

Northern Kentucky University
A Component Unit of the Commonwealth of Kentucky

Annual Financial Report

June 30, 2019



2018-2019 FINANCIAL REPORT

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Nunn Drive
Highland Heights, Kentucky 41099
nku.edu

October 7, 2019

Northern Kentucky University Board of Regents
Highland Heights, KY 41099

Dear Members of the Board:

I am pleased to share the University's 2018-19 Annual Financial Report. The firm of BKD, LLP, has audited the attached statements and accompanying footnotes.

Although the University's unrestricted net position has been negatively impacted by pension expenses, the University continues to show solid operating performance as measured by cash flows. Excluding the impact of the pension and other post-employment benefits (OPEB) reporting changes, the University's unrestricted net position increased by \$11.3 million and \$11 million for the years ended June 30, 2019 and 2018, respectively. At June 30, 2019, the University's unrestricted net position, excluding the pension and OPEB reporting changes, was \$101.4 million. The University implemented new and enhanced enrollment and financial aid strategies, including a significant increase in the online programs which contributed to a growth in enrollment. In addition to increasing enrollment, these strategies are designed to support students from diverse backgrounds, increase student retention rates, maintain academic quality, and generate additional funds as evidenced by the \$11.0 million increase in cash generated from tuition and fees for the year ended June 30, 2019. Management is also continuing its efforts to diversify revenue sources, contain costs, and redirect resources to core mission priorities. We are also investing in the campus facilities in cost efficient ways. An example is the implementation of a \$4.1 million Energy Savings Performance Contract with work during 2019 on various lighting replacements and HVAC upgrades that will be paid for with energy savings through reduced utility cost.

Fueled by excellent investment returns and new endowment gifts the endowment funds that are managed by the NKU Foundation have grown from \$95.1 million at June 30, 2014 to \$106.2 million at June 30, 2019. The continued growth in funds provided through endowments, gifts, and other sources of revenues will be essential as the University strives to meet the needs of our students.

This is another big year for NKU. Our newly approved Success by Design strategic framework provides the roadmap for us to be a student-ready, regionally engaged university that empowers diverse learners for economic and social mobility. Within the framework, we are emphasizing three pillars of student success — increased access, higher levels of completion, and advancing opportunities for career and community engagement for all students. We will work to define and prioritize initiatives and projects; identify actionable steps, resource needs, and timelines; form work groups and implementation teams; and develop corresponding milestones and metrics. To support the implementation of Success by Design, we are creating a non-recurring \$2 million Strategic Investment and Innovation Fund (SIIF) from the net increase in the unrestricted net position of FY19.

There is much work to be done and I look forward to another great year at NKU.

Sincerely,

A handwritten signature in blue ink that reads 'Ashish K. Vaidya'.

Ashish K. Vaidya, Ph.D.

President

Independent Auditor's Report

Board of Regents
Northern Kentucky University
Highland Heights, Kentucky

Report on the Financial Statements

We have audited the accompanying financial statements of the business-type activities and discretely presented component unit of Northern Kentucky University (University), collectively a component unit of the Commonwealth of Kentucky, as of and for the years ended June 30, 2019 and 2018, and the related notes to the financial statements, which collectively comprise the University's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities and the discretely presented component unit of the University, as of June 30, 2019 and 2018, and the respective changes in financial position and, where applicable, cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

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

Other 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 letter from the president and the listing of the members of the Board of Regents and the University's administration are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information 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 them.

BKD, LLP

Cincinnati, Ohio
October 4, 2019

Northern Kentucky University
A Component Unit of the Commonwealth of Kentucky
Management's Discussion and Analysis
Years Ended June 30, 2019 and 2018

Northern Kentucky University's (the University) Management's Discussion and Analysis of its financial condition provides an overview of the financial performance of the University and its affiliated corporations for the years ended June 30, 2019 and 2018, with selected comparative information for the year ended June 30, 2017. This discussion has been prepared by management and should be read in conjunction with the accompanying financial statements and notes.

As a public comprehensive university located in a major metropolitan area, the University delivers innovative, student-centered education and engages in impactful scholarly and creative endeavors, all of which empower our graduates to have fulfilling careers and meaningful lives, while contributing to the economic, civic, and social vitality of the region.

Financial Highlights

The University's assets increased by \$0.3 million, or 0.1 percent, for the year ended June 30, 2019 and now total \$540.0 million. Deferred outflows declined by \$27.4 million due to a decrease in pension and other post-employment benefits (OPEB) deferred outflows. The University's liabilities decreased by \$11.8 million, or 2.2 percent, for the year, including a \$5.5 million decline in the University's nonhazardous and hazardous net pension and OPEB liabilities which totaled \$369.9 million at June 30, 2019. Deferred inflows increased by \$1.5 million for the year. The University's net position totaled \$48.1 million and \$64.9 million at June 30, 2019 and 2018, respectively. For the years ended June 30, 2019 and 2018, the University recognized noncash expenses of \$1.3 million and \$2.7 million, respectively, in accordance with the OPEB reporting changes under GASB 75 and noncash expenses of \$22.4 million and \$28.8 million, respectively, in accordance with the pension reporting changes under GASB 68 and GASB 71 resulting in noncash expenses totaling \$55.2 million for the two year period. Excluding the impact of the pension and OPEB reporting changes, the University's unrestricted net position would have increased by \$11.3 million and \$11.0 million for the years ended June 30, 2019 and 2018, respectively.

The University's operating and nonoperating revenues totaled \$232.1 million for the year ended June 30, 2019, an increase of \$10.0 million compared to 2018. Operating revenues increased by \$9.3 million for the year ended June 30, 2019, including a \$9.9 million increase in net tuition resulting from the combined impact of an increase in enrollment, particularly in the University's expanded online programs, and tuition and fee rate increases. Nonoperating revenues grew by \$0.6 million for the year ended June 30, 2019 primarily due to a \$2.2 million increase in the University's state appropriations. Operating and nonoperating expenses decreased by \$3.6 million, or 1.4 percent, to a total of \$256.5 million for the year ended June 30, 2019, primarily due to a \$8.3 million decrease in pension and OPEB expenses.

Construction of the University's new transformative Health Innovations Center was completed during the summer of 2018. In addition to the \$97 million capital appropriation the University received from the state, the University also received an \$8 million gift commitment from St. Elizabeth Healthcare to help pay for the design and construction of a virtual care facility within the Center that helps students simulate medical procedures and facilitates transdisciplinary research at the University. The Center increased the University's capacity to meet the growing demand for graduates in the health professions.

The University's state-funded endowments totaled \$13.4 million as of June 30, 2019. These funds, along with the private endowed gifts donated to benefit the University, are managed by Northern Kentucky University Foundation, Inc. (Foundation). The endowment funds managed by the Foundation, including the University's endowment funds, totaled \$106.2 million at June 30, 2019. For the five-year period that ended June 30, 2019, the endowment funds managed by the Foundation have grown from \$95.1 million to \$106.2 million as a result of excellent investment returns and the receipt of several major endowment gifts. The growth in endowment funds has provided a significant increase in the funds available to support the University's mission.

Using the Financial Statements

The University's financial report includes three financial statements: the statement of net position; the statement of revenues, expenses and changes in net position and the statement of cash flows. These financial statements and accompanying footnotes are prepared in accordance with GASB principles, which establish standards for external financial reporting for public colleges and universities and require that financial statements be presented on a comprehensive, entity-wide basis to focus on the University as a whole.

The University is a component unit of the Commonwealth of Kentucky. The financial statements of the University include the University and its blended component unit, the Northern Kentucky University Research Foundation, Inc. (Research Foundation). Financial statements for the University's discretely presented component unit, Northern Kentucky University Foundation, Inc., have also been included in accordance with GASB pronouncements. Financial statements presented for the Foundation consist of the consolidated statement of financial position and the consolidated statement of activities. The statements for Northern Kentucky University Foundation, Inc. (NKUF) are prepared in accordance with Financial Accounting Standards Board (FASB) pronouncements.

Statement of Net Position

The statement of net position reflects the financial position of the University as of June 30, 2019, with comparative information as of June 30, 2018, and includes all assets, deferred outflows and inflows of resources, liabilities and net position. It is prepared under 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. Net position, consisting of the net amount of the assets, deferred outflows of resources, liabilities, and deferred inflows of resources, is one indicator of the current financial condition of the University. Assets, liabilities, deferred inflows and outflows of resources are generally measured using current values. A major exception is capital assets, which are stated at historical cost less accumulated depreciation.

A summarized comparison of the University's assets, deferred outflows of resources, liabilities, deferred inflows of resources, and net position at June 30, 2019, 2018 and 2017 follows:

Condensed Statements of Net Position (in thousands)

	<u>2019</u>	<u>2018</u>	<u>2017</u>
ASSETS			
Current assets	\$ 125,202	\$ 118,758	\$ 109,159
Capital assets, net	381,014	388,690	369,470
Noncurrent assets	<u>33,797</u>	<u>32,269</u>	<u>30,653</u>
Total assets	<u>540,013</u>	<u>539,717</u>	<u>509,282</u>
DEFERRED OUTFLOWS OF RESOURCES	<u>43,545</u>	<u>70,980</u>	<u>44,078</u>
LIABILITIES			
Current liabilities	38,375	39,765	38,395
Noncurrent liabilities	<u>483,483</u>	<u>493,918</u>	<u>403,406</u>
Total liabilities	<u>521,858</u>	<u>533,683</u>	<u>441,801</u>
DEFERRED INFLOWS OF RESOURCES	<u>13,622</u>	<u>12,104</u>	<u>6,045</u>
NET POSITION			
Net investment in capital assets	278,002	280,404	253,064
Restricted			
Nonexpendable	7,616	7,616	7,616
Expendable	2,981	5,076	5,491
Unrestricted	<u>(240,521)</u>	<u>(228,186)</u>	<u>(160,657)</u>
Total net position	<u>\$ 48,078</u>	<u>\$ 64,910</u>	<u>\$ 105,514</u>

Assets

The University's assets increased by \$0.3 million, or 0.1 percent, for the year ended June 30, 2019 and now total \$540.0 million. Current assets increased by \$6.4 million for the year ended June 30, 2019 primarily due to an increase in cash generated from operations. Noncurrent assets decreased by \$6.1 million for the year ended June 30, 2019 primarily due to a \$7.7 million decrease in net capital assets which was partially offset by a \$1.1 million increase in noncurrent cash and cash equivalents earmarked for construction projects and a \$0.6 increase in investments held in repair and replacement and bond reserve accounts.

Net capital assets decreased by \$7.7 million for the year ended June 30, 2019 and increased by \$19.2 million the prior year, resulting in a combined increase of \$11.5 million, or 3.1 percent, since June 30, 2017. This increase is the net result of an \$53.5 million increase in capitalized construction project costs, land improvements, equipment and other capital assets, less \$42.0 million in depreciation. Net capital assets totaled \$381.0 million, or 70.6 percent of total assets as of June 30, 2019.

Deferred Outflows of Resources

Deferred outflows of resources totaled \$43.5 million and \$71.0 million as of June 30, 2019 and 2018, respectively. Deferred outflows of resources related to the University's defined benefit pension plan, including other post-employment benefits (OPEB), totaled \$40.6 million and \$67.7 million as of June 30, 2019 and 2018, respectively. The deferred outflows of resources that represent the unamortized difference between the reacquisition price and the net carrying amount of refunded debt totaled \$2.9 million and \$3.3 million at June 30, 2019 and 2018, respectively.

Liabilities

The University's liabilities decreased by \$11.8 million, or 2.2 percent, for the year ended June 30, 2019. The \$1.4 million decrease in current liabilities resulted from a \$6.1 million decline in accounts payable related to construction projects which was partially offset by a \$3.8 million increase in unearned revenue consisting primarily of summer tuition receipts and a \$0.8 million increase in deposits held in custody. Noncurrent liabilities declined by \$10.4 million for the year as a result of a \$4.5 million decrease in long-term debt and a \$5.5 million decline in the University's net pension and OPEB liabilities. Bonds, notes and capital leases payable, net of discounts and premiums, totaled \$108.4 million and \$112.8 million at June 30, 2019 and 2018, respectively.

At June 30, 2019, the University's proportionate share of the nonhazardous and hazardous net pension and OPEB liabilities totaled \$369.9 million which represents a \$94.3 million increase since June 30, 2017. This increase is primarily due to the recognition of the University's proportionate share of the net liability related to the OPEB, primarily health insurance coverage, provided through the Kentucky Employees Retirement System (KERS) in accordance with GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pension* (GASB 75). The cumulative effect of the adoption of GASB 75 resulted in a decrease of \$47.1 million in the University's unrestricted net position at July 1, 2017. For the years ended June 30, 2019 and 2018, the University's net liability related to the post employment health insurance coverage decreased by \$5.0 million and increased by \$12.4 million, respectively, resulting a net liability of \$54.5 million at June 30, 2019. The University's net pension liability decreased by \$0.5 million in 2019 and increased by \$40.3 million in 2018 resulting in a combined increase of \$39.8 million since June 30, 2017. The net pension liability totaled \$315.4 million at June 30, 2019.

Deferred Inflows of Resources

The University's deferred inflows of resources totaled \$13.6 million and \$12.1 million as of June 30, 2019 and 2018, respectively. Deferred inflows of resources related to the University's defined benefit pension plan totaled \$12.6 million and \$10.5 million as of June 30, 2019 and 2018, respectively.

Net Position

Net position represents the difference between the University's total of assets and deferred outflows of resources and the total of liabilities and deferred inflows of resources. The University's net position totaled \$48.1 million and \$64.9 million at June 30, 2019 and 2018, respectively. For the years ended June 30, 2019 and 2018, the University recognized noncash expenses of \$1.3 million and \$2.7 million, respectively, in accordance with the OPEB reporting changes under GASB 75 and noncash expenses of \$22.4 million and \$28.8 million, respectively, in accordance with the pension reporting changes under GASB 68 and GASB 71 resulting in noncash expenses totaling \$55.2 million for the two year period. Excluding the impact of the pension and OPEB reporting changes, the University's unrestricted net position would have increased by \$11.3 million and \$11.0 million for the years ended June 30, 2019 and 2018, respectively.

Net invested in capital assets totaled \$278.0 million and \$280.4 million at June 30, 2019 and 2018, respectively. The \$24.9 million increase in net invested in capital assets since June 30, 2017 is primarily attributable to the \$41.2 million of state capital appropriations the University received in fiscal year 2018 for the construction of the Health Innovations Center. An \$8 million gift from St. Elizabeth Healthcare to help pay for the design and construction of a virtual care facility within the Center also contributed to the increase in net invested in capital assets.

Statement of Revenues, Expenses and Changes in Net Position

The statement of revenues, expenses and changes in net position presents the revenues earned and expenses incurred during the year. Activities are reported as either operating or nonoperating. GASB requires state appropriations and nonexchange grants and contracts to be classified as nonoperating revenues. Accordingly, the University will generate an operating loss prior to the addition of nonoperating revenues.

This statement 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.

The utilization of long-lived assets, referred to as capital assets, is reflected in the financial statements as depreciation, which amortizes the cost of an asset over its expected useful life. A summarized comparison of the University's revenues, expenses and changes in net position for years ended June 30, 2019, 2018 and 2017 follows:

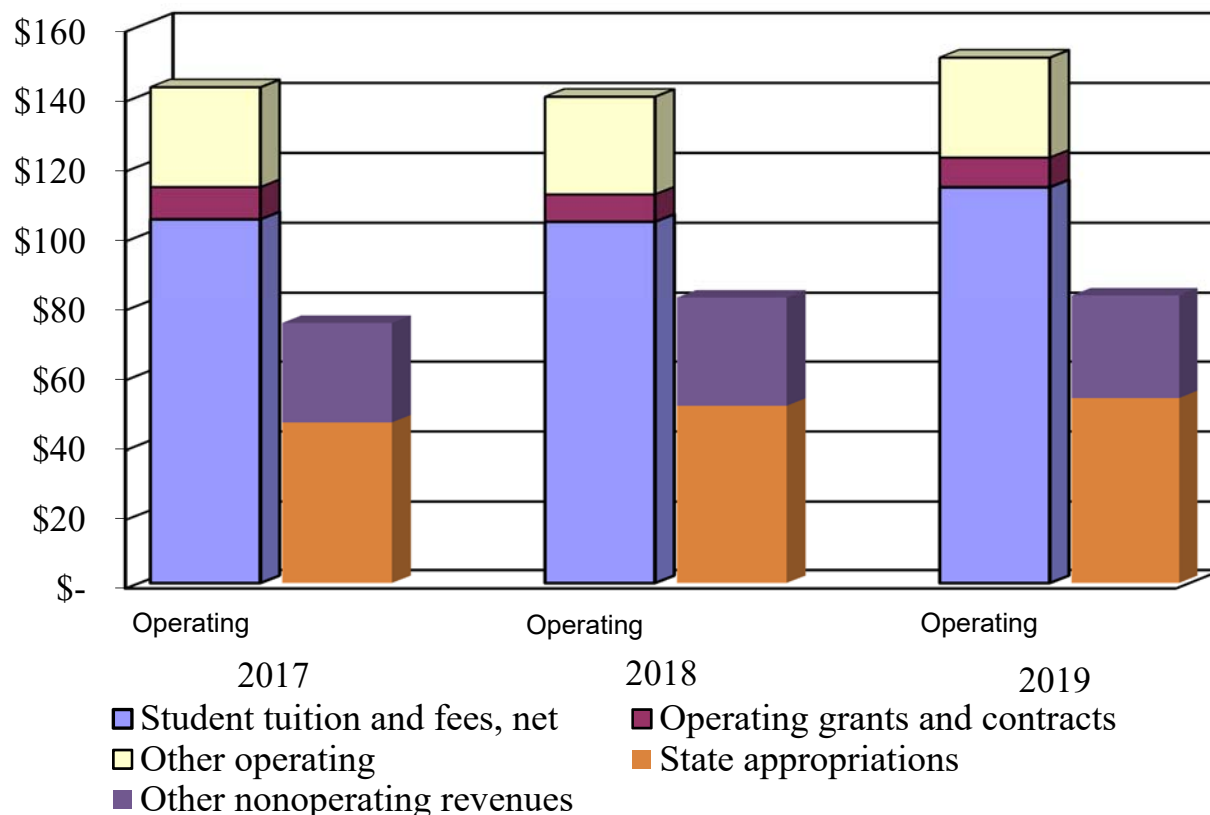
Condensed Statements of Revenues, Expenses and Changes in Net Position (in thousands)

	<u>2019</u>	<u>2018</u>	<u>2017*</u>
OPERATING REVENUES			
Student tuition and fees, net	\$ 113,949	\$ 104,079	\$ 104,787
Grants and contracts	8,484	7,818	9,197
Sales and services of educational departments	4,286	4,745	4,969
Auxiliary enterprises	14,746	14,951	15,697
Other operating revenues	7,674	8,206	7,865
Total operating revenues	<u>149,139</u>	<u>139,799</u>	<u>142,515</u>
OPERATING EXPENSES			
Educational and general	221,189	227,073	205,736
Depreciation	18,231	16,521	16,892
Auxiliary enterprises (including depreciation)	11,660	12,097	12,188
Other expenses	70	279	62
Total operating expenses	<u>251,150</u>	<u>255,970</u>	<u>234,878</u>
Net loss from operations	<u>(102,011)</u>	<u>(116,171)</u>	<u>(92,363)</u>
NONOPERATING REVENUES (EXPENSES)			
State appropriations	53,315	51,105	46,353
Gifts, grants and contracts	26,436	27,313	26,161
Investment income (loss)	3,210	2,500	2,300
Interest on capital asset-related debt	(3,787)	(4,063)	(4,345)
Other nonoperating revenues (expenses)	(1,529)	1,432	(498)
Net nonoperating revenues	<u>77,645</u>	<u>78,287</u>	<u>69,971</u>
Income (loss) before other revenues, expenses, gains or losses	<u>(24,366)</u>	<u>(37,884)</u>	<u>(22,392)</u>
Capital appropriations	-	41,155	36,864
Capital grants and gifts	7,534	3,189	728
Total other revenues	<u>7,534</u>	<u>44,344</u>	<u>37,592</u>
Increase (decrease) in net position	<u>(16,832)</u>	<u>6,460</u>	<u>15,200</u>
Net position-beginning of year, as previously reported	64,910	105,514	90,314
Cumulative effect of change in accounting principle	-	(47,064)	-
Net position-beginning of year, as restated	64,910	58,450	90,314
Net position-end of year	<u>\$ 48,078</u>	<u>\$ 64,910</u>	<u>\$ 105,514</u>

*Management's discussion and analysis data for 2017 was not updated for the adoption of GASB 75 as actuarial data was not available for that period.

Operating and Nonoperating Revenues

The following chart illustrates the University's revenues by source (both operating and nonoperating), which were used to fund its operating activities for fiscal years 2017, 2018 and 2019. Significant recurring sources of revenues, including state appropriations and nonexchange grants and contracts, are considered nonoperating revenues as defined by GASB. These revenues support operating expenses; therefore, they are included in the graph of revenues by source (presented in millions).



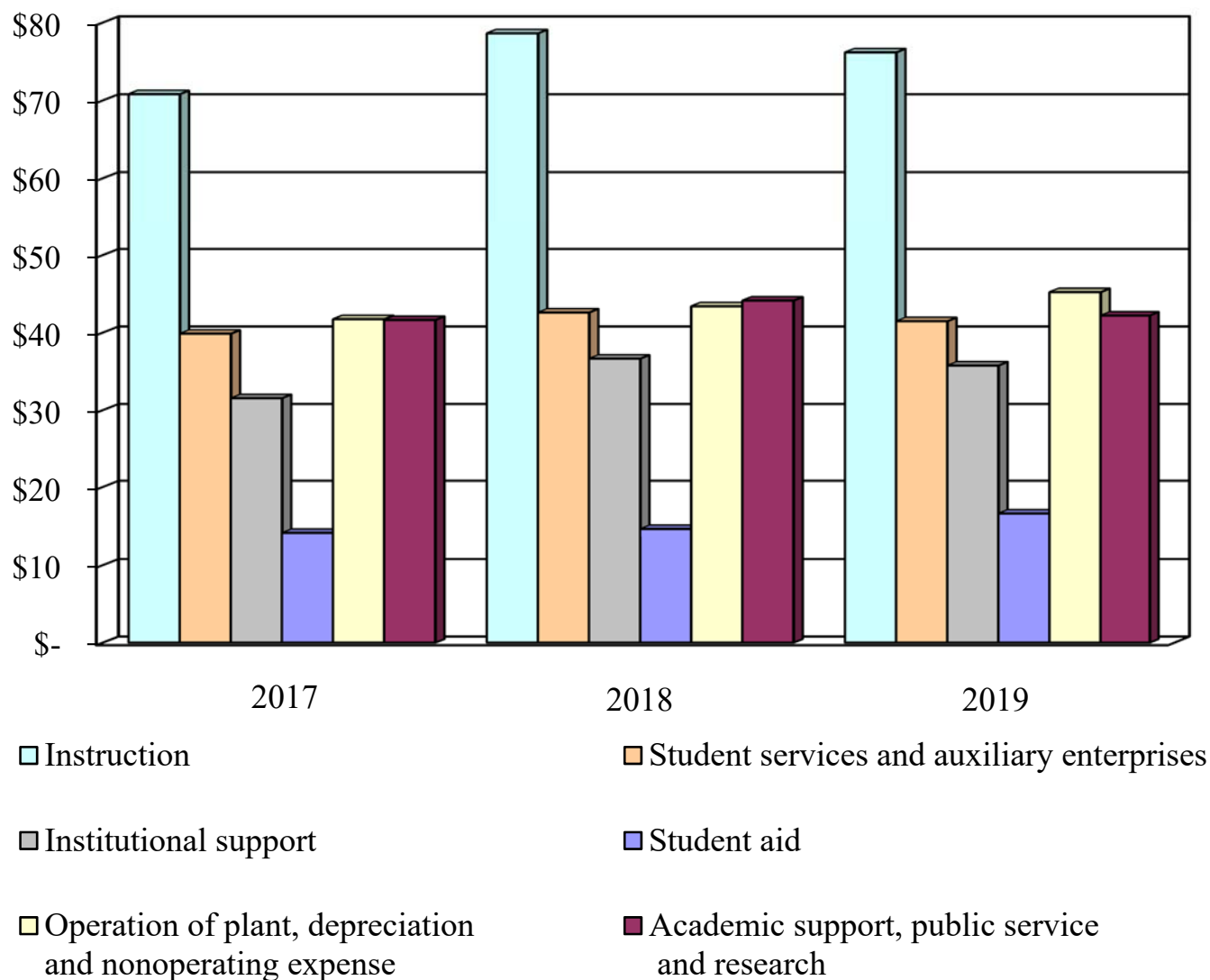
The University's operating and nonoperating revenues totaled \$232.1 million for the year ended June 30, 2019, an increase of \$10.0 million compared to 2018. Operating revenues totaled \$149.1 million, or 64.2 percent of revenues, while nonoperating revenues totaled \$83.0 million, or 35.8 percent of revenues, for the year. The most significant sources of revenue for the University are net student tuition and fees (49.1 percent) and state appropriations (23.0 percent).

Operating revenues increased by \$9.3 million for the year ended June 30, 2019, including a \$9.9 million increase in net tuition resulting from the combined impact of an increase in enrollment and tuition and fee rate increases. Nongovernmental grants and contracts increased by \$0.7 million due to an increase in operating grants received from the Northern Kentucky University Foundation. The outsourcing of the early childhood center operation resulted in a \$0.3 million decrease in child care fees which contributed to a \$0.5 million decrease in sales and services of educational departments revenues for the year. A \$0.4 million decrease in revenues generated by the University's arena contributed to a \$0.5 million decline in other operating revenues for the year.

Nonoperating revenues grew by \$0.6 million for the year ended June 30, 2019. The University's state appropriations increased by \$2.2 million for the year ended June 30, 2019. Federal nonoperating grant revenues decreased by \$1.0 million for the year due to a \$1.0 million decrease in federal financial aid Pell grant revenues. A \$1.2 million increase in investment income earned on the University's nonendowment funds was partially offset by a decrease in endowment investment earnings resulting in net increase in investment earnings of \$0.7 million for the year. For fiscal years 2019 and 2018 state appropriations increased by \$2.2 million and \$4.8 million, respectively, contributing to a \$7.7 million increase in net nonoperating revenues for the two-year period.

Operating and Nonoperating Expenses

The following chart illustrates the University's expenses by function (both operating and nonoperating) for fiscal years 2017, 2018 and 2019 (presented in millions).



Operating and nonoperating expenses decreased by \$3.6 million, or 1.4 percent, to a total of \$256.5 million for the year ended June 30, 2019. Instruction expenses declined by \$2.5 million primarily due to a \$6.7 million decrease in nonrecurring expenses related to the acquisition of instructional equipment in 2018 for the new Health Innovations Center. This decrease was partially offset by a \$5.0 million increase in contract expenses related to the University's accelerated online courses and a \$0.6 million increase in faculty salaries. A \$0.6 increase in research expenses resulted from a \$0.6 million increase in grants related to the new Health Innovations Center. Public service expenses decreased for the year by \$1.4 million for the year resulting from a \$0.6 million operating savings realized from the closure of the University's radio station and a \$0.6 million decline in pension and OPEB expenses for the year. Libraries and academic support expenses decreased by a combined \$1.3 million as a result of a decline in pension and OPEB expenses. A \$0.7 million decrease student services expenses resulted primarily from a \$1.8 million decrease in pension and OPEB expenses which were partially offset by an increase in intercollegiate athletics expenses and grant related expenses. Institutional support expenses declined by \$1.2 million due to a \$2.0 million decrease in pension and OPEB expenses which was partially offset by a \$0.8 million increase in other expenses including an increase in marketing expenses. Operation and maintenance of plant decreased by \$1.3 million due to \$1.3 million decline in pension and OPEB expenses. An increase in depreciation expense related to the new Health Innovations Center contributed to a \$1.7 million growth in education and general depreciation expense for the year.

Tuition and fee scholarship allowances and housing scholarship allowances increased by \$1.4 million and student aid expenses increased by \$2.0 million primarily due to an increase in institutionally funded scholarships, including a \$2.8 million increase in scholarships related to the University's online programs, which have grown significantly. State funded financial aid program expenses increased by \$0.2 million while federal financial aid program expenses decreased by \$0.9 million for the year, including a \$1.0 million decline in Pell grant expenses.

For the years ended June 30, 2019 and 2018, cash and noncash pension and OPEB expenses totaled \$41.0 million and \$49.3 million, respectively. This \$8.3 million decrease in pension and OPEB expenses combined with a \$3.5 million net increase in nonpension and OPEB related expenses, including increases in student aid (\$2.0 million) and depreciation (1.8 million), resulted in a \$4.8 million reduction in operating expenses for the year.

Statement of Cash Flows

Another important factor to consider when evaluating financial viability is the University's ability to meet financial obligations as they become due. The statement of cash flows presents information related to cash inflows and outflows, summarized by operating, noncapital financing, capital and related financing, and investing activities. A comparative summary of the University's statements of cash flows for the years ended June 30, 2019, 2018 and 2017 follows:

Condensed Statements of Cash Flows (in thousands)

	<u>2019</u>	<u>2018</u>	<u>2017</u>
Net cash provided (used) by:			
Operating activities	\$ (53,829)	\$ (64,039)	\$ (60,667)
Noncapital financing activities	79,388	77,749	73,920
Capital and related financing activities	(15,880)	(5,257)	(19,234)
Investing activities	2,744	1,894	1,127
Net increase (decrease) in cash and cash equivalents	12,423	10,347	(4,854)
Cash and cash equivalents, beginning of year	115,642	105,295	110,149
Cash and cash equivalents, end of year	<u>\$ 128,065</u>	<u>\$ 115,642</u>	<u>\$ 105,295</u>

The University's cash and cash equivalents increased by \$12.4 million in 2019. Major sources of funds generated by operating activities in 2019 included student tuition and fees (\$113.7 million), grants and contracts (\$7.9 million) and auxiliary enterprises (\$14.6 million). The largest cash payments for operating activities were for salaries and benefits (\$146.4 million), vendor payments (\$40.5 million) and student financial aid (\$15.8 million). Net cash used by operating activities decreased by \$10.2 million for the year primarily due to a \$11.0 million increase in tuition and fee receipts. A combined increase in payments for salaries and benefits (\$2.8 million) and student financial aid (\$0.7 million) was offset by a \$3.5 million decrease in vendor payments which declined due to decrease in nonrecurring payments related to the acquisition of instructional equipment in 2018 for the new Health Innovations Center.

Net cash provided by noncapital financing activities increased by \$1.6 million for the year ended June 30, 2019. Cash used by capital and related financing activities totaled \$15.9 million for 2019. Purchases of capital assets totaling \$22.3 million were funded by capital grants and gifts, state capital appropriations, institutional funds and proceeds from a capital lease obligation issued to fund an energy management project which will be paid through guaranteed energy savings. The University's principal and interest payments totaled \$12.0 million for the year.

Capital Asset and Debt Administration

Capital Assets

As of June 30, 2019, capital assets, net of accumulated depreciation, totaled \$381.0 million, or 70.6 percent of total assets. Net capital assets decreased by \$7.7 million for the year ended June 30, 2019 and increased by \$19.2 million the prior year, resulting in a combined increase of \$11.5 million, or 3.1 percent, since June 30, 2017. This increase is the net result of an \$53.5 million increase in capitalized construction project costs, land improvements, equipment and other capital assets, less \$42.0 million in depreciation.

The \$11.5 million increase in capital assets, net of disposals, for the years ended June 30, 2019 and 2018 was primarily attributable to the construction of the new state-of-the-art Health Innovations Center. The Kentucky General Assembly approved a \$97.0 million capital appropriation to the University in its 2014-16 biennial budget to fund the construction of a Health Innovations Center and to renovate Founders Hall. In addition to the capital appropriation, the University also received an \$8 million gift from St. Elizabeth Healthcare to help pay for the design and construction of a virtual care facility within the Center that helps students simulate medical procedures and facilitates transdisciplinary research at the University. The Health Innovations Center opened in summer 2018.

Debt

The following is a summary of the University's outstanding capital debt summarized by trust indenture and type as of June 30, 2019, 2018 and 2017 (in thousands):

	<u>2019</u>	<u>2018</u>	<u>2017</u>
General Receipts Bonds, net of discounts and premiums	\$ 103,899	\$ 111,891	\$ 119,107
Housing and Dining System Revenue Bonds	405	600	785
Notes payable and municipal lease obligations	4,090	275	23
	<u>\$ 108,394</u>	<u>\$ 112,766</u>	<u>\$ 119,915</u>

Debt decreased by \$4.4 million for the year ended June 30, 2019 resulting from principal payments of \$7.8 million on bonds, notes and capital lease obligations, a \$0.7 million decline in net discounts and premiums and the issuance of \$4.1 million in capital lease obligations for the year. In January 2019, the University entered into a new capital lease obligation in the amount of \$4.1 million with an interest rate of 2.81%, for an energy management project. The lease will be paid with guaranteed energy savings.

The University's current bond ratings assigned by Moody's Investors Service (A1 negative) and Standard and Poors (A stable) to the University's General Receipts bonds reflect the University's solid financial position despite the continued funding challenges related to the KERS pension and OPEB plans.

ECONOMIC FACTORS IMPACTING FUTURE PERIODS

The University recently unveiled Success by Design, a strategic framework that focuses on advancing student success aligned with the needs of the region. Success by Design is the University's roadmap to increase access, achieve higher levels of completion and advance opportunities for career and community engagement for all learners. The University's vision is to be a student-ready and regionally engaged university that empowers diverse learners for economic and social mobility.

The enacted budget for 2018-20 (House Bill 200) appropriated \$31.0 million to the Postsecondary Education Performance Fund. These funds are being distributed among institutions according to provisions of Kentucky Revised Statute 164.092, which established the performance funding model that allocates funding based on student success, course completion and operational support. For fiscal year 2020, the University will receive \$4.3 million from the Performance Fund and \$48.0 million in regular appropriations, resulting in a total state appropriation of \$52.3 million.

The University's Board of Regents approved a 2.7 percent increase in undergraduate resident tuition rates for fiscal year 2020. This increase was within the tuition and fee ceiling approved for the University by the Council on Postsecondary Education.

The University's state-funded endowments totaled \$13.4 million as of June 30, 2019. These funds, along with the private endowed gifts donated to benefit the University, are managed by Northern Kentucky University Foundation, Inc. (Foundation). The endowment funds managed by the Foundation, including the University's endowment funds, totaled \$106.2 million at June 30, 2019. For the five-year period that ended June 30, 2019, the endowment funds managed by the Foundation have grown from \$95.1 million to \$106.2 million as a result of excellent investment returns and the receipt of several major endowment gifts. The growth in endowment funds has provided a significant increase in the funds available to support the University's mission.

During the 2019 Special Session, the Kentucky General Assembly passed House Bill 1, which provides several options for quasi-governmental employers, including state universities, participating in the KERS. Under HB1, employers may elect to cease participation in the defined benefit plan for nonhazardous employees. The employers who cease participation are required to offer the impacted employees an alternative defined contribution retirement program. House Bill 1 also froze the University's pension and OPEB contributions rates for fiscal year 2020 at 49.5 percent.

Under House Bill 1, the University has until April 30, 2020 to choose one of the following options:

- Remain in the KERS defined-benefit plan with no changes and be subject to future contribution rate increases;
- Exit KERS, but elect to keep all Tier 1 and Tier 2 employees in the system. Tier 3 employees and all new employees would participate in the University's defined contribution plan. The University's liability for the Tier 1 and 2 employees would include the unfunded liability as of the cessation date and the estimated normal cost for future service;
- Exit KERS, freeze all KERS pension accounts and move all Tier 1, 2 and 3 employees to a University defined-contribution plan. All new employees would participate in the University's defined-contribution plan. The University's liability for the Tier 1 and 2 employees would include the unfunded liability as of the cessation date.

If the University elects to exit the system, House Bill 1 provides the University the option of paying a lump sum payment on the cessation date or paying annual installment payments, including interest, to KERS until the liability is retired.

Fortunately, as the Commonwealth and the University continue to face significant budget challenges related to funding the state pension systems, the Kentucky economy continues to perform well. According to the 2019 annual edition of Commonwealth of Kentucky Quarterly Economic & Revenue Report, Kentucky's general fund receipts rose for the ninth consecutive year in fiscal year 2019. Final 2019 general fund revenues were \$194.5 million, or 1.7 percent, more than the official revenue estimate which had projected 3.3 percent growth. The report indicates the solid underlying economic conditions will persist well into fiscal year 2020.

While high school graduation rates have remained relatively flat to down in the Kentucky, Ohio and southeast Indiana feeder counties, the University has seen an increasing trend in enrollments in students taking dual credit classes. In addition, in Spring 2018, the University partnered with a third party to launch accelerated online programs. The rapid increase in those programs helped the University to an overall increase in enrollments for Fall 2018. Enrollments in the accelerated online programs are expected to exceed 2,400 for Fall 2019 and will result in overall enrollments being up 3-4 percent.

Management is continuing its efforts to diversify revenue sources, contain costs and redirect resources to core mission priorities. The University is working with a partner to develop property at the University's main entrance. Phase 1 of the development is the construction of a medical office building, which will be occupied by St. Elizabeth Healthcare. Construction of the building is underway with occupancy expected in Spring 2020. Phase 2 of the development is expected to include an approximately 112 room extended-stay hotel, 30-40 thousand square feet of retail and restaurants, approximately 100 market-rate apartments, and professional office space. The development will also energize the entrance to the University, providing for more amenities for students and better integration with the community. There will be ground leases for both phases of the development ,which will provide a revenue stream to the University for many years into the future.

In summary, while the impact of the new pension reporting requirements on the University's unrestricted net position is significant, the University continues to show solid operating performance as measured by cash flows. The University is in the process of implementing new and enhanced strategies around enrollment, including enhanced online programs, and financial aid. These strategies are designed to increase enrollment, support students from diverse backgrounds, increase student retention rates, maintain academic quality, and increase net tuition revenue. The continued growth in funds provided through endowments, gifts, and other sources of revenues will be essential as the University strives to meet the needs of our students. The University launched a multi-year fundraising campaign in the spring of 2019 with a public goal of \$75 million.

Northern Kentucky University
A Component Unit of the Commonwealth of Kentucky
Statements of Net Position
As of June 30, 2019 and 2018
(in thousands)

	2019	2018
ASSETS		
Current Assets		
Cash and cash equivalents	\$ 110,229	\$ 98,916
Notes, loans and accounts receivable, net	11,728	17,186
Other current assets	3,245	2,656
Total current assets	125,202	118,758
Noncurrent Assets		
Cash and cash equivalents	17,836	16,726
Investments	14,040	13,431
Notes, loans and accounts receivable, net	1,670	1,914
Capital assets, net	381,014	388,690
Other noncurrent assets	251	198
Total noncurrent assets	414,811	420,959
Total assets	540,013	539,717
DEFERRED OUTFLOWS OF RESOURCES		
Bond refunding loss	2,910	3,277
Pension and OPEB	40,635	67,703
Total deferred outflows of resources	43,545	70,980
LIABILITIES		
Current Liabilities		
Accounts payable and accrued liabilities	19,417	25,509
Unearned revenue	9,183	5,425
Long-term debt-current portion	8,416	8,247
Other long-term liabilities-current portion	1,359	584
Total current liabilities	38,375	39,765
Noncurrent Liabilities		
Deposits	11,285	11,768
Long-term debt	99,978	104,519
Other long-term liabilities	2,354	2,262
Net pension and OPEB liability	369,866	375,369
Total noncurrent liabilities	483,483	493,918
Total liabilities	521,858	533,683
DEFERRED INFLOWS OF RESOURCES		
Service agreements	978	1,565
Pension and OPEB	12,644	10,539
Total deferred inflows of resources	13,622	12,104
NET POSITION		
Net investment in capital assets	278,002	280,404
Restricted		
Nonexpendable	7,616	7,616
Expendable	2,981	5,076
Unrestricted	(240,521)	(228,186)
Total net position	\$ 48,078	\$ 64,910

See accompanying notes to the financial statements

Northern Kentucky University Foundation, Inc.
Consolidated Statements of Financial Position
As of June 30, 2019 and 2018
(in thousands)

	2019	2018
ASSETS		
Cash and cash equivalents	\$ 9,355	\$ 13,796
Loans and accounts receivable, net	191	97
Contributions receivable, net	3,012	4,449
Prepaid expenses and deferred charges	42	38
Investments	108,503	108,297
Land and land improvements	548	548
Accumulated depreciation	(208)	(208)
Total assets	\$ 121,443	\$ 127,017
 LIABILITIES AND NET ASSETS		
Accounts payable	\$ 405	\$ 3,140
Deferred revenue	163	215
Funds held in trust for Northern Kentucky University	13,446	13,431
Total liabilities	14,014	16,786
 NET ASSETS		
Without donor restrictions		
For current operations	1,596	1,344
Amounts functioning as endowment funds	2,687	2,614
Invested in land and land improvements	340	340
Total without donor restrictions	4,623	4,298
With donor restrictions		
Unexpended funds received for restricted purposes	9,468	12,038
Contributions receivable	3,012	4,449
Loan funds	214	219
Endowment funds	90,112	89,227
Total with donor restrictions	102,806	105,933
Total net assets	107,429	110,231
Total liabilities and net assets	\$ 121,443	\$ 127,017

See accompanying notes to the financial statements

Northern Kentucky University
A Component Unit of the Commonwealth of Kentucky
Statements of Revenues, Expenses and Changes in Net Position
For the Years Ended June 30, 2019 and 2018
(in thousands)

	2019	2018
OPERATING REVENUES		
Student tuition and fees (net of scholarship allowances of \$44,007 in 2019 and \$42,615 in 2018)	\$ 113,949	\$ 104,079
Federal grants and contracts	2,396	2,162
State and local grants and contracts	2,905	3,202
Nongovernmental grants and contracts	3,183	2,454
Sales and services of educational departments	4,286	4,745
Auxiliary enterprises		
Housing and food service (net of scholarship allowances of \$1,381 in 2019 and \$1,416 in 2018)	10,931	11,006
Other auxiliaries	3,815	3,945
Other operating revenues	7,674	8,206
Total operating revenues	149,139	139,799
OPERATING EXPENSES		
Educational and general		
Instruction	76,092	78,618
Research	2,003	1,443
Public service	11,735	13,156
Libraries	5,410	6,096
Academic support	22,822	23,427
Student services	29,486	30,214
Institutional support	35,471	36,641
Operation and maintenance of plant	21,504	22,806
Depreciation	18,231	16,521
Student aid	16,666	14,672
Auxiliary enterprises		
Housing and food service	6,620	6,944
Other auxiliaries	1,378	1,605
Auxiliary depreciation	3,662	3,548
Other expenses	70	279
Total operating expenses	251,150	255,970
Net income (loss) from operations	(102,011)	(116,171)
NONOPERATING REVENUES (EXPENSES)		
State appropriations	53,315	51,105
Federal grants and contracts	15,202	16,207
State and local grants and contracts	11,197	11,071
Private gifts and grants	37	35
Investment income (loss)	3,210	2,500
Interest on capital asset-related debt	(3,787)	(4,063)
Other nonoperating revenues (expenses)	(1,529)	1,432
Net nonoperating revenues	77,645	78,287
Income (loss) before other revenues, expenses, gains or losses	(24,366)	(37,884)
Capital appropriations	-	41,155
Capital grants and gifts	7,534	3,189
Total other revenues	7,534	44,344
Increase (decrease) in net position	(16,832)	6,460
NET POSITION		
Net position-beginning of year	64,910	58,450
Net position-end of year	\$ 48,078	\$ 64,910

See accompanying notes to the financial statements

Northern Kentucky University Foundation, Inc.
Consolidated Statements of Activities
For the Year Ended June 30, 2019
(in thousands)

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
REVENUES, GAINS AND OTHER SUPPORT			
Gifts and bequests	\$ -	\$ 5,014	\$ 5,014
State grants	-	669	669
Rental income	131	-	131
Investment return	295	3,566	3,861
Other revenue	117	421	538
Total revenues and gains	<u>543</u>	<u>9,670</u>	<u>10,213</u>
Net assets released from restrictions	<u>12,675</u>	<u>(12,675)</u>	<u>-</u>
Total revenues, gains and other support	<u>13,218</u>	<u>(3,005)</u>	<u>10,213</u>
EXPENSES AND LOSSES			
Program expenses			
Instruction	957	-	957
Research	60	-	60
Public service	882	-	882
Libraries	23	-	23
Academic support	904	-	904
Student services	931	-	931
Institutional support	1,141	-	1,141
University facilities and equipment acquisition	5,296	-	5,296
Student financial aid	1,925	-	1,925
Other program expenses and losses	-	122	122
Total program expenses	<u>12,119</u>	<u>122</u>	<u>12,241</u>
Support expenses			
Management and general	476	-	476
Fund raising support	281	-	281
Rental property	17	-	17
Total support expenses	<u>774</u>	<u>-</u>	<u>774</u>
Total expenses and losses	<u>12,893</u>	<u>122</u>	<u>13,015</u>
Increase (decrease) in net assets	325	(3,127)	(2,802)
Net assets-beginning of year	<u>4,298</u>	<u>105,933</u>	<u>110,231</u>
Net assets-end of year	<u>\$ 4,623</u>	<u>\$ 102,806</u>	<u>\$ 107,429</u>

See accompanying notes to the financial statements

Northern Kentucky University Foundation, Inc.
Consolidated Statement of Activities
For the Year Ended June 30, 2018
(in thousands)

	Without Donor Restrictions	With Donor Restrictions	Total
REVENUES, GAINS AND OTHER SUPPORT			
Gifts and bequests	\$ 2	\$ 5,098	\$ 5,100
Rental income	131	-	131
Investment return	346	6,663	7,009
Other revenue	115	308	423
Total revenues and gains	594	12,069	12,663
Net assets released from restrictions	9,352	(9,352)	-
Total revenues, gains and other support	9,946	2,717	12,663
EXPENSES AND LOSSES			
Program Expenses			
Instruction	693	-	693
Research	38	-	38
Public service	175	-	175
Libraries	40	-	40
Academic support	725	-	725
Student services	524	-	524
Institutional support	1,002	-	1,002
University facilities and equipment acquisition	3,187	-	3,187
Student financial aid	2,469	-	2,469
Other program expenses and losses	-	32	32
Total program expenses	8,853	32	8,885
Support Expenses			
Management and general	428	-	428
Fund raising support	179	-	179
Total support expenses	607	-	607
Total expenses and losses	9,460	32	9,492
Increase in net assets	486	2,685	3,171
Net assets-beginning of year	3,812	103,248	107,060
Net assets-end of year	\$ 4,298	\$ 105,933	\$ 110,231

See accompanying notes to the financial statements

Northern Kentucky University
A Component Unit of the Commonwealth of Kentucky
Statements of Cash Flows
For the Years Ended June 30, 2019 and 2018
(in thousands)

	2019	2018
CASH FLOWS FROM OPERATING ACTIVITIES		
Tuition and fees	\$ 113,684	\$ 102,661
Grants and contracts	7,945	8,666
Payments to suppliers	(40,535)	(44,039)
Payments for salaries and benefits	(146,442)	(143,646)
Payments for student financial aid	(15,784)	(15,132)
Loans issued to students	(54)	(568)
Collection of loans to students	242	341
Auxiliary enterprise receipts:		
Housing operations	10,763	10,720
Other auxiliaries	3,815	3,783
Sales and service of educational departments	4,500	4,650
Other receipts (payments)	8,037	8,525
Net cash used in operating activities	(53,829)	(64,039)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
State appropriations	53,315	51,105
Gifts and grants for other than capital purposes	26,550	27,228
Agency and loan program receipts	92,036	78,808
Agency and loan program disbursements	(92,458)	(79,392)
Other nonoperating receipts (payments)	(55)	
Net cash provided by noncapital financing activities	79,388	77,749
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Proceeds from capital debt and leases	4,088	275
Capital appropriations	4,447	43,649
Capital grants, gifts, and advances received	9,829	229
Proceeds from sale of capital assets	-	6,685
Purchases of capital assets	(22,270)	(44,898)
Principal paid on capital debt and leases	(7,803)	(6,813)
Interest paid on capital debt and leases	(4,171)	(4,384)
Net cash used in capital and related financing activities	(15,880)	(5,257)
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from sales and maturities of investments	147	253
Purchase of investments	(594)	-
Interest on investments	3,191	1,641
Net cash provided by investing activities	2,744	1,894
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	12,423	10,347
Cash and cash equivalents-beginning of year	115,642	105,295
Cash and cash equivalents-end of year	\$ 128,065	\$ 115,642

See accompanying notes to the financial statements

Northern Kentucky University
A Component Unit of the Commonwealth of Kentucky
Statements of Cash Flows
For the Years Ended June 30, 2019 and 2018
(in thousands)

	2019	2018
RECONCILIATION OF NET LOSS FROM OPERATIONS TO		
NET CASH USED IN OPERATING ACTIVITIES:		
Net loss from operations	\$ (102,011)	\$ (116,171)
Adjustments to reconcile operating loss to net cash used by operating activities:		
Depreciation expense	21,893	20,069
Deferred inflows of resources	1,518	6,059
Deferred outflows of resources	27,068	(24,190)
Changes in assets and liabilities:		
Receivables, net	(1,665)	1,556
Other assets	(642)	(167)
Accounts payable, accrued liabilities and deposits	920	(465)
Unearned revenue	3,758	(239)
Pension and OPEB	(5,503)	49,640
Long-term liabilities	835	(131)
Net cash used in operating activities	\$ (53,829)	\$ (64,039)
 SUPPLEMENTAL CASH FLOWS INFORMATION		
Capital assets acquired through capital lease	\$ 2,653	\$ 162
Gifts of capital assets	397	167
Capital asset acquisitions in accounts payable	1,384	8,337

See accompanying notes to the financial statements

Northern Kentucky University
A Component Unit of the Commonwealth of Kentucky
Notes to the Financial Statements
For the Years Ended June 30, 2019 and 2018

Note 1 – Organization and Summary of Significant Accounting Policies

a. Reporting Entity

Northern Kentucky University (the University) is a component unit of the Commonwealth of Kentucky (Commonwealth) and is included in the general-purpose financial statements of the Commonwealth. The financial statements of the University include the operations of the Northern Kentucky University Research Foundation (Research Foundation) which is a legally separate, tax-exempt organization supporting the University. In accordance with Governmental Accounting Standards Board (GASB) Statement No. 61, the Research Foundation is reported as a blended component unit of the University and condensed financial information is provided in Note 12.

The Northern Kentucky 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 the Foundation holds and invests are restricted to the activities of the University by the donors. 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.

The accompanying financial statements do not include the financial position or operating results of the Chase College Foundation, Inc. This foundation is a separately incorporated not-for-profit entity organized for the purpose of promoting the educational mission of the University's Salmon P. Chase College of Law. Although this entity benefits the University's Salmon P. Chase College of Law, it is governed by an independent Board of Directors and is not controlled by the University.

b. Basis of Presentation

The accompanying financial statements of the University have been prepared in accordance with accounting principles generally accepted in the United States of America as prescribed by the GASB. In accordance with GASB Statement No. 35, *Basic Financial Statements – and Management's Discussion and Analysis – for Public Colleges and Universities* (GASB 35) and subsequent standards issued by GASB, the University has elected to report as an entity engaged in business-type activities (BTA). BTAs are those activities that are financed in whole or part by fees charged to external parties for goods and services. GASB 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 position 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.
 - 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. Expendable net position consists primarily of amounts for specified capital construction projects.
- **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.

The financial statement presentation required by GASB is intended to provide a comprehensive, entity-wide perspective of the University's assets, deferred outflows of resources, liabilities, deferred inflows of resources, net position, revenues, expenses, changes in net position and cash flows.

c. Accrual Basis

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.

d. Cash and Cash Equivalents

Cash and cash equivalents include all readily available sources of cash such as petty cash, demand deposits, certificates of deposit and temporary investments in marketable debt securities with original maturities less than three months. Funds held by the Commonwealth of Kentucky are also considered cash equivalents.

e. Notes, Loans and Accounts Receivable

This classification consists of tuition and fee charges to students, charges for auxiliary enterprise services provided to students, faculty and staff, loans to students and amounts due from sponsors for reimbursement of expenses made pursuant to contracts and grants. Accounts receivable are recorded net of estimated uncollectible amounts based upon a review of outstanding receivables, historical collection information and existing economic conditions.

f. Capital Assets

Capital assets are stated at cost at date of acquisition or, in the case of gifts, at fair market 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, infrastructure and land improvements that significantly increase the value or extend the useful life of the structure are capitalized. The University capitalizes interest costs as a component of construction in progress based on the interest cost of borrowing specifically for the project, net of interest earned on investments acquired with the proceeds of the borrowing. Routine repairs and maintenance are charged to operating expense in the year in which the expense is incurred.

Depreciation of capital assets is computed on a straight-line basis over the estimated useful lives of the respective assets, generally 40 years for land improvements, 10 – 40 years for buildings and fixed equipment, 10 years for library books and 3 – 10 years for equipment. The University capitalizes, but does not depreciate, works of art and historical treasures that are held for exhibition, education, research and public service.

g. Compensated absences

University policies permit employees to accumulate vacation and sick leave benefits that may be realized as paid time off or, in limited circumstances, as a cash payment. Expense and the related liability are recognized as vacation benefits are earned whether the employee is expected to realize the benefit as time off or in cash. Sick leave benefits are recognized as expense when the time off occurs and no liability is accrued for such benefits employees have earned but not yet realized except for employees currently eligible to retire from the Kentucky Employers Retirement System (KERS). A liability is accrued equal to the estimated amount to be paid to KERS for sick leave converted to time worked at retirement. Compensated absence liabilities are computed using the regular pay rates in effect at the statement of net position date plus an additional amount for compensation-related payments such as social security and Medicare taxes computed using rates in effect at that date.

h. Investments

Investments in equity and debt securities are carried at fair value. Fair value is determined using quoted market prices. Investments in nonnegotiable certificates of deposit are carried at cost. Investment income consists of interest and dividend income, realized gains and losses and the net change for the year in the fair value of investments carried at fair value.

i. Unearned Revenue

Unearned revenue includes amounts received for tuition and other student fees prior to the end of the fiscal year but related to the subsequent accounting period. Unearned revenue also includes amounts received from grants and contracts sponsors that have not yet been earned.

j. Deposits

Noncurrent deposits consist primarily of deposits held in a wetland restoration fund pursuant to a memorandum of agreement with a federal agency.

k. Cost-Sharing Defined-Benefit Pension Plan

The University participates in a cost-sharing multiple-employer defined benefit pension plan Kentucky Retirement Systems, (KRS). For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the Plan and additions to/deductions from the Plan's fiduciary net position have been determined on the same basis as they are reported by the Plan. 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.

l. Cost-Sharing Defined-Benefit Other Postemployment Benefit Plan

The University participates in a cost-sharing multiple-employer defined-benefit other postemployment benefit plan, KRS, (the OPEB Plan). For purposes of measuring the net OPEB liability, deferred outflows of resources and deferred inflows of resources related to OPEB, and OPEB expense, information about the fiduciary net position of the OPEB Plan and additions to/deduction from the OPEB Plan's fiduciary net position have been determined on the same basis as they are reported by the OPEB Plan. For this purpose, benefit payments are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

m. Deferred Outflows and Inflows of Resources

A deferred outflow of resources is a loss in net position by the University that is applicable to a future reporting period. Deferred outflows of resources are reported in the statement of net position, but are not recognized in the financial statements as expense until in the related period. Deferred outflows of resources include \$2,910,000 and \$3,277,000 of losses on bond refunding for the years ended June 30, 2019 and 2018, respectively. The remaining balance of deferred outflows for years ended June 30, 2019 and 2018 consists of the KERS pension and OPEB related unamortized balances.

A deferred inflow of resources is a gain in net position by the University that is applicable to a future reporting period. Deferred inflows of resources are reported in the statement of net position but are not recognized in the financial statements as revenue until in the related period. The agreement between the University and the University's food service providers resulted in a deferred inflow of resources of \$978,000 and \$1,565,000 at June 30, 2019 and 2018, respectively. The deferred inflows of resources related to this agreement are recognized evenly over the life of the contract. The remaining deferred inflows of resources for the years ended June 30, 2019 and 2018 consist of the KERS pension and OPEB related unamortized balances.

See Notes 7 and 8 for details of pension and OPEB related deferred outflows of resources and deferred inflows of resources.

n. Scholarship Allowances

Student tuition and fee revenues and other student related revenues are reported net of scholarship allowances in the statement of revenues, expenses and changes in net position. Scholarship allowances are the differences between the stated charge for services provided by the University, and the amounts that are paid by the students or third parties making payments on a student's behalf. To the extent that revenues from such programs are used to satisfy tuition and fees, and other student charges, the University has recorded a scholarship allowance.

o. Income Taxes

The University is an agency and instrumentality of the Commonwealth, 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 Research Foundation has received a determination from the Internal Revenue Service granting exemption from federal income taxation pursuant to the provisions of Internal Revenue Code section 501(c)(3).

p. Restricted Asset Spending Policy

The University's policy states 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.

q. 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 appropriations, gifts, and investment income, are recorded as nonoperating revenues, in accordance with GASB 35. In accordance with GASB Statement No. 24, *Accounting and Financial Reporting for Certain Grants and Other Financial Assistance* and related GASB implementation guidance, Pell Grants, College Access Program (CAP) Grants and Kentucky Educational Excellence Scholarship (KEES) are considered nonexchange transactions and are recorded as nonoperating revenues in the accompanying financial statements.

r. 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, liabilities and deferred inflows and outflows of resources and disclosure of contingent assets and liabilities at the date of the financial statements. Estimates also affect the reported amounts of revenues and expenditures during the reporting period. Actual results could differ from those estimates.

s. 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 Financial Accounting Standards Board. As such, certain revenue recognition criteria and presentation features are different from GASB revenue recognition criteria and presentation features.

Complete financial statements for the Foundation can be obtained from the Northern Kentucky University Foundation, Inc. at Lucas Administrative Center Room 820, Nunn Drive, Highland Heights, KY 41099.

t. Related Party Transactions

During the years ended June 30, 2019 and 2018, the Foundation made payments on behalf of the University of \$327,000 and \$320,000, respectively, for salaries, benefits and other administrative costs for University staff that directly support the Foundation's operations. These payments are made by agreement between the Foundation and University. As of June 30, 2019 and 2018, approximately \$4,000 and \$5,000 was owed to the University for such costs, respectively.

In support of University programs for the years ended June 30, 2019 and 2018, the Foundation incurred program expenses of \$12,175,000 and \$8,885,000, respectively, which consisted of payments on behalf of the University of \$4,570,000 and \$4,128,000 for 2019 and 2018, respectively. In addition, the Foundation transferred \$7,605,000 and \$4,757,000 to the University for restricted purposes in 2019 and 2018, respectively.

u. Recent Accounting Pronouncements

In June 2017, the GASB approved Statement No. 87, *Leases*. The objective of this Statement is to improve the accounting and financial reporting for leases by governments. This Statement requires recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. It establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. Under this Statement, a lessee is required to recognize a lease liability and an intangible right-to-use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources, thereby enhancing the relevance and consistency of information about governments' leasing activities. The provisions of this statement are effective for reporting periods beginning after December 15, 2019. The University is currently evaluating the effects of this statement on its financial statements.

In June 2018, the GASB approved Statement No. 89, *Accounting for Interest Cost Incurred before the end of a Construction Period*. The objectives of this Statement are to enhance the relevance and comparability of information about capital assets and the cost of borrowing for a reporting period and to simplify accounting for interest cost incurred before the end of a construction period. This Statement requires that interest cost incurred before the end of a construction period be recognized as an expense in the period in which the cost is incurred for financial statements prepared using the economic resources measurement focus. As a result, interest cost incurred before the end of a construction period will not be included in the historical cost of a capital asset reported in a business-type activity or enterprise fund. The requirements of this Statement are effective for reporting periods beginning after December 15, 2019. The University is currently evaluating the effects of this statement on its financial statements.

v. Reclassifications

Certain items have been reclassified for the year ended June 30, 2018 in order to conform to classifications used for the year ended June 30, 2019. These reclassifications had no effect on total net position or the change in net position.

Note 2 – Cash, Cash Equivalents and Investments

At June 30, 2019, petty cash funds totaled \$57,000 and the carrying amount of the deposits was \$128,008,000 with a corresponding total bank balance of \$131,253,000. Of the bank balance, \$29,549,000 was covered by federal depository insurance, or collateralized with securities held by the pledging bank, or bank’s agents, in the University’s name and \$101,704,000 was held and invested by the Commonwealth. These deposits were covered by federal depository insurance or by collateral held by the Commonwealth in the Commonwealth’s name.

Investments

The investments which the University may purchase are limited by the Commonwealth’s law and the University’s bond resolutions to the following (1) securities or obligations which are fully guaranteed by the U.S. Government or agencies of the U.S. Government as to principal and interest; (2) certificates of deposit or time deposits of banks, trust companies or national banking associations which are insured by the Federal Deposit Insurance Corporation; and (3) mutual funds investing solely in U.S. securities.

Custodial credit risk: Custodial credit risk for deposits is the risk that in the event of a bank failure, a government’s deposits or collateral securities may not be returned to it. The University currently uses commercial banks and the Commonwealth as its depositories. Deposits with commercial banks are substantially covered by federal depository insurance or collateral held by the bank in the University’s name. At the Commonwealth, the University’s accounts are pooled with other agencies of the Commonwealth. These Commonwealth-pooled deposits are substantially covered by federal depository insurance or by collateral held by the Commonwealth in the Commonwealth’s name. The custodial credit risk for investments is the risk that, in the event of the failure of the counterparty to a transaction, a government will not be able to recover the value of investment or collateral securities that are in the possession of an outside party.

The following schedule reports the fair values of the University’s investments at June 30, 2019 and 2018 (in thousands):

	<u>2019</u>	<u>2018</u>
Treasury bills	\$ 594,000	\$ -
Restricted assets held by the Foundation	13,446,000	13,431,000
Total Investments	<u>\$ 14,040,000</u>	<u>\$ 13,431,000</u>

University investments held by the Foundation represent the University's Regional University Excellence Trust Fund endowments which are invested in an investment pool managed by the Foundation. See Note 13 (c) for the required GASB fair value disclosures for the University's investments that are included in the Foundation's investment pool. University assets in the Foundation investment pool at June 30, 2019 and 2018 are invested as follows:

Type of Investment:	2019	2018
Fixed income funds	15%	14%
Domestic equity funds	35%	33%
International equity funds	14%	13%
Emerging markets	9%	9%
Private equity	6%	5%
Natural resources	13%	13%
Other	8%	13%
Total Investments	100%	100%

Interest Rate Risk: Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. As stated in the University's investment policy, the bond resolution governs the investment of bond reserves. The bond resolution limits the investment maturities by the lesser of the remaining life of the bond issue or ten years. Certificates of deposit can have a maturity of not more than two years from the date of issue.

Credit Risk: Credit risk is the risk that the issuer or other counterparty to an investment will not fulfill its obligations. The University's investment policy requires investments to be in compliance with state statute. University investments that are managed by the Foundation are governed by the Foundation's investment policy. This policy contains several provisions which are intended to limit credit risk, including a requirement that fixed income portfolios maintain a weighted average credit rating of at least AA (Standard and Poor's) and have no more than 10 percent of the portfolio in below investment grade bonds.

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 user. The University debt service reserves are invested by the bond trustees in accordance with the governing bond resolutions. There are no specific limits on the maximum amount of investment securities held in bond debt service reserve funds that may be invested in one issuer. However, such investments are limited to interest bearing direct obligations of the U.S. government or obligations fully guaranteed by the U.S. government.

Foreign Currency Risk: This risk relates to adverse effects on the fair value of an investment from changes in exchange rates. The University had no investments denominated in foreign currency at June 30, 2019 or June 30, 2018.

Note 3 – Notes, Loans and Accounts Receivable

Notes, loans and accounts receivable as of June 30, 2019 and 2018 are as follows (in thousands):

	2019		
	Gross Receivable	Allowance	Net Receivable
Student loans	\$ 1,317	\$ (486)	\$ 831
Student accounts receivable	13,012	(4,439)	8,573
Reimbursement receivable grants and contracts	1,244	-	1,244
NKU Foundation receivable	245	-	245
Other	3,388	(883)	2,505
Total	<u>\$ 19,206</u>	<u>\$ (5,808)</u>	<u>\$ 13,398</u>
Current portion			\$ 11,728
Noncurrent portion			1,670
Total			<u>\$ 13,398</u>

	2018		
	Gross		
	Receivable	Allowance	Net Receivable
Student loans	\$ 1,478	\$ (488)	\$ 990
Student accounts receivable	12,339	(4,768)	7,571
Reimbursement receivable grants and contracts	738	-	738
Capital appropriations receivable	4,447	-	4,447
NKU Foundation receivable	3,058	-	3,058
Other	3,536	(1,240)	2,296
Total	<u>\$ 25,596</u>	<u>\$ (6,496)</u>	<u>\$ 19,100</u>
Current portion			\$ 17,186
Noncurrent portion			1,914
Total			<u>\$ 19,100</u>

Note 4 – Capital Assets, net

Capital assets for the years ended June 30, 2019 and 2018 are summarized as follows (in thousands):

	July 1, 2018			June 30, 2019
	Beginning	Additions	Reductions	Ending
	Balance			Balance
Cost:				
Land	\$ 9,629	\$ -	\$ -	\$ 9,629
Land improvements	42,082	1,542	934	42,690
Buildings	531,166	10,073	2,708	538,531
Equipment	77,662	2,770	2,147	78,285
Library books	15,001	208	1,657	13,552
Construction in process	4,096	1,215	-	5,311
	<u>679,636</u>	<u>15,808</u>	<u>7,446</u>	<u>687,998</u>
Accumulated Depreciation:				
Land improvements	10,045	1,183	282	10,946
Buildings	204,513	16,100	1,835	218,778
Equipment	63,627	4,108	2,082	65,653
Library books	12,761	502	1,656	11,607
	<u>290,946</u>	<u>21,893</u>	<u>5,855</u>	<u>306,984</u>
Capital assets, net	<u>\$ 388,690</u>	<u>\$ (6,085)</u>	<u>\$ 1,591</u>	<u>\$ 381,014</u>
	July 1, 2017			June 30, 2018
	Beginning	Additions	Reductions	Ending
	Balance			Balance
Cost:				
Indefinite life intangible assets	\$ 4,206	\$ -	\$ 4,206	\$ -
Land	9,607	316	294	9,629
Land improvements	37,964	5,756	1,638	42,082
Buildings	452,166	80,512	1,512	531,166
Equipment	69,760	8,864	962	77,662
Library books	16,788	271	2,058	15,001
Construction in process	53,764	877	50,545	4,096
	<u>644,255</u>	<u>96,596</u>	<u>61,215</u>	<u>679,636</u>
Accumulated Depreciation:				
Land improvements	9,192	1,076	223	10,045
Buildings	190,538	14,751	776	204,513
Equipment	60,809	3,669	851	63,627
Library books	14,246	573	2,058	12,761
	<u>274,785</u>	<u>20,069</u>	<u>3,908</u>	<u>290,946</u>
Capital assets, net	<u>\$ 369,470</u>	<u>\$ 76,527</u>	<u>\$ 57,307</u>	<u>\$ 388,690</u>

The estimated cost to complete construction under contract at June 30, 2019 was approximately \$2,752,000.

As of June 30, 2019 and 2018, the net book value of capital assets acquired through capital leases included in the above schedules totaled \$2,653,000 and \$162,000 respectively.

In 2018, the University discontinued operations of three radio stations that were being subsidized by the University and redirected the resources to core mission priorities. In August and September of 2017, the radio stations, WNKU, WNKE and WNKN, were sold. The sales resulted in a gain of \$1,659,000, which is included on the Statement of Revenues, Expenses, and Changes in Net Position as other nonoperating revenue.

Note 5 – Accounts Payable and Accrued Liabilities

Accounts payable and accrued liabilities as of June 30, 2019 and 2018 are as follows (in thousands):

	<u>2019</u>	<u>2018</u>
Payable to vendors and contractors	\$ 8,820	\$ 14,791
Accrued expenses, primarily payroll and vacation leave	5,986	6,089
Employee withholdings and deposits payable to third parties	3,258	3,246
Self-insured health liability	1,353	1,383
Total	<u>\$ 19,417</u>	<u>\$ 25,509</u>

Note 6 – Long-Term Liabilities

The changes in long-term liabilities for the year ended June 30, 2019 and 2018 are summarized as follows (in thousands):

	<u>Balance</u> <u>July 1, 2018</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance</u> <u>June 30, 2019</u>	<u>Current</u> <u>Portion</u>	<u>Noncurrent</u> <u>Portion</u>
Housing and Dining Revenue Bonds	\$ 600	\$ -	\$ 195	\$ 405	\$ 200	\$ 205
General Receipts Bonds (net of discounts and premiums)	111,891	-	7,992	103,899	7,870	96,029
Total bonds	112,491	-	8,187	104,304	8,070	96,234
Notes and leases payable	275	4,088	273	4,090	346	3,744
Total debt	112,766	4,088	8,460	108,394	8,416	99,978
Deferred compensation	145	-	33	112	39	73
Federal portion of loan programs	1,071	14	2	1,083	-	1,083
Unearned revenue	5,473	9,558	5,473	9,558	9,183	375
KERS-sick leave	763	144	187	720	72	648
Other	525	-	175	350	175	175
Total other long-term liabilities	7,977	9,716	5,870	11,823	9,469	2,354
Deposits	12,062	2,644	2,348	12,358	1,073	11,285
Net pension and OPEB liability	375,369	108	5,611	369,866	-	369,866
Total long-term liabilities	<u>\$ 508,174</u>	<u>\$ 16,556</u>	<u>\$ 22,289</u>	<u>\$ 502,441</u>	<u>\$ 18,958</u>	<u>\$ 483,483</u>

	Balance			Balance	Current	Noncurrent
	July 1, 2017	Additions	Reductions	June 30, 2018	Portion	Portion
Housing and Dining Revenue Bonds	\$ 785	\$ -	\$ 185	\$ 600	\$ 195	\$ 405
General Receipts Bonds (net of discounts and premiums)	119,107	-	7,216	111,891	7,992	103,899
Total bonds	119,892	-	7,401	112,491	8,187	104,304
Notes and leases payable	23	275	23	275	60	215
Total debt	119,915	275	7,424	112,766	8,247	104,519
Deferred compensation	227	-	82	145	39	106
Federal portion of loan programs	1,558	-	487	1,071	-	1,071
Unearned revenue	5,712	5,462	5,701	5,473	5,425	48
KERS-sick leave	674	220	131	763	76	687
Other	700	-	175	525	175	350
Total other long-term liabilities	8,871	5,682	6,576	7,977	5,715	2,262
Deposits	12,798	1,483	2,219	12,062	294	11,768
Net pension and OPEB liability*	275,585	99,784	-	375,369	-	375,369
Total long-term liabilities	\$ 417,169	\$ 107,224	\$ 16,219	\$ 508,174	\$ 14,256	\$ 493,918

*The additions column includes the cumulative effect from adoption of GASB 75.

a. Bonds

The gross revenues of the Housing and Dining system operations are pledged for the retirement of the Housing and Dining System Revenue Bonds. The \$209,000 reserve requirement for the Housing and Dining issue was fully funded as of June 30, 2019. The \$348,000 required housing repair and replacement fund was fully funded as of June 30, 2019.

The outstanding obligation as of June 30, 2019 and 2018 for the Northern Kentucky University General Receipts Bonds are reported net of discounts totaling \$0 and \$9,000 and premiums of \$6,854,000 and \$7,520,000, respectively. General Receipts Bonds are collateralized by the operating and nonoperating income of the University excluding income which as a condition of the receipt is not available for payment of debt service charges.

On August 25, 2016, Northern Kentucky University General Receipts Bonds were issued in the amount of \$15,225,000 and a net interest cost of 2.02 percent. The proceeds partially refunded the General Receipts Bonds, 2008 Series A maturing on or after September 1, 2019. The refunding reduced the University's total debt service payments over the term by \$1,818,000, representing an economic gain of \$1,600,000. Economic gain is determined by calculating the difference between the present value of the debt service payments on the old and new debt. As of June 30, 2018, a balance of \$15,794,000 was being held in escrow by the trustee to fund the debt service on the refunded portion of the 2008 Series A until the bonds were called for redemption on September 1, 2018.

The total bonds payable as of June 30 are as follows (in thousands):

	<u>2019</u>	<u>2018</u>
Housing and Dining System Revenue bonds payable		
Series B, dated November 1, 1980, with an interest rate of 3.00%. Final principal payment date November 1, 2020.	\$ 405	\$ 600
Total Housing and Dining System Revenue bonds payable	<u>405</u>	<u>600</u>
General Receipts bonds payable		
Series A 2007, dated May 23, 2007, with an interest rate of 4.00%. Final principal payment date September 1, 2018.	-	2,395
Series A 2008, dated June 18, 2008, with interest rates from 3.00% to 4.00%. Final principal payment date September 1, 2018.	-	995
Series A 2010, dated June 29, 2010, with interest rates from 2.00% to 3.50%. Final principal payment date September 1, 2020.	490	935
Series B 2010, dated October 21, 2010, with interest rates from 2.00% to 3.75%. Final principal payment date September 1, 2027.	7,635	8,350
Series A 2011, dated August 4, 2011, with interest rates from 2.00% to 4.00%. Final principal payment date September 1, 2030.	6,750	7,200
Series A 2013, dated February 26, 2013, with an interest rate of 2.00%. Final principal payment date September 1, 2022.	2,120	2,620
Series A 2014, dated January 7, 2014, with interest rates from 2.00% to 5.00%. Final principal payment date September 1, 2033.	39,385	41,120
Series A 2016, dated May 17, 2016, with interest rates from 2.00% to 5.00%. Final principal payment date September 1, 2027.	25,640	25,640
Series A 2016, dated August 25, 2016, with interest rates from 2.00% to 4.00%. Final principal payment date September 1, 2028.	15,025	15,125
Total General Receipts bonds payable	<u>97,045</u>	<u>104,380</u>
Plus: Net discounts and premiums	6,854	7,511
Total bonds payable	<u>\$ 104,304</u>	<u>\$ 112,491</u>

Principal maturities and interest on bonds for the next five years and in subsequent five-year periods are as follows (in thousands):

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2020	\$ 7,405	\$ 3,842	\$ 11,247
2021	7,690	3,555	11,245
2022	7,530	3,258	10,788
2023	7,890	2,948	10,838
2024	7,675	2,612	10,287
2025-2029	41,545	7,814	49,359
2030-2031	17,715	2,071	19,786
Subtotal	<u>97,450</u>	<u>26,100</u>	<u>123,550</u>
Plus: Net discounts and premiums	6,854	-	6,854
Total	<u>\$ 104,304</u>	<u>\$ 26,100</u>	<u>\$ 130,404</u>

b. Leases

In January 2019, the University entered into a new capital lease obligation in the amount of \$4,088,000 with an interest rate of 2.81 percent, for an energy management project. The lease will be paid with guaranteed energy savings.

In May 2018, the University entered into a new capital lease obligation through a third party financial institution, in the amount of \$275,000, with an interest rate of 4.43 percent. This obligation was used to fund computer equipment.

Lease obligations as of June 30 are as follows (in thousands):

	<u>2019</u>	<u>2018</u>
Capital lease payable		
Capital equipment lease, dated May 1, 2018, with an interest rate of 4.43%. Final principal payment date May 1, 2023.	\$ 165	\$ 275
Energy management lease, dated January 24, 2019, with an interest rate of 2.81%. Final principal payment date November 24, 2030.	3,925	-
Total capital lease payable	<u>\$ 4,090</u>	<u>\$ 275</u>

Future minimum lease payments for the next five years and in subsequent five-year periods are as follows (in thousands):

<u>Fiscal Year</u>	<u>Present Value of Future Minimum Lease Payments</u>	<u>Interest Portion</u>	<u>Total</u>
2020	\$ 346	\$ 116	\$ 462
2021	357	105	462
2022	368	93	461
2023	319	83	402
2024	328	74	402
2025-2029	1,786	223	2,009
2030-2034	586	17	603
Total	<u>\$ 4,090</u>	<u>\$ 711</u>	<u>\$ 4,801</u>

Note 7 – Pension Plans and Accrued Compensated Absences

Employees of the University are covered by one of the following plans:

a. Defined Contribution Plan

A Teachers Insurance and Annuity Association - College Retirement Equities Fund (TIAA CREF) sponsored plan, adopted by the Board of Regents in July 1970, is available upon completion of ninety days of service, to all regular full-time members of the faculty, administrative officers and others who have educational related duties. The TIAA CREF retirement plan is a defined-contribution, money purchase retirement plan. The employees contribute 5 percent of their base salary to the plan, and the University contributes 10 percent. All payments are vested immediately and the contracts with the providers are owned by the individual employees. The employee is entitled to various payment options upon retirement. Benefit payments at retirement depend on the total contributions with interest deposited into the employee's account. Retirement benefits can begin upon retirement or termination of employment with the University. Covered payroll totaled \$47,022,000 and \$47,000,000 for the years ended June 30, 2019 and 2018, respectively. The University's contribution totaled \$4,702,000 and \$4,700,000 for the years ended June 30, 2019 and 2018, respectively.

b. Defined Benefit Plan

Plan Description - All regular employees not participating in the above plan are required to participate in either the Nonhazardous or Hazardous cost-sharing multiple employer defined benefit pension plan, both of which are under the Kentucky Employees Retirement System (KERS), that is administered by the Board of Trustees of the Kentucky Retirement Systems (KRS). The defined benefit plans provide for retirement, disability and death benefits. 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 and required supplementary information. 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.

Pension Benefits Provided –

	Tier 1 Participation Prior to 9/1/2008	Tier 2 Participation 9/1/2008 through 12/31/2013	Tier 3 Participation on or after 1/1/2014
Nonhazardous			
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 with specific criteria. 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 money purchase calculations.	
Reduced Retirement Benefit:	Any age with 25 years of service. Age 55 with 5 years of service.	Age 60 with 10 years of service. Excludes purchased service (exception: refunds, omitted, free military).	No reduced retirement benefit.

	Tier 1 Participation Prior to 9/1/2008	Tier 2 Participation 9/1/2008 through 12/31/2013	Tier 3 Participation on or after 1/1/2014
Hazardous			
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 25 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 with specific criteria. 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 5 years of service.	Any age with 25 years of service. Age 60 with 5 years 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 contribution requirements of the active employees and the participating organizations are established and may be amended by the KRS Board. For the fiscal years ended June 30, 2019 and 2018, University employees were required to contribute 5 percent of their annual covered salary for retirement benefits. The University's required contribution percentage rates per covered payroll for the years ended June 30, 2019 and 2018 are as follows:

	<u>2019</u>	<u>2018</u>
Nonhazardous pension plan	41.06%	41.06%
Hazardous pension plan	34.39%	21.44%

The required contribution is 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 required contribution to the KERS nonhazardous pension plan for the years ending June 30, 2019 and 2018 were \$14,162,000 and \$14,596,000, respectively. The required contribution to the KERS hazardous pension plan for the years ended June 30, 2019 and 2018 were \$256,000 and \$180,000, respectively.

Pension liabilities, pension expense, and deferred outflows of resources and deferred inflows of resources related to pensions - At June 30, 2019 and 2018, respectively, the University reported a liability of \$313,460,000 and \$314,022,000, for its proportionate share of the nonhazardous net pension liability. The University's hazardous pension liability was \$1,952,000 and \$1,844,000 for the years ended June 30, 2019 and 2018, respectively. The net pension liability was measured as of June 30, 2018 and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The University's proportion of the net pension liability was based on a projection of the University's long-term share of contributions to the pension plan relative to the projected contributions of all participating employers, actuarially determined. At June 30, 2019 and 2018, the University's proportion was 2.304 percent and 2.345 percent for nonhazardous and .386 percent and .371 percent for hazardous, respectively.

For the years ended June 30, 2019 and 2018, the University recognized nonhazardous pension expense of \$36,422,000 and \$43,243,000; and hazardous pension expense of \$356,000 and \$308,000, respectively.

At June 30, 2019, the University reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources (in thousands):

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Nonhazardous		
Differences between expected and actual experience	\$ 2,233	\$ 877
Change of assumptions	13,999	-
Net difference between projected and actual earnings on investments	299	-
Changes in proportion and differences between employer contributions and proportionate share of contributions	-	5,689
Contributions subsequent to the measurement date	14,162	-
Hazardous		
Differences between expected and actual experience	100	-
Change of assumptions	177	-
Net difference between projected and actual earnings on investments	(24)	-
Change in proportionate share		
Changes in proportion and differences between employer contributions and proportionate share of contributions	45	40
Contributions subsequent to the measurement date	256	-
Total	<u>\$ 31,247</u>	<u>\$ 6,606</u>

At June 30, 2018, the University reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources (in thousands):

	Deferred Outflows of Resources	Deferred Inflows of Resources
Nonhazardous		
Differences between expected and actual experience	\$ 56	\$ 2,022
Change of assumptions	39,841	-
Net difference between projected and actual earnings on investments	1,519	-
Changes in proportion and differences between employer contributions and proportionate share of contributions	-	7,041
Contributions subsequent to the measurement date	14,596	-
Hazardous		
Differences between expected and actual experience	70	-
Change of assumptions	339	-
Net difference between projected and actual earnings on investments	20	-
Change in proportionate share		
Changes in proportion and differences between employer contributions and proportionate share of contributions	7	109
Contributions subsequent to the measurement date	180	-
Total	<u>\$ 56,628</u>	<u>\$ 9,172</u>

At June 30, 2019 and 2018, the University reported \$14,418,000 and \$14,776,000, respectively, 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 years ended June 30, 2019 and 2018, respectively. Other amounts reported as deferred outflows of resources and deferred inflows of resources at June 30, 2019, related to pensions will be recognized in pension expense as follows (in thousands):

Year Ending June 30	
2020	\$ 11,091
2021	(13)
2022	(650)
2023	(205)
	<u>\$ 10,223</u>

Pension Actuarial assumptions – The total pension liability was determined by an actuarial valuation as of June 30, 2018, using the following actuarial assumptions, applied to all periods included in the measurement for nonhazardous and hazardous pensions.

	<u>Nonhazardous</u>	<u>Hazardous</u>
Inflation	2.30%	2.30%
Salary Increases	3.05%, average, including inflation	3.05%, average, including inflation
Investment Rate of Return	5.25%, net of pension plan investment expense, including inflation	6.25%, net of pension plan investment expense, including inflation

The mortality table used for active members is RP-2000 Combined Mortality Table projected with Scale BB to 2013 (multiplied by 50% for males and 30% for females). For healthy retired members and beneficiaries, the mortality table used is the RP-2000 Combined Mortality Table projected with Scale BB to 2013 (setback one year for females). For disabled members, the RP-2000 Combined Disabled Mortality Table projected with Scale BB to 2013 (setback four years for males) is used for the period after disability retirement.

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 actuarial experience study was for the period July 1, 2008 through June 30, 2013. The long-term expected rate of return was determined by using a building-block method in which best estimate ranges of expected future real rate of returns are developed for each asset class. The ranges are combined by weighting the expected future real rate of return by the target asset allocation percentage. The KRS Board of Trustees plans to have the next experience study conducted using the plan's experience for the five-year period ended June 30, 2018. The actuarial assumptions that result from that experience study will be first used to prepare the June 30, 2019 valuation.

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

<u>Asset Class</u>	<u>Nonhazardous</u> <u>Target</u> <u>Allocation</u>	<u>Long-Term</u> <u>Expected Real Rate</u> <u>of Return</u>
US equity		
US large cap	8.50%	4.50%
US mid cap	5.00%	4.50%
US small cap	4.00%	5.50%
Non US equity		
International developed	12.50%	6.50%
Emerging markets	5.00%	7.25%
Global bonds	10.00%	3.00%
Credit fixed		
Global IG credit	10.00%	3.75%
High yield	3.00%	5.50%
Emerging market debt	4.00%	6.00%
Private equity	10.00%	6.50%
Real estate	5.00%	7.00%
Absolute return	10.00%	5.00%
Real return	10.00%	5.00%
Cash	3.00%	1.50%
Total	<u>100.00%</u>	

Hazardous

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
US equity		
US large cap	5.00%	4.50%
US mid cap	6.00%	4.50%
US small cap	6.50%	5.50%
Non US equity		
International developed	12.50%	6.50%
Emerging markets	5.00%	7.25%
Global bonds	4.00%	3.00%
Credit fixed		
Global IG credit	2.00%	3.75%
High yield	7.00%	5.50%
Emerging market debt	5.00%	6.00%
Illiquid private	10.00%	8.50%
Private equity	10.00%	6.50%
Real estate	5.00%	9.00%
Absolute return	10.00%	5.00%
Real return	10.00%	7.00%
Cash	2.00%	1.50%
Total	<u>100.00%</u>	

Pension Discount rate - The discount rate used to measure the total pension liability was 5.25 percent for the nonhazardous plan, and 6.25 percent for the hazardous plan. The projection of cash flows used to determine the discount rate assumed that local employers would contribute the actuarially determined contribution rate of projected compensation over the remaining 25 year (closed) amortization period of the unfunded actuarial accrued liability. As the assets are deemed sufficient to pay future benefits, the discount rate determination does not use a municipal bond rate.

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 percent for the nonhazardous and 6.25 percent for hazardous. The following presents the University's proportionate share of the net pension liability calculated using a discount rate 1 percent higher and 1 percent lower than the current rate (in thousands):

	<u>1% Decrease (4.25%)</u>	<u>Current Discount Rate (5.25%)</u>	<u>1% Increase (6.25%)</u>
Nonhazardous			
Proportionate share of the Collective Net Pension Liability	\$ 357,102	\$ 313,460	\$ 277,111
	<u>1% Decrease (5.25%)</u>	<u>Current Discount Rate (6.25%)</u>	<u>1% Increase (7.25%)</u>
Hazardous			
Proportionate share of the Collective Net Pension Liability	\$ 2,498	\$ 1,952	\$ 1,499

Payable to the pension plan - The University reported payables of \$1,331,000 and \$1,637,000 for the outstanding amount of employer contributions to the pension plan required for the years ended June 30, 2019 and 2018, respectively.

Effective July 1, 2010, KRS 61.546 states “the value of any accumulated sick leave that is added to the member’s service credit in the KERS on or after July 1, 2010, shall be paid to the retirement system by the last participating KERS employer based upon a formula adapted by the Board.” The KERS sick leave liability as of June 30, 2019 and 2018 was \$720,000 and \$763,000, respectively.

c. Compensated Absences

University employees begin to accumulate annual vacation allowance from the initial date of employment; however, no vacation is granted until three months of continuous employment have been completed. The maximum accumulation of vacation leave is limited to the number of days that can be accumulated in twelve months, based upon length of service and employment classification. Eligible employees are paid their accumulated vacation upon termination, subject to certain limitations. At June 30, 2019 and 2018, the University had recognized an accrued vacation liability of \$3,111,000 and \$3,020,000, respectively.

Note 8 – Other Post-Employment Benefits

a. Defined-Benefit Plan

Plan Description - The University contributes to the KRS Insurance Fund, a cost sharing multiple employer defined benefit other post-employment plan (the OPEB plan), which was established to provide hospital and medical insurance for eligible members receiving benefits from KERS. The OPEB plan pays a prescribed contribution for whole or partial payment of required premiums to purchase hospital and medical insurance. The OPEB plan is administered by the Board of Trustees of the KRS. Benefit provisions are contained in the plan document and were established and can be amended by action of the Commonwealth of Kentucky Legislature. KERS issues a publicly available financial report that includes financial statements and required supplementary information. 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 7/1/2003	Tier 2 Participation 7/1/2003 through 8/31/2008	Tier 3 Participation on or after 9/1/2008
Nonhazardous			
OPEB eligibility:	Recipient of a retirement allowance	Recipient of a retirement allowance, with at least 120 months of service at retirement	Recipient of a retirement allowance, with at least 180 months of service at retirement
OPEB benefit:	Allowance for medical insurance coverage based on years and type of service. Less than 4 years = 0%. At least 4 years, but less than 10 = 25%. At least 10 years, but less than 15 = 50%. At least 15 years, but less than 20 = 75%. 20 or more years = 100%.	Monthly contribution of \$10 for each year of earned service.	
Cost of Living Adjustment (COLA):	N/A	Monthly contribution is increased by 1.5% each July 1.	

	Tier 1 Participation Prior to 7/1/2003	Tier 2 Participation 7/1/2003 through 8/31/2008	Tier 3 Participation on or after 9/1/2008
Hazardous			
OPEB eligibility:	Recipient of a retirement allowance	Recipient of a retirement allowance, with at least 120 months of service at retirement	Recipient of a retirement allowance, with at least 180 months of service at retirement
OPEB benefit:	Allowance for medical insurance coverage based on years and type of service. Less than 4 years = 0%. At least 4 years, but less than 10 = 25%. At least 10 years, but less than 15 = 50%. At least 15 years, but less than 20 = 75%. 20 or more years = 100%.	Monthly contribution of \$15 for each year of earned service.	
Cost of Living Adjustment (COLA):	N/A	Monthly contribution is increased by 1.5% each July 1.	

Contributions- Benefit and contribution rates are established by state statute. Per Kentucky Revised Statute 61.565 contribution requirements of the participating organizations are established and may be amended by the KRS Board. Employees with a participation date after 9/1/2008 were required to contribute 1 percent of their covered salary for retiree healthcare benefits. The University's required contribution percentage rates per covered payroll for the years ended June 30, 2019 and 2018 are as follows:

	<u>2019</u>	<u>2018</u>
Nonhazardous OPEB plan	8.41%	8.41%
Hazardous OPEB plan	2.46%	2.26%

The required contributions to the KERS nonhazardous OPEB plan for the years ending June 30, 2019 and 2018 were \$2,901,000 and \$2,989,000, respectively. The required contributions to the KERS hazardous OPEB plan for the years ended June 30, 2019 and 2018 were \$18,000 and \$19,000, respectively.

OPEB assets and liabilities, OPEB expense and deferred outflows of resources and deferred inflows of resources related to OPEB - At June 30, 2019 and 2018, respectively, the University reported a liability of \$54,583,000 and \$59,481,000 for its proportionate share of the nonhazardous net OPEB liability. The University's hazardous net OPEB asset was \$128,216 for the year ended June 30, 2019. The University's hazardous net OPEB liability was \$22,000 for the year ended June 30, 2018. The total OPEB liability and net OPEB liability as of June 30, 2018 were based on an actuarial valuation date of June 30, 2017. The total OPEB liability used to calculate the net was rolled forward from the valuation date to the plan's fiscal year ending June 30, 2018 using generally accepted actuarial principles. The University's proportion of the net OPEB liability was based on the University's actual contributions to the OPEB plan relative to the contributions of all participating employers for the measurement period. At June 30, 2019 and 2018, respectively, the University's proportion was 2.302 and 2.345 percent for nonhazardous and 0.387 and 0.371 percent for hazardous.

For the years ended June 30, 2019 and 2018, respectively, the University recognized nonhazardous OPEB expense of \$4,182,000 and \$5,690,000 and hazardous OPEB expense of \$46,000 and \$49,000.

At June 30, 2019, the University reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources (in thousands):

	Deferred Outflows of Resources	Deferred Inflows of Resources
Nonhazardous		
Differences between expected and actual experience	\$ -	\$ 3,564
Change of assumptions	5,738	206
Net difference between projected and actual earnings on investments	-	800
Changes in proportion and differences between employer contributions and proportionate share of contributions	-	1,246
Contributions subsequent to the measurement date	3,395	-
Hazardous		
Differences between expected and actual experience	-	104
Change of assumptions	235	2
Net difference between projected and actual earnings on investments	-	102
Changes in proportion and differences between employer contributions and proportionate share of contributions	-	14
Contributions subsequent to the measurement date	20	-
Total	<u>\$ 9,388</u>	<u>\$ 6,038</u>

The OPEB contribution amounts include an implicit subsidy of \$495,000 for nonhazardous and \$1,000 for hazardous for the year ended June 30, 2019.

At June 30, 2018, the University reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources (in thousands):

	Deferred Outflows of Resources	Deferred Inflows of Resources
Nonhazardous		
Differences between expected and actual experience	\$ -	\$ 74
Change of assumptions	7,788	-
Net difference between projected and actual earnings on investments	-	770
Changes in proportion and differences between employer contributions and proportionate share of contributions	-	437
Contributions subsequent to the measurement date	2,989	-
Hazardous		
Differences between expected and actual experience	-	3
Change of assumptions	279	-
Net difference between projected and actual earnings on investments	-	80
Changes in proportion and differences between employer contributions and proportionate share of contributions	-	3
Contributions subsequent to the measurement date	19	-
Total	<u>\$ 11,075</u>	<u>\$ 1,367</u>

At June 30, 2019 and 2018, the University reported \$3,415,000 and \$3,008,000 as deferred outflows of resources related to OPEB resulting from University contributions subsequent to the measurement date that will be recognized as a reduction of the net OPEB liability in the following year. This amount includes the implicit subsidy amount of \$496,000. Other amounts reported as deferred outflows of resources and deferred inflows of resources at June 30, 2019, related to OPEB will be recognized in OPEB expense as follows (in thousands):

Year Ending June 30	
2020	\$ 358
2021	357
2022	357
2023	(1,124)
2024	(6)
Thereafter	(7)
	<u>\$ (65)</u>

Actuarial assumptions - The total OPEB liability was determined by an actuarial valuation as of June 30, 2017, using the following actuarial assumptions, applied to all periods included in the measurement for nonhazardous and hazardous OPEB.

Inflation	2.30%
Salary increases	3.05%, average, including inflation
Payroll growth rate	0.00%
Health care cost trend rates	
Pre-65	Initial trend starting at 7.00% at January 1, 2020 and gradually decreasing to an ultimate trend rate of 4.05% over a period of 12 years.
Post-65	Initial trend starting at 5.00% at January 1, 2020 and gradually decreasing to an ultimate trend rate of 4.05 over a period of 10 years.
Investment Rate of Return	6.25%
Mortality	RP-2000 Combined Mortality Table, projected with Scale BB to 2013 (multiplied by 50% for males and 30% for females).

The mortality table used for active members is RP-2000 Combined Mortality Table projected with Scale BB to 2013 (multiplied by 50% for males and 30% for females). For healthy retired members and beneficiaries, the mortality table used is the RP-2000 Combined Mortality Table projected with Scale BB to 2013 (set back 1 year for females). For disabled members, the RP-2000 Combined Disabled Mortality Table projected with Scale BB to 2013 (set back 4 years for males) is used for the period after disability retirement. There is some margin in the current mortality table for possible future improvement in mortality rates and that margin will be reviewed again when the next experience investigation is conducted.

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

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

OPEB Asset Allocations

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
US large cap equity	5.00%	4.50%
US mid cap equity	6.00%	4.50%
US small cap equity	6.50%	5.50%
International developed equity	12.50%	6.50%
Emerging markets equity	5.00%	7.25%
Global bonds	4.00%	3.00%
Global IG credit	2.00%	3.75%
High yield fixed credit	7.00%	5.50%
EMD fixed credit	5.00%	6.00%
Illiquid private	10.00%	8.50%
Private credit	10.00%	6.50%
Real estate	5.00%	9.00%
Absolute return	10.00%	5.00%
Real return	10.00%	7.00%
Cash	2.00%	1.50%
Total	<u>100.00%</u>	6.09%

Discount rate - The discount rate used to measure the total OPEB liability was 5.86% for the nonhazardous plan, and 5.88% for the hazardous plan. The projection of cash flows used to determine the discount rate assumed that local employers would contribute the actuarially determined contribution rate of projected compensation over the remaining 25 years (closed) amortization period of the unfunded actuarial accrued liability. The discount rate determination used as expected rate of return of 6.25%, a municipal rate of 3.62%, as reported in Fidelity Index's "20 -Year Municipal GO AA Index" as of June 30, 2018. However, the cost associated with the implicit employer subsidy was not included in the calculation of the System's actuarial determined contributions, and any cost associated with the implicit subsidy will not be paid out of the System's trusts. Therefore, the municipal bond rate was applied to future expected benefit payments associated with the implicit subsidy.

Sensitivity of the University's proportionate share of the net OPEB liability to changes in the discount rate - The University's proportionate share of the net OPEB asset and liability has been calculated using a discount rate of 5.86% for the nonhazardous and 5.88% for hazardous. The following presents the University's share of the net OPEB liability calculated using a discount rate 1% higher and 1% lower than the current rate (in thousands):

	1% Decrease <u>(4.86%)</u>	Current Discount Rate <u>(5.86%)</u>	1% Increase <u>(6.86%)</u>
Non-hazardous			
Proportionate share of the Collective Net OPEB Liability	\$ 64,041	\$ 54,583	\$ 46,711
Hazardous			
Proportionate share of the Collective Net OPEB Liability (asset)	\$ 129	\$ (128)	\$ (334)

Sensitivity of the University's proportionate share of the net OPEB asset and liability to changes in the health care cost trend rates - The University's proportionate share of the net OPEB asset and liability has been calculated using an initial pre-65 health care trend rate of 7.00%, gradually decreasing to an ultimate trend rate of 4.05% over a period of 12 years. The post-65 health care trend rate starts at 5.00%, gradually decreasing to an ultimate trend rate of 4.05% over a period of 10 years.

	<u>1%</u> <u>Decrease</u>	<u>Current Health</u> <u>Care Cost</u> <u>Trend Rates</u>	<u>1%</u> <u>Increase</u>
Non-hazardous			
Proportionate share of the Collective Net OPEB Liability	\$ 46,407	\$ 54,583	\$ 64,415

	<u>1%</u> <u>Decrease</u>	<u>Current Health</u> <u>Care Cost</u> <u>Trend Rates</u>	<u>1%</u> <u>Increase</u>
Hazardous			
Proportionate share of the Collective Net OPEB Liability (asset)	\$ (329)	\$ (128)	\$ 120

OPEB plan fiduciary net position - Detailed information about the OPEB plan's fiduciary net position is available in the separately issued plan annual report.

Payable to the OPEB plan - The University reported payables of \$269,000 and \$333,000 for the outstanding amount of employer contributions to the OPEB plan required for the year ended June 30, 2019 and 2018, respectively.

Note 9 – Operating Expenses By Natural Classification

The University's operating expenses by natural classification are as follows for the year ended June 30, 2019 and 2018 (in thousands):

	<u>2019</u>	<u>2018</u>
Salaries and wages	\$ 99,830	\$ 99,919
Employee benefits-pension and OPEB	41,157	49,510
Employee benefits-other	28,779	27,602
Utilities	5,499	5,414
Supplies and other services	36,827	38,322
Depreciation	21,893	20,069
Student scholarships and financial aid	17,165	15,134
Total	<u>\$ 251,150</u>	<u>\$ 255,970</u>

Note 10 – Risk Management

The University is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. These risks are covered by (1) the State Fire and Tornado Insurance Fund (the Fund), (2) Sovereign Immunity and the Kentucky Claims Commission, or (3) in the case of risks not covered by the Fund and Sovereign Immunity, commercial insurance, participation in insurance risk retention groups or self-insurance.

The Fund covers losses to property from fire, wind, earthquake, flood (all perils) and most other causes of loss between \$5,000 and \$1 million per occurrence. Losses in excess of \$1 million are insured by commercial carriers up to \$1.5 billion per occurrence with buildings insured at replacement cost and contents on a replacement value basis. As a state agency, the University is vested with Sovereign Immunity and is subject to the provisions of the *Claims Commission Act*, under which the University's liability for certain negligence claims is limited to \$250,000 for any one person or \$400,000 for all persons damaged by a single act of negligence. Claims against educators' errors and omissions and wrongful acts are insured through a reciprocal risk retention group. There have been no significant reductions in insurance coverage from 2018 to 2019. Settlements have not exceeded insurance coverage during the past three years.

The University began self-insuring employee health insurance as of January 1, 2014. Accrued expenses are based on the estimated costs of health care claims based on claims filed subsequent to year end and an additional amount for incurred but not yet reported claims based on prior experience. The University purchases both specific and aggregate stop loss coverage on medical and prescription drug claims. The stop loss insurance limits its exposure for claims to \$250,000 per individual and 125 percent of projected aggregate claims.

The health self-insurance liability as of June 30, 2019 and 2018 is detailed below (in thousands):

	<u>2019</u>	<u>2018</u>
Liability, beginning of year	\$ 1,383	\$ 1,415
Claims and changes in estimates	15,824	13,992
Claims paid	<u>(15,854)</u>	<u>(14,024)</u>
Liability, end of year	<u>\$ 1,353</u>	<u>\$ 1,383</u>

The University also self-insures certain other employee benefits, including worker's compensation claims to the extent not covered by insurance. The University has recorded an estimate for asserted claims at June 30, 2019.

Note 11 – Contingencies

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

Note 12 - Restricted Net Position

At June 30, 2019 and 2018, restricted expendable net position was available for the following purposes:

	<u>2019</u>	<u>2018</u>
Appreciation on permanent endowments	\$ 5,830	\$ 5,816
Advance funded capital projects	(4,875)	(1,949)
Capital projects and debt service	1,801	1,000
Funds restricted for noncapital purposes	<u>225</u>	<u>209</u>
	<u>\$ 2,981</u>	<u>\$ 5,076</u>

Note 13 – Blended Entity Condensed Financial Information

Condensed financial information for Northern Kentucky University Research Foundation (NKURF) is provided below for the years ended June 30, 2019 and 2018 (in thousands):

Condensed Statements of Net Position

	<u>2019</u>	<u>2018</u>
ASSETS		
Current assets	\$ 1,225	\$ 1,161
Noncurrent assets	11,250	11,730
Total assets	<u>12,475</u>	<u>12,891</u>
LIABILITIES		
Current liabilities	256	279
Due to the University - current	104	77
Noncurrent liabilities	11,250	11,730
Total liabilities	<u>11,610</u>	<u>12,086</u>
NET POSITION		
Restricted expendable	9	4
Unrestricted	856	801
Total net position	<u>\$ 865</u>	<u>\$ 805</u>

Condensed Statements of Revenues, Expenses, and Changes in Net Position

	<u>2019</u>	<u>2018</u>
OPERATING REVENUES		
Grants and contracts	\$ 1,884	\$ 2,267
Recoveries of facilities and administrative costs	179	179
Total operating revenues	<u>2,063</u>	<u>2,446</u>
OPERATING EXPENSES		
Educational and general	1,897	2,279
Total operating expenses	<u>1,897</u>	<u>2,279</u>
Net income (loss) from operations	166	167
NONOPERATING REVENUES (EXPENSES)		
Non-capital transfers (to)/from the University	(116)	(206)
Gifts and grants revenues (expenses)	10	-
Net nonoperating revenues (expenses)	<u>(106)</u>	<u>(206)</u>
Income (loss) before other revenues, expenses, gains or losses	<u>60</u>	<u>(39)</u>
Capital transfers (to) the University	-	(6)
Total other revenues (expenses)	<u>-</u>	<u>(6)</u>
Increase (decrease) in net position	<u>60</u>	<u>(45)</u>
NET POSITION		
Net position-beginning of year	805	850
Net position-end of year	<u>\$ 865</u>	<u>\$ 805</u>

Condensed Statements of Cash Flows

	2019	2018
Net cash provided (used) by operating activities	\$ 134	\$ 471
Net cash provided (used) by noncapital financing activities	(531)	(1,110)
Net cash provided by (used in) capital and related financing activities	-	(6)
Net increase (decrease) in cash and cash equivalents	(397)	(645)
Cash and cash equivalents-beginning of year	12,674	13,319
Cash and cash equivalents-end of year	\$ 12,277	\$ 12,674

Note 14 – Northern Kentucky University Foundation, Inc. Notes to Financial Statements

Selected disclosures from the Foundation are included as follows:

a. Summary of Significant Accounting Policies

1. Scope of Statements

The consolidated financial statements of the Northern Kentucky Foundation, Inc. include the operations of the Foundation and several single member limited liability companies. All material intercompany transactions and balances have been eliminated for the years ended June 30, 2019 and 2018.

2. Basis of Presentation

The consolidated 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 preparation of its consolidated financial statements.

These statements are presented on the accrual basis of accounting, and have been prepared to focus on the Foundation as a whole and to present transactions according to the existence or absence of donor-imposed restrictions. This has been accomplished by classification of balances and transactions into two classes of net assets – with donor restrictions and without donor restrictions.

Net assets and changes therein are classified as follows:

- **With donor restrictions** - Net assets with donor restrictions are subject to donor restrictions. Some 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 restrictions are perpetual in nature, where the donor stipulates that resources be maintained in perpetuity.
- **Without donor restrictions** – Net assets that are not subject to donor-imposed stipulations and are available for use in general operations. The governing board has designated, from net assets without donor restrictions, net assets for an operating reserve and board-designated endowment.

Revenues are reported as increases in net assets without donor restrictions unless use of the related assets is limited by donor-imposed restrictions. Expenses are reported as decreases in net assets without donor restrictions. Gains and losses on investments and other assets or liabilities are reported as increases or decreases in net assets without donor restrictions unless their use is restricted by explicit donor stipulation or by law. Restricted contributions and net investment returns earned are reported as with donor restrictions and reclassified as without donor restricted when any donor-imposed restrictions are satisfied. Expirations of donor restrictions on net assets are met when a donor stipulated time restriction ends or purpose restriction is accomplished and reclassified to net assets without donor restrictions and reported in the consolidated statement of activities as net assets released from restriction.

Contributions, including unconditional promises to give, are recognized as revenues in the period received. Conditional promises to give are not recognized until the conditions on which they depend are substantially met. Contributions of assets other than cash are recorded at their estimated fair value. Contributions receivable are discounted at an appropriate rate commensurate with the risks involved. Amortization of the discount is recorded as additional contribution revenue in accordance with donor-imposed restrictions on the contributions. An allowance for uncollectible contributions receivable is provided based upon management's judgment of such factors as prior collection history, type of contribution and nature of the fund-raising activity.

Income and realized net gains on long-term investments are reported as follows:

- As increases in net assets with donor restrictions – if the terms of the gift require that they be added to the principal of a permanent endowment fund or if the terms of the gift impose restrictions on the use of the income.
- As increases in net assets without donor restrictions – in all other cases.

Change in accounting principle:

In 2019, the Foundation, adopted ASU 2016-14, Not-For-Profit Entities (Topic 958): *Presentation of Financial Statements of Not-For-Profit Entities*. A summary of the changes is as follows:

Statement of Financial Position

- The statement of financial position distinguishes between two new classes of net assets—those with donor-imposed restrictions and those without. This is a change from the previously required three classes of net assets—unrestricted, temporarily restricted and permanently restricted.
- Underwater donor-restricted endowment funds are shown within the donor-restricted net asset class. This is a change from the previously required classification as unrestricted net assets.

Statement of Activities

- Expenses are reported by both nature and function in one location.
- Investment income is shown net of external and direct internal investment expenses. Disclosure of the expenses netted against investment income is no longer required.

Notes to the Financial Statements

- Enhanced quantitative and qualitative disclosures provide additional information useful in assessing liquidity and cash flows available to meet operating expenses for one-year from the date of the Statement of Financial Position.
- Amounts and purposes of Governing Board designations and appropriations as of the end of the period are disclosed.

This change had no impact on previously reported total change in net assets.

3. Cash and Cash Equivalents

Cash and cash equivalents includes all readily available sources of cash such as petty cash, demand deposits and temporary investments in marketable securities with maturities of less than three months. Cash and cash equivalents representing investments purchased with endowment net assets are reported as investments.

At various times throughout the year, the Foundation has cash in certain financial institutions in excess of insured limits. Additionally, at June 30, 2019 and 2018, \$2,123,000 and \$3,305,000, respectively, was collateralized or insured with securities held by the financial institution's trust department or agent, but not in the Foundation's name.

At June 30, 2019 and 2018, balances of \$7,232,000 and \$10,491,000, respectively, was neither insured nor collateralized.

4. Loans and Accounts Receivable

Loans receivable consists primarily of loans made to students under privately funded loan programs. The advances are evidenced by signed promissory notes, bearing interest at varying stated interest rates, with varying due dates. Loans, accounts and other receivables are stated at the amount management expects to collect from outstanding balances. Management provides for a probable uncollectible allowance based on its assessment of the current status of individual accounts. Balances that are still outstanding after management has used reasonable collection efforts are written off through a charge to the valuation allowance and a credit to accounts receivable. The allowance for doubtful accounts at June 30, 2019 and 2018 was approximately \$39,000 and \$120,000, respectively.

5. Investments

Investments in equity securities with readily determinable fair values and all debt securities are reported at their fair value. The estimated fair value of investments is based on quoted market prices, except for investments for which quoted market prices are not available. The alternative investments, which are not readily marketable, are carried at estimated fair values as provided by the investment managers. The estimated fair value of certain alternative investments, such as private equity interests, is based on valuations provided by the external investment managers adjusted for cash receipts, cash disbursements and distributions. The Foundation believes the carrying amount of these financial instruments is a reasonable estimate of fair value. Because alternative investments are not readily marketable, their estimated value is subject to uncertainty and therefore may differ from the value that would have been used had a ready market for such investments existed. Such difference could be material.

The Foundation invests its endowment investment portfolio and allocates the related earnings for expenditure in accordance with the total return concept. A distribution of endowment return that is independent of the cash yield and appreciation (depreciation) of investments earned during the year is provided for program support.

The Foundation has significant exposure to a number of risks including interest rate, market and credit risks for both marketable and nonmarketable securities. Due to the level of risk exposure, it is possible that near-term valuation changes for investment securities may occur to an extent that could materially affect the amounts reported in the Foundation's consolidated financial statements.

All true endowment investments and long-term net assets functioning as endowments are managed in a pool, unless special considerations or donor stipulations require that they be held separately.

6. Land and Land Improvements

At June 30, 2019 and 2018, land and land improvements (in thousands) consisted of:

Type of Asset:	2019	2018
Land	\$ 178	\$ 178
Land held for sale	17	-
Land held for future use by the University	145	162
Land improvements	208	208
Total land and land improvements	\$ 548	\$ 548

Assets acquired for Foundation use with a useful life greater than one year and a value of \$5,000 or more are capitalized. Annual depreciation for land improvements is calculated on a straight-line basis, beginning in the month of acquisition based on a useful life of 30 years. At June 30, 2019 and 2018, all land improvements were fully depreciated.

Assets purchased or constructed through the Foundation for immediate use by Northern Kentucky University are recorded by the Foundation as a program expense.

At June 30, 2019, a parcel of land with a cost basis of approximately \$17,000 previously held for future used by the University was reclassified as land held for sale.

7. Transfers Between Fair Value Hierarchy Levels

Transfers in and out of Level 1 (quoted market prices), Level 2 (other significant observable inputs) and Level 3 (significant unobservable inputs) are recognized on the actual transfer date.

b. Unconditional and Conditional Promises to Give

Unconditional promises to give that are expected to be collected in future years are recorded at the present value of estimated future cash flows. The discounts are computed using a risk free interest rate and amortization of the discount is included in gifts and bequests revenue.

At June 30, 2019 and 2018, the Foundation recognized contributions based on the following unconditional promises to give (in thousands):

	<u>2019</u>	<u>2018</u>
Purpose:		
Endowment giving	\$ 572	\$ 827
Capital purposes	-	2,050
Operating programs	<u>2,699</u>	<u>1,794</u>
Gross unconditional promises	<u>3,271</u>	<u>4,671</u>
Less: Discount and allowance for uncollectible accounts	<u>(259)</u>	<u>(222)</u>
Net unconditional promises to give	<u><u>\$ 3,012</u></u>	<u><u>\$ 4,449</u></u>
 Amounts due in:		
Less than one year	\$ 1,204	\$ 3,125
One to five years	2,067	1,516
More than five years	<u>-</u>	<u>30</u>
Total	<u><u>\$ 3,271</u></u>	<u><u>\$ 4,671</u></u>

The discount rates used to calculate the present value of contributions receivable at June 30, 2019 and 2018 vary from 1.2 percent to 3.4 percent depending on when the promise was made.

Conditional promises to give are not included as support until such time as the conditions are substantially met. The Foundation had received conditional promises to give of approximately \$3.1 million at June 30, 2019 and 2018, consisting of the face value of life insurance policies, net of accumulated cash surrender value, as well as a conditional promise of \$2.1 million from a single donor in 2019 and 2018.

Approximately 25 percent of total pledges receivable were due from one donor at June 30, 2019. Approximately 44 percent of total pledges receivable were due from one donor at June 30, 2018.

c. Fair Value Measurements

The three levels of the fair value hierarchy under generally accepted accounting principles are described as follows:

Level 1 – Quoted prices in active markets for identical assets or liabilities

Level 2 – Observable inputs other than Level 1 prices, such as:

- Quoted prices for similar assets or liabilities;
- Quoted prices for identical or similar assets or liabilities in inactive markets;
- Other inputs that are observable for the asset or liability;
- Other inputs that are derived principally from or corroborated by observable market data by correlation or other means.

If the asset or liability has a specified (contractual) term, the level 2 input must be observable for substantially the full term of the asset or liability.

Level 3 – Unobservable inputs that are supported by little or no market activity and that are significant to the fair value measurement.

The asset or liability'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.

Following is a description of the valuation methodologies used for assets measured at fair value:

Where quoted market prices are available in an active market, securities are classified within Level 1 of the valuation hierarchy.

Level 1 investments include short term money market funds, cash surrender value, fixed income funds and equity funds.

Level 2 investments are based on quoted prices of securities or other property with similar characteristics and include a remainder interest in real property subject to a life estate.

Level 3 investments include those in which there is no active market. The Foundation holds no Level 3 investments at June 30, 2019 or 2018. The Foundation adopted Accounting Standards Update 2015-07 which eliminates the requirement that investments valued using the net asset value expedient be categorized as Level 2 or 3. These investments are now shown in a separate column on the table below. This treatment was applied retrospectively.

The following assets were measured at fair value on a recurring basis as of June 30, 2019 (in thousands):

	Fair Value Measurements Using				
	Total	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Investments Measured at NAV
June 30, 2019					
Type of Investment:					
Short-term money market funds	\$ 9	\$ 9	\$ -	\$ -	\$ -
Cash surrender value	445	445	-	-	-
Fixed income funds:					
Core	3,617	3,617	-	-	-
Core plus	6,553	6,553	-	-	-
Global	1,834	1,834	-	-	-
Treasury inflation protected Securities	1,664	1,664	-	-	-
Equity funds:					
Large/mid-cap - broad	25,734	25,734	-	-	-
Large/mid-cap - value	7,497	7,497	-	-	-
Small cap - growth	1,697	1,697	-	-	-
Small cap - value	1,944	1,944	-	-	-
International - core	7,875	7,875	-	-	-
International - value	3,768	3,768	-	-	-
International small cap - value	2,640	2,640	-	-	-
Emerging markets - value	4,886	4,886	-	-	-
Emerging markets - small cap	4,325	4,325	-	-	-
Real estate investment trust	23	23	-	-	-
Exchange traded funds	101	101	-	-	-
Remainder interest in real property and other	685	-	685	-	-
Public natural resources-master limited partnerships	2,946	-	-	-	2,946
Private equity	7,725	-	-	-	7,725
Private debt	2,443	-	-	-	2,443
Natural resources	10,035	-	-	-	10,035
Private real estate	2,083	-	-	-	2,083
Low-volatility	6,707	-	-	-	6,707
Total	\$ 107,236	\$ 74,612	\$ 685	\$ -	\$ 31,939

The following assets were measured at fair value on a recurring basis as of June 30, 2018 (in thousands):

	Fair Value Measurements Using				
	Total	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Investments Measured at NAV
June 30, 2018					
Type of Investment:					
Short-term money market funds	\$ 8	\$ 8	\$ -	\$ -	\$ -
Cash surrender value	429	429	-	-	-
Fixed income funds:	-				
Core	1,611	1,611	-	-	-
Core plus	4,422	4,422	-	-	-
Global	1,737	1,737	-	-	-
Treasury inflation protected Securities	1,589	1,589	-	-	-
Equity funds:					
Large/mid-cap - broad	23,443	23,443	-	-	-
Large/mid-cap - value	7,056	7,056	-	-	-
Small cap - growth	1,563	1,563	-	-	-
Small cap - value	2,181	2,181	-	-	-
International - core	7,727	7,727	-	-	-
International - value	3,608	3,608	-	-	-
International small cap - value	2,984	2,984	-	-	-
Emerging markets - value	4,793	4,793	-	-	-
Emerging markets - small cap	4,382	4,382	-	-	-
Real estate investment trust	18	18	-	-	-
Exchange traded funds	106	106	-	-	-
Remainder interest in real property and other	685	-	685	-	-
Public natural resources-master limited partnerships	3,103	-	-	-	3,103
Fixed income high yield	1,794	-	-	-	1,794
Private equity	7,127	-	-	-	7,127
Private debt	3,012	-	-	-	3,012
Natural resources	11,217	-	-	-	11,217
Private real estate	2,072	-	-	-	2,072
Low-volatility	10,283	-	-	-	10,283
Total	\$ 106,950	\$ 67,657	\$ 685	\$ -	\$ 38,608

d. Investments

The market value (in thousands) of the Foundation's investments as of June 30, 2019 and 2018 are categorized by type below:

	<u>2019</u>	<u>2018</u>
Type of Investment:		
Short-term money market funds	\$ 9	\$ 8
Cash and cash surrender value	1,712	1,776
Fixed income funds:		
Core	3,617	1,611
Core plus	6,553	4,422
Global	1,834	1,737
High yield	-	1,794
Treasury inflation protected securities	1,664	1,589
Equity funds:		
Large/mid cap - broad	25,734	23,443
Large/mid cap - value	7,497	7,056
Small cap - growth	1,697	1,563
Small cap - value	1,944	2,181
International - core	7,875	7,727
International - value	3,768	3,608
International small cap - value	2,640	2,984
Emerging markets - value	4,886	4,793
Emerging markets - small cap	4,325	4,382
Real estate investment trust	23	18
Exchange traded funds	101	106
Public natural resources -master		
Limited partnerships	2,946	3,103
Remainder interest in real property and other	685	685
Private equity:		
Buyout	1,761	1,480
Diversified	1,586	1,844
Growth	503	-
Venture capital	1,728	1,352
Secondary	2,147	2,451
Private debt:		
Distressed	2,432	2,937
Mezzanine	11	75
Natural resources:		
Diversified	3,096	3,849
Energy	4,490	5,142
Commodities	2,449	2,226
Private real estate:		
Opportunistic	1,472	1,023
Value added	611	1,049
Low-volatility:		
Diversifying strategies	<u>6,707</u>	<u>10,283</u>
Total investments	<u>\$ 108,503</u>	<u>\$ 108,297</u>

Investment return (in thousands) for the years ended June 30, 2019 and 2018 consists of:

	<u>2019</u>	<u>2018</u>
Interest and dividend income (net of investment fees: 2019 - \$516, 2018 - \$652)	\$ 2,420	\$ 1,928
Net realized gains	431	1,544
Net unrealized gains	1,010	3,537
Total investment return	<u>\$ 3,861</u>	<u>\$ 7,009</u>

The Foundation records the cost of managing its endowment portfolio as a decrease in investment income within the appropriate net asset class in the consolidated statement of activities. Some of the Foundation's investment managers report investment transactions net of fees.

The investments of the Foundation are commingled with certain investments which the Foundation holds in trust for Northern Kentucky University. The market value of funds held in trust for the University at June 30, 2019 and 2018 was approximately \$13,446,000 and \$13,431,000, respectively. See Note 13g. for further explanation of the trust funds.

At June 30, 2019 and 2018, the Foundation had committed approximately \$47,200,000 and \$44,100,000, respectively, of its endowment investment resources to alternative investments, of which approximately \$9,900,000 and \$9,500,000 million, respectively, had not yet been called by the investment managers. Alternative investments for which commitments have been made consist of private equity/debt, natural resources, private real estate and low-volatility.

Alternative investments of the Foundation have limited marketability and the related investment agreements generally contain restrictive redemption provisions to the extent that the underlying investments should be considered illiquid for the duration of the investment through normal maturity. Early redemption of such investments would likely result in recovery of significantly less than the original investment amount. Foundation management believes the investment portfolio contains sufficient liquidity among other asset classes to make early redemption of alternative investments unlikely for reasons of meeting current spending needs.

e. Endowments

The Foundation's endowment consists of 333 individual funds established for a variety of purposes. Its endowment includes both donor-restricted funds and funds designated by the Board of Directors to function as endowments (quasi-endowments). Net assets associated with endowment funds, including quasi-endowments, are classified and reported based on the existence or absence of donor-imposed restrictions. The board, at their discretion, can at any time permit spending from the principal of any quasi-endowed fund, provided the expenditure complies with any donor-imposed restrictions related to the fund.

Kentucky enacted the Kentucky Uniform Prudent Management of Institutional Funds Act (KUPMIFA), the provisions of which apply to endowment funds existing on or established after enactment, with an effective date of July 15, 2010.

An interpretation of KUPMIFA provisions by the Foundation Board of Directors requires that the historical dollar amount of a donor-restricted endowment fund be preserved. As a result of this requirement, the Foundation classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, and (b) the original value of subsequent gifts to the permanent endowment. In the absence of donor restrictions, the net appreciation on a donor-restricted endowment fund is spendable. The net appreciation of donor-restricted endowment funds is classified as net assets with donor restrictions until those amounts are appropriated for expenditure by the Foundation.

Under KUPMIFA, the Foundation endowment spending policy allows for prudent spending of future endowment earnings for accounts without accumulated earnings based upon consideration of the following factors, if applicable:

- Duration and preservation of the endowment fund
- Purpose of the institution and the endowment fund
- General economic conditions
- Possible effect of inflation or deflation
- Expected total return on investments
- Other resources of the institution
- Investment policy

The approved annual endowment spending rate is reduced by a proportion of 5 percent for each 1 percent the affected endowment is below the value of original and subsequent gifts to the permanent endowment (i.e. principal).

Return Objectives and Risk Parameters. The Foundation has adopted investment and spending policies, approved by the Board of Directors, for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowment while seeking to maintain the purchasing power of these endowment assets over the long-term. The Foundation’s spending and investment policies work together to achieve this objective. The investment policy establishes an achievable return objective through diversification of asset classes. The current long-term return objective is to return a rate equal to the Consumer Price Index plus 5 percent, net of investment fees. Actual returns in any given year may vary from this amount.

Strategies Employed for Achieving Objectives. To satisfy its long-term rate-of-return objectives, the Foundation relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). The Foundation targets a diversified asset allocation that includes fixed income investments as well as publicly traded equity-based investments and various alternative investment strategies to achieve its long-term return objectives within prudent risk parameters.

Spending Policy and How the Objectives Relate to Spending Policy. The spending policy calculates the amount of money annually distributed from the Foundation’s various endowed funds, for grant making and administration. The current spending policy is to distribute an amount at least equal to 3-5 percent of a moving sixteen quarter average of the fair value of the endowment funds. Accordingly, over the long term, the Foundation expects its current spending policy to allow the Foundation to meet its objective to maintain the historical dollar amount of endowment assets as well as to provide additional real growth through investment return.

Endowment net asset composition by type of endowment (in thousands) as of June 30, 2019 is as follows:

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total Net Endowment Assets</u>
Donor restricted endowment funds	\$ -	\$ 83,991	\$ 83,991
Quasi-endowment funds	<u>2,687</u>	<u>6,121</u>	<u>8,808</u>
Total endowment funds	<u>\$ 2,687</u>	<u>\$ 90,112</u>	<u>\$ 92,799</u>

Changes in endowment net assets (in thousands) as of June 30, 2019 are as follows:

	Without Donor Restrictions	With Donor Restrictions	Total Net Endowment Assets
Endowment net assets, beginning of year	\$ 2,614	\$ 89,227	\$ 91,841
Contributions collected	-	1,215	1,215
Investment income	64	2,161	2,225
Net investment gain (loss)	31	1,128	1,159
Amounts appropriated for expenditure	(22)	(3,642)	(3,664)
Reclassify to held in perpetuity	-	23	23
	<u>\$ 2,687</u>	<u>\$ 90,112</u>	<u>\$ 92,799</u>

Endowment net asset composition by type of endowment (in thousands) as of June 30, 2018 is as follows:

	Without Donor Restrictions	With Donor Restrictions	Total Net Endowment Assets
Donor restricted endowment funds	\$ -	\$ 83,139	\$ 83,139
Quasi-endowment funds	2,614	6,088	8,702
	<u>\$ 2,614</u>	<u>\$ 89,227</u>	<u>\$ 91,841</u>

Changes in endowment net assets (in thousands) as of June 30, 2018 are as follows:

	Without Donor Restrictions	With Donor Restrictions	Total Net Endowment Assets
Endowment net assets, beginning of year	\$ 2,449	\$ 84,802	\$ 87,251
Contributions collected	-	1,185	1,185
Investment income	50	1,726	1,776
Net investment gain (loss)	136	4,682	4,818
Amounts appropriated for expenditure	(21)	(3,261)	(3,282)
Reclassify to held in perpetuity	-	93	93
	<u>\$ 2,614</u>	<u>\$ 89,227</u>	<u>\$ 91,841</u>

Funds with Deficiencies. From time to time, the fair value of assets associated with individual donor restricted endowment funds may fall below the level that the donor or KUPMIFA requires the Foundation to retain as a fund of perpetual duration. There were no such deficiencies at June 30, 2019 and June 30, 2018.

f. Contingent Liabilities

Legal counsel for the Foundation have advised that they know of no pending or threatened litigation, claims or assessments involving the Foundation that could have a material adverse financial effect on the Foundation.

g. Regional University Excellence Trust Fund

The Foundation holds certain funds, consisting of endowment matching funds received by Northern Kentucky University from the Commonwealth of Kentucky’s Regional University Excellence Trust Fund, which were subsequently transferred to the Foundation for management and investment. The Foundation reports these funds and accumulated earnings as assets held in trust for the University. Investment earnings, gains and losses and expenditures from these funds are reported as changes in the balance held in trust rather than as revenue and expenses of the Foundation.

h. Subsequent Events

Events occurring after June 30, 2019 have been evaluated for possible adjustment to the consolidated financial statements or disclosure through September 16, 2019, the date on which the consolidated financial statements were available to be issued.

i. Related Party Transactions

During the years ended June 30, 2019 and 2018, the Foundation made payments on behalf of the University of \$327,000 and \$320,000, respectively, for salaries, benefits, and other administrative costs for University staff that directly support the Foundation’s operations. These payments are made by agreement between the Foundation and University. As of June 30, 2019 and 2018, approximately \$4,000 and \$5,000 was owed to the University for such costs, respectively.

In support of University programs for the years ended June 30, 2019 and 2018, the Foundation incurred program expenses of \$12,175,000 and \$8,885,000, respectively, which consisted of payments on behalf of the University of \$4,570,000 and \$4,128,000 for 2019 and 2018, respectively. In addition, the Foundation transferred \$7,605,000 and \$4,757,000 to the University for restricted purposes in 2019 and 2018, respectively.

j. Liquidity and Availability

Financial assets available for general expenditure, that is, without donor or other restrictions limiting their use, within one year of June 30, 2019 and 2018, comprise the following (in thousands):

	<u>2019</u>	<u>2018</u>
Cash and equivalents	\$ 4,227	\$ 3,957
Accounts receivable	48	-
Contributions receivable	876	649
Less allowance for uncollectible pledges	(8)	(13)
	<u>\$ 5,143</u>	<u>\$ 4,593</u>

The Foundation receives significant contributions restricted by donors and considers contributions restricted for programs which are ongoing, major and central to its annual operations to be available to meet cash needs for general expenditures. For the years ended June 30, 2019 and 2018, restricted contributions of \$868,000 and \$636,000, respectively, were included in financial assets available to meet cash needs for general expenditures within one year.

The Foundation’s endowment funds consist of donor-restricted endowments and funds designated by the board as endowments. Income from donor-restricted endowments is restricted for specific purposes, with the exception of the amounts available for general use. Donor-restricted endowment funds are not available for general expenditure.

The board-designated endowment of \$7,970,000 is subject to an annual spending rate of 4.75 percent as described in Note 13e. Although the Foundation does not intend to spend from this board-designated endowment (other than amounts appropriated for general expenditure as part of the Board’s annual budget approval and appropriation), these amounts could be made available if necessary.

The Foundation manages its liquidity and reserves following three guiding principles: operating within a prudent range of financial soundness and stability, maintaining adequate liquid assets to fund near-term operating needs and maintaining sufficient reserves to provide reasonable assurance that long-term obligations will be discharged. The Foundation's Finance and Audit Committee reviews the liquidity policy annually and the summarized financial reports at its regular meetings.

k. Schedule of Functional Expenses

The Foundation accounts for expenses in both natural classification categories and functional area categories. The summaries of these for the year ended June 30, 2019 and June 30, 2018 are as follows (in thousands):

Schedule of Functional Expenses
For the Year Ended 6/30/19
(in thousands)

	Subgranted to NKU-Payroll	Subgranted to NKU-Other	Contracted Services	Operating	Scholarships & Awards	Total
Instruction	\$ 655	\$ 3	\$ 37	\$ 262	\$ -	\$ 957
Research	47	-	1	12	-	60
Public service	40	-	8	834	-	882
Libraries	-	-	-	23	-	23
Academic support	477	-	69	358	-	904
Student services	438	101	20	372	-	931
Institutional support	668	-	81	392	-	1,141
University facilities and equipment acquisition	-	5,177	-	119	-	5,296
Student financial aid	-	-	-	-	1,925	1,925
Other program expenses and losses	-	-	-	122	-	122
Total program expenses	\$ 2,325	\$ 5,281	\$ 216	\$ 2,494	\$ 1,925	\$ 12,241
Management and general	327	-	92	57	-	476
Fund raising support	-	-	-	281	-	281
Rental property	-	-	12	5	-	17
Total support expenses	\$ 327	\$ -	\$ 104	\$ 343	\$ -	\$ 774
Total expenses and losses	\$ 2,652	\$ 5,281	\$ 320	\$ 2,837	\$ 1,925	\$ 13,015

Schedule of Functional Expenses
For the Year Ended 6/30/18
(in thousands)

	Subgranted to NKU-Payroll	Subgranted to NKU-Other	Contracted Services	Operating	Scholarships & Awards	Total
Instruction	\$ 347	\$ -	\$ 91	\$ 255	\$ -	\$ 693
Research	33	-	-	5	-	38
Public service	30	-	59	86	-	175
Libraries	-	-	-	40	-	40
Academic support	290	25	114	296	-	725
Student services	216	25	-	283	-	524
Institutional support	606	-	43	353	-	1,002
University facilities and equipment acquisition	-	2,984	13	190	-	3,187
Student financial aid	-	-	-	-	2,469	2,469
Other program expenses and losses	-	-	-	32	-	32
Total program expenses	\$ 1,522	\$ 3,034	\$ 320	\$ 1,540	\$ 2,469	\$ 8,885
Management and general	320	-	61	47	-	428
Fund raising support	-	-	-	179	-	179
Total support expenses	\$ 320	\$ -	\$ 61	\$ 226	\$ -	\$ 607
Total expenses and losses	\$ 1,842	\$ 3,034	\$ 381	\$ 1,766	\$ 2,469	\$ 9,492

I. Future Changes in Accounting Principles

Revenue Recognition

The Financial Accounting Standards Board amended its standards related to revenue recognition. This amendment replaces all existing revenue recognition guidance and provides a single, comprehensive revenue recognition model for all contracts with customers. The guidance provides a five-step analysis of transactions to determine when and how revenue is recognized. Other major provisions include capitalization of certain contract costs, consideration of the time value of money in the transaction price and allowing estimates of variable consideration to be recognized before contingencies are resolved in certain circumstances.

The amendment also requires additional disclosure about the nature, amount, timing and uncertainty of revenue and cash flows arising from customer contracts, including significant judgments and changes in those judgments and assets recognized from costs incurred to fulfill a contract. The standard allows either full or modified retrospective adoption effective for annual periods beginning after December 15, 2018, and any interim periods within annual reporting periods that begin after December 15, 2019. The Foundation is in the process of evaluating the impact the amendment will have on the consolidated financial statements.

Contributions Received and Contributions Made

On June 21, 2018, FASB issued ASU 2018-08. This standard clarifies existing guidance on determining whether a transaction with a resource provider, *e.g.*, the receipt of funds under a government grant or contract, is a contribution or an exchange transaction. The guidance requires all organizations to evaluate whether the resource provider is receiving commensurate value in a transfer of assets transaction, and whether contributions are conditional or unconditional.

If commensurate value is received by the resource provider, the transaction would be accounted for as an exchange transaction by applying Topic 606, *Revenue from Contracts with Customers*, or other topics. The standard clarifies that a resource provider is not synonymous with the general public. Indirect benefit received by the public as a result of the assets transferred is not equivalent to commensurate value received by the resource provider. If commensurate value is not received by the resource provider, *i.e.*, the transaction is nonexchange, the recipient organization would record the transaction as a contribution under Topic 958 and determine whether the contribution is conditional or unconditional.

FASB expects that the new standard could result in more grants and contracts being accounted for as contributions (often conditional contributions) than under current generally accepted accounting principles. Because of this, it believes the clarifying guidance about whether a contribution is conditional or unconditional, which affects the timing of revenue recognition, is important. Both the recipient and resource provider would equally apply the guidance.

The new standard will be effective for the Foundation for reporting periods beginning on or after December 15, 2018. The Foundation is evaluating the impact the standard will have on the consolidated financial statements.

Accounting for Leases

The Financial Accounting Standards Board amended its standard related to the accounting for leases. Under the new standard, lessees will now be required to recognize substantially all leases on the balance sheet as both a right-of-use asset and a liability. The standard has two types of leases for income statement recognition purposes: operating leases and finance leases. Operating leases will result in the recognition of a single lease expense on a straight-line basis over the lease term similar to the treatment for operating leases under existing standards. Finance leases will result in an accelerated expense similar to the accounting for capital leases under existing standards. The determination of lease classification as operating or finance will be done in a manner similar to existing standards. The new standard also contains amended guidance regarding the identification of embedded leases in service contracts and the identification of lease and nonlease components in an arrangement. The new standard is effective for annual periods beginning after December 15, 2019, and any interim periods within annual reporting periods that begin after December 15, 2019. The Foundation is evaluating the impact the standard will have on the consolidated financial statements.

Required Supplementary Information

Northern Kentucky University
A Component Unit of the Commonwealth of Kentucky
Schedule of Proportionate Share of the Collective Net Pension Liability
Kentucky Employees' Retirement System
(in thousands)

	<u>June 30, 2019</u>	<u>June 30, 2018</u>	<u>June 30, 2017</u>	<u>June 30, 2016</u>	<u>June 30, 2015</u>
Nonhazardous					
University's proportionate share of the net pension liability	2.304209%	2.345490%	2.403742%	2.447755%	2.489115%
University's proportionate share of the collective net pension liability	\$ 313,460	\$ 314,022	\$ 274,014	\$ 245,556	\$ 223,319
University's covered-employee payroll	\$ 34,793	\$ 37,584	\$ 39,206	\$ 37,799	\$ 39,266
University's proportionate share of the net pension liability as a percentage of its covered-employee payroll	900.94%	835.52%	698.91%	649.64%	568.73%
Pension plan fiduciary net position as a % of the total pension liability	12.84%	13.30%	14.80%	18.83%	22.30%
Hazardous					
University's proportionate share of the net pension liability	0.386465%	0.370876%	0.040113%	0.444514%	0.414511%
University's proportionate share of the collective net pension liability	\$ 1,952	\$ 1,844	\$ 1,571	\$ 1,524	\$ 1,059
University's covered-employee payroll	\$ 591	\$ 662	\$ 637	\$ 563	\$ 535
University's proportionate share of the net pension liability as a percentage of its covered-employee payroll	330.29%	278.50%	246.58%	270.64%	197.80%
Pension plan fiduciary net position as a % of the total pension liability	56.1%	54.80%	57.41%	61.70%	68.70%

*The amounts presented for the fiscal year were determined as of June 30 of the previous fiscal year (measurement date).

*This schedule is presented to illustrate the requirement to show information for 10 years. However, until a full 10-year trend is compiled, governments should present information for those years which information is available.

Northern Kentucky University
A Component Unit of the Commonwealth of Kentucky
Schedule of University Pension Contributions
Kentucky Employees' Retirement System
(in thousands)

	<u>June 30, 2019</u>	<u>June 30, 2018</u>	<u>June 30, 2017</u>	<u>June 30, 2016</u>	<u>June 30, 2015</u>
Nonhazardous					
Contractually required contribution	\$ 14,162	\$ 14,596	\$ 14,738	\$ 12,069	\$ 12,320
University's contributions in relation to the contractually required contribution	14,162	14,596	14,738	12,069	12,320
Contribution deficiency	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Covered-employee payroll	\$ 34,491	\$ 35,498	\$ 36,626	\$ 39,131	\$ 39,948
Contributions as a percentage of covered-employee payroll	41.06%	41.06%	40.24%	30.84%	30.84%
Hazardous					
Contractually required contribution	\$ 256	\$ 180	\$ 170	\$ 127	\$ 136
University's contributions in relation to the contractually required contribution	256	180	170	127	136
Contribution deficiency	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Covered-employee payroll	\$ 744	\$ 838	\$ 806	\$ 776	\$ 831
Contributions as a percentage of covered-employee payroll	34.39%	21.44%	21.08%	16.37%	16.37%

Notes to the schedule:

Changes in assumptions- In fiscal year 2018, the KERS nonhazardous investment rate and discount rate both decreased from 6.75% to 5.25%. The KERS hazardous investment rate and discount rate both decreased from 7.50% to 6.25%. The estimated salary increases decreased from 4.00% to 0.00% for the nonhazardous plan and from 4.00% to 2.00% for the hazardous plan. The KERS plan inflation rate decreased from 3.25% to 2.30% for both the nonhazardous and hazardous plans.

*The amounts presented for the fiscal year were determined as of June 30.

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

Northern Kentucky University
A Component Unit of the Commonwealth of Kentucky
Schedule of Proportionate Share of the Collective Net OPEB Liability
Kentucky Employees' Retirement System
(in thousands)

	<u>June 30, 2019</u>	<u>June 30, 2018</u>
Non-hazardous		
University's proportionate share of the net OPEB liability (asset)	2.302178%	2.345490%
University's proportionate share of the net net OPEB liability (asset)	\$ 54,583	\$ 59,481
University's covered-employee payroll	\$ 36,234	\$ 37,366
University's proportionate share of the net OPEB liability (asset) as a percentage of its covered-employee payroll	150.64%	159.18%
Plan fiduciary net position as a % of the total OPEB liability	27.32%	24.40%
Hazardous		
University's proportionate share of the net OPEB liability (asset)	0.386561%	0.370876%
University's proportionate share of the net net OPEB liability (asset)	\$ (128)	\$ 22
University's covered-employee payroll	\$ 736	\$ 635
University's proportionate share of the net OPEB liability (asset) as a percentage of its covered-employee payroll	-17.43%	3.46%
Plan fiduciary net position as a % of the total OPEB liability	106.83%	98.80%

*The amounts presented for the fiscal year were determined as of June 30, of the previous fiscal year (measurement date).

*This schedule is presented to illustrate the requirement to show information for 10 years. However, until a full 10-year trend is compiled, governments should present information for those years which information is available.

Northern Kentucky University and Affiliate
A Component Unit of the Commonwealth of Kentucky
Schedule of University OPEB Contributions
Kentucky Employees' Retirement System
(in thousands)

	<u>June 30, 2019</u>	<u>June 30, 2018</u>
Non-Hazardous		
Contractually required contribution	\$ 2,901	\$ 2,989
University's contributions in relation to the contractually required contribution	2,901	2,989
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>
Covered-employee payroll	\$ 34,491	\$ 35,548
Contributions as a percentage of covered-employee payroll	8.41%	8.41%
Hazardous		
Contractually required contribution	\$ 18	\$ 19
University's contributions in relation to the contractually required contribution	18	19
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>
Covered-employee payroll	\$ 744	\$ 838
Contributions as a percentage of covered-employee payroll	2.46%	2.26%

Notes to the Schedule:

Changes in assumptions - In fiscal year 2018, the KERS nonhazardous and hazardous investment rate decreased from 7.50% to 6.25%. The nonhazardous discount rate decreased from 6.90% to 5.83%, and the hazardous discount rate decreased from 7.20% to 5.87%. The estimated salary increases decreased from 4.00% to 2.00% for both the nonhazardous and hazardous plans. The KERS plan inflation rate decreased from 3.25% to 2.30% for both the nonhazardous and hazardous plans. In fiscal year 2019, the KERS nonhazardous discount rate increased from 5.83% to 5.86%; the KERS hazardous discount rate increased from 5.87% to 5.88%

* The amounts presented for each fiscal year were determined as of June 30.

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

* Employer contributions do not include the expected implicit subsidy.