

Northern Kentucky University
A Component Unit of the Commonwealth of Kentucky
Annual Financial Report
June 30, 2018



2017-2018 FINANCIAL REPORT

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October 16, 2018

Northern Kentucky University Board of Regents
Highland Heights, KY 41099

Dear Members of the Board:

I am pleased to share the University's 2017-18 Annual Financial Report. The firm of BKD, LLP, has audited the attached statements and accompanying footnotes.

Despite the continued growth in pension related liabilities, the University continues to show solid operating performance as measured by cash flows. The former have had a significant impact on the University's unrestricted net position. The University continues to implement new and enhanced strategies around enrollment and financial aid. These strategies are designed to increase enrollment, support students from diverse backgrounds, increase student retention rates, maintain academic quality and generate additional funds as evidenced by the \$1.7 million increase in cash generated from tuition and fees for the year ending June 30, 2018. Management is also continuing its efforts to diversify revenue sources, contain costs and redirect resources to core mission priorities.

Fueled by excellent investment returns and new endowment gifts, the endowment funds that are managed by the NKU Foundation have grown from \$82.7 million on June 30, 2013 to \$105.3 million on June 30, 2018. 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. We will conclude our yearlong 50th Anniversary celebration this fall. Since our homecoming festivities in the spring, we have celebrated our historic past and looking forward to an exciting future. In addition we celebrated the 125th Anniversary of the Chase College of Law.

This month, we launched the development of the strategic framework to guide our direction and focus for the next several years. We are engaging the entire NKU community — faculty, staff, alumni, friends, donors, and, perhaps most importantly, our students. This strategic framework will set the course for 2019-2022, and we have asked members of our community to participate in focus groups to share ideas to help ensure our students' success here at NKU, particularly as it relates to access, completion and career and community engagement. We hope to complete the strategic framework process by March.

The framework will focus on our core mission — serving our students. We transform lives by providing opportunities for economic and social mobility. In order to do that, we want to ensure that our students receive a superior education and earn highly valued degrees, credentials and certificates. Each year, thousands of students come from across the commonwealth, this region, and around the world and grow and thrive at NKU. They arrive with a desire to change the world and they leave with the skills to do just that, supported by faculty and staff who share a deep commitment to their success.

With a focus on being a student-focused, entrepreneurial and engaged university, I look forward to another great year at NKU.

Sincerely



Ashish K. Vaidya
President

Attachment

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 the discretely presented component unit of Northern Kentucky University (University), collectively a component unit of the Commonwealth of Kentucky, as of and for the year ended June 30, 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 audit. We conducted our audit 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, 2018, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 1r. to the financial statements, in 2018 the University adopted GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. Our opinions are not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, pension and other postemployment 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 is presented for purposes of additional analysis and is 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 it.

BKD, LLP

Cincinnati, Ohio
October 5, 2018

Northern Kentucky University
A Component Unit of the Commonwealth of Kentucky
Management's Discussion and Analysis
Year Ended June 30, 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 year ended June 30, 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

At June 30, 2018, the University's liabilities totaled \$533.7 million compared to the previous year's \$441.8 million. This \$91.9 million increase in liabilities is attributable, in part, to the recognition of the University's proportionate share of the net liability related to the post employment health insurance coverage provided through the Kentucky Employees Retirement System (KERS) in accordance with Governmental Accounting Standards Board (GASB) Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions* (GASB 75). GASB 75 requires governmental employers participating in a cost-sharing plan to recognize their long-term obligations for other post-employment benefits (OPEB) as a liability on their financial statements for the first time. As a participating employer in the KERS, the University reported a net OPEB liability of \$59.5 million as of June 30, 2018, in addition to a net pension liability of \$315.9 million. The cumulative impact of the pension and OPEB reporting changes since inception resulted in a reduction of \$318.2 million in the University's unrestricted net position as of June 30, 2018. Excluding the impact of the pension and OPEB reporting changes, the University's unrestricted net position would have increased by \$11.0 million for the year ended June 30, 2018.

The University's operating and nonoperating revenues totaled \$222.7 million for the year ended June 30, 2018, an increase of \$4.8 million compared to 2017. Operating revenues declined by \$2.8 million for the year ended June 30, 2018, including a \$0.8 million decrease in net tuition and fees and a \$1.4 million decrease in operating grants and contracts. Nonoperating revenues grew by \$7.6 million for the year ended June 30, 2018 primarily due to a \$4.8 million increase in the University's state appropriations for the year ended June 30, 2018. Operating and nonoperating expenses increased by \$20.3 million, or 8.4 percent, to a total of \$260.5 million for the year ended June 30, 2018, primarily due to an increase 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 will help students simulate medical procedures and facilitate transdisciplinary research at the University. The Center will increase the University's capacity to meet the growing demand for graduates in the health professions and management expects enrollment and the associated tuition revenues related to these programs to be positively impacted.

The University's state-funded endowments totaled \$13.4 million as of June 30, 2018. 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 \$105.3 million at June 30, 2018. For the five-year period ended June 30, 2018, the endowment funds managed by the Foundation have grown from \$82.7 million to \$105.3 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. These statements 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, 2018, with comparative information as of June 30, 2017, 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 summary of the University's net financial position at June 30, 2018 and 2017 follows:

Condensed Statements of Net Position (in thousands)

	<u>2018</u>	<u>2017</u>
ASSETS		
Current assets	\$ 118,758	\$ 109,159
Capital assets, net	388,690	369,470
Noncurrent assets	32,269	30,653
Total assets	<u>539,717</u>	<u>509,282</u>
DEFERRED OUTFLOWS OF RESOURCES	<u>70,980</u>	<u>44,078</u>
LIABILITIES		
Current liabilities	39,765	38,395
Noncurrent liabilities	493,918	403,406
Total liabilities	<u>533,683</u>	<u>441,801</u>
DEFERRED INFLOWS OF RESOURCES	<u>12,104</u>	<u>6,045</u>
NET POSITION		
Net investment in capital assets	280,404	253,064
Restricted		
Nonexpendable	7,616	7,616
Expendable	5,076	5,491
Unrestricted	(228,186)	(160,657)
Total net position	<u>\$ 64,910</u>	<u>\$ 105,514</u>

Assets

The University's assets increased by \$30.4 million, or 6.0 percent, for the year ended June 30, 2018 and now total \$539.7 million. Current assets increased by \$9.6 million for the year ended June 30, 2018 primarily due to an increase in cash generated from operations and cash reserves committed to construction projects. Noncurrent assets increased by \$20.8 million for the year ended June 30, 2018 primarily due to a \$19.2 million increase in net capital assets. A \$0.5 million increase in investments resulting from excellent investment returns on the University's endowments funds also contributed to the increase in noncurrent assets for the year.

Net capital assets increased by \$19.2 million for the year ended June 30, 2018 and \$23.4 million the prior year, resulting in a combined increase of \$42.6 million, or 12.3 percent, since June 30, 2016. This increase is the net result of an \$83.1 million increase in capitalized construction project costs, land improvements, equipment and other capital assets, less \$40.5 million in depreciation. Net capital assets totaled \$388.7 million, or 72.0 percent of total assets as of June 30, 2018.

Deferred Outflows of Resources

Deferred outflows of resources totaled \$71.0 million and \$44.1 million as of June 30, 2018 and 2017, respectively. Deferred outflows of resources related to the University's defined benefit pension and OPEB plans totaled \$67.7 million and \$40.4 million as of June 30, 2018 and 2017, respectively. The deferred outflows of resources that represent the unamortized difference between the reacquisition price and the net carrying amount of refunded debt totaled \$3.3 million and \$3.7 million at June 30, 2018 and 2017, respectively.

Liabilities

At June 30, 2018, the University's liabilities totaled \$533.7 million compared to the previous year's \$441.8 million. This \$91.9 million increase in liabilities is attributable, in part, to the recognition of the University's proportionate share of the net liability related to the OPEB, primarily health insurance coverage, provided through the KERS in accordance with GASB Statement No. 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 year ended June 30, 2018, the University's net liability related to the post employment health insurance coverage increased by \$12.4 million. An increase of \$40.3 million in the University's net pension liability related to its participation in the KERS also contributed to the increase in total liabilities for the year. At June 30, 2018, the University's proportionate share of the nonhazardous and hazardous net OPEB liability totaled \$59.5 million while the University's net pension liability grew to \$315.9 as of June 30, 2018.

Noncurrent liabilities, excluding the insurance and pension liabilities, declined by \$9.3 million for the year as a result of a decrease in outstanding bonds, notes and capital leases. Current and noncurrent bonds, notes and capital leases payable, net of discounts and premiums, totaled \$112.8 million and \$119.9 million at June 30, 2018 and 2017, respectively.

Deferred Inflows of Resources

The University's deferred inflows of resources totaled \$12.1 million and \$6.0 million as of June 30, 2018 and 2017, respectively. Deferred inflows of resources related to the University's defined benefit pension and OPEB plans totaled \$10.5 million and \$4.5 million as of June 30, 2018 and 2017, 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 \$64.9 million and \$105.5 million at June 30, 2018 and 2017, respectively. The cumulative effect of the adoption of GASB 75 resulted in a decrease in the University's unrestricted net position at July 1, 2017 of \$47.1 million. For the year ended June 30, 2018, the University also recognized noncash expenses totaling \$2.7 million in accordance with GASB 75 and noncash expenses of \$28.8 million in accordance with the pension reporting changes under GASB 68 and GASB 71 resulting in noncash expenses totaling \$31.5 million for the year. Excluding the impact of the pension reporting changes, the University's unrestricted net position would have increased by \$11.0 million for the year ended June 30, 2018.

Net invested in capital assets totaled \$280.4 million and \$253.1 million at June 30, 2018 and 2017, respectively. This \$27.3 million increase 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.

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.

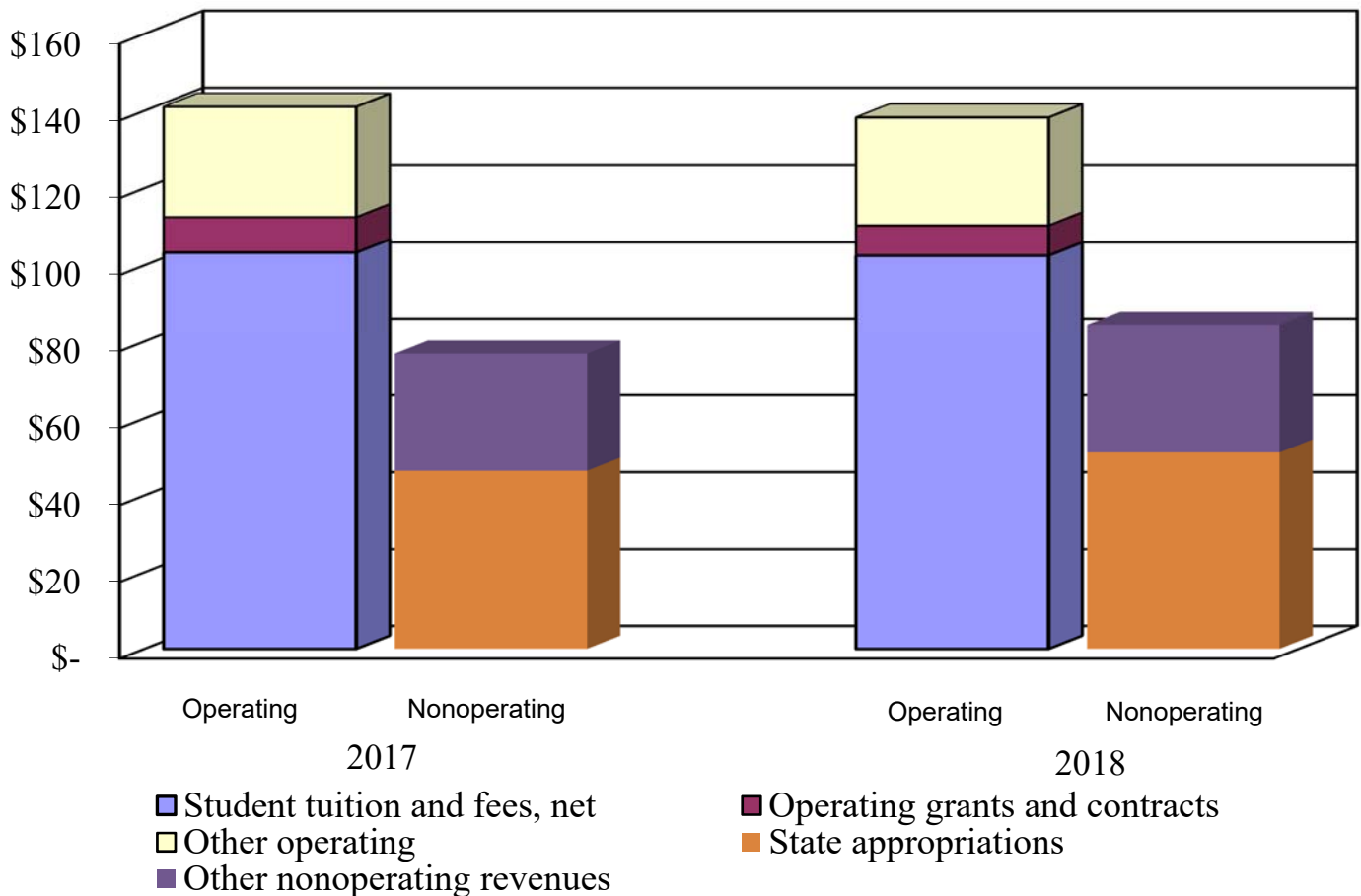
The utilization of long-lived assets, referred to as capital assets, is reflected in the financial statements as depreciation, which amortizes the cost of an asset over its expected useful life. A summarized comparison of the University's revenues, expenses and changes in net position for years ended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

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

	<u>2018</u>	<u>2017</u>
OPERATING REVENUES		
Student tuition and fees, net	\$ 102,537	\$ 103,311
Grants and contracts	7,818	9,197
Sales and services of educational departments	4,745	4,969
Auxiliary enterprises	14,951	15,697
Other operating revenues	8,206	7,865
Total operating revenues	<u>138,257</u>	<u>141,039</u>
OPERATING EXPENSES		
Educational and general	227,576	206,258
Depreciation	16,521	16,892
Auxiliary enterprises (including depreciation)	12,097	12,188
Other expenses	279	62
Total operating expenses	<u>256,473</u>	<u>235,400</u>
Net loss from operations	<u>(118,216)</u>	<u>(94,361)</u>
NONOPERATING REVENUES (EXPENSES)		
State appropriations	51,105	46,353
Gifts, grants and contracts	29,358	28,159
Investment income (loss)	2,500	2,300
Interest on capital asset-related debt	(4,063)	(4,345)
Other nonoperating revenues (expenses)	1,432	(498)
Net nonoperating revenues	<u>80,332</u>	<u>71,969</u>
Income (loss) before other revenues, expenses, gains or losses	<u>(37,884)</u>	<u>(22,392)</u>
Capital appropriations	41,155	36,864
Capital grants and gifts	3,189	728
Total other revenues	<u>44,344</u>	<u>37,592</u>
Increase (decrease) in net position	<u>6,460</u>	<u>15,200</u>
Net position-beginning of year, as previously reported	105,514	90,314
Cumulative effect of change in accounting principle	<u>(47,064)</u>	<u>-</u>
Net position-beginning of year, as restated	58,450	90,314
Net position-end of year	<u>\$ 64,910</u>	<u>\$ 105,514</u>

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 and 2018. 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).



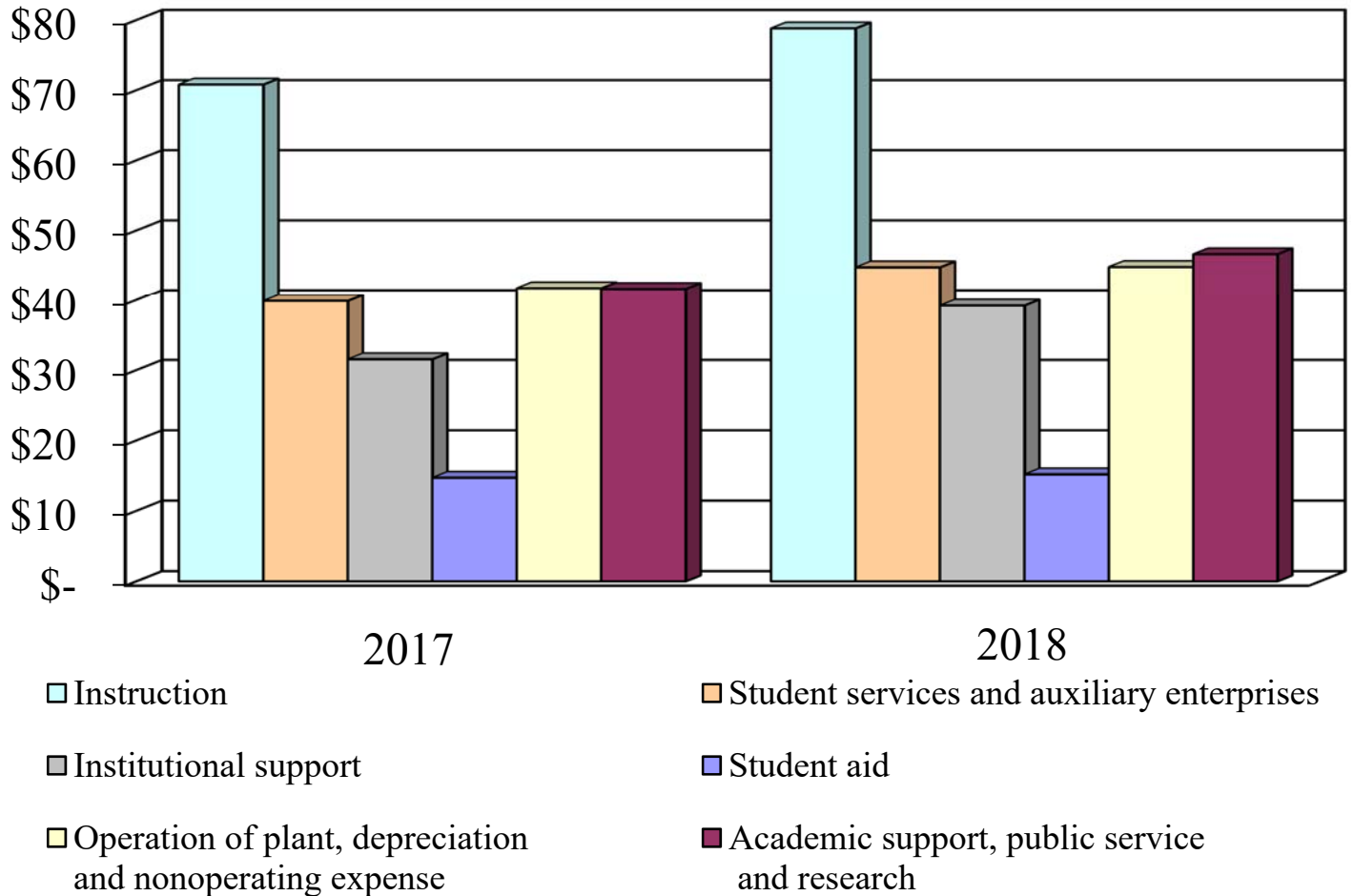
The University's operating and nonoperating revenues totaled \$222.7 million for the year ended June 30, 2018, an increase of \$4.8 million compared to 2017. Operating revenues totaled \$138.3 million, or 62.0 percent of revenues, while nonoperating revenues totaled \$84.4 million, or 38.0 percent of revenues, for the year. The most significant sources of revenue for the University are net student tuition and fees (46.0 percent) and state appropriations (23.0 percent).

Operating revenues declined by \$2.8 million for the year ended June 30, 2018, including a \$0.8 million decrease in net tuition and fees and a \$1.4 million decrease in operating grants and contracts. A \$0.8 million decrease in contracts revenue earned by the Center for Environmental Restoration contributed to a \$0.2 million decrease in sales and services of educational department's revenues for the year. Auxiliary enterprises revenues decreased by \$0.7 million due to a decrease in housing room rentals due to the closure of a housing facility for renovations and a decline in parking services revenues. Other operating revenues increased by \$0.3 million for the year.

Nonoperating revenues grew by \$7.6 million for the year ended June 30, 2018. The University's state appropriations increased by \$4.8 million for the year ended June 30, 2018. State nonoperating grant revenues increased by \$0.8 million for the year due to an increase in state financial aid program revenues, including the new dual credit scholarship program. Federal nonoperating grant revenues increased by \$0.6 million for the year primarily due to an increase in federal financial aid program revenues, including a \$0.5 million growth in federal Pell grant revenues. Other nonoperating revenues increased by \$1.9 million primarily due to a gain on the sale of the University's radio stations.

Operating and Nonoperating Expenses

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



Operating and nonoperating expenses increased by \$20.3 million, or 8.4 percent, to a total of \$260.5 million for the year ended June 30, 2018. The adoption of GASB 75 for the year ended June 30, 2018 resulted in the recognition of OPEB expenses totaling \$5.7 million for the year, including noncash OPEB expenses of \$2.7 million. For fiscal year 2017, which does not reflect the impact of GASB 75, the University recognized OPEB expenses of \$3.1 million. In accordance with GASB 68 and GASB 71, the University recognized pension expenses in fiscal years 2018 and 2017 of \$43.6 million and \$30.3 million, respectively. The \$15.9 million increase in OPEB and pension expenses in fiscal year 2018, contributed to a \$21.1 million increase in operating expenses for the year. Pension and OPEB expenses for the year increased in all functional expense categories including significant increases in institutional support (\$4.6 million), student services (\$3.4 million), academic support (\$3.2 million), operation and maintenance of plant (\$2.5 million) and instruction (\$0.9 million).

In addition to the increase in OPEB and pension expenses, instruction expenses increased by \$7.4 million for the year primarily due to the acquisition of furniture and equipment for the new state-of-the-art Health Innovations Center and Founders Hall renovation project. Public service expenses decreased by \$1.1 million for the year resulting from the operating savings realized from the closure of the University's radio station, the loss of several federal grants, and a decline in contract expenses associated with the Center for Environmental Restoration. In addition to the \$3.2 million increase in pension and OPEB expenses, academic support expenses increased due to an increase in information technology expenses and advising expenses. Institutional support expenses, excluding pension and OPEB expenses, increased by \$0.5 million due to an increase in information technology expenses. Student services expenses, excluding pension and OPEB expenses, decreased by \$0.8 million due to a decrease in new student orientation program expenses and a reduction in student services renovation projects. Tuition and fee scholarship allowances and housing scholarship allowances increased by \$4.8 million and student aid expenses increased by \$0.5 million. Institutionally funded scholarships increased by \$3.9 million for the year. State funded financial aid program expenses increased by \$0.8 million, including \$0.3 million for the new dual credit scholarship program. Federal financial aid program expenses increased by \$0.6 million for the year, including a \$0.5 million growth in Pell grant expenses.

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, 2018 and 2017 follows:

Condensed Statements of Cash Flows (in thousands)

	<u>2018</u>	<u>2017</u>
Net cash provided (used) by:		
Operating activities	\$ (66,052)	\$ (62,658)
Noncapital financing activities	79,762	75,911
Capital and related financing activities	(5,257)	(19,234)
Investing activities	1,894	1,127
Net increase (decrease) in cash and cash equivalents	10,347	(4,854)
Cash and cash equivalents, beginning of year	105,295	110,149
Cash and cash equivalents, end of year	<u>\$ 115,642</u>	<u>\$ 105,295</u>

The University's cash and cash equivalents increased by \$10.3 million in 2018. Major sources of funds generated by operating activities in 2018 included student tuition and fees (\$101.1 million), grants and contracts (\$8.7 million) and auxiliary enterprises (\$14.5 million). The largest cash payments for operating activities were for salaries and benefits (\$143.6 million), vendor payments (\$44.0 million) and student financial aid (\$15.6 million). Net cash used by operating activities increased by \$3.4 million for the year primarily due to a \$4.3 million increase in payments to vendors, including payments for furniture and equipment for the new Health Innovations Center.

Net cash provided by noncapital financing activities increased by \$3.9 million for the year ended June 30, 2018. Cash used by capital and related financing activities totaled \$5.3 million for 2018. Purchases of capital assets totaling \$44.9 million were funded by \$43.6 million in state capital appropriations received for the Health Innovations Center project as well as capital gifts and institutional funds. The University's principal and interest payments totaled \$11.2 million for the year. The University received proceeds from the sale of capital assets totaling \$6.7 million.

Capital Asset and Debt Administration

Capital Assets

As of June 30, 2018, capital assets, net of accumulated depreciation, totaled \$388.7 million, or 72.0 percent of total assets. Net capital assets increased by \$19.2 million for the year ended June 30, 2018. Additions to capital assets, net of disposals, during the year ended June 30, 2018 totaled \$39.3 million. Depreciation expenses totaled \$20.1 million for the year ended June 30, 2018. Additions to capital assets, net of disposals, during the year ended June 30, 2017 totaled \$43.8 million, including the expansion and renovation of the University's campus recreation center. Depreciation expenses totaled \$20.4 million for the year ended June 30, 2017.

The \$83.1 million increase in capital assets, net of disposals, for the years ended June 30, 2018 and 2017 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 commitment from St. Elizabeth Healthcare to help pay for the design and construction of a virtual care facility within the Center that will help students simulate medical procedures and facilitate 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, 2018 and 2017 (in thousands):

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

Debt decreased by \$7.1 million for the year ended June 30, 2018 resulting from principal payments of \$6.8 million on bonds, notes and capital lease obligations, a \$0.6 million decline in net discounts and premiums and the issuance of \$0.3 million in capital lease obligations for the year. In May 2018, the University entered into a new capital lease obligation through a third party financial institution, in the amount of \$0.3 million, with an interest rate of 4.43 percent. This obligation was used to fund computer equipment.

The University's current bond ratings assigned by Moody's Investors Service (A1 negative) to the University's General Receipts bonds reflects the University's continued funding challenges related to the KERS pension and OPEB plans.

ECONOMIC FACTORS IMPACTING FUTURE PERIODS

President Vaidya is leading a new strategic framework process focused on student success and aligning the University's goals to meet the needs of the region it serves. The strategic framework will be built around enhancing student access, completion and career success for current and future students.

The enacted budget for 2018-20 (House Bill 200) appropriated \$31.0 million to the Postsecondary Education Performance Fund in fiscal year 2019. 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 2019, the University will receive \$4.8 million from the Performance Fund and \$48.5 million in regular appropriations, resulting in a total state appropriation of \$53.3 million.

The University's Board of Regents approved a 3.1 percent increase in undergraduate resident tuition rates for fiscal year 2019. 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, 2018. 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 \$105.3 million at June 30, 2018. For the five-year period ended June 30, 2018, the endowment funds managed by the Foundation have grown from \$82.7 million to \$105.3 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.

Construction on the University's new transformative Health Innovations Center was completed in the summer of 2018. The Center was funded by a \$97.0 million appropriation from the Commonwealth in the 2014-16 biennium and 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 will help students simulate medical procedures and facilitate transdisciplinary research at the University. The Center will increase the University's capacity to meet the growing demand for graduates in the health professions and management expects enrollment and the associated tuition revenues related to these programs to be positively impacted.

For the year ended June 30, 2018 the University adopted GASB 75 which requires governmental employers participating in a cost-sharing plan to recognize their long-term obligations for OPEB as a liability on their financial statements for the first time. As a participating employer in the KERS, the University reported a net OPEB liability of \$59.5 million as of June 30, 2018, in addition to the University's net pension liability of \$315.9 million. The combined impact of pension and OPEB reporting changes resulted in a cumulative reduction of \$318.2 million in the University's unrestricted net position as of June 30, 2018. Excluding the impact of the pension and OPEB reporting changes, the University's unrestricted net position would have increased by \$11.0 million for the year ended June 30, 2018. The University's required contribution rate for fiscal year 2019 is 49.5 percent of covered payroll for all of its employees that participate in the nonhazardous KERS.

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 2018 annual edition of Commonwealth of Kentucky Quarterly Economic & Revenue Report, Kentucky's general fund receipts rose for the eighth consecutive year in fiscal year 2018. Final 2018 general fund revenues were \$119.8 million, or 1.1 percent, more than the official revenue estimate which had projected 2.3% growth. The report indicates that the 2018 revenue surplus has made the 2019 growth hurdle much less formidable, now requiring only 1.5 percent growth over 2018 collections. The report indicates the solid underlying economic conditions will persist well into fiscal year 2019.

Another factor impacting the University is the trend in high school graduations. The number of high school graduates have remained relatively flat in the Kentucky feeder counties and have decreased slightly in the Ohio and Southeast Indiana counties that the University draws the majority of students from. Projections for the next five years show expected declines in these areas. This along with the strong economy will make growing enrollments a challenge. To address these enrollment challenges, the University is expanding its outreach to other student groups (*e.g.*, adult learners, online, etc.) and new markets.

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. The mixed-use development is expected to include office and retail space, restaurants and a hotel and will generate revenue for the University through ground leases. St. Elizabeth Healthcare will occupy a new medical office building in the development. The University recently discontinued several operations that were being subsidized by the University, including several radio stations, and redirected the resources to core mission priorities. In addition to the net gain realized from the sale of the radio stations, the University realized recurring cash savings of approximately \$0.9 million per year from the closure of the radio stations. The University is working with a partner to significantly increase the University's online program offerings. Enrollments in the new online programs, which launched in the spring 2018 semester, have exceeded expectations.

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 will launch the public phase of a multi-year fundraising campaign in the spring of 2019 with a public goal between \$70 and \$75 million.

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

ASSETS

Current Assets	
Cash and cash equivalents	\$ 98,916
Notes, loans and accounts receivable, net	17,186
Other current assets	2,656
Total current assets	118,758
Noncurrent Assets	
Cash and cash equivalents	16,726
Investments	13,431
Notes, loans and accounts receivable, net	1,914
Capital assets, net	388,690
Other noncurrent assets	198
Total noncurrent assets	420,959
Total assets	539,717

DEFERRED OUTFLOWS OF RESOURCES

Bond refunding loss	3,277
Pension and OPEB	67,703
Total deferred outflows of resources	70,980

LIABILITIES

Current Liabilities	
Accounts payable and accrued liabilities	25,509
Unearned revenue	5,425
Long-term debt-current portion	8,247
Other long-term liabilities-current portion	584
Total current liabilities	39,765
Noncurrent Liabilities	
Deposits	11,768
Long-term debt	104,519
Other long-term liabilities	2,262
Net pension and OPEB liability	375,369
Total noncurrent liabilities	493,918
Total liabilities	533,683

DEFERRED INFLOWS OF RESOURCES

Service agreements	1,565
Pension and OPEB	10,539
Total deferred inflows of resources	12,104

NET POSITION

Net investment in capital assets	280,404
Restricted	
Nonexpendable	7,616
Expendable	5,076
Unrestricted	(228,186)
Total net position	\$ 64,910

See accompanying notes to the financial statements

Northern Kentucky University Foundation, Inc.

Consolidated Statement of Financial Position

As of June 30, 2018

(in thousands)

ASSETS

Cash and cash equivalents	\$ 13,796
Loans and accounts receivable, net	97
Contributions receivable, net	4,449
Prepaid expenses and deferred charges	38
Investments	108,297
Land and land improvements	548
Accumulated depreciation	(208)
Total assets	<u>\$ 127,017</u>

LIABILITIES AND NET ASSETS

Accounts payable	\$ 3,140
Deferred revenue	215
Funds held in trust for Northern Kentucky University	13,431
Total liabilities	<u>16,786</u>

NET ASSETS

Unrestricted	
For current operations	1,344
Amounts functioning as endowment funds	2,614
Invested in land and land improvements	340
Total unrestricted	<u>4,298</u>
Temporarily restricted	
Unexpended funds received for restricted purposes	12,038
Contributions receivable	3,663
Loan funds	219
Endowment funds	43,769
Total temporarily restricted	<u>59,689</u>
Permanently restricted	
Contributions receivable	786
Endowment funds	45,458
Total permanently restricted	<u>46,244</u>
Total net assets	<u>110,231</u>
Total liabilities and net assets	<u>\$ 127,017</u>

See accompanying notes to the financial statements

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

OPERATING REVENUES

Student tuition and fees (net of scholarship allowances of \$44,157)	\$ 102,537
Federal grants and contracts	2,162
State and local grants and contracts	3,202
Nongovernmental grants and contracts	2,454
Sales and services of educational departments	4,745
Auxiliary enterprises	
Housing and food service (net of scholarship allowances of \$1,416)	11,006
Other auxiliaries	3,945
Other operating revenues	<u>8,206</u>
Total operating revenues	<u>138,257</u>

OPERATING EXPENSES

Educational and general	
Instruction	78,161
Research	1,443
Public service	13,156
Libraries	6,344
Academic support	23,635
Student services	30,215
Institutional support	36,641
Operation and maintenance of plant	22,806
Depreciation	16,521
Student aid	15,175
Auxiliary enterprises	
Housing and food service	6,944
Other auxiliaries	1,605
Auxiliary depreciation	3,548
Other expenses	<u>279</u>
Total operating expenses	<u>256,473</u>
Net income (loss) from operations	<u>(118,216)</u>

NONOPERATING REVENUES (EXPENSES)

State appropriations	51,105
Federal grants and contracts	18,252
State and local grants and contracts	11,071
Private gifts and grants	35
Investment income (loss)	2,500
Interest on capital asset-related debt	(4,063)
Other nonoperating revenues (expenses)	<u>1,432</u>
Net nonoperating revenues	<u>80,332</u>
Income (loss) before other revenues, expenses, gains or losses	<u>(37,884)</u>
Capital appropriations	41,155
Capital grants and gifts	<u>3,189</u>
Total other revenues	<u>44,344</u>
Increase (decrease) in net position	<u>6,460</u>

NET POSITION

Net position-beginning of year, as previously reported	105,514
Cumulative effect of change in accounting principle	<u>(47,064)</u>
Net position-beginning of year, as restated	<u>58,450</u>
Net position-end of year	<u>\$ 64,910</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)

	<u>Unrestricted Net Assets</u>	<u>Temporarily Restricted Net Assets</u>	<u>Permanently Restricted Net Assets</u>	<u>Total</u>
REVENUES, GAINS AND OTHER SUPPORT				
Gifts and bequests	\$ 2	\$ 4,144	\$ 954	\$ 5,100
Rental income	131	-	-	131
Investment return	346	6,663	-	7,009
Other revenue	115	308	-	423
Total revenues and gains	<u>594</u>	<u>11,115</u>	<u>954</u>	<u>12,663</u>
Net assets released from restrictions	9,352	(9,352)	-	-
Reclassifications of net assets	-	(93)	93	-
Total revenues, gains and other support	<u>9,946</u>	<u>1,670</u>	<u>1,047</u>	<u>12,663</u>
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	<u>8,853</u>	<u>32</u>	<u>-</u>	<u>8,885</u>
Support Expenses				
Management and general	428	-	-	428
Fund raising support	179	-	-	179
Total support expenses	<u>607</u>	<u>-</u>	<u>-</u>	<u>607</u>
Total expenses and losses	<u>9,460</u>	<u>32</u>	<u>-</u>	<u>9,492</u>
Increase (decrease) in net assets	486	1,638	1,047	3,171
Net assets-beginning of year	3,812	58,051	45,197	107,060
Net assets-end of year	<u>\$ 4,298</u>	<u>\$ 59,689</u>	<u>\$ 46,244</u>	<u>\$ 110,231</u>

See accompanying notes to the financial statements

Northern Kentucky University
A Component Unit of the Commonwealth of Kentucky
Statement of Cash Flows
For the Year Ended June 30, 2018
(in thousands)

CASH FLOWS FROM OPERATING ACTIVITIES

Tuition and fees	\$ 101,120
Grants and contracts	8,666
Payments to suppliers	(44,007)
Payments for salaries and benefits	(143,646)
Payments for student financial aid	(15,636)
Loans issued to students	(568)
Collection of loans to students	341
Auxiliary enterprise receipts:	
Housing operations	10,720
Other auxiliaries	3,783
Sales and service of educational departments	4,650
Other receipts (payments)	8,525
Net cash used by operating activities	<u>(66,052)</u>

CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES

State appropriations	51,105
Gifts and grants for other than capital purposes	29,241
Agency and loan program receipts	78,808
Agency and loan program disbursements	<u>(79,392)</u>
Net cash provided by noncapital financing activities	<u>79,762</u>

CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES

Proceeds from capital debt and leases	275
Capital appropriations	43,649
Capital grants, gifts, and advances received	229
Proceeds from sale of capital assets	6,685
Purchases of capital assets	(44,898)
Principal paid on capital debt and leases	(6,813)
Interest paid on capital debt and leases	<u>(4,384)</u>
Net cash provided (used) by capital and related financing activities	<u>(5,257)</u>

CASH FLOWS FROM INVESTING ACTIVITIES

Proceeds from sales and maturities of investments	253
Interest on investments	<u>1,641</u>
Net cash provided (used) by investing activities	<u>1,894</u>

NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS 10,347

Cash and cash equivalents-beginning of year	<u>105,295</u>
Cash and cash equivalents-end of year	<u><u>\$ 115,642</u></u>

See accompanying notes to the financial statements

Northern Kentucky University
A Component Unit of the Commonwealth of Kentucky
Statement of Cash Flows
For the Year Ended June 30, 2018
(in thousands)

**RECONCILIATION OF NET OPERATING LOSS TO
NET CASH USED BY OPERATING ACTIVITIES:**

Net loss from operations	\$ (118,216)
Adjustments to reconcile operating loss to net cash used by operating activities:	
Depreciation expense	20,069
Deferred inflows of resources	6,059
Deferred outflows of resources	(24,190)
Changes in assets and liabilities:	
Receivables, net	1,556
Other assets	(167)
Accounts payable, accrued liabilities and deposits	(433)
Unearned revenue	(239)
Pension and OPEB	49,640
Long-term liabilities	(131)
Net cash used by operating activities	\$ (66,052)

SUPPLEMENTAL CASH FLOWS INFORMATION

Capital assets acquired through capital lease	\$ 162
Gifts of capital assets	167
Capital asset acquisitions in accounts payable	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 Year Ended June 30, 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

All capital assets are recorded at cost at date of acquisition, or acquisition value at date of donation. 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/deductions 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 \$3,277,000 of losses on bond refunding for the year ended June 30, 2018. The remaining balance of deferred outflows for year ended June 30, 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 \$1,565,000 at June 30, 2018. 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 year ended June 30, 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.

See Note 13 for further details of related party transactions between the University and Foundation. 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. Change in Accounting Principle

During fiscal year 2018, the University adopted GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pension* (GASB 75): GASB 75 replaces the requirements of GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*. Employers that participate in a cost-sharing OPEB plan that is administered through a trust that meets specified criteria will report a liability equal to the employer's proportionate share for the collective OPEB liability for all employers participating in the plan.

GASB 75 requires extensive note disclosures and required supplementary information (RSI) about the OPEB liabilities. See Note 8 for required note disclosures.

The adoption of GASB 75 resulted in a decrease in net position at July 1, 2017 of \$47,064,000. This change is in accordance with generally accepted accounting principles.

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.

Note 2 – Cash, Cash Equivalents and Investments

At June 30, 2018, petty cash funds totaled \$57,000 and the carrying amount of the deposits was \$115,585,000 with a corresponding total bank balance of \$119,300,000. Of the bank balance, \$22,231,000 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 \$97,069,000 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 fair value of the University's investments at June 30, 2018 was \$13,431,000. These investments 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, 2018 are invested as follows:

Type of Investment:	
Fixed income funds	14%
Domestic equity funds	33%
International equity funds	13%
Emerging markets	9%
Private equity	5%
Natural resources	13%
Other	13%
Total Investments	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, 2018.

Note 3 – Notes, Loans and Accounts Receivable

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

	Gross		Net
	Receivable	Allowance	Receivable
Student loans	\$ 1,478	\$ (488)	\$ 990
Student accounts receivable	12,339	(4,768)	7,571
Reimbursement receivable grants and contracts	738	-	738
State 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 year ended June 30, 2018 is summarized as follows (in thousands):

	Beginning Balance	Additions	Reductions	Ending 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, 2018 was approximately \$5,177,000.

As of June 30, 2018, the net book value of equipment acquired through capital leases included in the above schedules totaled \$162,000.

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, 2018 are as follows (in thousands):

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

Note 6 – Long-term Liabilities

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

	Beginning Balance	Additions	Reductions	Ending Balance	Current Portion	Noncurrent 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	<u>119,892</u>	<u>-</u>	<u>7,401</u>	<u>112,491</u>	<u>8,187</u>	<u>104,304</u>
Municipal lease obligations	-	-	-	-	-	-
Notes and leases payable	23	275	23	275	60	215
Total debt	<u>119,915</u>	<u>275</u>	<u>7,424</u>	<u>112,766</u>	<u>8,247</u>	<u>104,519</u>
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	<u>8,871</u>	<u>5,682</u>	<u>6,576</u>	<u>7,977</u>	<u>5,715</u>	<u>2,262</u>
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	<u>\$ 417,169</u>	<u>\$ 107,224</u>	<u>\$ 16,219</u>	<u>\$ 508,174</u>	<u>\$ 14,256</u>	<u>\$ 493,918</u>

*The additions column includes the cumulative effect as a result of the 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 \$210,000 reserve requirement for the Housing and Dining issue was fully funded as of June 30, 2018. The \$348,000 required housing repair and replacement fund was fully funded as of June 30, 2018.

The outstanding obligation as of June 30, 2018 for the Northern Kentucky University General Receipts Bonds are reported net of discounts totaling \$9,000 and premiums of \$7,520,000. 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 is being held in escrow by the trustee to fund the debt service on the refunded portion of the 2008 Series A until the bonds are called for redemption on September 1, 2018.

b. Leases

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.

The total bonds payable and leases as of June 30, 2018 are as follows (in thousands):

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.	\$ 600
Total Housing and Dining System Revenue bonds payable	<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 3.50% 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.	935
Series B 2010, dated October 21, 2010, with interest rates from 2.00% to 3.75%. Final principal payment date September 1, 2027.	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.	7,200
Series A 2013, dated February 26, 2013, with an interest rate of 2.00%. Final principal payment date September 1, 2022.	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.	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
Series A 2016, dated August 25, 2016, with interest rates from 2.00% to 4.00%. Final principal payment date September 1, 2028.	15,125
Total General Receipts bonds payable	<u>104,380</u>
Capital lease payables	
Capital equipment lease, dated May 1, 2018, with an interest rate of 4.43%. Final principal payment date May 1, 2023.	275
Total capital lease payable	<u>275</u>
Plus: Net discounts and premiums	7,511
Total debt	<u>\$ 112,766</u>

Principal maturities and interest on debt 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>
2019	\$ 7,590	\$ 4,123	\$ 11,713
2020	7,455	3,851	11,306
2021	7,743	3,563	11,306
2022	7,585	3,263	10,848
2023	7,947	2,950	10,897
2024-2028	43,760	9,494	53,254
2029-2033	19,585	2,918	22,503
2034	<u>3,590</u>	<u>85</u>	<u>3,675</u>
Subtotal	105,255	30,247	135,502
Plus: Net discounts and premiums	7,511	-	7,511
Total	<u>\$ 112,766</u>	<u>\$ 30,247</u>	<u>\$ 143,013</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 \$47,000,000 for the year ended June 30, 2018. The University's contribution totaled \$4,700,000 for the year ended June 30, 2018.

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 KERS, that is administered by the Board of Trustees of the 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.

	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
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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 year ended June 30, 2018, University employees were required to contribute 5 percent of their annual covered salary for retirement benefits. The University was contractually required to contribute 41.06 percent of covered payroll to the nonhazardous KERS pension plans. The University also was contractually required to contribute 21.44 percent of covered payroll to the hazardous KERS pension plans.

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 year ended June 30, 2018 was \$14,596,000. The required contribution to the KERS hazardous pension plan for the year ended June 30, 2018 was \$180,000.

Pension liabilities, pension expense, and deferred outflows of resources and deferred inflows of resources related to pensions - At June 30, 2018, the University reported a liability of \$314,022,000, for its proportionate share of the nonhazardous net pension liability. The University's hazardous pension liability was \$1,844,000 for the year ended June 30, 2018. The net pension liability was measured as of June 30, 2017 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, 2018, the University's proportion was 2.345 percent for nonhazardous and 0.371 percent for hazardous.

For the year ended June 30, 2018, the University recognized nonhazardous pension expense of \$43,243,000; and hazardous pension expense of \$308,000.

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):

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
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	-
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, 2018, the University reported \$14,776,000 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 year ended June 30, 2018. Other amounts reported as deferred outflows of resources and deferred inflows of resources at June 30, 2018, related to pensions will be recognized in pension expense as follows (in thousands):

Year Ending June 30	
2019	\$ 20,764
2020	11,920
2021	452
2022	<u>(456)</u>
	<u>\$ 32,680</u>

Pension Actuarial assumptions – The total pension 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 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. 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 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 target allocation and best estimates of arithmetic real rate of return for each major asset class are summarized in the tables below. 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 tables:

<u>Asset Class</u>	<u>Nonhazardous Target Allocation</u>	<u>Long Term Expected Real Rate of Return</u>
US equity*	17.50%	5.75%
International equity*	17.50%	7.38%
Global bonds	10.00%	2.63%
Global credit	17.00%	3.63%
High yield	0.00%	5.75%
Emerging market debt	0.00%	5.50%
Private credit	0.00%	8.75%
Real estate*	5.00%	6.63%
Absolute return	10.00%	5.63%
Real return*	10.00%	5.13%
Private equity	10.00%	8.25%
Cash	3.00%	1.88%
Total	<u>100.00%</u>	

Asset Class	Hazardous	
	Target Allocation	Long Term Expected Real Rate of Return
US equity*	17.50%	5.97%
International equity*	17.50%	7.85%
Global bonds	4.00%	2.63%
Global credit	2.00%	3.63%
High yield	7.00%	5.75%
Emerging market debt	5.00%	5.50%
Private credit	10.00%	8.75%
Real estate*	5.00%	7.63%
Absolute return	10.00%	5.63%
Real return*	10.00%	6.13%
Private equity	10.00%	8.25%
Cash Equivalent	2.00%	1.88%
Total	100.00%	

*Long-Term Expected Real Rates of Return may vary by plans depending on the risk tolerance of the plan.

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 26 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):

	1% Decrease (4.25%)	Current Discount Rate (5.25%)	1% Increase (6.25%)
Nonhazardous			
Proportionate share of the Collective Net Pension Liability	\$ 358,542	\$ 314,022	\$ 277,006
	1% Decrease (5.25%)	Current Discount Rate (6.25%)	1% Increase (7.25%)
Hazardous			
Proportionate share of the Collective Net Pension Liability	\$ 2,345	\$ 1,844	\$ 1,428

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

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 adopted by the Board.” The KERS sick leave liability as of June 30, 2018 was \$763,000.

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, 2018, the University had recognized an accrued vacation liability of \$3,020,000.

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.

<i>Benefits Provided –</i>			
	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			
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
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. As of July 1, 2016, the nonhazardous monthly contribution was \$12.99/year of service.	
	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			
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
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. As of July 1, 2016, the hazardous monthly contribution was \$19.48/year of service.	

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 September 1, 2008 are required to contribute 1 percent of their covered salary for retiree healthcare benefits. For the fiscal year ended June 30, 2018, the University was contractually required to contribute 8.41 percent of covered payroll to the nonhazardous KERS OPEB plan. The University also was contractually required to contribute 2.26 percent of covered payroll to the hazardous KERS OPEB plan.

The required contributions to the KERS nonhazardous OPEB plan for the year ended June 30, 2018 was \$2,989,000. The required contributions to the KERS hazardous OPEB plan for the year ended June 30, 2018 was \$19,000.

OPEB liabilities, OPEB expense and deferred outflows of resources and deferred inflows of resources related to OPEB – At June 30, 2018, the University reported a liability of \$59,481,000 for its proportionate share of the nonhazardous net OPEB liability. The University’s hazardous net OPEB liability was \$22,000. The net OPEB liability was measured as of June 30, 2017 and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation as of June 30, 2016 rolled forward to the measurement date. 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, 2018, the University’s proportion was 2.345 percent for nonhazardous and 0.371 percent for hazardous.

For the year ended June 30, 2018, the University recognized nonhazardous OPEB expense of \$5,690,000 and hazardous OPEB expense of \$49,000.

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):

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Nonhazardous		
Differences between expected and actual experience	\$ -	\$ 74
Changes in assumptions	7,788	-
Net difference between projected and actual earnings on investments	-	770
Changes in proportion and differences between the University's contributions and proportionate share of contributions	-	437
Contributions subsequent to the measurement date	2,989	-
Hazardous		
Differences between expected and actual experience	-	3
Changes in assumptions	279	-
Net difference between projected and actual earnings on investments	-	80
Changes in proportion and differences between the University's 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, 2018, the University reported \$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. Other amounts reported as deferred outflows of resources and deferred inflows of resources at June 30, 2018, related to OPEB will be recognized in OPEB expense as follows (in thousands):

Year Ending June 30	
2019	\$ 1,654
2020	1,654
2021	1,654
2022	1,654
2023	69
Thereafter	15
	<u>\$ 6,700</u>

Actuarial assumptions - The total OPEB liability was determined by an actuarial valuation as of June 30, 2016, 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
Health care cost trend rates	
Pre-65	Initial trend starting at 7.25% at January 1, 2019, and gradually decreasing to an ultimate trend rate of 4.05% over a period of 13 years.
Post-65	Initial trend starting at 5.10% at January 1, 2019, and gradually decreasing to an ultimate trend rate of 4.05% over a period of 11 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 tables:

OPEB Asset Allocations

Asset Class	Target Allocation	Long Term Expected Real Rate of Return*
US Equity	17.5%	5.97%
International Equity	17.5%	7.85%
Global Bonds	4.0%	2.63%
Global Credit	2.0%	3.63%
High Yield	7.0%	5.75%
Emerging Market Debt	5.0%	5.50%
Private Credit	10.0%	8.75%
Real Estate	5.0%	7.63%
Absolute Return	10.0%	5.63%
Real Return	10.0%	6.13%
Private Equity	10.0%	8.25%
Cash	2.0%	1.88%
Total	100%	

*Long-term Expected Real Rates of Return may vary by plans depending on the risk tolerance of the plan.

Discount rate - The discount rate used to measure the total OPEB liability was 5.83% for the nonhazardous plan, and 5.87% 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 26 years (closed) amortization period of the unfunded actuarial accrued liability. The discount rate determination used an expected rate of return of 6.25%, a municipal rate of 3.56%, as reported in Fidelity Index's "20-Year Municipal GO AA Index" as of June 30, 2017. 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 liability has been calculated using a discount rate of 5.83% for the nonhazardous and 5.87% 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):

	<u>1% Decrease (4.83%)</u>	<u>Current Discount Rate (5.83%)</u>	<u>1% Increase (6.83%)</u>
Nonhazardous			
Proportionate share of the Collective Net OPEB Liability	\$ 69,540	\$ 59,481	\$ 51,121
	<u>1% Decrease (4.87%)</u>	<u>Current Discount Rate (5.87%)</u>	<u>1% Increase (6.87%)</u>
Hazardous			
Proportionate share of the Collective Net OPEB Liability (Asset)	\$ 272	\$ 22	\$ (183)

Sensitivity of the University's proportionate share of the net OPEB liability to changes in the health care cost trend rates - The University's proportionate share of the net OPEB liability has been calculated using an initial pre-65 health care trend rate of 7.25%, gradually decreasing to an ultimate trend rate of 4.05% over a period of 13 years. The post-65 health care trend rate starts at 5.10%, gradually decreasing to an ultimate trend rate of 4.05% over a period of 11 years.

	<u>1% Decrease</u>	<u>Current Health Care Cost Trend Rates</u>	<u>1% Increase</u>
Nonhazardous			
Proportionate share of the Collective Net OPEB Liability	\$ 50,539	\$ 59,481	\$ 70,708
	<u>1% Decrease</u>	<u>Current Health Care Cost Trend Rates</u>	<u>1% Increase</u>
Hazardous			
Proportionate share of the Collective Net OPEB Liability (Asset)	\$ (184)	\$ 22	\$ 279

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 \$333,000 for the outstanding amount of employer contributions to the OPEB plan required for the year ended June 30, 2018.

Note 9 – Operating Expenses By Natural Classification

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

Salaries and wages	\$ 99,919
Employee benefits-pension and OPEB	49,510
Employee benefits-other	27,602
Utilities	5,414
Supplies and other services	38,322
Depreciation	20,069
Student scholarships and financial aid	15,637
Total	<u>\$ 256,473</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 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 an actual cash value basis. As a state agency, the University is vested with Sovereign Immunity and is subject to the provisions of the *Board of Claims 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 2017 to 2018. 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, 2018 is detailed below (in thousands):

Liability, beginning of year	\$ 1,415
Claims and changes in estimates	13,992
Claims paid	(14,024)
Liability, end of year	<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, 2018.

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 – Blended Entity Condensed Financial Information

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

Condensed Statement of Net Position

ASSETS	
Current assets	\$ 1,161
Noncurrent assets	11,730
Total assets	<u>12,891</u>
LIABILITIES	
Current liabilities	279
Due to the University - current	77
Noncurrent liabilities	11,730
Total liabilities	<u>12,086</u>
NET POSITION	
Restricted expendable	4
Unrestricted	801
Total net position	<u>\$ 805</u>

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

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

Condensed Statement of Cash Flows

Net cash provided (used) by operating activities	\$ 471
Net cash provided (used) by noncapital financing activities	(1,110)
Net cash provided by (used in) capital and related financing activities	<u>(6)</u>
Net increase (decrease) in cash and cash equivalents	<u>(645)</u>
Cash and cash equivalents-beginning of year	13,319
Cash and cash equivalents-end of year	<u>\$ 12,674</u>

Note 13 – 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 year ended June 30, 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 three classes of net assets - permanently restricted, temporarily restricted and unrestricted net assets.

Net assets and changes therein are classified as follows:

- **Permanently restricted net assets** - Net assets subject to donor-imposed stipulations that they be maintained permanently by the Foundation. Generally, the donors of these assets permit the Foundation to use the returns on the related investments over time for general or specific purposes.
- **Temporarily restricted net assets** - Net assets subject to donor-imposed stipulations that may or will be met by actions of the Foundation and/or the passage of time. Temporarily restricted net assets are generally established in support of colleges or departments of the University, often for specific purposes such as faculty support, scholarships and fellowships, library acquisitions, equipment or building projects and other specific purposes.
- **Unrestricted net assets** - Net assets not subject to donor-imposed stipulations.

Revenues are reported as increases in unrestricted net assets unless use of the related assets is limited by donor-imposed restrictions. Expenses are reported as decreases in unrestricted net assets. Gains and losses on investments and other assets or liabilities are reported as increases or decreases in unrestricted net assets unless their use is restricted by explicit donor stipulation or by law. Restricted contributions and net investment returns earned are reported as temporarily restricted support and reclassified as unrestricted when any donor-imposed restrictions are satisfied. Expirations of temporary restrictions on net assets are met when a donor stipulated time restriction ends or purpose restriction is accomplished and reclassified to unrestricted net assets 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 permanently restricted net assets – if the terms of the gift require that they be added to the principal of a permanent endowment fund.
- As increases in temporarily restricted net assets – if the terms of the gift impose restrictions on the use of the income.
- As increases in unrestricted net assets – in all other cases.

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, 2018, \$2,305,000 was collateralized with securities held by the financial institution's trust department or agent, but not in the Foundation's name. At June 30, 2018, a balance of \$10,491,000 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, 2018 was approximately \$120,000.

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 non-marketable 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, 2018, land and land improvements (in thousands) consisted of:

Type of asset:	
Land	\$ 178
Land held for future use by the University	162
Land improvements	<u>208</u>
Total land and land improvements	<u><u>\$ 548</u></u>

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, 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.

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, 2018, the Foundation recognized contributions based on the following unconditional promises to give (in thousands):

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

The discount rates used to calculate the present value of contributions receivable at June 30, 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, 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 2018.

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, 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 retroactively.

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
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 investments	\$ 106,950	\$ 67,657	\$ 685	\$ -	\$ 38,608

d. Investments

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

Type of Investment:	
Short-term money market funds	\$ 8
Cash and cash surrender value	1,776
Fixed income funds:	
Core	1,611
Core plus	4,422
Global	1,737
High yield	1,794
Treasury inflation protected securities	1,589
Equity funds:	
Large/mid cap - broad	23,443
Large/mid cap - value	7,056
Small cap - growth	1,563
Small cap - value	2,181
International - core	7,727
International - value	3,608
International small cap - value	2,984
Emerging markets - value	4,793
Emerging markets - small cap	4,382
Real estate investment trust	18
Exchange traded funds	106
Public natural resources - master limited partnerships	3,103
Remainder interest in real property and other	685
Private equity:	
Buyout	1,480
Diversified	1,844
Venture capital	1,352
Secondary	2,451
Private debt:	
Distressed	2,937
Mezzanine	75
Natural resources:	
Diversified	3,849
Energy	5,142
Commodities	2,226
Private real estate:	
Opportunistic	1,023
Value added	1,049
Low-volatility:	
Diversifying strategies	10,283
Total Investments	<u>\$ 108,297</u>

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

Interest and dividend income	\$ 1,928
(net of investment fees: \$652)	
Net realized gains (losses)	1,544
Net unrealized gains (losses)	3,537
Total investment return	<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 fees noted above are only those fees separately stated by the managers.

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, 2018 was approximately \$13,431,000. See Note 13g. for further explanation of the trust funds.

At June 30, 2018, the Foundation had committed approximately \$44.1, of its endowment investment resources to alternative investments, of which \$9.5 million, 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 321 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 temporarily restricted net assets 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, 2018 is as follows:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total Net Endowment Assets</u>
Donor restricted endowment funds	\$ -	\$ 37,681	\$ 45,458	\$ 83,139
Quasi-endowment funds	<u>2,614</u>	<u>6,088</u>	<u>-</u>	<u>8,702</u>
Total endowment funds	<u>\$ 2,614</u>	<u>\$ 43,769</u>	<u>\$ 45,458</u>	<u>\$ 91,841</u>

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

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total Net Endowment Assets</u>
Endowment net assets, beginning of year	\$ 2,449	\$ 40,579	\$ 44,223	\$ 87,251
Contributions collected	-	43	1,142	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 permanently restricted	<u>-</u>	<u>-</u>	<u>93</u>	<u>93</u>
Endowment net assets, end of year	<u>\$ 2,614</u>	<u>\$ 43,769</u>	<u>\$ 45,458</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. Deficiencies of this nature that are reported in unrestricted net assets were approximately \$1,000 at June 30, 2018. The deficiencies resulted from unfavorable market conditions that occurred after the investment of permanently restricted contributions and continued appropriation for certain programs that was deemed prudent by the Board of Directors.

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, 2018 have been evaluated for possible adjustment to the consolidated financial statements or disclosure through September 10, 2018, the date on which the consolidated financial statements were available to be issued.

i. Related Party Transactions

During the year ended June 30, 2018, the Foundation made payments on behalf of the University of \$320,000, 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, 2018, approximately \$5,000 was owed to the University for such costs.

In support of University programs for the year ended June 30, 2018, the Foundation incurred program expenses of \$8,885,000 which consisted of payments on behalf of the University of \$4,128,000. In addition, the Foundation transferred to the University \$4,757,000 in 2018 for restricted purposes.

j. 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, for nonpublic entities (December 15, 2017, for not-for-profits that are conduit debt obligors), and any interim periods within annual reporting periods that begin after December 15, 2019, for nonpublic entities (December 15, 2018, for not-for-profits that are conduit debt obligors). The Foundation is in the process of evaluating the impact the amendment will have on the consolidated financial statements.

Presentation of Financial Statements for Not-for-Profit Entities

The Financial Accounting Standards Board recently issued Accounting Standards Update (ASU) No. 2016-14, *Presentation of Financial Statements of Not-for-Profit Entities*, which changes requirements for financial statements and notes of all not-for-profit (NFP) entities and is effective for fiscal years beginning after December 15, 2017.

A summary of the changes by financial statement area most relevant to the Association are as follows:

Statement of financial position:

- The statement of financial position will distinguish 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.

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.

The Foundation is in the process of evaluating the impact the amendment 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 the University's Proportionate Share of the Collective Net Pension Liability
Kentucky Employees' Retirement System
(in thousands)

	<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	2.345490%	2.403742%	2.447755%	2.489115%
University's proportionate share of the collective net pension liability	\$ 314,022	\$ 274,014	\$ 245,556	\$ 223,319
University's covered-employee payroll	\$ 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	835.52%	698.91%	649.64%	568.73%
Pension plan fiduciary net position as a % of the total pension liability	13.30%	14.80%	18.83%	22.30%
Hazardous				
University's proportionate share of the net pension liability	0.370876%	0.040113%	0.444514%	0.414511%
University's proportionate share of the collective net pension liability	\$ 1,844	\$ 1,571	\$ 1,524	\$ 1,059
University's covered-employee payroll	\$ 662	\$ 637	\$ 563	\$ 535
University's proportionate share of the net pension liability as a percentage of its covered-employee payroll	278.50%	246.58%	270.64%	197.80%
Pension plan fiduciary net position as a % of the total pension liability	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 the University's Pension Contributions
Kentucky Employees' Retirement System
(in thousands)

	<u>June 30, 2018</u>	<u>June 30, 2017</u>	<u>June 30, 2016</u>	<u>June 30, 2015</u>
Nonhazardous				
Contractually required contribution	\$ 14,596	\$ 14,738	\$ 12,069	\$ 12,320
University's contributions in relation to the contractually required contribution	14,596	14,738	12,069	12,320
Contribution deficiency	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Covered-employee payroll	\$ 35,548	\$ 36,626	\$ 39,131	\$ 39,948
Contributions as a percentage of covered-employee payroll	41.06%	40.24%	30.84%	30.84%
Hazardous				
Contractually required contribution	\$ 180	\$ 170	\$ 127	\$ 136
University's contributions in relation to the contractually required contribution	180	170	127	136
Contribution deficiency	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Covered-employee payroll	\$ 838	\$ 806	\$ 776	\$ 831
Contributions as a percentage of covered-employee payroll	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% to 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 each fiscal year were determined as of the year-end that occurred one year prior.

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

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

	June 30, 2018
Nonhazardous	
University's proportionate share of the net OPEB liability (asset)	2.345490%
University's proportionate share of the net net OPEB liability (asset)	\$ 59,481
University's covered-employee payroll	\$ 37,366
University's proportionate share of the net OPEB liability (asset) as a percentage of its covered-employee payroll	159.2%
Plan fiduciary net position as a % of the total OPEB liability	24.4%
Hazardous	
University's proportionate share of the net OPEB liability (asset)	0.370876%
University's proportionate share of the net net OPEB liability (asset)	\$ 22
University's covered-employee payroll	\$ 635
University's proportionate share of the net OPEB liability (asset) as a percentage of its covered-employee payroll	3.5%
Plan fiduciary net position as a % of the total OPEB liability	98.8%

*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 the University's OPEB Contributions
Kentucky Employees' Retirement System
(in thousands)

	June 30, 2018
Nonhazardous	
Contractually required contribution	\$ 2,989
University's contributions in relation to the contractually required contribution	2,989
Contribution deficiency (excess)	\$ -
Covered-employee payroll	\$ 35,548
Contributions as a percentage of covered-employee payroll	8.41%
Hazardous	
Contractually required contribution	\$ 19
University's contributions in relation to the contractually required contribution	19
Contribution deficiency (excess)	\$ -
Covered-employee payroll	\$ 838
Contributions as a percentage of covered-employee payroll	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.

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

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