net asset categories:

- **Net investment in capital assets:** Capital assets, net of accumulated depreciation and outstanding principal balances of debt attributable to the acquisition, construction or improvement of those assets.

- **Restricted:**
  Nonexpendable – Net position subject to externally imposed stipulations that they be maintained permanently by the University. Such positions include the University's permanent endowment funds.
  Expendable – Net position whose use by the University is subject to externally imposed stipulations that can be fulfilled by actions of the University pursuant to those stipulations or that expire by the passage of time.

- **Unrestricted**: Net position whose use by the University is not subject to externally imposed stipulations. Unrestricted net position may be designated for specific purposes by action of management or the Board of Regents or may otherwise be limited by contractual agreements with outside parties.

(Continued)

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

The financial statement presentation required by GASB Statement No. 35 is intended to provide a comprehensive, entity-wide perspective of the University's assets, liabilities, net position, revenues, expenses, changes in net position and cash flows.

Cash Equivalents: For the Statement of Cash Flows, the University considers all highly liquid investments with an original maturity of three months or less to be cash equivalents.

Accounts, Grants, and Loans Receivable, Net: Accounts receivables consist of tuition and fee charges, loans to students and amounts due from federal and state governments, non-governmental sources, in connection with reimbursements of allowable expenses made pursuant to grants and contracts. Accounts receivables are recorded net of allowance for doubtful accounts.

Allowance for Doubtful Accounts: The allowance for doubtful accounts is established through a provision for doubtful accounts charged to expense. The allowance represents an amount, which, in management's judgment, will be adequate to absorb probable losses on existing accounts that may become uncollectible.

Inventories: Inventories are stated at the lower of cost (first-in, first-out method) or market and consist of physical plant items. Inventories consist of physical plant, postage and printing supplies.

Endowment Funds: Kentucky State University recognizes its fiduciary duty not only to invest the University's endowment holdings in formal compliance with the Uniform Prudent Management of Institutional Funds Act (UPMIFA) but also to manage those funds in continued recognition of the basic long-term nature of the University. The University interprets this to mean, in addition to the adopted spending guidelines and restrictions described below, that the assets of the University shall be actively managed, that is, investment decisions regarding the particular securities to be purchased or sold shall be the result of the conscious exercise of discretion. The University recognizes that, commensurate with its overall objective of maximizing long-range return while maintaining a high standard of portfolio quality and consistency of return, it is necessary that proper diversification of assets be maintained both among and within the classes of securities held. Within this context of active management and the necessity of adherence to proper diversification, the University relies upon appropriate professional advice.

The University recognizes that long-term objectives are most important, but it is also necessary that shorter-term benchmarks be used to assess the periodic performance of the investment program. The University anticipates annual spending of five percent (5%) of the average market value for the past three years, the amount of which shall be determined in January of each year.

The University believes that it is prudent to diversify endowment investments so as to minimize the risks of large losses and has established asset allocation ranges based upon the University's participation demographics, anticipated cash flow requirements and the expected returns of the capital markets.

Investments: Investments are valued at fair value based on quoted market prices.

Capital Assets: Capital assets are stated at cost at date of acquisition or, in the case of gifts, at acquisition value at date of gift. Equipment with a unit cost of $5,000 or more and having an estimated useful life of greater than one year is capitalized. Renovations to buildings and infrastructure and land improvements that significantly increase the value or extend the useful life of the structure are capitalized. Routine repairs and maintenance are charged to operating expense in the year in which the expense is incurred.

(Continued)

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

Depreciation of capital assets is computed on a straight-line basis over the estimated useful lives of the respective assets. Estimated lives used for depreciation purposes are as follows:

Classification	Estimated Life
Improvements	20 years
Buildings	40 years
Transportation equipment	5-15 years
Equipment	5-20 years
Enterprise Resource Software	7 years
Library holdings	10 years

Compensated Absences: The liability and expense incurred for employee vacation and sick pay are recorded as accrued compensated absences in the statement of net position and as a component of compensation and benefit expense in the statement of revenues, expenses and changes in net position.

Unearned Revenue: Unearned revenue includes amounts received for tuition and fees prior to the end of the fiscal year but related to the subsequent reporting period. Unearned revenues also include amounts received from grant and contract sponsors and state deferred maintenance funds that have not yet been earned.

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

Income Taxes: The University is an agency and instrumentality of the Commonwealth of Kentucky, pursuant to Kentucky Revised Statutes sections 164.290 through 164.475. Accordingly, the University is generally exempt from federal income taxes as an organization described in Section 115 of the Internal Revenue Code of 1986, as amended. The Foundation has received a determination from the Internal Revenue Service granting exemption from federal income taxation pursuant to the provisions of the Internal Revenue Code section 501(c)(3).

Restricted Asset Spending Policy: The University's policy is that restrictions on assets cannot be fulfilled by the expenditure of unrestricted funds for similar purposes. The determination on whether restricted or unrestricted funds are expended for a particular purpose is made on a case-by-case basis. Restricted funds remain restricted until spent for the intended purpose.

Operating Activities: The University defines operating activities, as reported on the statement of revenues, expenses and changes in net position, as those that generally result from exchange transactions, such as payments received for providing goods and services and payments made for services and goods received. Nearly all of the University's expenses are from exchange transactions. Certain significant revenues relied upon for operations, such as state and certain federal appropriations, gifts and investment income, are recorded as non-operating revenues, in accordance with GASB Statement No. 35.

(Continued)

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

Scholarship Discounts and Allowances: Financial aid to students is reported in the financial statements under the alternative method as prescribed by the National Association of College and University Business Officers (NACUBO). Certain aid, such as loans and funds provided to students awarded by third parties, is accounted for as third party payments (credited to the student's account as if the student made the payment). All other aid is reflected in the financial statements as operating expenses, or scholarship allowances, which reduce revenues. The amount reported as operating expenses represents the portion of aid that was provided to the student in the form of cash. Scholarship allowances represent the portion of aid provided to the student in the form of reduced tuition. Under the alternative method, these amounts are computed by allocating the cash payments to students, excluding payments for services, on the ratio of total aid to the aid not considered to be third party aid.

Federal Grants and Contracts: Per GASB Statement No. 24, pass-through grants should be reported as revenues and expenses in the financial statements if that entity has any administrative or direct financial involvement in the program. An entity has administrative involvement if it determines eligible secondary recipients or projects, even if using grantor-established criteria. Therefore, Pell Grants are considered non-exchange transactions and are recorded as non-operating revenues in the accompanying financial statements.

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

Component Unit Disclosure: The accompanying financial statements of the Foundation have been prepared in accordance with accounting principles generally accepted in the United States of America as prescribed by the FASB. As such, certain revenue recognition criteria and presentation features are different from GASB revenue recognition criteria and presentation features.

During the year ended June 30, 2020, the Foundation made distributions of approximately $425,192 on behalf of the University for both net assets and unrestricted purposes. Complete financial statements for the Foundation can be obtained from the Kentucky State University Foundation, Inc. at P.O. Box 4210, Frankfort, KY 40604.

Comparative Data: The financial statements include certain prior-year summarized comparative information in total but not at the level of detail required for a presentation in conformity with generally accepted accounting principles. The comparative data has been presented in the basic financial statements in order to provide an understanding of the changes in the financial position and operations of the University. Accordingly, such information should be read in conjunction with the University's financial statements for the year ended June 30, 2019, from which the business-type summarized information was derived, and the Foundation's financial statements for the year ended June 30, 2019, from which the component unit's summarized comparative information was derived.

Recent Accounting Pronouncements Implemented: During fiscal year 2020, the University adopted the following accounting pronouncements:

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

(Continued)

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

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

- GASB Statement No. 84, *Fiduciary Activities*, effective for periods beginning after December 15, 2019.
- GASB Statement No. 87, *Leases*, effective for periods beginning after June 15, 2021
- GASB Statement No. 89, *Accounting for Interest Cost Incurred before the End of a Construction Period,* effective for periods beginning after December 15, 2020.
- GASB Statement No. 90, *Majority Equity Interests, an amendment of GASB Statements No. 14 and No. 61*, effective for periods beginning after December 15, 2019.
- GASB Statement No. 91, *Conduit Debt Obligations*, effective for periods beginning after December 15, 2021.
- GASB Statement No. 92, *Omnibus 2020*, effective for periods beginning after June 15, 2021.
- GASB Statement No. 93, *Replacement of Interbank Offered Rates*, effective for periods beginning after June 15, 2021.
- GASB Statement No. 94, *Public-Private and Public-Private Partnerships and Availability Payment Arrangements*, effective for periods beginning after June 15, 2022.
- GASB Statement No. 96, *Subscription-Based Information Technology Arrangements*, effective for periods beginning after June 15, 2022.
- GASB Statement No. 97, *Certain Component Units Criteria, and Accounting and Financial Reporting for Internal Revenue Code (IRC) Section 457 Deferred Compensation Plans – an amendment of GASB Statements No. 14 and No. 84, and a supersession of GASB Statement No. 32*, effective for periods beginning after June 15, 2021.

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

Business Disruption: In March 2020, the World Health Organization declared the coronavirus (COVID-19) outbreak to be a global pandemic. COVID-19 has impacted economic activity and financial markets globally and has resulted in a decrease in various auxiliary revenues that the University is dependent upon due to closing the campus in March 2020. The continued spread of the disease represents a risk that operations could be disrupted in the near future. The extent to which COVID-19 impacts the University will depend on future developments, which are still highly uncertain and cannot be predicted. As a result of the COVID-19 pandemic, the University received an allocation of Higher Education Emergency Relief Funding through the CARES Act totaling $3,730,489, of which $1,827,277 was expended during the year ended June 30, 2020. The remaining $1,903,212 is expected to be expended and recognized as revenue when allowable expenses are incurred during fiscal year 2021. As of June 30, 2020, the University also deferred employer Social Security taxes in the amount of $485,879 as allowed under the CARES Act to provide more liquidity to the University during the pandemic. The University is expected to make payment of half of the deferred taxes by December 31, 2021 and deposit the remaining liability by December 31, 2022.

(Continued)

NOTE 2 – CASH, CASH EQUIVALENTS, AND INVESTMENTS

The statement of net position classification "cash and cash equivalents" includes all readily available sources of cash such as petty cash and demand deposits.

At June 30, 2020, the University had petty cash funds totaling zero, and deposits as reflected by bank balances as follows:

	2020
Insured, commercial banks	$ 250,000
Uninsured and uncollateralized, commercial banks	293,114
Maintained by Commonwealth of Kentucky, collateral held by the Commonwealth in the Commonwealth's name	1,008,953
Cash balances held at ARGI Investment Services	982,360
	$ 2,534,427

The difference in the cash carrying amount per the statement of net position and the above balances represented items in transit. At June 30, 2020, the University had no cash and cash equivalents that are restricted for capital expenditures.

As of June 30, 2020, the University had the following investments and maturities:

Investment Maturities (in years)

Investment Type	Fair Value	< 1	1-5	6-10	11-20
Exchange traded funds	$ 12,739,328	$12,739,328	$ -	$ -	$ -
Corporate bonds	3,035,043	356,523	1,870,706	807,813	-
Government bonds	1,398,433	855,570	285,626	257,238	-
	$ 17,172,804	$13,951,421	$ 2,156,332	$1,065,051	$ -

The University has an investment management agreement with ARGI Investment Services, LLC (ARGI). ARGI serves individual and institutional clients.

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

	Total	Level 1	Level 2	Level 3
Exchange traded funds	$ 12,739,328	$ 12,739,328	$ -	$ -
Corporate bonds	3,035,043	3,035,043	-	-
Government bonds	1,398,433	1,398,433	-	-
	$ 17,172,804	$ 17,172,804	$ -	$ -

(Continued)

NOTE 2 – CASH, CASH EQUIVALENTS, AND INVESTMENTS (Continued)

All securities classified in level 1 of the fair value hierarchy are valued using prices quoted in active markets for those securities.

Credit Risk: The University's average credit quality rating according to Moody's is Aa3.

Interest Rate Risk: Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. The University does not have a formal policy to specifically limit investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

Concentration of Credit Risk: Concentration of credit risk is the risk of loss attributed to the magnitude of a government's investment in a single issuer. The University does not have a formal policy for concentration of 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 does not have a formal policy for custodial credit risk.

NOTE 3 – ACCOUNTS, GRANTS AND LOAN RECEIVABLE

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

Student tuition and fees	$ 2,636,444
Student loans	989,467
Grants and contracts	735,174
Other	773,300
	5,134,385
Less: allowance for doubtful accounts	(1,439,603)
	3,694,782
Less: non-current portion	(692,396)
Current portion	$ 3,002,386

(Continued)

NOTE 4 – CAPITAL ASSETS, NET

Capital assets as of June 30, 2020, are summarized as follows:

	Beginning Balance	Additions	Reductions/ Transfers	Ending Balance
Cost				
Land and improvements	$ 6,275,031	$ -	$ -	$ 6,275,031
Buildings	155,846,869	11,831	-	155,858,700
Equipment	25,714,538	600,092	-	26,314,630
Computer software	1,658,071	182,050	-	1,840,121
Library holdings	10,648,071	15,547	-	10,663,618
Transportation equipment	4,379,061	18,435	-	4,397,496
Construction in progress	10,681,986	21,253,223	134,661	31,800,549
	215,203,627	22,081,178	134,661	237,150,145
Accumulated depreciation				
Buildings	104,065,002	2,188,521	-	106,253,524
Equipment	21,395,830	1,317,303	-	22,713,133
Library holdings	10,417,450	55,493	-	10,472,943
Transportation equipment	4,103,948	147,115	-	4,251,063
	139,982,230	3,708,432	-	143,690,663
Capital assets, net	$ 75,221,397	$ 18,372,746	$ 134,661	$ 93,459,482

Construction in progress consists primarily of projects to repair and replace boilers and distribution lines and energy savings projected funded by capital lease agreement with the Commonwealth of Kentucky disclosed in Note 7. The project is projected to be completed in fiscal year 2021. Estimated cost to complete the project is approximately $3.1 million.

NOTE 5 – UNEARNED REVENUE

Unearned revenue consists of the following as of June 30, 2020:

Unearned summer school tuition and fees	$ 94,697
Unearned grants and contracts	914,766
	$ 1,009,463

NOTE 6 – LINE OF CREDIT

During fiscal year 2020, the University entered into a line of credit agreement with Fifth Third Bank for a maximum borrowing amount of $5,000,000, maturing on June 30, 2020. At June 30, 2020, borrowings on the line of credit totaled $2,893,716. The line bears interest at the Adjusted LIBOR rate and the interest rate at June 30, 2020 was 1.8%. The agreement was renewed as of July 1, 2020 for $5,000,000, maturing on June 30, 2021.

(Continued)

NOTE 7 – LONG-TERM LIABILITIES

Long-term liabilities as of June 30, 2020, are summarized as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Current Portion	Non-current Portion
Debt						
General receipts bonds	$ 2,285,000	$ -	$ 250,000	$ 2,035,000	$ 260,000	$ 1,775,000
Bond discount	(31,861)	-	(4,484)	(27,377)	(4,484)	(22,893)
Total bonds	2,253,139	-	245,516	2,007,623	255,516	1,752,107
Other long-term liabilities						
Capital lease obligations - energy savings	1,170,167	13,247,087	283,296	14,133,958	886,872	13,247,087
Federal grants refundable	557,842	-	32,084	525,758	-	525,758
Total long-term liabilities	$ 3,981,148	$13,247,087	$ 560,896	$16,667,339	$1,142,388	$15,524,952

The outstanding General Receipts Bonds Series A Bonds have interest rates from 3.625% - 3.875%. The bonds mature through 2027. The reserve requirements for these issues have been fully funded as of June 30, 2020.

All bonds are collateralized by University property and the pledge of certain revenues, tuition and fees.

The net book value of assets acquired through the capital leases included in the above schedule was $15,516,877 as of June 30, 2020.

The principal and interest repayment requirements relating to the outstanding bonds payable at June 30, 2020, are as follows:

Year ending June 30	Principal	Interest	Total
2021	$ 260,000	$ 78,791	$ 338,791
2022	270,000	68,781	338,781
2023	280,000	58,319	338,319
2024	290,000	47,469	337,469
2025	300,000	36,231	336,231
2026-2028	635,000	37,200	672,200
Total	$ 2,035,000	$ 326,791	$ 2,361,791

During 2005, the University entered into a capital lease for an energy management project. The lease obligation has an interest rate of 4.29% and requires annual payments of principal and interest through 2021. The lease obligation will be paid with guaranteed energy savings.

During 2020, the University entered into a capital lease for an additional energy management project. The lease obligation has an interest rate of 2.7095% and requires semi-annual payments of principal and interest beginning in fiscal 2022 through 2036. The lease obligation will be paid with guaranteed energy savings.

(Continued)

NOTE 7 – LONG-TERM LIABILITIES (Continued)

The following is a schedule of future minimum payments required for the capital lease obligations at June 30, 2020:

Year ending June 30,	
2021	$ 925,188
2022	1,353,014
2023	1,353,014
2024	1,353,014
2025	1,353,014
2026-2036	7,835,029
Total minimum lease payments	14,172,273
Less: amounts representing interest	(38,314)
Present value of minimum lease payment	$ 14,133,959

NOTE 8 – OPERATING LEASES

The University leases certain assets under operating lease agreements. The operating leases expire in various years through 2025. These leases do not transfer assets at the end of the lease term. Periods on these leases range from one to five years and requires the University to pay all executor costs (maintenance, insurance, taxes).

Future minimum lease payments at June 30, 2020, are as follows:

Year ending June 30,	
2021	$ 317,592
2022	305,692
2023	228,493
2024	198,329
2025	34,954
	$ 1,085,060

Lease expense was $293,600 for the year ended June 30, 2020.

(Continued)

NOTE 9 – DEFINED BENEFIT PENSION PLANS

Kentucky Employees' Retirement System - Defined Benefit Plan

Plan Description – The University contributes to the Kentucky Employees' Retirement System (KERS), a cost sharing - multiple employer public employee retirement system. KERS 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. KERS 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 Retirement Systems, Perimeter Park West, 1260 Louisville Road, Frankfort, Kentucky, 40601-6124 or by calling (502) 696-8800.

Benefits Provided

	Tier 1 Participation Prior to September 1, 2008	Tier 2 Participation September 1, 2008 through December 31, 2013	Tier 3 Participation January 1, 2014
Non-Hazardous			
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.	

(Continued)

NOTE 9 – DEFINED BENEFIT PENSION PLANS (Continued)

	Tier 1 Participation Prior to September 1, 2008	Tier 2 Participation September 1, 2008 through December 31, 2013	Tier 3 Participation January 1, 2014
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	Tier 2	Tier 3
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.

Contributions - Benefit and contribution rates are established by state statute. Per Kentucky Revised Statute 61.565(3) contribution requirements of the active employees and the participating organizations are established and may be amended by the KRS Board. For the fiscal year ended June 30, 2020, University non-hazardous and hazardous employees were required to contribute 5 percent of their annual covered salary for retirement benefits for the year ended June 30, 2020. Non-hazardous and hazardous employees with a participation date after September 1, 2008 were required to contribute an additional 1 percent of their covered salary for retiree healthcare benefits. The University was contractually required to contribute 49.47 percent (41.06 percent allocated to pension and 8.41 percent allocated to OPEB) of annual covered payroll for non-hazardous pay and 36.85 percent (34.39 percent allocated to pension and 2.46 percent allocated to OEPB) for hazardous pay to the pension plan for the year ended June 30, 2020. These amounts were

NOTE 9 – DEFINED BENEFIT PENSION PLANS (Continued)

actuarially determined as an amount that, 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's total pension contributions to KERS for the year ended June 30, 2020 was $1,956,298, equal to the required contributions for the year.

Pension liabilities, pension expense, and deferred outflows of resources and deferred inflows of resources related to pensions - At June 30, 2020, the University reported a liability of $42,075,248 for its proportionate share of the non-hazardous net pension liability and $393,085 for hazardous. The net pension liability was measured as of June 30, 2019 and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of June 30, 2018, rolled-forward for June 30, 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, 2020, the University's proportion was 0.30 percent for non-hazardous and 0.07 percent for hazardous, respectively.

For the year ended June 30, 2020, the University's actuarially calculated pension expense was $6,557,666 for non-hazardous and $140,261 for hazardous. At June 30, 2020, the University reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
2020		
Non-hazardous:		
Difference between expected and actual experience	$ 248,853	$ -
Net difference between projected and actual earnings on investments	-	85,733
Changes of assumptions	1,281,099	-
Changes in proportion and differences between employer contributions and proportionate share of contributions	4,901,183	480,130
University contributions subsequent to measurement date	1,923,866	-
	$ 8,355,001	$ 565,863
Hazardous:		
Difference between expected and actual experience	$ 7,478	$ -
Net difference between projected and actual earnings on investments	-	6,759
Changes of assumptions	27,550	-
Changes in proportion and differences between employer contributions and proportionate share of contributions	191,023	330,298
University contributions subsequent to measurement date	32,432	-
	$ 258,483	$ 337,057

(Continued)

NOTE 9 – DEFINED BENEFIT PENSION PLANS (Continued)

At June 30, 2020, the University reported $1,956,298 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:

	Non-Hazardous	Hazardous
2021	$ 3,635,695	$ 30,632
2022	2,259,496	(140,739)
2023	(27,494)	(4,464)
2024	(2,425)	566
	$ 5,865,272	$ (114,005)

Actuarial assumptions - The total pension liability for KERS measured as of June 30, 2019 was determined by applying procedures to the actuarial valuation as of June 30, 2018, using the following actuarial assumptions, applied to all periods included in the measurement.

	2019
Actuarial cost method	Entry age normal
Amortization method	Level percent of pay
Remaining amortization period	26 years, closed
Asset valuation method	20% of the difference between Market value of assets the expected actuarial value of assets is recognized
Inflation	2.30%
Payroll growth rate	0.0
Salary increases, varies by service, non-hazardous	3.55 to 15.55
Salary increases, varies by service, hazardous	3.55 to 19.55
Investment rate of return, non-hazardous	5.25
Investment rate of return, hazardous	6.25

The mortality table used for active members was a Pub-2010 General Mortality table for the non-hazardous system and the Pub-2010 Public Safety Mortality table for the hazardous system, 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 was 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. The mortality table used for the disabled members was 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.

The long-term expected rate of return was determined using a building-block method in which best-estimate ranges of expected future real rates 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 net pension liability as of June 30, 2019 is based on the June 30, 2018 actuarial valuation rolled-forward. Deferred outflows and inflows related to differences between projected and actual earnings on plan investments are netted and amortized over a closed five-year period.

(Continued)

NOTE 9 – DEFINED BENEFIT PENSION PLANS (Continued)

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

	Non-hazardous	
Asset Class	Target Allocation	Long-Term Nominal Rate of Return
2020		
U.S. Equity	15.75%	4.30%
International Equity	15.75	4.80
Core Bonds	20.50	1.35
Specialty Credit/High Yield	15.00	2.60
Real Estate	5.00	4.85
Opportunistic	3.00	2.97
Real Return	15.00	4.10
Private Equity	7.00	6.65
Cash Equivalents	3.00	0.20
Total	100.00%	

	Hazardous	
Asset Class	Target Allocation	Long-Term Nominal Rate of Return
2020		
U.S. Equity	18.75%	4.30%
International Equity	18.75	4.80
Core Bonds	13.50	1.35
Specialty Credit/High Yield	15.00	2.60
Real Estate	5.00	4.85
Opportunistic	3.00	2.97
Real Return	15.00	4.10
Private Equity	10.00	6.65
Cash Equivalents	1.00	0.20
Total	100.00%	

Changes in Assumptions and Benefit Terms Since Prior Measurement Date – The Board of Trustees of KERS adopted new actuarial assumptions since June 30, 2018. These assumptions are documented in the report titled "Kentucky Retirement Systems 2018 Actuarial Experience Study for the Period Ending June 30, 2018". The Total Pension liability as of June 30, 2019, was determined using these updated assumptions.

(Continued)

NOTE 9 – DEFINED BENEFIT PENSION PLANS (Continued)

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

Discount rate - The discount rate used to measure the total pension liability was 5.25% (Non-hazardous) and 6.25% (Hazardous). The projection of cash flows used to determine the discount rate assumed that contributions from plan members and employers will be made at the actuarially determined contribution rate. Based on those assumptions, the pension plan's fiduciary net position and future contributions were projected to be available to make all projected future benefit payments of current plan members. Therefore, the long–term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability. The projection of cash flows used to determine the single discount rate assumes that the Commonwealth of Kentucky contributes the actuarially determined contribution in all future years.

Sensitivity of the University's proportionate share of the net pension liability to changes in the discount rate - The University's proportionate share of the net pension liability has been calculated using a discount rate of 5.25% (Non-hazardous) and a discount rate of 6.25% (Hazardous) for the June 30, 2019 actuarial valuation. The following presents the University's proportionate share of the net pension liability calculated using a discount rate 1% higher and 1% lower than the current rate as of June 30, 2020:

	1% Decrease (4.25%)	Current Discount Rate (5.25%)	1% Increase (6.25%)
Non-Hazardous			
Proportionate share of the Collective Net Pension Liability	$ 48,233,688	$ 42,075,248	$ 36,985,856

	1% Decrease (5.25%)	Current Discount Rate (6.25%)	1% Increase (7.25%)
Hazardous			
Proportionate share of the Collective Net Pension Liability	$ 506,862	$ 393,085	$ 299,617

Kentucky Teachers' Retirement System - Defined Benefit Plan

Plan Description –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 or by calling (502) 573-3266.

(Continued)

NOTE 9 – DEFINED BENEFIT PENSION PLANS (Continued)

Benefits Provided

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

(Continued)

NOTE 9 – DEFINED BENEFIT PENSION PLANS (Continued)

	Tier 1 Participation Prior to July 1, 2008	Tier 2 Participation on or After July 1, 2008
Unreduced Retirement Benefit:	Any age with 27 years of Kentucky service. Age 55 with 5 years of Kentucky service.	Any age with 27 years of Kentucky service. Age 60 with 5 years of Kentucky service. Age 55 with 10 years of Kentucky service.
Reduced Retirement Benefit:	Must be retired for service or disability to be eligible. Retired members are given a supplement based upon a contribution supplement table approved by the KTRS Board of Trustees. The retired member pays premiums in excess of the monthly supplement.	

Contributions - Benefit and contribution rates are established by state statute. Per Kentucky Revised Statutes 161.340, 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, 2019, University employees were required to contribute 7.625 percent of their annual covered salary for retirement benefits. The University was contractually required to contribute 15.865 percent of covered payroll for the year ended June 30, 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's total contributions to KTRS for the year ending June 30, 2020 was $1,813,761 and were equal to the required contributions for the year. 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 $1,965,387 for the year ending June 30, 2020.

Pension liabilities, pension expense, and deferred outflows of resources and deferred inflows of resources related to pensions - At June 30, 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:

	2020
University's proportionate share of the net pension liability	$ 22,158,930
Commonwealth of Kentucky's proportionate share of the net pension liability associated with the University	24,011,362
	$ 46,170,292

The net pension liability was measured as of June 30, 2019 and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of June 30, 2018. The University's proportion of the net pension liability was based on actual contributions to the pension plan during the measurement period of July 1, 2018 through June 30, 2019. At June 30, 2020, the University's proportion was 0.16 percent and the Commonwealth's proportion was 0.17 percent.

NOTE 9 – DEFINED BENEFIT PENSION PLANS (Continued)

For the year ended June 30, 2020, the University was allocated pension expense of $(11,551,057). The University also recognized revenue of $2,388,987 for support provided by the Commonwealth. At June 30, 2020, the University reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
2020		
Net difference between projected and actual earnings on investments	$ -	$ 185,884
Change in assumptions	1,877,989	11,799,404
Differences between expected an actual experience	66,061	1,413,681
Changes in proportion and differences between employer contributions and proportionate share of contributions	2,686,182	9,987,269
Contributions subsequent to the measurement date	1,940,601	-
	$ 6,570,833	$ 23,386,238

At June 30, 2020, the University reported $1,940,601 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. Net deferred outflow (inflows) of resources at June 30, 2020, related to pensions will be recognized in pension expense as follows:

2021	$ (10,264,089)
2022	(6,521,051)
2023	(1,958,510)
2024	(12,356)
	$ (18,756,006)

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

Valuation date	June 30, 2018
Inflation	3.00%
Salary Increases	3.50 – 7.30%, average, including inflation
Investment Rate of Return	7.50%, net of pension plan investment expense, including inflation
Municipal bond index rate	3.50%
Single equivalent interest rate	7.50%

Mortality rates were based on the RP-2000 Combined Mortality Table for Males or Females, as appropriate, with adjustments for mortality improvements based on a projection of Scale BB to 2025, set forward two years for males and one year for females.

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

NOTE 9 – DEFINED BENEFIT PENSION PLANS (Continued)

The long-term expected return on pension 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 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 for the June 30, 2019 actuarial valuation, are summarized in the following table:

Asset Class	Target Allocation	Long-Term Nominal Rate of Return
U.S. Equity	40.0%	4.2%
International Equity	22.0	5.2
Fixed Income	15.0	1.2
Additional Categories (Incl. Hedge Funds, High Yield, Non-U.S. Developed Bonds, and Private Credit Strategies)	8.0	3.3
Real Estate	6.0	3.8
Private Equity	7.0	6.3
Cash	2.0	0.9
Total	100.0%	

Changes in Assumptions and Benefit Terms Since Prior Measurement Date – The TPL as of June 30, 2019 reflects the assumed municipal bond index rate decrease from 3.89 percent to 3.50 percent. The Single Equivalent Interest Rate (SEIR) remained at 7.50 percent.

Changes in Assumptions and Benefit Terms Since Prior Measurement Date – There were no changes in assumptions or benefit terms as of June 20, 2019 from the June 30, 2018 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, 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 that employer contributions will be made at the actuarially determined contribution rates for all fiscal years in the future. Based on those assumptions, at the June 30, 2019 measurement date, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

NOTE 9 – DEFINED BENEFIT PENSION PLANS (Continued)

Sensitivity of the University's proportionate share of the net pension liability to changes in the discount rate - The following table presents the net pension liability of the University as of June 30, 2020, calculated using the discount rate of 7.50%, as well as what the University's net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (6.50%) or 1-percentage-point higher (8.50%) than the current rate:

	1% Decrease (6.50%)	Current Discount Rate (7.50%)	1% Increase (8.50%)
Proportionate share of the Collective Net Pension Liability	$ 28,273,635	$ 22,158,930	$ 16,984,188

Summary Pension Plan Information:

	KERS Hazardous/ Non-hazardous	KTRS	Total
June 30, 2020			
Net pension liability	$ 42,468,333	$ 22,158,930	$ 64,627,263
Deferred outflows of resources	8,613,484	6,570,833	15,184,317
Deferred inflows of resources	902,920	23,386,238	24,289,158
Pension expense (income)	6,697,927	(11,551,057)	(4,853,130)

NOTE 10 - OTHER POSTEMPLOYMENT BENEFITS PLANS (OPEB)

In addition to the pension plans disclosed in Note 9, the University's employees participate in either the Kentucky Teachers Retirement System (KTRS) OPEB Plan or the Kentucky Employees Retirement System (KERS) OPEB Plan depending on the retirement plan in which they participate. Each OPEB plan is described in detail below.

Kentucky Employees Retirement System (KERS) OPEB Plan

Plan Description: The KERS OPEB Plan is a cost-sharing multiple-employer defined benefit OPEB plan, which was available to University employees hired prior to January 1, 2014. This plan provides medical insurance for eligible retirees and is administered by Kentucky Retirement System (KRS) who publishes a financial report located at https://kyret.ky.gov.

OPEB Benefits Provided: The information below summarizes the major other postemployment 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.

(Continued)

NOTE 10 – OTHER POSTEMPLOYMENT BENEFITS PLANS (OPEB) (Continued)

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 year ended June 30, 2020, participating employers in the non-hazardous plan contributed 49.47% (41.06% allocated to pension and 8.41% allocated to OPEB) as set by KRS of each non-hazardous employee's creditable compensation. For the fiscal year ended June 30, 2020, participating employers in the Hazardous plan contributed 36.85% (34.39% allocated to pension and 2.46% allocated to OPEB) as set by KRS 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 investment earnings.

The University has met 100% of the contribution funding requirement for the fiscal years ended June 30, 2020. Total current year contributions recognized by the Plan were $2,356,992 ($1,956,298 related to pension and $400,693 related to OPEB) for the year ended June 30, 2020. The OPEB contributions amount does not include the implicit subsidy reported in the amount of $80,786.

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.

NOTE 10 – OTHER POSTEMPLOYMENT BENEFITS PLANS (OPEB) (Continued)

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

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

Total OPEB Liability: The total other postemployment benefits ("OPEB") liability was measured as of June 2019 using an actuarial valuation as of June 30, 2018. The financial reporting actuarial valuation as of June 30, 2019, used the following actuarial methods and assumptions, applied to all periods included in the measurement:

Inflation	2.30 percent
Payroll growth rate	0.00 percent for KERS non-hazardous and hazardous
Salary increases	3.55 to 15.30 percent, 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, 2019 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:

(a) **Discount Rate:** The discount rate used to measure the total Non-hazardous OPEB liability was 5.73%, which was reduced from the 5.86% discount rate used in the prior year. The discount rate used to measure the total Hazardous OPEB liability was 5.66%, which was decreased from the 5.88% discount rate used in the prior year.

(b) the local employers and plan members would contribute the actuarially determined contribution rate of projected compensation over the remaining 24-year closed amortization period of the unfunded actuarial accrued liability.

NOTE 10 – OTHER POSTEMPLOYMENT BENEFITS PLANS (OPEB) (Continued)

(c) **Long-Term Rate of Return:** The long-term expected return on plan assets is reviewed as part of the regular experience studies prepared every five years for the System. The most recent analysis, performed for the period covering fiscal years 2008 through 2013 is outlined in a report dated April 30, 2014. However, the Board of KRS has the authority to review the assumptions on a more frequent basis and adopt new assumptions prior to the next scheduled experience study. The long-term expected rate of return was determined by using a building-block method in which best-estimate ranges of expected future real rate of returns are developed for each asset class. The ranges are combined by weighting the expected future real rate of return by the target asset allocation percentage.

(d) **Municipal Bond Rate**: The discount rate determination used a municipal bond rate of 3.13% as reported in Fidelity Index's "20 – Year Municipal GO AA Index" as of June 30, 2019.

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

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

	June 30, 2020	
Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
US Equity	18.75%	4.30%
International Equity	18.75	4.80
Private Equity	10.00	6.65
Special Credit/High Yield	15.00	2.60
Core Bonds	13.50	1.35
Real Estate	5.00	4.85
Opportunistic	3.00	2.97
Real Return	15.00	4.10
Cash	1.00	0.20
Total	100.00%	

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.

NOTE 10 – OTHER POSTEMPLOYMENT BENEFITS PLANS (OPEB) (Continued)

Non-hazardous

The following presents the University's allocated portion of the Non-hazardous net OPEB liability of the System, calculated using the discount rate of 5.73% percent, as well as what the University's allocated portion of the System's net OPEB liability would be if it were calculated using a discount rate that is 1-percentage-point lower (4.73 percent) or 1-percentage-point higher (6.73 percent) than the current rate for Non-hazardous:

	1% Decrease (4.73%)	Current Discount Rate (5.73%)	1% Increase (6.73%)
The University's Net OPEB liability – Non-hazardous	$ 7,885,416	$ 6,622,452	$ 5,582,769

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:

	1% Decrease	Current Healthcare Cost Trend Rate	1% Increase
The University's Net OPEB liability – Non-hazardous	$ 5,626,219	$ 6,622,452	$ 7,827,556

Hazardous

The following presents The University's allocated portion of the Hazardous net OPEB liability of the System, calculated using the discount rate of 5.66% percent, as well as what the University's allocated portion of the System's net OPEB liability would be if it were calculated using a discount rate that is 1-percentage-point lower (4.66 percent) or 1-percentage-point higher (6.66 percent) than the current rate for Hazardous:

	1% Decrease (4.66%)	Current Discount Rate (5.66%)	1% Increase (6.66%)
The University's Net OPEB liability – Hazardous	$ 32,385	$ (19,278)	$ (61,077)

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

	1% Decrease	Current Healthcare Cost Trend Rate	1% Increase
The University's Net OPEB liability – Hazardous	$ (56,085)	$ (19,278)	$ 25,509

NOTE 10 – OTHER POSTEMPLOYMENT BENEFITS PLANS (OPEB) (Continued)

Employer's Portion of the Collective OPEB Liability: The University's proportionate share of the Non-hazardous net OPEB liability, as indicated in the prior table, is $6,622,452, or approximately .30%. The University's proportionate share of the Hazardous net OPEB liability (asset), as indicated in the prior table, is $(19,278), or approximately .07%. The net pension liabilities were distributed based on 2019 actual employer contributions to the plan.

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

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

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

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

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

OPEB Expense: The University was allocated pension expense of $778,191 related to the KERS Non-Hazardous and $3,238 related to the KERS Hazardous for the year ending June 30, 2020.

(Continued)

NOTE 10 – OTHER POSTEMPLOYMENT BENEFITS PLANS (OPEB) (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 OPEB expense they are labeled as deferred inflows. If they will increase OPEB expense they are labeled deferred outflows. The amortization of these amounts is accomplished on a level dollar basis, with no interest included in the deferred amounts. Experience gains/losses and the impact of changes in actuarial assumptions, if any, are amortized over the average remaining service life of the active and inactive System members at the beginning of the fiscal year. Investment gains and losses are amortized over a fixed five-year period. Deferred inflows and outflows as of the Measurement Date include:

Non-hazardous

	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between expected and actual experience	$ -	$ 1,056,325
Change of assumptions	868,489	19,920
Changes in proportion and differences between employer contributions and proportionate shares of contributions	1,158,354	246,124
Differences between expected and actual investment earning on plan investments	28,047	71,481
Contributions subsequent to the measurement date	433,081	-
Total	$ 2,487,971	$ 1,393,850

Deferred outflows of resources resulting from employer contributions subsequent to the measurement date of $433,081, which include the implicit subsidy reported of $79,830, will be recognized as a reduction of net OPEB liability in the year ending June 30, 2020. The remainder of the deferred outflows and deferred inflows of resources are amortized over three to five years with remaining amortization as follows:

Year ending June 30:	
2021	$ 225,381
2022	225,381
2023	30,997
2024	179,281
	$ 661,040

(Continued)

NOTE 10 – OTHER POSTEMPLOYMENT BENEFITS PLANS (OPEB) (Continued)

Hazardous

	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between expected and actual experience	$ -	$ 34,419
Change of assumptions	52,700	286
Changes in proportion and differences between employer contributions and proportionate share of plan contributions	37,917	46,395
Differences between expected and actual investment earning on plan investments	2,097	13,266
Contributions subsequent to the measurement date	7,599	-
Total	$ 100,313	$ 94,366

Deferred outflows of resources resulting from employer contributions subsequent to the measurement date of $7,599, which include the implicit subsidy reported of $956, will be recognized as a reduction of net OPEB liability in the year ending June 30, 2020. The remainder of the deferred outflows and deferred inflows of resources are amortized over three to five years with remaining amortization as follows:

Year ending June 30:	
2021	$ (2,136)
2022	(2,136)
2023	1,741
2024	(3,526)
2025	2,440
Thereafter	1,965
	$ (1,652)

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

Kentucky Teachers' Retirement System

Medical Insurance Plan

Plan Description - In addition to the pension 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. 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.

NOTE 10 – OTHER POSTEMPLOYMENT BENEFITS PLANS (OPEB) (Continued)

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

Contributions - In order to fund the post-retirement healthcare benefit, seven and one-half percent (7.50%) of the gross annual payroll of members is contributed. Three percent (3.75%) is paid by member contributions and three quarters percent (0.75%) from state appropriation and three percent (3.00%) from the employer. The state contributes the net cost of health insurance premiums for members who retired on or after July 1, 2010 who are in the non-Medicare eligible group. Also, the premiums collected from retirees as described in the plan description and investment interest help meet the medical expenses of the plan. For the year ended June 30, 2020, the University contributed $304,439 to the KTRS medical insurance plan.

OPEB Liabilities, OPEB Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEBs - At June 30, 2020, the University reported a liability of $4,927,000 for its proportionate share of the collective net OPEB liability that reflected a reduction for state OPEB support provided to the University. The collective net OPEB liability was measured as of June 30, 2019, and the total OPEB liability used to calculate the collective net OPEB liability was based on a projection of the University's long-term share of contributions to the OPEB plan relative to the projected contributions of all participating employers, actuarially determined. At June 30, 2020, the University's proportion was .16%.

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

University's proportionate share of the net OPEB liability	$ 4,927,000
State's proportionate share of the net OPEB liability associated with the University	2,198,000
Total	$ 7,125,000

(Continued)

NOTE 10 – OTHER POSTEMPLOYMENT BENEFITS PLANS (OPEB) (Continued)

For the year ended June 30, 2020, the University recognized OPEB expense of $177,000 and revenue of $30,000 for support provided by the State. At June 30, 2020, the University reported deferred outflows of resources and deferred inflows of resources related to OPEBs from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Net difference between projected and actual earnings on OPEB plan investments	$ 131,000	$ -
Changes of assumptions	21,000	-
Differences between expected and actual experience	-	1,193,000
Changes in proportion and differences between employer Contributions and proportionate share of contributions	289,000	91,000
University's contributions subsequent to the measurement date	304,439	-
Total	$ 745,439	$ 1,284,000

Of the total amount reported as deferred outflows of resources related to OPEB, $304,439 resulting from University contributions subsequent to the measurement date and before the end of the fiscal year will be included as a reduction of the collective net OPEB liability in the year ended June 30, 2021. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized in the University's OPEB expense as follows:

Year ended June 30:	
2021	$ (163,000)
2022	(163,000)
2023	(153,000)
2024	(155,000)
2025	(132,000)
Thereafter	(77,000)
	$ (843,000)

(Continued)

NOTE 10 – OTHER POSTEMPLOYMENT BENEFITS PLANS (OPEB) (Continued)

Actuarial Assumptions - The total OPEB liability in the June 30, 2018 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Investment rate of return	8.00%, net of OPEB plan investment expense, including inflation.
Projected salary increases	3.50-7.20%, including inflation
Inflation rate	3.00%
Real Wage Growth	0.50%
Wage Inflation	3.50%
Healthcare cost trend rates	
Under 65	7.50% for FY2019 decreasing to an ultimate rate of 5.00% by FY 2024
Ages 65 and Older	5.50% for FY 2019 decreasing to an ultimate rate of 5.00% by FY 2021
Medicare Part B Premiums	2.63% for FY 2019 with an ultimate rate of 5.00% by 2031
Municipal Bond Index Rate	3.50%
Discount Rate	8.00%
Single Equivalent Interest Rate	8.00%, net of OPEB plan investment expense, including price 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 for the period after service retirement and for dependent beneficiaries. The RP-2000 Disabled Mortality Table set forward two years for males and seven years for females is used for the period after disability retirement.

The demographic actuarial assumptions for retirement, disability incidence, withdrawal, rates of plan participation, and rates of plan election used in the June 30, 2018 valuation were based on the results of the most recent actuarial experience studies for the System, which covered the five-year period ending June 30, 2015. The remaining actuarial assumptions used in the June 30, 2018 valuation of the MIF were based on a review of recent plan experience done concurrently with the June 30, 2018 valuation. The health care cost trend rate assumption was updated for the June 30, 2018 valuation and was shown as an assumption change in the TOL roll forward while the change in initial per capita claims costs were included with experience in the TOL roll forward.

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

KTRS Medical Plan Changes in Assumptions Since Prior Measurement Date – The healthcare cost trend rate for Pre-65 decreased from 7.75 percent for fiscal year 2019 to 7.50 percent for fiscal year 2020 and Post-65 decreased from 5.75 percent for fiscal year 2019 to 5.50 percent for fiscal year 2020. Medicare Part B premiums increased to 2.63 percent for fiscal year 2020 from 0.0 percent for fiscal year 2019. The municipal bond index rate decreased from 3.89 percent to 3.50 percent.

(Continued)

NOTE 10 – OTHER POSTEMPLOYMENT BENEFITS PLANS (OPEB) (Continued)

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

Asset Class	Target Allocation	30 Year Expected Geometric Rate of Return
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)	1.0	0.9
Total	100.0%	

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

Discount Rate - The discount rate used to measure the total OPEB liability was 8.00%. The projection of cash flows used to determine the discount rate assumed that 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 rate The following table presents the University's proportionate share of the collective net OPEB liability of the System, calculated using the discount rate of 8.00%, as well as what the University's proportionate share of the collective net OPEB liability would be if it were calculated using a discount rate that is 1-percentage-point lower (7.00%) or 1-percentage-point higher (9.00%) than the current rate:

	1% Decrease (7.00%)	Current Discount Rate (8.00%)	1% Increase (9.00%)
University's net OPEB liability (MI)	$ 5,837,000	$ 4,927,000	$ 4,165,000

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:

	1% Decrease	Current Trend Rate	1% Increase
University's net OPEB liability (MI)	$ 4,011,000	$ 4,927,000	$ 6,054,000

(Continued)

NOTE 10 – OTHER POSTEMPLOYMENT BENEFITS PLANS (OPEB) (Continued)

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

Changes of benefit terms – There were no changes for the year ended June 30, 2020.

Life Insurance Plan

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

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

Contributions – In order to fund the post-retirement life insurance benefit, three hundredths of one percent (0.03%) of the gross annual payroll of members is contributed by the state. For the year ended June 30, 2020, the University contributed $4,274 to the KTRS life insurance plan.

OPEB Liabilities, OPEB Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEBs: At June 30, 2020, the University reported a liability of $126,000 for its proportionate share of the collective net OPEB liability that reflected a reduction for state OPEB support provided to the University. The collective net OPEB liability was measured as of June 30, 2019, and the total OPEB liability used to calculate the collective net OPEB liability was based on a projection of the University's long-term share of contributions to the OPEB plan relative to the projected contributions of all participating employers, actuarially determined. At June 30, 2019, the University's proportion was 0.41%.

For the year ended June 30, 2020, the University recognized actuarially determined OPEB expense of $23,000 and revenue of $1,000 for support provided by the State. At June 30, 2020, the University reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Net difference between projected and actual earnings on OPEB plan investments	$ 26,000	$ -
Net changes in proportion and differences between employer Contributions and proportionate share of contributions	5,000	-
Difference between expected and actual experience	-	3,000
University's contributions subsequent to the measurement date	4,274	-
Total	$ 35,274	$ 3,000

NOTE 10 – OTHER POSTEMPLOYMENT BENEFITS PLANS (OPEB) (Continued)

Of the total amount reported as deferred outflows of resources related to OPEB, $4,274 resulting from University contributions subsequent to the measurement date and before the end of the fiscal year will be included as a reduction of the collective net OPEB liability in the year ended June 30, 2020. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized in the University's OPEB expense as follows:

Year ended June 30:	
2021	$ 10,000
2022	10,000
2023	6,000
2024	1,000
2025	(2,000)
Thereafter	3,000
	$ 28,000

Actuarial Assumptions – The total OPEB liability measured as of June 20, 2019 was determined using an actuarial valuation as of June 30, 2018 using the following actuarial assumptions, applied to all periods included in the measurement:

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

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

The remaining actuarial assumptions (e.g., initial per capita costs, health care cost trends) used in the June 30, 2018 valuation were based on a review of recent plan experience done concurrently with the June 30, 2018 valuation. The health care cost trend assumption was updated for the June 30, 2018 valuation and was shown as an assumption change in the TOL roll forward while the change in initial per capita claims costs were included with experience in the TOL roll forward.

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

(Continued)

NOTE 10 – OTHER POSTEMPLOYMENT BENEFITS PLANS (OPEB) (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:

	June 30, 2020	
Asset Class*	Target Allocation	Long-Term Nominal Rate of Return
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
Additional Categories**	6.0	3.2
Cash	2.0	0.9
Total	100.0%	

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

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

KTRS Life Plan Changes in Assumptions Since Prior Measurement Date – For the fiscal year ended, June 30, 2020, the municipal bond index rate decreased from 3.89 percent to 3.50 percent. There were no changes for the fiscal year ended June 30, 2019.

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

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:

	1% Decrease (6.50%)	Current Discount Rate (7.50%)	1% Increase (8.50%)
University's net OPEB (LI) liability	$ 186,000	$ 126,000	$ 76,000

KTRS Life Plan Changes of Benefit Terms - There were no changes for fiscal years ended June 30, 2020.

(Continued)

NOTE 10 – OTHER POSTEMPLOYMENT BENEFITS PLANS (OPEB) (Continued)

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

Summary OPEB Information:

	KERS	KTRS	Total
June 30, 2020			
Net OPEB liability	$ 6,603,174	$ 5,053,000	$ 11,656,174
Deferred outflows of resources	2,629,084	780,713	3,409,797
Deferred inflows of resources	1,488,216	1,287,000	2,775,216
Actuarially determined pension expense	781,429	200,000	981,429

NOTE 11 – COMMITMENTS AND CONTINGENCIES

The University is a party to various lawsuits and other claims in the ordinary course of business. University officials are of the opinion, based upon the advice of legal counsel, that the ultimate resolution of these matters will not have a material effect on the financial statements of the University.

The University receives financial assistance from federal and state agencies in the form of grants and awards. The expenditure of funds received from these programs generally requires compliance with terms and conditions specified in the grant agreements and are subject to audit by the grantor agencies. Any disallowed claims resulting from such audit could become a liability of the applicable fund.

NOTE 12 – RISK MANAGEMENT

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

During fiscal year 2020, the University started a self-insurance program for employee's health insurance. Under this plan, the University pays premiums based on estimated claims. The University pays approximately 62% of the expenses of the plan for permanent full-time employees and their families. Expenses incurred to cover claims paid by the University under the plan for year ended June 30, 2020 totaled $2,227,653. Administrative fees incurred for the year ended June 30, 2020 was $97,475

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

	2020
Liability – beginning of year	$ -
Accruals for current year claims and changes in estimate	2,227,653
Claims paid	2,100,440
Liability – end of year	$ 127,213

(Continued)

NOTE 13 – SCHEDULE OF EXPENSES BY PROGRAM

In the Statement of Revenues, Expenses and Changes in Net Position, operating expenses are presented by functional expense purpose. Depreciation is allocated below based on functional classification as required by IPEDS for Fiscal Year 2020. Functional expense purpose is classified by natural classification as follows:

	Compensation and Benefits	Supplies and Services	Scholarships and Fellowships	Depreciation	Operations and Maintenance	Total
Instruction	$ 8,006,851	$ 1,015,622	$ -	$ 641,970	$ 828,596	$ 10,493,039
Research	4,595,955	2,333,401	-	786,513	661,532	8,377,401
Public service	5,739,678	3,135,437	-	395,290	794,812	10,065,217
Academic support	202,864	75,496	-	105,024	32,870	416,254
Student services	5,441,031	3,205,382	-	449,348	778,427	9,874,188
Institutional support	10,927,950	3,595,746	-	430,728	1,282,140	16,236,564
Operation & maintenance of plant	1,706,144	3,291,620	-	552,190	(5,549,954)	-
Auxiliary enterprises	628,430	4,408,534	-	299,069	458,905	5,794,938
Student financial aid	297,174	-	6,231,551	25,528	712,672	7,266,925
Total operating expense	$ 37,546,077	$ 21,061,238	$ 6,231,551	$ 3,685,660	$ -	$ 68,524,526

(Continued)

NOTE 14 – KENTUCKY STATE UNIVERSITY FOUNDATION, INC.

Description of the Organization

Kentucky State University Foundation, Inc. (the Foundation) is a Kentucky not-for-profit corporation formed to receive, invest and expend funds to promote and implement educational and developmental activities at Kentucky State University (the University). The Foundation is managed by a Board of Trustees independent from that of the University. The Foundation is supported primarily through contributions from alumni.

Summary of Significant Accounting Policies

The financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) which require management to make estimates and assumptions that affect the reported amounts and disclosures in the financial statements. Actual results could differ from those estimates. The following is a summary of the significant accounting policies consistently followed by the Foundation in the preparation of its financial statements.

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

> Net assets without donor restrictions – net assets available for use in general operations and not subject to donor restrictions. The governing body has designated, from net assets without donor restrictions, net assets for an operating reserve and board-designated endowment.
>
> Net assets with donor restrictions – net assets subject to donor-imposed restrictions. Some donor restrictions are temporary in nature, such as those that will be met by the passage of time or other events specified by the donor. Other donor-imposed restrictions are perpetual in nature, where the donor stipulates that resources be maintained in perpetuity. Donor-imposed restrictions are released when a restriction expires, that is, when the stipulated time has elapsed, when the stipulated purpose for which the restriction has been fulfilled, or both. The investment return on net assets with donor restrictions may be restricted or unrestricted according to the donor's wishes.

When a donor restriction expires, net assets with donor restrictions are classified to net assets without donor restrictions and reported on the statements of activities as net assets released from restrictions. The Foundation treats donor-restricted contributions whose restrictions are met in the same reporting period as unrestricted support.

Cash and Cash Equivalents: The Foundation considers all highly liquid investments purchased with a maturity of three months or less to be cash equivalents. The Foundation has a concentration of credit risk in that it periodically maintains bank accounts which, at times, may exceed the coverage provided by the Federal Deposit Insurance Corporation (FDIC). The Foundation has not experienced any losses on such amounts. The Foundation believes it is not exposed to any significant credit risk on cash.

Investments: Investments are stated at fair value based on closing market quotations for such securities or similar securities.

(Continued)

NOTE 14 – KENTUCKY STATE UNIVERSITY FOUNDATION, INC. (Continued)

Summary of Significant Accounting Policies (Continued)

Property and Equipment: Property and equipment is recorded at cost if purchased or fair market value at date of contribution if contributed. If the donors stipulate how long the assets must be used, the contributions of property and equipment are recorded as restricted support. In the absence of such stipulations, these contributions are recorded as unrestricted support. Depreciation is computed on a straight-line basis over the estimated useful lives of the respective assets.

Revenue Recognition: Contributions are generally recognized when received. However, pledges are recognized when the donor makes a promise to give to the Foundation that is, in substance, unconditional. Amounts received that are designated for future periods or restricted by donor for specific purposes are reported as additions to net assets with donor restrictions. When a donor restriction expires, net assets without donor restrictions are reclassified to net assets without donor restrictions.

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

Functional Allocation of Expenses: The costs of providing the program and other activities have been summarized on a functional basis in the statement of activities. Accordingly, certain costs have been allocated between the program and supporting services benefited.

Recent Accounting Pronouncements:

For the year ended June 30, 2020, Accounting Standards Update (ASU) 2014-09, Revenue from Contracts with Customers (Topic 606), became effect and was adopted by the Foundation. This standard requires an entity to recognize the amount of revenue to which it expects to be entitled for the transfer of promised goods or services to customers. The standard replaced most existing revenue recognition guidance in GAAP and permits the use of either a full retrospective or modified retrospective transition method.

For the year ended June 30, 2020, Accounting Standards Update (ASU) 2018-08, *Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made* (Topic 958 became effective and was adopted by the Foundation. This standard assists entities in 1) evaluating whether transactions should be accounted for as contributions (non-reciprocal transactions) within the scope of Topic 958, or as exchange (reciprocal) transactions subject to other guidance, and 2) determining whether a contribution is conditional.

(Continued)

NOTE 14 – KENTUCKY STATE UNIVERSITY FOUNDATION, INC. (Continued)

Liquidity and Availability

As of June 30, 2020, the following financial assets held by the Foundation could readily be made available within one year of the balance sheet date to meet general expenditures:

Cash and cash equivalents	$ 51,956
Operating investments	234,044
Endowment appropriations	258,339
Total investments	$ 544,339

The Foundation regularly monitors liquidity required to meet its operating needs and other contractual commitments, while also striving to maximize the investment of its available funds. The Foundation has various sources of liquidity at its disposal, including cash and cash equivalents, as well as marketable debt and equity securities. The Foundation strives to maintain financial assets available to meet general expenditures at a level that represents 100% of annual expenses. The Finance Committee meetings semi-annually to review cash needs and funds availability for the following six-month period.

For purposes of analyzing resources available to meet general expenditures over a 12-month period, the Foundation considers all expenditures related to its ongoing activities of providing scholarships and other reimbursements to the University, restricted expenditures on behalf of the University, as well as its own operating needs to be general expenditures. The Foundation operates with a balanced budget and anticipates collecting sufficient revenue to cover general expenditures not covered by donor restriction.

Investments

Investments as of June 30, 2020 are summarized as follows:

Equity securities	$ 6,840,254
Debt securities	2,767,288
U.S. government securities	51,133
Total investments	$ 9,658,675

NOTE 14 – KENTUCKY STATE UNIVERSITY FOUNDATION, INC. (Continued)

Fair Value Measurements

The Foundation classifies its investments based on a hierarchy consisting of: Level 1 (valued using quoted prices from active markets for identical assets), Level 2 (not traded on an active market but for which observable market inputs are readily available), and Level 3 (valued based on significant unobservable inputs). The investment's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs.

The following is a description of the valuation methodologies used for assets measured at fair value. There have been no changes in the methodologies used as of June 30, 2020.

Common stocks, municipal bonds, corporate bonds, U.S. government securities, and equity exchange traded funds: Valued at the closing price reported on the active market on which the individual securities are traded. Some level 2 inputs are used for pricing of municipal and corporate bonds; therefore, they are all classified as level 2.

Mutual funds: Valued at the daily closing price as reported by the fund. Mutual funds held by the Foundation are open-end mutual funds that are registered with the Securities and Exchange Commission. These funds are required to publish their daily net asset value (NAV) and to transact at that price. The mutual funds held by the Foundation are deemed to be actively traded.

The methods described above may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, while the Foundation believes its valuation methods are appropriate and consistent with those of other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

Fair value measurements as of June 30, 2020 are as follows:

	Level 1	Level 2	Level 3	Total
Common stocks	$ 4,105,838	$ -	$ -	$ 4,105,838
Mutual funds	2,709,613	-	-	2,709,613
Equity exchange traded funds	24,803	-	-	24,803
Municipal bonds	-	360,469	-	360,469
Corporate bonds	-	2,406,819	-	2,406,819
U.S government securities	51,133	-	-	51,133
Total	$ 6,891,387	$ 2,767,288	$ -	$ 9,658,675

(Continued)

NOTE 14 – KENTUCKY STATE UNIVERSITY FOUNDATION, INC. (Continued)

Net Assets With Donor Restrictions

Net assets with donor restrictions as of June 30, 2020 are restricted for the following purpose:

Subject to expenditure for specified purpose:	
Instruction and institutional support	$ 1,893,497
Scholarships	1,256,788
Total subject to expenditure for specified purpose	3,150,285
Subject to the passage of time	82,000
Subject to endowment spending policy and appropriation:	
Investments in perpetuity (including amounts above the original gift amount of $4,006,525), which once appropriated, are expendable to support the following programs:	
Instruction and institutional support	1,341,442
Scholarships	4,352,020
Total subject to endowment spending policy and appropriation	5,693,462
Total net assets with donor restrictions	$ 8,925,747

Net Assets Released from Restriction

For the year ended June 30, 2020, net assets were released from donor restrictions by incurring expenses satisfying the purpose of the restrictions specified by donors as follows:

Endowment spending allocation	$ 10,225
University support	142,685
Scholarships	399,328
Operating and other expenses	188,144
Student support	99,354
Travel and other expenses	35,647
Total release from restrictions	$ 875,383

(Continued)

NOTE 14 – KENTUCKY STATE UNIVERSITY FOUNDATION, INC. (Continued)

Endowment Composition

The Foundation's endowment consists of approximately 52 individual funds established by donors to provide annual funding for specific activities and general operations. The endowment also includes certain net assets without donor restrictions that have been designated for endowment by the Board of Trustees.

The Foundation's Board of Trustees has interpreted the Commonwealth of Kentucky Uniform Prudent Management of Institutional Funds Act (UPMIFA) as requiring the preservation of the fair value of the original gift as of the date of the donor-restricted endowment funds, unless there are explicit donor stipulations to the contrary. As of June 30, 2020, there were no such donor stipulations. As a result of this interpretation, the Foundation retains in perpetuity (a) the original value of initial and subsequent gift amounts including promises to give net of discount and allowance for doubtful accounts donated to the endowment and (b) any accumulations to the endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added. Donor-restricted amounts not retained in perpetuity are subject to appropriation for expenditure by the Foundation in a manner consistent with the standard of prudence prescribed by UPMIFA. The Foundation considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

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

Endowment net asset composition by type of fund as of June 30, 2020 is as follows:

	Without Donor Restrictions	With Donor Restrictions	Total Net Endowment Assets
Board-designated endowment fund	$ 1,884,774	$ -	$ 1,884,774
Original donor-restricted gift amount and amounts required by to be maintained in perpetuity by donor	-	4,006,525	4,006,525
Accumulated investment gains	-	1,686,937	1,686,937
Donor-restricted endowment funds	$ 1,884,774	$ 5,693,462	$ 7,578,236

From time to time, certain donor-restricted endowment funds may have fair value less than the amount required to be maintained by donors or by law (underwater endowments). The Foundation has interpreted UPMIFA to permit spending from underwater endowments in accordance with prudent measures required under law. There were no such deficiencies as of June 30, 2020.

(Continued)

NOTE 14 – KENTUCKY STATE UNIVERSITY FOUNDATION, INC. (Continued)

Endowment Composition (Continued)

Spending Policy: The Foundation spending policy is to distribute an amount at least equal to 3-5% of a moving sixteen quarter average of the fair value of the endowment funds. Accordingly, over the long term, the Foundation expects its spending policy to allow its endowment assets to grow at an average rate of 3% annually. This is consistent with the Foundation's objective to maintain the purchasing power of endowment assets as well as to provide additional real growth through investment return.

Changes in endowment net assets as of June 30, 2020 are as follows:

	Without Donor Restrictions	With Donor Restrictions	Total Net Endowment Assets
Endowment net assets, beginning of year	$ 2,240,078	$ 5,559,606	$ 7,799,684
Contributions	-	82,869	82,869
Interest and dividends	98,931	102,181	201,112
Realized and unrealized gains	11,424	53,060	64,484
Other, net of investment expense	-	(101,765)	(101,765)
Amounts appropriated for expenditure	(373,840)	(10,225)	(384,065)
Reclassifications	(91,819)	7,736	(84,083)
Endowment net assets, end of year	$ 1,884,774	$ 5,693,462	$ 7,578,236

Retirement Plan

The Foundation has a defined contribution profit sharing plan which covers all employees who meet certain requirements. Foundation contributions are discretionary. No contributions were made for the year ended June 30, 2020.

REQUIRED SUPPLEMENTARY INFORMATION

KENTUCKY STATE UNIVERSITY
SCHEDULE OF THE UNIVERSITY'S (KSU)
PROPORTIONATE SHARE OF THE NET PENSION LIABILITY
KENTUCKY EMPLOYEES' RETIREMENT SYSTEM
June 30, 2020
(Amounts in thousands)

Non-hazardous

	2020	2019	2018	2017	2016	2015
KSU's proportion of the net pension liability	$ 42,075	$ 30,999	$ 32,618	$ 29,146	$ 29,408	$ 28,555
KSU's proportionate share of the net pension liability	0.30%	0.23%	0.24%	0.26%	0.29%	0.32%
KSU's covered payroll	$ 4,358	$ 3,583	$ 3,888	$ 4,321	$ 5,390	$ 5,453
KSU's proportionate share of the net pension liability as a share of its covered payroll	956.47%	865.17%	838.94%	674.52%	545.60%	523.66%
Plan fiduciary net position as a percentage of total pension liability	13.66%	12.84%	13.30%	14.80%	18.83%	22.32%

Hazardous

	2020	2019	2018	
KSU's proportion of the net pension liability	$ 393	$	939 $	237
KSU's proportionate share of the net pension liability	0.07%	0.19%	0.05%	
KSU's covered payroll	$ 39	$ 61	$ 79	
KSU's proportionate share of the net pension liability as a share of its covered payroll	1,007.69%	1,539.34%	300.00%	
Plan fiduciary net position as a percentage of total pension liability	55.49%	56.10%	54.80%	

Notes: This table represents data that is one year in arrears.

Changes in Assumptions: For fiscal year 2020, there was an increase to the salary increase assumptions for individual members and the base retiree mortality tables were replaced with a KERS-specific mortality table developed using the actual mortality experience of non-disabled retirees in KERS. Mortality tables for disable retirees and active members were updated with Public Retirement Mortality tables. Termination rates and rates of disability incidence were increased. Retirement rates were decreased slightly for members with participation date prior to July 1, 2003. For members with 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. There were no changes for fiscal year 2019. For fiscal year 2018, the demographic and economic assumptions that affect the measurement of the total pension liability have been updated as follows:

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

Changes in Benefit Terms: During the 2018 legislative session, House Bill 185 was enacted, which updated the benefit provisions for active members who die in the line of duty. Benefits paid to the spouses of deceased members have been increased from 25% of the member's final rate of pay to 75% of the member's average pay. If the member does not have a surviving spouse, benefits paid to surviving dependent children have been increased from 10% of the member's final pay rate to 50% of average pay for one child, 65% of average pay for two children, or 75% of average pay for three children. The TPL as of June 30, 2018 is determined using these updated benefit provisions.

KENTUCKY STATE UNIVERSITY
SCHEDULE OF THE UNIVERSITY'S CONTRIBUTION
KENTUCKY EMPLOYEES' RETIREMENT SYSTEM
June 30, 2020
(Amounts in thousands)

Non-hazardous

	2020	2019	2018	2017	2016	2015
Contractually required contribution	$ 1,924	$ 1,830	$ 1,471	$ 1,516	$ 1,312	$ 1,515
Contributions in relation to the contractually required contribution	$ 1,924	$ 1,830	$ 1,471	$ 1,516	$ 1,312	$ 1,515
Contribution deficiency (excess)	$ -	$ -	$ -	$ -	$ -	$ -
KSU covered payroll	$ 4,686	$ 4,457	$ 3,583	$ 3,888	$ 4,321	$ 5,390
Contributions as a percentage of covered payroll	41.07%	41.06%	41.05%	38.99%	30.36%	28.11%

Hazardous

	2020	2019	2018
Contractually required contribution	$ 32	$ 35	$ 61
Contributions in relation to the contractually required contribution	$ 32	$ 35	$ 61
Contribution deficiency (excess)	$ -	$ -	$ -
KSU covered payroll	$ 106	$ 114	$ 309
Contributions as a percentage of covered payroll	30.19%	30.70%	19.74%

Note: These are 10-year schedules. 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.

KENTUCKY STATE UNIVERSITY
SCHEDULE OF THE UNIVERSITY'S (KSU)
PROPORTIONATE SHARE OF THE NET PENSION LIABILITY
KENTUCKY TEACHERS' RETIREMENT SYSTEM
June 30, 2020
(Amounts in thousands)

	2020	2019	2018	2017	2016	2015
KSU's proportion of the net pension liability	$ 22,159	$ 22,617	$ 40,538	$ 68,926	$ 63,956	$ 64,987
State's proportionate share of the collective net pension liability	24,011	16,827	32,308	6,496	6,503	7,374
Total	$ 46,170	$ 39,444	$ 72,846	$ 75,422	$ 70,459	$ 72,361
KSU's proportionate share of the net pension liability	0.16%	0.16%	0.14%	0.22%	0.23%	0.30%
KSU's covered payroll	$ 22,544	$ 19,083	$ 17,779	$ 16,961	$ 19,076	$ 21,451
KSU's proportionate share of the net pension liability as a share of its covered payroll	98.29%	118.52%	228.01%	406.38%	335.27%	302.96%
Plan fiduciary net position as a percentage of total pension liability	58.10%	59.30%	39.83%	35.22%	42.49%	45.59%

Note: This table represents data that is one year in arrears.

Changes in assumptions: For fiscal year 2020, the assumed municipal bond index rate decreased from 3.89% to 3.50%. For fiscal year 2019, the KTRS plan discount increased from 4.49% to 7.50%. For fiscal year 2018, the KTRS plan discount rate increased from 4.20 percent to 4.49 percent. For fiscal year 2017, the KTRS plan discount rate decreased from 4.88 percent to 4.20 percent. For fiscal year 2016, there was a decrease in the assumed investment rate of return from 7.75 percent to 7.50 percent; a decrease in the assumed rate of inflation from 3.50 percent to 3.25 percent; a decrease in the assumed rate of wage inflation from 1.00 percent to 0.75 percent and a decrease in the payroll growth assumption from 4.50 percent to 4.00 percent.

KENTUCKY STATE UNIVERSITY
SCHEDULE OF THE UNIVERSITY'S CONTRIBUTION
KENTUCKY TEACHERS' RETIREMENT SYSTEM
June 30, 2020
(Amounts in thousands)

	2020	2019	2018	2017	2016	2015
Contractually required contribution	$ 1,941	$ 1,815	$ 1,730	$ 1,879	$ 1,773	$ 2,059
Contributions in relation to the contractually required contribution	$ 1,941	$ 1,815	$ 1,730	$ 1,879	$ 1,773	$ 2,059
Contribution deficiency (excess)	$ -	$ -	$ -	$ -	$ -	$ -
KSU covered payroll	$ 23,652	$ 22,544	$ 19,083	$ 17,779	$ 16,961	$ 19,076
Contributions as a percentage of covered payroll	8.21%	8.05%	9.07%	10.57%	10.45%	10.79%

Note: These are 10-year schedules. 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.

KENTUCKY STATE UNIVERSITY
SCHEDULE OF THE UNIVERSITY'S (KSU)
PROPORTIONATE SHARE OF THE NET OPEB LIABILITY
KENTUCKY EMPLOYEES RETIREMENT SYSTEM
June 30, 2020
(Amounts in thousands)

Non-hazardous	2020	2019	2018
KSU's proportion of the net OPEB liability	$ 6,622	$ 5,398	$ 6,178
KSU's proportionate share of the net OPEB liability	0.30%	0.23%	0.24%
KSU's covered payroll	$ 4,358	$ 3,583	$ 3,888
KSU's proportionate share of the net OPEB liability as a share of its covered payroll	151.95%	150.66%	158.90%
Plan fiduciary net position as a percentage of total OPEB liability	30.92%	27.32%	24.40%

Hazardous	2020	2019	2018
KSU's proportion of the net OPEB liability	$ (19)	$ (62)	$ 3
KSU's proportionate share of the net OPEB liability	0.07%	0.19%	0.05%
KSU's covered payroll	$ 39	$ 61	$ 79
KSU's proportionate share of the net OPEB liability as a share of its covered payroll	(48.72)%	(101.64)%	3.80%
Plan fiduciary net position as a percentage of total OPEB liability	105.29 %	106.83%	98.80%

Note: This table represents data that is one year in arrears.

Changes in assumptions: For fiscal year 2020, the discount rate was changed from 5.86% to 5.73% for non-hazardous and from 5.88% to 5.66% for hazardous. In addition, the KERS Board of Trustees adopted new actuarial assumptions based on an actuarial experience study for the period ending June 30, 2018. Key assumptions include replacing the base retiree mortality tables were replaced with a KERS-specific mortality table developed using the actual mortality experience of non-disabled retirees in KERS. Mortality tables for disable retirees and active members were updated with Public Retirement Mortality tables. Termination rates and rates of disability incidence were increased. Retirement rates were decreased slightly for members with participation date prior to July 1, 2003. For members with 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.For fiscal year 2019, the discount rate used to measure the total Non-hazardous OPEB liability was 5.86%, which was reduced from the 6.90% discount rate used in the prior year. The discount rate used to measure the total Hazardous OPEB liability was 5.88%, which was increased from the 5.87% discount rate used in the prior year. For fiscal year 2018, the assumed investment rate of return was changed from 7.50% to 6.25%. The inflation assumption was changed from 3.25% to 2.30%. The payroll growth assumption was changed from 4.00% to 0.00%.

Changes in benefit terms: However, during the 2018 legislative session, House Bill 185 was enacted, which updated the benefit provisions for active members who die in the line of duty. The system shall now pay 100% of the insurance premium for spouses and children of all active members who die in the line of duty. The total OPEB liability as of June 30, 2018, is determined using these updated benefit provisions.

KENTUCKY STATE UNIVERSITY
SCHEDULE OF THE UNIVERSITY'S OPEB CONTRIBUTIONS
KENTUCKY EMPLOYEES RETIREMENT SYSTEM
June 30, 2020
(Amounts in thousands)

Non-hazardous

	2020	2019	2018
Contractually required contribution	$ 394	$ 375	$ 301
Contributions in relation to the contractually required contribution	$ 394	$ 375	$ 301
Contribution deficiency (excess)	$ -	$ -	$ -
KSU covered payroll	$ 4,686	$ 4,358	$ 3,583
Contributions as a percentage of covered payroll	8.41%	8.41%	8.40%

Hazardous

	2020	2019	2018
Contractually required contribution	$ 7	$ 7	$ 12
Contributions in relation to the contractually required contribution	$ 7	$ 7	$ 12
Contribution deficiency (excess)	$ -	$ -	$ -
KSU covered payroll	$ 106	$ 114	$ 309
Contributions as a percentage of covered payroll	6.60%	6.14%	3.88%

Note: These are 10-year schedules. 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.

KENTUCKY STATE UNIVERSITY
SCHEDULE OF THE UNIVERSITY'S (KSU)
PROPORTIONATE SHARE OF THE NET OPEB LIABILITY
KENTUCKY TEACHERS' RETIREMENT SYSTEM
June 30, 2020
(Amounts in thousands)

	2020	2019	2018
KSU's proportion of the net OPEB liability	$ 5,053	$ 5,626	$ 5,880
State's proportionate share of the net OPEB liability	2,198	2,700	2,630
Total	$ 7,251	$ 8,326	$ 8,510
KSU's proportionate share of the net OPEB liability	0.30%	0.16%	0.16%
KSU's covered payroll	$ 22,544	$ 19,083	$ 17,779
KSU's proportionate share of the net OPEB liability as a share of its covered employee payroll	22.41%	29.48%	33.07%
Plan fiduciary net position as a percentage of total OPEB liability	32.58%	25.50%	21.18%

Note: This table represents data that is one year in arrears.

Changes in assumptions: For fiscal year 2020, the healthcare cost trend rate decreased from 7.75% and 5.75% to 7.50% and 5.50% for Pre-65 and Post-65, respectively. Medicare Part B premiums increased 2.63% from 0.00%. The municipal bond rate decreased from 3.89% to 3.50%. For fiscal year 2019, healthcare cost trend rates decreased to 0.00% from 1.02% for Medicare Part B Premiums. The municipal bond index rate increased from 3.56% to 3.89%.

Change in benefit terms: There were no changes for fiscal years 2020 and 2019. For fiscal year 2018, 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.

SCHEDULE OF THE UNIVERSITY'S OPEB CONTRIBUTIONS
KENTUCKY TEACHERS' RETIREMENT SYSTEM
June 30, 2020
(Amounts in thousands)

	2020	2019	2018
Contractually required contribution	$ 298	$ 297	$ 287
Contributions in relation to the contractually required contribution	$ 298	$ 297	$ 287
Contribution deficiency (excess)	$ -	$ -	$ -
KSU covered payroll	$ 23,652	$ 22,544	$ 19,083
Contributions as a percentage of covered payroll	1.26%	1.32%	1.50%

Note: These are 10-year schedules. 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.

SUPPLEMENTARY INFORMATION

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

Federal Grantor/Pass-Through Grantor/ Program Title	CFDA Number	Pass-Through Entity Identifying Number	Federal Expenditures
U. S. Department of Education			
Direct Programs:			
Student Financial Aid Cluster			
Federal Supplemental Educational Opportunity Grant Program	84.007		294,098
Federal Work Study Program	84.033		297,212
Federal Perkins Loan Program	84.038		1,240,584
Federal Pell Grant Program	84.063		4,703,308
Federal Direct Student Loans	84.268		9,797,865
Teacher Education Assistance for College and Higher Education Grants	84.379		5,171
Total Student Financial Aid Cluster			16,338,238
TRIO Cluster			
Student Support Service	84.042A		230,755
TRIO Upward Bound	84.047A		213,233
Total Trio Cluster			443,988
Higher Education Institutional Aid - Title III Strengthening All Black Colleges and University Program	84.031B		3,141,087
Title III HBCU Master's Program	84.382G		562,840
COVID-19 – Education Stabilization Fund			
Student Emergency Grant Portion	84.425E		52,294
Institutional Portion	84.425F		685,758
Historic Black Colleges and Universities (HBCU)	84.425J		1,089,225
Total Emergency Relief Fund			1,827,277
Total U.S Department of Education			22,313,430
U.S. Department of Health and Human Services			
Direct Programs:			
Family and Community Violence Prevention Program	93.910		304,154
Substance Abuse and Mental Health Service Projects of Regional and National Significance	93.243		(300)
Passed through Eastern Kentucky University:			
Foster Care Title IV-E			
EKU TRC	93.658	453602-19-100	2,946
EKU Cultural Diversity	93.658	453768-20-102	4,042
EKU TRC	93.658	453770-20-101	77,294
University Training Consortium	93.658	PON2 736 1900004478	3,283
			87,565
Passed through Developmental Disabilities:			
Developmental Disabilities Basic Support and Advocacy Grants			
KSU Peer Education	93.630	PON2 125 1900003629	59,293
Total U.S. Department of Health and Human Services			450,712
U. S. Department of Agriculture			
Direct Programs:			
Plant and Animal Disease, Pest Control and Animal Care	10.025		1,448
1890 Institution Capacity Building Grant	10.216		435,105
Disadvantaged and Veteran Farmers and Ranchers	10.443		44,497
Cooperative Extension Service	10.500		6,049,220
Agriculture Extension at 1890 Land-Grant Institutions	10.512		2,537,745
Expanded Food and Nutrition Education Program	10.514		120,080
Renewable Resources Extension Act and National Focus Fund Projects	10.515		7,297
Soil and Water Conservation	10.902		27,808

See Accompanying Notes to Schedule of Expenditures of Federal Awards

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

Federal Grantor/Pass-Through Grantor/ Program Title	CFDA Number	Pass-Through Entity Identifying Number	Federal Expenditures
U. S. Department of Agriculture (Continued)			
Direct Programs:			
Emergency Watershed Protection Program	10.923		2,216
Conservation Stewardship Program	10.924		4,972
Passed through University of Kentucky			
Cooperative Extension Service	10.500	3200002871-20-111	4,334
Passed through Kentucky Department of Community Based Services (DCBS)			
SNAP Cluster			
USDA State Administrative Matching Grants for the Supplemental Nutrition Assistance Program			
SNAP Education Services	10.561	SC 736 1800004123	595,612
Total U. S. Department of Agriculture			9,830,334
U. S. Department of Justice			
Direct Programs:			
National Institute of Justice Research, Evaluation And Development Project Grants	16.560		296
Passed through 4H Council			
Juvenile Mentoring Program			
4H National Mentoring Program	16.726	2019-MU-FX-0002	7,699
4H National Mentoring Program	16.726	2018-JU-FX-0005	47,399
Total U. S. Department of Justice			55,394
Department of Defense			
Passed through Eastern Kentucky University			
Centers for Academic Excellence	12.598	453703-19-194	14,474
National Aeronautics and Space Administration			
Passed through University of Kentucky			
Office of Stem Engagement			
NASA EPSCOR	43.008	3049025269-14-032	(14)
Minority Male Stem Conference	43.008	3200000161-19-061	5,500
Total National Aeronautics and Space Administration			5,486
Research and Development Cluster			
U.S. Department of Agriculture			
Direct Programs:			
Cooperative Forestry Research	10.202		68,383
Payments to 1890 Land-Grant Colleges and Tuskegee University	10.205		3,156,345
1890 Institution Capacity Building Grant	10.216		243,413
Agriculture and Food Research Initiative	10.310		178,183
Beginning Farmer and Rancher Development Program	10.311		28,312
Socially-Disadvantaged Group Grant	10.871		78,266
Passed through University of Georgia			
USDA Sustainable Agriculture Research and Education			
SARE	10.215	RD309-134/S001197	(1,898)
SARE	10.215	SUB00001835	9,728
SARE	10.215	RD309-137/S001461	868
			8,698
National Science Foundation			
Direct Program:			
Education and Human Resources	47.076		125,523

See Accompanying Notes to Schedule of Expenditures of Federal Awards

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

Federal Grantor/Pass-Through Grantor/ Program Title	CFDA Number	Pass-Through Entity Identifying Number	Federal Expenditures
Passed through University of Rhode Island			
Office of International Science and Engineering			
Innovative, Broadly Accessible Tools for Brain Imagining	47.079	4978/111315KSU	31,827
Passed through University of California – Santa Barbara			
Social, Behavioral, and Economic Sciences			
Healthy Ecosystems Healthy People	47.075	KK1519	(1,294)
Passed through University of Kentucky			
Education and Human Resources			
LSAMP	47.076	3200002015-19-122	127,165
Experimental Program to Stimulate Competitive integrative Activities			
Advanced Manufacturing Partnership	47.083	3200002692-20-026	105,975
Office of Integrative Activities - EPSCOR	47.083	3200000271-18-071	26,681
			132,656
Total Research and Development Cluster			4,177,477
U.S Department of the Interior			
Passed through Murray State University			
National Land Remote Sensing – Education Outreach and Research	15.815	2020-044	500
Total Federal Expenditures			$ 36,847,807

Subtotals of Multiple Awards

Cooperative Extension Services	10.500	6,053,554
Sustainable Agriculture Research and Education	10.215	8,698
1890 Institution Capacity Building Grants	10.216	678,518
Juvenile Mentoring Program	16.726	55,098
Office of Integrative Activities	47.083	132,656
Office of Stem Engagement	43.008	5,486
Education and Human Resources	47.076	252,688
Foster Care Title IV-E	93.658	87,565

During the year ended June 30, 2020, the University provided $370,242 in expenditures to subrecipients as follows:

Federal Agency/Program Title	CFDA Number	Amount
U.S. Department of Agriculture		
1890 Institution Capacity Building Grant	10.216	$ 149,179
U.S. Department of Agriculture		
Agriculture and Food Research Initiative	10.310	208,812
U.S. Department of Justice		
Juvenile Mentoring Program	16.726	12,251
		$ 370,242

See Accompanying Notes to Schedule of Expenditures of Federal Awards

1. Basis of Presentation

The accompanying schedule of expenditures of federal awards (the "Schedule") includes the federal award activity of the University under programs of the federal government for the year ended June 30, 2020. 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). Because the Schedule presents only a selected portion of the operations of the University, it is not intended to and does not present the financial position, changes in net assets, or cash flows of the University.

Expenditures reported on the Schedule are reported on the accrual basis of accounting. The University has elected not to use the 10-percent de minimis indirect cost rate as allowed under the Uniform Guidance.

Such expenditures are recognized following the cost principles contained in Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, 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.

2. Perkins Loan Program

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 to made from the Perkins Loan Program subsequent to June 30, 2019. The University has loans outstanding in the amount of $450,403 with an allowance for doubtful accounts of $297,071 under the Federal Perkins Loan Program at June 30, 2020.

3. Federal Student Loan Program

The University participates in the Direct Loan Program (including Direct Subsidized and Direct Unsubsidized Loans for Students, and Direct PLUS Loans for parents of undergraduate students).

Federal Direct Student Loans Program	
Direct Loans	
Subsidized	$ 3,337,394
Unsubsidized	4,261,147
PLUS	2,199,324
	$ 9,797,865

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*

Members of the Board of Regents
Kentucky State University
Frankfort, Kentucky

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the business-type activities and the discretely presented component unit of Kentucky State University (the University), a component unit of the Commonwealth of Kentucky, as of and for the year ended June 30, 2020, and the related notes to the financial statements, which collectively comprise the University's basic financial statements and have issued our report thereon dated March 29, 2021. Our report includes a reference to other auditors who audited the financial statements of Kentucky State University Foundation, Inc. (Foundation) as described in our report on the University's financial statements. The financial statements of the Foundation 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

Crowe LLP

Lexington, Kentucky
March 29, 2021

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

Board of Regents
Kentucky State University
Frankfort, Kentucky

Report on Compliance for Each Major Federal Program

We have audited Kentucky State University's (the University) compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of the University's major federal programs for the year ended June 30, 2020. The University's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

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

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of the University's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements*, Cost Principles, and the Audit Requirements for Federal Award (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 program for the year ended June 30, 2020.

(Continued)

Report on Internal Control over Compliance

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

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

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies 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 certain deficiencies in internal control over compliance, as described in the accompanying schedule of findings and questioned costs as item 2020-001, 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 and corrective action plan. 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.

Crowe LLP

Crowe LLP

Lexington, Kentucky
March 29, 2021

Section I – Summary of Auditor's Results

Financial Statements

Type of auditor's report 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 deficiencies 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 deficiencies identified not considered to be material weaknesses?	X Yes	______ None Reported
Type of auditor's report issued on compliance for major programs:	Unmodified	
Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a)?	X Yes	______ No

Identification of major programs:

CFDA Number(s)	Name of Federal Program or Cluster
	Student Financial Aid Cluster:
84.007	Federal Supplemental Educational Opportunity Grants
84.033	Federal Work-Study Program
84.038	Federal Perkins Loan Program
84.063	Federal Pell Grant Program
84.268	Federal Direct Student Loans
84.379	Teacher Education Assistance for College and Higher Education Grants
	Education Stabilization Fund
84.425E	Student emergency grant portion
84.425F	Institutional portion
84.425J	HEERF Historic Black Colleges and University (HBCU)

Dollar threshold used to distinguish between Type A and Type B programs: $1,105,434

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

Section II – Financial Statement Findings

None noted.

(Continued)

Section III – Federal Award Findings and Questioned Costs (Continued)

Finding 2020-001 - Return Of Title IV Funds

Information on the Federal Program: Student Financial Aid Cluster (CFDA Numbers 84.007, 84.033, 84.038, 84.063, 84.268, 84.379) – U.S. Department of Education – 2019 – 2020 Award Year

Criteria: Withdrawal date for a student who withdraws from an institution that is not required to take attendance- 34 CFR 668.22(C)(4 & 5) -An institution must document a student's withdrawal date determined in accordance with paragraphs (c)(1), (2), and (3). For purposes of this section, for a student who ceases attendance at an institution that is not required to take attendance, the student's withdrawal date is:

(i) The date, as determined by the institution, that the student began the withdrawal process prescribed by the institution;

(ii) The date, as determined by the institution, that the student otherwise provided official notification to the institution, in writing or orally, of his or her intent to withdraw;

(iii) If the student ceases attendance without providing official notification to the institution of his or her withdrawal in accordance with paragraph (c) (1)(i) or (c)(1)(ii) of this section, the mid-point of the payment period.

Scheduled breaks - 34 CFR 668.22(f)(2)(i) and (ii) (B) - Institutionally scheduled breaks of five or more consecutive days are excluded from the return of Title IV funds calculation as periods of nonattendance and, therefore, do not affect the calculation of the amount of federal aid earned.

Condition: During our testing of return of Title IV funds, we noted multiple control deficiencies and instances of noncompliance with federal compliance regulations surrounding the return of funds process.

Questioned Cost: $0

Context: During our testing of return of funds, we selected seven students in our non-statistical sample from a total population of 79 withdrawn students to test for internal controls and compliance with federal regulations. We noted the following internal control deficiencies and compliance findings:

- We noted there was no secondary, documented review of return of funds calculations to ensure accuracy and completeness of the calculation.

- We noted five instances in which the University was unable to support the unofficial withdrawal date used within the return of funds calculation.

- During our review of the calculation of days in the enrollment period for the Spring semester return of funds calculations, we noted the dates for Spring Break entered into Banner for break days did not align with the University's published academic calendar. We also noted the Sunday surrounding Spring Break where no regular classes are held was not properly accounted for resulting in a 2-day error in the days in enrollment period calculation for Spring semester withdrawn students. We noted four instances in our sample affected by this error.

Effect: The University may not comply with federal regulations and may not return or report the appropriate amount of unearned Title IV funds.

Section III – Federal Award Findings and Questioned Costs (Continued)

Cause: There are no internal controls in place to review the return of funds calculations for accuracy and completeness. There is also no formal review of the calculation of break days to ensure scheduled breaks are calculated in accordance with the published academic calendar and in accordance federal guidelines.

Repeat Finding: Yes. See Finding 2019-004.

Recommendation: We recommend the Financial Aid Office implement the following processes: 1.) a process to review the University's academic calendar and break days in the enrollment period to ensure the days in the enrollment period calculation is accurate and complete and consider Sundays surrounding Spring Break where there is no schedule classes; 2.) develop a timely secondary review process to detect potential errors and ensure return of funds calculation are completely entered into the Banner software; and 3.) develop a process to ensure appropriate supporting documentation is maintained to support withdrawal dates used in the return of funds calculation.

Under the CARES Act passed in March 2020, institutions are not require to return Title IV funds under the waiver exception, however, the Department of Education has outlined specific reporting requirements under the CARES Act include: Identifying information for each student for whom R2T4 was waived under the CARES Act; the payment period "begin" and "end" dates for the period that the student did not complete as a result of the COVID-19 emergency; the amount of Title IV grant or loan assistance (other than Federal Work Study funds) that each such student received for the payment period in which he or she withdrew; and the total amount of Title IV grant or loan assistance that each institution has not returned to the Secretary as a result of the CARES Act provisions.

Institutions should retain this information for each student who withdraws and qualifies for an R2T4 waiver under the CARES Act, and should plan to provide, for each student, identifying information, payment period begin and end dates, and information regarding the Title IV grant and loan disbursements (except for Federal Work Study) that the student received for the payment period. In order to fulfill the third reporting requirement, an institution must determine the total amount of grant and loan assistance that otherwise would have been returned, identified in Step 5 of the R2T4 calculation, had the calculation been performed. Therefore, it will continue to be necessary for institutions to perform an R2T4 calculation for each student covered by the CARES Act R2T4 waiver.

Views of responsible officials and planned corrective action: Management agrees with the finding. See corrective action plan.