

WESTERN KENTUCKY UNIVERSITY
WKYU-TV
Bowling Green, Kentucky

FINANCIAL STATEMENTS
June 30, 2020 and 2019

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INDEPENDENT AUDITOR'S REPORT

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

Report on the Financial Statements

We have audited the accompanying financial statements of WKYU-TV (the "Station"), a public broadcasting entity operated by Western Kentucky University, as of and for the years ended June 30, 2020 and 2019, and the related notes to the financial statements, which collectively comprise the Station's 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 an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits 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 Station'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 Station'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 opinion.

(Continued)

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Station as of June 30, 2020 and 2019, and the changes in its financial position and its cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 2, the financial statements of the Station are intended to present the financial position, the changes in financial position and cash flows, of only the portion of the activities of Western Kentucky University that is attributable to the transactions of the Station. They do not purport to, and do not, present fairly the financial position of Western Kentucky University as of June 30, 2020 and 2019, and the changes in its financial position and its cash flow for the years then ended in accordance with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

Other Matter

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis on pages 3 - 7, the Schedules of the Station's Proportionate Share of the Net Pension Liability on page 51, the Schedules of the Station's Pension Contributions on page 52, the Schedules of the Station's Proportionate Share of the Net OPEB Liability on page 53 and the Schedules of the Station's OPEB Contributions on page 55, be presented to supplement the financial statements. Such information, although not a part of the financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the 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 financial statements, and other knowledge we obtained during our audits of the 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.



Crowe LLP

Louisville, Kentucky
January 7, 2021

WESTERN KENTUCKY UNIVERSITY
WKYU-TV
MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2020 and 2019

Introduction

The following Management's Discussion and Analysis ("MD&A") provides an overview of the financial position and activities of WKYU-TV (the "Station") for the year ended June 30, 2020, with selected comparative information for the years ended June 30, 2019 and 2018. This discussion has been prepared by management and should be read in conjunction with the financial statements and the notes thereto, which follow this section. The financial statements and related notes and this discussion and analysis are the responsibility of management.

The Station is located on the campus of Western Kentucky University (the "University"). The Station broadcasts Public Broadcasting Service and local programs that inform, enrich and entertain in concert with the mission of the University. The Station's skilled staff, students and volunteers serve viewers with comprehensive music and information programs that reflect current affairs, history and cultures.

Fiscal Year 2020 Highlights

- The Station's net position increased by \$345,922; 13.9%.
- Operating revenues decreased by \$55,150; (14.9%) to \$314,528.
- Operating expenses decreased by \$1,236,541; 38.3%.
- Nonoperating revenues decreased by \$174,061; 7.9%.

Governmental Accounting Standards

The MD&A, financial statements and accompanying notes are prepared in accordance with the Governmental Accounting Standards Board ("GASB") pronouncements.

Statements of Net Position

The statements of net position present a financial picture of the Station's financial condition at the end of the fiscal year by reporting assets (current and noncurrent), deferred outflows of resources, liabilities (current and noncurrent), deferred inflows of resources and net position (assets less liabilities).

Assets

Total assets of the Station at the end of fiscal year 2020, 2019 and 2018 were \$1,853,699, \$1,710,922, and \$1,785,037, respectively, of which cash and net capital assets represented the largest portions. Cash totaled \$1,651,915 or 89.1% of total assets at June 30, 2020, and net capital assets totaled \$180,434 or 9.7% of total assets at June 30, 2020. Cash totaled \$1,449,200 or 84.7% of total assets at June 30, 2019, and net capital assets totaled \$225,873 or 13.2% of total assets at June 30, 2019.

Liabilities

Liabilities of the Station totaled \$2,881,231, \$2,995,916, and \$3,232,528 at June 30, 2020, 2019 and 2018, respectively, of which unearned revenue of \$635,537, \$378,282, and \$400,322 and represented 22.0%, 12.6%, and 12.4% of total liabilities, respectively. Net pension and net OPEB liabilities were \$2,182,683, \$2,568,893, and \$2,806,012 at June 30, 2020, 2019, and 2018, respectively and represented 75.7%, 85.7%, and 86.8% of total liabilities, respectively.

(Continued)

WESTERN KENTUCKY UNIVERSITY
WKYU-TV
MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2020 and 2019

Net Position

Net position of the Station was \$(2,143,150), \$(2,489,072), and \$(1,827,664) at June 30, 2020, 2019 and 2018, respectively, and were divided into two major categories, defined as follows:

- *Net investment in capital assets* – This category represents the Station's equity in equipment.
- *Unrestricted* – This category represents net position held by the Station that have no formal restrictions placed upon them.

Condensed Statements of Net Position
June 30, 2020, 2019 and 2018

	<u>2020</u>	<u>2019</u>	<u>2018</u>
ASSETS			
Current assets	\$ 1,673,265	\$ 1,485,049	\$ 1,425,906
Capital assets, net	<u>180,434</u>	<u>225,873</u>	<u>359,131</u>
Total assets	1,853,699	1,710,922	1,785,037
DEFERRED OUTFLOWS OF RESOURCES			
Total deferred outflows of resources	<u>300,921</u>	<u>448,330</u>	<u>493,376</u>
Total assets and deferred outflows of resources	<u>\$ 2,154,620</u>	<u>\$ 2,159,252</u>	<u>\$ 2,278,413</u>
LIABILITIES			
Current liabilities	\$ 698,548	\$ 427,023	\$ 426,516
Net pension/OPEB liabilities	<u>2,182,683</u>	<u>2,568,893</u>	<u>2,806,012</u>
Total liabilities	2,881,231	2,995,916	3,232,528
DEFERRED INFLOWS OF RESOURCES			
Total deferred inflows of resources	<u>1,416,539</u>	<u>1,652,408</u>	<u>873,549</u>
NET POSITION			
Net investment in capital assets	180,434	225,873	359,131
Unrestricted	<u>(2,323,584)</u>	<u>(2,714,945)</u>	<u>(2,186,795)</u>
Total net position	<u>(2,143,150)</u>	<u>(2,489,072)</u>	<u>(1,827,664)</u>
Total liabilities, deferred inflows of resources and net position	<u>\$ 2,154,620</u>	<u>\$ 2,159,252</u>	<u>\$ 2,278,413</u>

Statements of Revenues, Expenses and Changes in Net Position

The Statements of Revenues, Expenses and Changes in Net Position, which is generally referred to as the income statement, presents the total revenues (operating and nonoperating) received and earned by the Station and expenses (operating and nonoperating) paid and owed by the Station and income or loss from operations for the fiscal year.

(Continued)

WESTERN KENTUCKY UNIVERSITY
WKYU-TV
MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2020 and 2019

Revenues

Total operating revenues, which exclude University appropriations, of the Station were \$314,528, \$369,678, and \$382,658 for fiscal years ended June 30, 2020, 2019 and 2018, respectively.

The Station received \$645,008, \$772,521, and \$1,010,828 during 2020, 2019 and 2018 of University appropriations and \$502,089, \$490,444, and \$420,305 during 2020, 2019 and 2018, respectively, of administrative support from the University, which is classified as nonoperating revenues. These funds were used to support Station operating activities.

Expenses

Total operating expenses of the Station for 2020, 2019 and 2018 were \$1,991,432, \$3,227,973, and \$2,662,084, respectively.

Condensed Statements of Revenues, Expenses and Changes in Net Position
Years ended June 30, 2020, 2019 and 2018

REVENUES	<u>2020</u>	<u>2019</u>	<u>2018</u>
Operating revenues			
Business and industry underwriting	\$ 8,158	\$ 28,128	\$ 17,398
Production	306,370	341,500	365,060
In-kind contributions	-	50	200
Total operating revenues	<u>314,528</u>	<u>369,678</u>	<u>382,658</u>
 EXPENSES			
Operating expenses			
Program services	1,601,876	1,628,738	1,555,171
Supporting services	344,119	1,405,518	733,722
Depreciation	45,437	193,717	373,191
Total operating expenses	<u>1,991,432</u>	<u>3,227,973</u>	<u>2,662,084</u>
Operating loss	<u>(1,676,904)</u>	<u>(2,858,295)</u>	<u>(2,279,426)</u>
 NONOPERATING REVENUES (EXPENSE)			
General appropriations from Western Kentucky University	645,008	772,521	1,010,828
Grants from Corporation for Public Broadcasting	762,945	817,574	609,217
Indirect administrative support	502,089	490,444	420,305
Miscellaneous income	112,784	116,348	89,349
Interest expense	-	-	(6,943)
Net nonoperating revenues	<u>2,022,826</u>	<u>2,196,887</u>	<u>2,122,756</u>
Change in net position	345,922	(661,408)	(156,670)
Net position, beginning of year	<u>(2,489,072)</u>	<u>(1,827,664)</u>	<u>(1,670,994)</u>
Net position, end of year	<u>\$ (2,143,150)</u>	<u>\$ (2,489,072)</u>	<u>\$ (1,827,664)</u>

(Continued)

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

Statements of Cash Flows

The statement of cash flows provides a summary of the sources and uses of cash by defined categories. The primary purposes of the statement of cash flows are to provide information about the Station's cash receipts and payments during the year and to help assess the Station's ability to generate future net cash flows to meet obligations as they become due.

The major sources of cash from operating activities were business and industry underwriting of \$8,158, \$28,128, and \$17,398 and production of \$306,370, \$341,500, and \$365,060 for fiscal years 2020, 2019 and 2018, respectively. The most significant uses of cash for operating activities were payments to employees of \$1,498,369, \$446,516, and \$1,064,395 and to suppliers of \$893,525, \$1,968,691, and \$1,227,612 during 2020, 2019 and 2018, respectively.

The cash flows from noncapital financing activities included \$1,147,097, \$1,262,965, and \$1,431,133 during 2020, 2019 and 2018, respectively, received as general appropriations and indirect support from the University and \$1,020,200, \$795,534, and \$787,130 received during 2020, 2019 and 2018, respectively, from the Corporation for Public Broadcasting, which are the largest sources of cash for the fiscal years.

The cash flows from capital and related financing activities included \$0, \$60,459, and \$278,898 paid for capital assets and capital lease obligation payments, during fiscal years 2020, 2019 and 2018, respectively.

Condensed Statements of Cash Flows
Years ended June 30, 2020, 2019 and 2018

	<u>2020</u>	<u>2019</u>	<u>2018</u>
Net cash used in operating activities	\$ (2,077,366)	\$ (2,045,529)	\$ (1,909,349)
Net cash provided by noncapital financing activities	2,280,081	2,174,847	2,307,612
Net cash used in capital and related activities	<u>-</u>	<u>(60,459)</u>	<u>(278,898)</u>
Increase in cash	202,715	68,859	119,365
Cash, beginning of year	<u>1,449,200</u>	<u>1,380,341</u>	<u>1,260,976</u>
Cash, end of year	<u>\$ 1,651,915</u>	<u>\$ 1,449,200</u>	<u>\$ 1,380,341</u>

Capital Assets and Long-Term Obligations

Capital Assets

As of June 30, 2020, 2019 and 2018, the Station had \$180,434, \$225,872, and \$359,131 net investment in capital assets consisting of equipment, net of accumulated depreciation of \$7,300,058, \$7,254,620, and \$7,060,902, respectively. Capital assets at June 30, 2020, 2019 and 2018 are summarized below:

	<u>2020</u>	<u>2019</u>	<u>2018</u>
Capital assets	\$ 7,480,492	\$ 7,480,492	\$ 7,420,033
Less accumulated depreciation	<u>(7,300,058)</u>	<u>(7,254,619)</u>	<u>(7,060,902)</u>
Capital assets, net	<u>\$ 180,434</u>	<u>\$ 225,873</u>	<u>\$ 359,131</u>

(Continued)

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

Economic Factors Impacting Future Periods

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

Due to the large amount of investments that are held by the Western Kentucky University Foundation, the Station has to consider the fluctuations in the market. Realized and unrealized losses within these accounts can have an effect on our operations.

In March 2020, the World Health Organization declared the coronavirus (COVID-19) outbreak to be a pandemic. COVID-19 has impacted economic activity and financial markets globally and locally. The continued spread of the disease represents a significant risk that operations could be disrupted in the near future.

The extent to which COVID-19 impacts the Station will depend on future developments, which are still highly uncertain and cannot be predicted. As a result, the Station has not yet determined the impact this disruption may have on its financial statements for the year ending June 30, 2021.

Requests for Information

This financial report is designed to provide a general overview of Western Kentucky University's Public Radio and Television finances. Questions concerning any of the information provided in this report or requests for additional information should be addressed to David Brinkley, Director of Public Broadcasting, Western Kentucky University, Academic Complex 153B, 1906 College Heights Blvd., Bowling Green, Kentucky 42101. You may also contact David Brinkley via email at david.brinkley@wku.edu or via phone at (270) 745-6140.

WESTERN KENTUCKY UNIVERSITY
WKYU-TV
STATEMENTS OF NET POSITION
June 30, 2020 and 2019

	<u>2020</u>	<u>2019</u>
ASSETS		
Current assets		
Cash on deposit with University and Foundation	\$ 1,651,915	\$ 1,449,200
Prepaid expenses	<u>21,350</u>	<u>35,849</u>
Total current assets	<u>1,673,265</u>	<u>1,485,049</u>
Noncurrent assets		
Capital assets	7,480,492	7,480,492
Accumulated depreciation	<u>(7,300,058)</u>	<u>(7,254,619)</u>
Total noncurrent assets	<u>180,434</u>	<u>225,873</u>
Total assets	<u>1,853,699</u>	<u>1,710,922</u>
DEFERRED OUTFLOWS OF RESOURCES		
Deferred outflows – KTRS Pension	167,558	292,863
Deferred outflows – KERS Pension	79,437	104,886
Deferred outflows – KTRS OPEB	18,481	16,099
Deferred outflows – KERS OPEB	<u>35,445</u>	<u>34,482</u>
Total deferred outflows of resources	<u>300,921</u>	<u>448,330</u>
Total assets and deferred outflows of resources	<u>\$ 2,154,620</u>	<u>\$ 2,159,252</u>
LIABILITIES		
Current liabilities		
Accrued payroll	\$ 34,231	\$ 28,870
Accrued vacation	28,780	19,871
Unearned revenue	<u>635,537</u>	<u>378,282</u>
Total current liabilities	<u>698,548</u>	<u>427,023</u>
Non-current liabilities		
Net pension liability – KTRS	783,029	999,838
Net pension liability – KERS	1,035,238	1,129,399
Net OPEB liability – KTRS	202,684	244,369
Net OPEB liability – KERS	<u>161,732</u>	<u>195,287</u>
Total non-current liabilities	<u>2,182,683</u>	<u>2,568,893</u>
Total liabilities	<u>2,881,231</u>	<u>2,995,916</u>
DEFERRED INFLOWS OF RESOURCES		
Deferred inflows – KTRS Pension	1,195,680	1,541,003
Deferred inflows – KERS Pension	93,451	56,320
Deferred inflows – KTRS OPEB	73,206	29,555
Deferred inflows – KERS OPEB	<u>54,202</u>	<u>25,530</u>
Total deferred inflows of resources	<u>1,416,539</u>	<u>1,652,408</u>
NET POSITION		
Net investment in capital assets	180,434	225,873
Unrestricted	<u>(2,323,584)</u>	<u>(2,714,945)</u>
Total net position	<u>(2,143,150)</u>	<u>(2,489,072)</u>
Total liabilities, deferred inflows of resources and net position	<u>\$ 2,154,620</u>	<u>\$ 2,159,252</u>

See accompanying notes to financial statements.

WESTERN KENTUCKY UNIVERSITY
WKYU-TV
STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
Years ended June 30, 2020 and 2019

	<u>2020</u>	<u>2019</u>
REVENUES		
Operating revenues		
Business and industry underwriting	\$ 8,158	\$ 28,128
Production	306,370	341,500
In-kind contributions	-	50
Total operating revenues	<u>314,528</u>	<u>369,678</u>
EXPENSES		
Operating expenses		
Program services		
Programming and production	1,194,138	1,188,624
Broadcasting	389,172	420,783
Program information and promotion	<u>18,566</u>	<u>19,331</u>
	1,601,876	1,628,738
Supporting services		
Management and general	234,635	1,271,487
Fundraising	67,014	102,286
Underwriting	<u>42,468</u>	<u>31,745</u>
	344,117	1,405,518
Depreciation	<u>45,439</u>	<u>193,717</u>
Total operating expenses	<u>1,991,432</u>	<u>3,227,973</u>
Operating loss	<u>(1,676,904)</u>	<u>(2,858,295)</u>
NONOPERATING REVENUES (EXPENSE)		
General appropriation from Western Kentucky University	645,008	772,521
Grants from Corporation for Public Broadcasting	762,945	817,574
Indirect administrative support	502,089	490,444
Subscriptions and memberships	29,265	30,931
Miscellaneous income	<u>83,519</u>	<u>85,417</u>
Net nonoperating revenues (expense)	<u>2,022,826</u>	<u>2,196,887</u>
Change in net position	345,922	(661,408)
Net position, beginning of year	<u>(2,489,072)</u>	<u>(1,827,664)</u>
Net position, end of year	<u>\$ (2,143,150)</u>	<u>\$ (2,489,072)</u>

See accompanying notes to financial statements.

WESTERN KENTUCKY UNIVERSITY
WKYU-TV
STATEMENTS OF CASH FLOWS
Years ended June 30, 2020 and 2019

	<u>2020</u>	<u>2019</u>
Cash flows from operating activities		
Business and industry underwriting received	\$ 8,158	\$ 28,128
Other operating revenues	-	50
Production revenue received	306,370	341,500
Payments to employees	(1,498,369)	(446,516)
Payments to suppliers	<u>(893,525)</u>	<u>(1,968,691)</u>
Net cash used in operating activities	<u>(2,077,366)</u>	<u>(2,045,529)</u>
Cash flows from noncapital financing activities		
General appropriations and indirect support from Western Kentucky University	1,147,097	1,262,965
Grants from Corporation for Public Broadcasting	1,020,200	795,534
Subscriptions and memberships	29,265	30,931
Other noncapital financing activities	<u>83,519</u>	<u>85,417</u>
Net cash provided by noncapital financing activities	<u>2,280,081</u>	<u>2,174,847</u>
Cash flows from capital financing activities		
Purchase of capital assets	-	(60,459)
Net cash used in capital financing activities	<u>-</u>	<u>(60,459)</u>
Increase (decrease) in cash	202,715	68,859
Cash, beginning of year	<u>1,449,200</u>	<u>1,380,341</u>
Cash, end of year	<u>\$ 1,651,915</u>	<u>\$ 1,449,200</u>
Reconciliation of net operating loss to net cash flows used in operating activities		
Operating loss	\$ (1,676,904)	\$ (2,858,295)
Depreciation	45,439	193,717
Changes in operating assets and liabilities		
Prepaid expenses	14,498	9,714
Deferred outflows	147,409	45,045
Deferred inflows	(235,868)	778,859
Net pension liability	(310,970)	(293,821)
Net OPEB liability	(75,240)	56,702
Accrued expenses	<u>14,270</u>	<u>22,550</u>
Net cash used in operating activities	<u>\$ (2,077,366)</u>	<u>\$ (2,045,529)</u>

See accompanying notes to financial statements.

WESTERN KENTUCKY UNIVERSITY
WKYU-TV
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2020 and 2019

NOTE 1 - NATURE OF OPERATIONS

WKYU-TV (the "Station") is an education television station operated by and receiving support from Western Kentucky University (the "University"), Bowling Green, Kentucky. The Station is not considered a component unit but rather an operating unit of the University and its financial activity is included in the financial statements of the University.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation: The Station prepares its financial statements as a business-type activity in conformity with applicable pronouncements of the Governmental Accounting Standards Board ("GASB"). The financial statement presentation provides a comprehensive, entity-wide perspective of the Station's assets, liabilities, deferred outflows and inflows, net position, revenues, expenses, changes in net position and cash flows. The Station's financial statements have been presented using the economic resources measurement focus and the accrual basis of accounting. Under the accrual basis, revenues are recognized when earned, and expenses are recorded when an obligation has been incurred.

As discussed in Note 1, the financial statements of the Station are intended to present the financial position, the changes in financial position, and cash flows of only that portion of the activities of Western Kentucky University that is attributable to the transactions of the Station. They do not purport to, and do not, present fairly the financial position of Western Kentucky University as of June 30, 2020 and 2019, and the changes in its financial position and its cash flows, for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Revenue Recognition: Contributions, pledges and grants are recorded as revenue in the accompanying statement of revenues, expenses and changes in net position. In-kind contributions, other than the contribution from the University, are recognized as revenue at the estimated fair value at the date of the gift.

The portion of the University's indirect costs attributable to the Station's operations and the value of space provided for broadcast facilities are included as revenues and expenses and are computed in accordance with guidelines established by the Corporation for Public Broadcasting ("CPB"). Total indirect administrative support from the University for the years ended June 30, 2020 and 2019 were \$502,089 and \$490,444, respectively.

Expenses: When an expense is incurred for which both restricted and unrestricted net position are available, the Station's policy is to allow for the flexibility to determine whether to first apply restricted or unrestricted resources based on the most advantageous application of resources in the particular circumstances.

Classification of Revenues: The Station has classified its revenues as either operating or nonoperating revenues according to the following criteria:

- *Operating revenues* – Operating revenues include activities that have the characteristics of exchange transactions, such as business and industry underwriting.
- *Nonoperating revenues* – Nonoperating revenues includes activities that have the characteristics of non-exchange transactions, such as (1) college appropriations, (2) most federal, state, and local grants and contracts, and (3) gifts and contributions.

(Continued)

WESTERN KENTUCKY UNIVERSITY
WKYU-TV
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2020 and 2019

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Cash on Deposit with University and Foundation: For administrative purposes, cash balances of the Station are included in bank accounts maintained by the University and the Western Kentucky University Foundation (the "Foundation"). Details of accounting transactions affecting cash are maintained by each entity.

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

The Foundation's cash is on deposit with commercial banks and is federally insured up to \$250,000 per bank by the Federal Deposit Insurance Corporation ("FDIC").

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

- | | |
|--|---------------|
| • Buildings and building improvements | 15 - 40 years |
| • Furniture, fixtures and equipment | 3 - 15 years |
| • Land improvements and infrastructure | 20 years |

Unearned Revenue: Unearned revenue includes grant funding received from the Corporation of Public Broadcasting ("CPB") that has not been expended at the end of the fiscal year. CPB provides funds to the Station at the beginning of a funding period. Thus, any unspent CPB funds at the end of the fiscal year are recorded as unearned revenue until qualifying expenses have been incurred.

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

(Continued)

WESTERN KENTUCKY UNIVERSITY
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NOTES TO THE FINANCIAL STATEMENTS
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NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Recent Accounting Pronouncements Adopted/Implemented:

- GASB Statement No. 95, *Postponement of the Effective Dates of Certain Authoritative Guidance*, issued May 2020 - The provisions of this Statement are effective immediately. The objective of this Statement is to provide temporary relief to governments and other stakeholders in light of the COVID-19 pandemic. That objective is accomplished by postponing the effective dates of certain provisions in Statements and Implementation Guides that first became effective or are scheduled to become effective for periods beginning after June 15, 2018, and later. The adoption of this Standard has no effect on the Station's net position or changes in net position.

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

- GASB Statement No. 84, *Fiduciary Activities*, issued January 2017 - The provisions of this Statement were initially effective for periods beginning after December 15, 2018; however, GASB Statement No. 95, *Postponement of the Effective Dates of Certain Authoritative Guidance*, postponed the effective date by 12 months upon its issuance in May 2020. The objective of this Statement is to improve guidance regarding the identification of fiduciary activities for accounting and financial reporting purposes and how those activities should be reported. The Station's management has not yet determined the effect this statement will have on the Station's financial statements.
- GASB Statement No. 87, *Leases*, issued June 2017 - The provisions of this Statement were initially effective for periods beginning after December 15, 2019; however, GASB Statement No. 95, *Postponement of the Effective Dates of Certain Authoritative Guidance*, postponed the effective date by 18 months upon its issuance in May 2020. The objective of this Statement is to better meet the information needs of financial statement users by improving accounting and financial reporting for leases by governments. This Statement increases the usefulness of governments' financial statements by requiring recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. It establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. Under this Statement, a lessee is required to recognize a lease liability and an intangible right-to-use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources, thereby enhancing the relevance and consistency of information about governments' leasing activities. The Station's management has not yet determined the effect this statement will have on the Station's financial statements.
- GASB Statement No. 89, *Accounting for Interest Cost Incurred before the End of a Construction Period*, issued June 2018 - The provisions of this Statement were initially effective for reporting periods beginning after December 15, 2019; however, GASB Statement No. 95, *Postponement of the Effective Dates of Certain Authoritative Guidance*, postponed the effective date by 12 months upon its issuance in May 2020. The objectives of this Statement are (1) to enhance the relevance and comparability of information about capital assets and the cost of borrowing for a reporting period and (2) to simplify accounting for interest cost incurred before the end of a construction period. The Station's management has not yet determined the effect this statement will have on the Station's financial statements.

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NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

- GASB Statement No. 90, Majority Equity Interests – An Amendment of GASB Statements No. 14 and No. 61, issued August 2018 - The provisions of this Statement were initially effective for reporting periods beginning after December 15, 2019; however, GASB Statement No. 95, *Postponement of the Effective Dates of Certain Authoritative Guidance*, postponed the effective date by 12 months upon its issuance in May 2020. The objectives of this Statement are to improve the consistency and comparability of reporting a government's majority equity interest in a legally separate organization and to improve the relevance of financial statement information for certain component units. The Station's management has not yet determined the effect this statement will have on the Station's financial statements.
- GASB Statement No. 91, Conduit Debt Obligations, issued May 2019 - The provisions of this Statement were initially effective for reporting periods beginning after December 15, 2020; however, GASB Statement No. 95, *Postponement of the Effective Dates of Certain Authoritative Guidance*, postponed the effective date by 12 months upon its issuance in May 2020. The objectives of this Statement are to provide a single method of reporting conduit debt obligations by issuers and eliminate diversity in practice associated with (1) commitments extended by issuers, (2) arrangements associated with conduit debt obligations, and (3) related note disclosures. This Statement achieves those objectives by clarifying the existing definition of a conduit debt obligation; establishing that a conduit debt obligation is not a liability of the issuer; establishing standards for accounting and financial reporting of additional commitments and voluntary commitments extended by issuers and arrangements associated with conduit debt obligations; and improving required note disclosures. The Station's management has not yet determined the effect this statement will have on the Station's financial statements.
- GASB Statement No. 92, Omnibus 2020, issued January 2020 - The objectives of this Statement are to enhance comparability in accounting and financial reporting and to improve the consistency of authoritative literature by addressing practice issues that have been identified during implementation and application of certain GASB Statements. This Statement addresses a variety of topics. The Station's management has not yet determined the effect this statement will have on the Station's financial statements.
- GASB Statement No. 93, Replacement of Interbank Offered Rates, issued March 2020 - The provisions of this Statement were initially effective for reporting periods beginning after June 15, 2020; however, GASB Statement No. 95, *Postponement of the Effective Dates of Certain Authoritative Guidance*, postponed the effective date by 12 months upon its issuance in May 2020. The objective of this Statement is to address those and other accounting and financial reporting implications that result from the replacement of an interbank offered rate (IBOR)—most notably, the London Interbank Offered Rate (LIBOR). As a result of global reference rate reform, LIBOR is expected to cease to exist in its current form at the end of 2021, prompting governments to amend or replace financial instruments for the purpose of replacing LIBOR with other reference rates, by either changing the reference rate or adding or changing fallback provisions related to the reference rate. The Station's management has not yet determined the effect this statement will have on the Station's financial statements.

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NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

- GASB Statement No. 94, *Public-Private and Public-Public Partnerships and Availability Payment Arrangements*, issued March 2020 - The provisions of this Statement are effective for reporting periods beginning after June 15, 2022. The objective of this Statement is to improve financial reporting by addressing issues related to public-private and public-public partnership arrangements (PPPs). As used in this Statement, a PPP is an arrangement in which a government (the transferor) contracts with an operator (a governmental or nongovernmental entity) to provide public services by conveying control of the right to operate or use a nonfinancial asset, such as infrastructure or other capital asset (the underlying PPP asset), for a period of time in an exchange or exchange-like transaction. Some PPPs meet the definition of a service concession arrangement (SCA), which the Board defines in this Statement as a PPP in which (1) the operator collects and is compensated by fees from third parties; (2) the transferor determines or has the ability to modify or approve which services the operator is required to provide, to whom the operator is required to provide the services, and the prices or rates that can be charged for the services; and (3) the transferor is entitled to significant residual interest in the service utility of the underlying PPP asset at the end of the arrangement. The Station's management has not yet determined the effect this statement will have on the Station's financial statements.
- GASB Statement No. 96, *Subscription-Based Information Technology Arrangements*, issued May 2020 - The provisions of this Statement are effective for reporting periods beginning after June 15, 2022. The objective of this Statement is to provide guidance on the accounting and financial reporting for subscription-based information technology arrangements (SBITAs) for government end users (governments). This Statement (1) defines a SBITA; (2) establishes that a SBITA results in a right-to-use subscription asset—an intangible asset—and a corresponding subscription liability; (3) provides the capitalization criteria for outlays other than subscription payments, including implementation costs of a SBITA; and (4) requires note disclosures regarding a SBITA. To the extent relevant, the standards for SBITAs are based on the standards established in Statement No. 87, Leases, as amended. The Station's management has not yet determined the effect this statement will have on the Station's financial statements.
- GASB Statement No. 97, *Certain Component Unit Criteria, and Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans – an amendment of GASB Statements No. 14 and No. 84, and a supersession of GASB Statement No. 32*, issued June 2020 - The provisions of this Statement are effective for reporting periods beginning after June 15, 2021. The objectives of this Statement are to (1) increase consistency and comparability related to the reporting of fiduciary component units in circumstances in which a potential component unit does not have a governing board and the primary government performs the duties that a governing board typically would perform; (2) mitigate costs associated with the reporting of certain defined contribution pension plans, defined contribution other postemployment benefit (OPEB) plans, and employee benefit plans other than pension plans or OPEB plans (other employee benefit plans) as fiduciary component units in fiduciary fund financial statements; and (3) enhance the relevance, consistency, and comparability of the accounting and financial reporting for Internal Revenue Code (IRC) Section 457 deferred compensation plans (Section 457 plans) that meet the definition of a pension plan and for benefits provided through those plans. The Station's management has not yet determined the effect this statement will have on the Station's financial statements.

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NOTE 3 - CAPITAL ASSETS

Capital assets consist of property and equipment. Capital asset activity for the year ended June 30, 2020 is as follows:

	<u>Balance June 30, 2019</u>	<u>Additions</u>	<u>Deletions/ Retirements</u>	<u>Balance June 30, 2020</u>
Capital assets	\$ 7,480,492	\$ -	\$ -	\$ 7,480,492
Less accumulated depreciation	<u>(7,254,619)</u>	<u>(45,439)</u>	<u>-</u>	<u>(7,300,058)</u>
Total capital assets, net	<u>\$ 225,873</u>	<u>\$ (45,439)</u>	<u>\$ -</u>	<u>\$ 180,434</u>

Capital assets consist of property and equipment. Capital asset activity for the year ended June 30, 2019 is as follows:

	<u>Balance June 30, 2018</u>	<u>Additions</u>	<u>Deletions/ Retirements</u>	<u>Balance June 30, 2019</u>
Capital assets	\$ 7,420,033	\$ 60,459	\$ -	\$ 7,480,492
Less accumulated depreciation	<u>(7,060,902)</u>	<u>(193,717)</u>	<u>-</u>	<u>(7,254,619)</u>
Total capital assets, net	<u>\$ 359,131</u>	<u>\$ (133,258)</u>	<u>\$ -</u>	<u>\$ 225,873</u>

NOTE 4 - NATURAL AND FUNCTIONAL CLASSIFICATIONS OF OPERATING EXPENSES

The Station's operating expenses by natural classification were as follows:

	<u>Natural Classification 2020</u>			
	<u>Compensation and Benefits</u>	<u>Other</u>	<u>Depreciation</u>	<u>Total</u>
Program and supporting services	\$ 1,037,968	\$ 908,025	\$ -	\$ 1,945,993
Depreciation	<u>-</u>	<u>-</u>	<u>45,439</u>	<u>45,439</u>
Total operating expenses	<u>\$ 1,037,968</u>	<u>\$ 908,025</u>	<u>\$ 45,439</u>	<u>\$ 1,991,432</u>

	<u>Natural Classification 2019</u>			
	<u>Compensation and Benefits</u>	<u>Other</u>	<u>Depreciation</u>	<u>Total</u>
Program and supporting services	\$ 1,055,851	\$ 1,978,405	\$ -	\$ 3,034,256
Depreciation	<u>-</u>	<u>-</u>	<u>193,717</u>	<u>193,717</u>
Total operating expenses	<u>\$ 1,055,851</u>	<u>\$ 1,978,405</u>	<u>\$ 193,717</u>	<u>\$ 3,227,973</u>

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WESTERN KENTUCKY UNIVERSITY
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NOTE 5 - RISK MANAGEMENT

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

In 2006, the University opted out of the Kentucky public entity risk pool and began self-insuring workers' compensation claims. The University contracts with a third-party administrator for administration services related to workers' compensation claims.

In March 2020, the World Health Organization declared the coronavirus (COVID-19) outbreak to be a pandemic. COVID-19 has impacted economic activity and financial markets globally and locally. The continued spread of the disease represents a significant risk that operations could be disrupted in the near future.

The extent to which COVID-19 impacts the Station will depend on future developments, which are still highly uncertain and cannot be predicted. As a result, the Station has not yet determined the impact this disruption may have on its financial statements for the year ending June 30, 2021.

NOTE 6 - DEFINED BENEFIT PENSION AND OTHER POSTEMPLOYMENT BENEFITS PLANS

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

Optional Retirement Plan

Plan Description – University faculty and administrative staff hired after July 1, 1996, have the option of participating in the Optional Retirement Program, a defined contribution pension plan. The plan is administered by one of three providers chosen by the employee. The plan provides retirement benefits to plan members. Benefit provisions are contained in the plan document and were established and may be amended by action of the Commonwealth of Kentucky. For the years ended June 30, 2020 and 2019, contribution rates for plan members and the University expressed as a percentage of covered payrolls were 6.16% and 8.74%, respectively. Of the University's contribution, 0.00% is paid to Kentucky Teachers' Retirement System for unfunded liabilities.

The University's contributions to the Optional Retirement Program on behalf of the Station for the years ended June 30, 2020 and 2019 were \$13,608 and \$11,259, respectively. Employees' contributions to the Optional Retirement Program for the years ended June 30, 2020 and 2019 were \$9,591 and \$7,936, respectively.

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June 30, 2020 and 2019

NOTE 6 - DEFINED BENEFIT PENSION AND OTHER POSTEMPLOYMENT BENEFITS PLANS
(Continued)

Kentucky Employees Retirement System

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

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

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

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

	Tier 1 Participation Prior to <u>9/1/2008</u>	Tier 2 Participation <u>9/1/2008 through 12/31/13</u>	Tier 3 Participation <u>1/1/2014</u>
Benefit Formula	Final Compensation X Benefit Factor X Years of Service		Cash Balance Plan
Final Compensation	Average of the highest 5 fiscal years (must contain at least 48 months). Includes lump-sum compensation payments (before and at retirement).	5 complete fiscal years immediately preceding retirement; each year must contain 12 months. Lump-sum compensation payments (before and at retirement) are not to be included in creditable compensation.	No Final Compensation
Benefit Factor	1.97% or 2.0% for those retiring with service for all months between 1/1998 and 1/1999.	10 years or less = 1.10%. Greater than 10 years, but no more than 20 years = 1.30%. Greater than 20 years, but no more than 26 years = 1.50%. Greater than 26 years, but no more than 30 years = 1.75%. Additional years above 30 = 2.00% (2.00% benefit factor only applies to service earned in excess of 30 years).	No benefit factor. A life annuity can be calculated in accordance with actuarial assumptions and methods adopted by the board based on member's accumulated account balance.

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WESTERN KENTUCKY UNIVERSITY
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NOTE 6 - DEFINED BENEFIT PENSION AND OTHER POSTEMPLOYMENT BENEFITS PLANS
(Continued)

Kentucky Employees Retirement System (Continued)

Cost of Living Adjustment (COLA)	No COLA unless authorized by the Legislature. If authorized, the COLA is limited to 1.5%. This impacts all retirees regardless of Tier.	
Unreduced Retirement Benefit	Any age with 27 years of service. Age 65 with 48 months of service. Money purchase for age 65 with less than 48 months based on contributions and interest.	Rule of 87: Member must be at least age 57 and age plus earned service must equal 87 years at retirement to retire under this provision. Age 65 with 5 years of earned service. No month purchased calculations.
Reduced Retirement Benefit	Any age with 25 years of service. Age 55 with 5 years of service.	Age 60 with 10 years of service. Excludes purchased service (exception: refunds, omitted, free military). No reduced retirement benefit.

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

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

Benefit Eligibility: Recipient of a retirement allowance

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

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

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

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

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

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

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

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

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NOTE 6 - DEFINED BENEFIT PENSION AND OTHER POSTEMPLOYMENT BENEFITS PLANS
(Continued)

Kentucky Employees Retirement System (Continued)

For the fiscal years ended June 30, 2020 and 2019, participating employers in the plan contributed 49.47% (41.06% allocated to pension and 8.41% allocated to OPEB) as set by KRS, of each employee's creditable compensation. These percentages are inclusive of both pension and insurance payments for employers. Administrative costs of KRS are financed through employer contributions and investments earnings.

The University has met 100% of the contribution funding requirement for the fiscal years ended June 30, 2020 and 2019. Total contributions by the Plan were \$8,172,348 (\$6,826,979 related to pension and \$1,345,369 related to OPEB) and \$8,736,893 (\$7,300,009 related to pension and \$1,436,884 related to OPEB) for the years ended June 30, 2020 and 2019, respectively. The OPEB contributions amount does not include the implicit subsidy of \$311,410 and \$272,302 for fiscal years ended June 30, 2020 and 2019, respectively. Contributions related to the Station were \$50,356 (\$41,795 related to pension and \$8,561 related to OPEB) and \$54,609 (\$45,329 related to pension and \$9,280 related to OPEB) for the years ended June 30, 2020 and 2019, respectively.

Members whose participation began before 9/1/2008:

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

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

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

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

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

Pension Information

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

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WESTERN KENTUCKY UNIVERSITY
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June 30, 2020 and 2019

NOTE 6 - DEFINED BENEFIT PENSION AND OTHER POSTEMPLOYMENT BENEFITS PLANS
(Continued)

Kentucky Employees Retirement System (Continued)

June 30, 2019:

Valuation date	June 30, 2018
Actuarial cost method	Entry Age Normal
Amortization method	Level percent of pay
Price inflation	2.30 percent
Salary increases	3.55 to 15.55 percent
Amortization period	26 years, closed
Investment rate of return	5.25 percent

June 30, 2018:

Valuation date	June 30, 2017
Actuarial cost method	Entry Age Normal
Amortization method	Level percent of pay
Price Inflation	2.30 percent
Salary increases	3.05 percent, average
Amortization period	27 years, closed
Investment rate of return	5.25 percent

The mortality table used for active members is RP-2000 Combined Mortality Table projected with Scale BB to 2013 (multiplied by 50% for males and 30% for females). For healthy retired members and beneficiaries, the mortality table used is the RP-2000 Combined Mortality Table projected with Scale BB to 2013 (set back 1 year for females). For disabled members, the RP-2000 Combined Disabled Mortality Table projected with Scale BB to 2013 (set back 4 years for males) is used for the period after disability retirement. There is some margin in the current mortality tables for possible future improvement in mortality rates and that margin will be reviewed again when the next experience investigation is conducted. The actuarial assumptions used in the June 30, 2018 and 2017 actuarial valuation were based on the results of an actuarial experience study for the period July 1, 2008 – June 30, 2013.

Discount rate assumptions:

- (a) Discount Rate: The discount rate used to measure the total pension liability was 5.25%.
- (b) Projected Cash Flows: The projection of cash flows used to determine the discount rate assumed the local employers and plan members would contribute the statutorily determined contribution rate of projected compensation over the remaining 26-year amortization period of the unfunded actuarial accrued liability. The actuarial determined contribution rate is adjusted to reflect the phase in of anticipated gains on actuarial value of assets over the first four years of the projection period.
- (c) Long-Term Rate of Return: The long-term expected rate of return was determined by using a building-block method in which best-estimate ranges of expected future real rate of returns are developed for each asset class. The ranges are combined by weighting the expected future real rate of return by the target asset allocation percentage.
- (d) Municipal Bond Rate: The discount rate determination does not use a municipal bond rate.

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June 30, 2020 and 2019

NOTE 6 - DEFINED BENEFIT PENSION AND OTHER POSTEMPLOYMENT BENEFITS PLANS
(Continued)

Kentucky Employees Retirement System (Continued)

- (e) Periods of Projected Benefit Payments: The long-term assumed rate of return was applied to all periods of projected benefit payments to determine the total pension liability.
- (f) Assumed Asset Allocation: The target asset allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

2019

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

(Continued)

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NOTE 6 - DEFINED BENEFIT PENSION AND OTHER POSTEMPLOYMENT BENEFITS PLANS
(Continued)

Kentucky Employees Retirement System (Continued)

2018

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
US Equity		
US Large Cap	8.50%	4.50%
US Mid Cap	5.00%	4.50%
US Small Cap	4.00%	5.50%
Non-US Equity		
International Developed	12.50%	6.50%
Emerging Markets	5.00%	7.25%
Global Bonds	10.00%	3.00%
Credit Fixed		
Global IG Credit	10.00%	3.75%
High Yield	3.00%	5.50%
Emerging Market Debt	4.00%	6.00%
Private Equity	10.00%	6.50%
Real Estate	5.00%	7.00%
Absolute Return	10.00%	5.00%
Real Return	10.00%	5.00%
Cash	<u>3.00%</u>	1.50%
Total	<u>100.00%</u>	

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

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

2020

	1% Decrease (<u>4.25%</u>)	Current Discount Rate (<u>5.25%</u>)	1% Increase (<u>6.25%</u>)
Proportionate Share of the Net Pension Liability	\$ 1,186,763	\$ 1,035,238	\$ 910,016

(Continued)

WESTERN KENTUCKY UNIVERSITY
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June 30, 2020 and 2019

NOTE 6 - DEFINED BENEFIT PENSION AND OTHER POSTEMPLOYMENT BENEFITS PLANS
(Continued)

Kentucky Employees Retirement System (Continued)

2019

	1% Decrease (4.25%)	Current Discount Rate (5.25%)	1% Increase (6.25%)
Proportionate Share of the Net Pension Liability	\$ 1,286,644	\$ 1,129,399	\$ 998,434

Employer's Portion of the Collective Net Pension Liability: The Station's proportionate share of the net pension liability at June 30, 2020 and 2019 is \$1,035,238, or approximately 0.007% and \$1,129,399, or approximately 0.008%, respectively. The net pension liabilities were distributed based on the employer's covered payroll provided for the measurement period ending June 30, 2019 and actual employer contributions to the plan for the measurement period ending June 30, 2018.

Measurement Date: June 30, 2018 and 2017 are the actuarial valuation dates and June 30, 2019 and 2018 are the measurement date upon which the total pension liability is based.

Changes in Assumptions and Benefit Terms: There were several assumption changes resulting from the 2018 Actuarial Experience Study including slight changes in salary increase assumptions, a change in the mortality tables to reflect updated mortality experience, and nominal changes in retirement, termination/withdrawal, and disability incidence rates. The changes resulted in a less than 5% increase in the unfunded actuarial accrued liabilities and employer contribution rate, and a less than 5% decrease in the Plan's funded ratio.

During the 2019 special legislative session, House Bill 1 was enacted, which allows certain employers in to elect to cease participating in the System as of June 30, 2020. Since each employer's election is unknown at this time and the legislation was enacted after the June 30, 2019 measurement date, no adjustments were made to the Total Pension Liability to reflect this legislation.

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

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

Pension Expense: The Station was allocated pension expense of \$25,971 and \$98,957 for the years ending June 30, 2020 and 2019, respectively.

(Continued)

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NOTE 6 - DEFINED BENEFIT PENSION AND OTHER POSTEMPLOYMENT BENEFITS PLANS
(Continued)

Kentucky Employees Retirement System (Continued)

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

Deferred inflows and outflows as of the Measurement Date include:

<u>2020</u>	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Difference between expected and actual experience	\$ 6,123	\$ -
Change of assumptions	31,521	-
Changes in proportion and differences between employer contributions and proportionate shares of contributions	-	91,341
Net differences between expected and actual investment earning on plan investments	-	2,110
	<u>37,644</u>	<u>93,451</u>
Contributions subsequent to the measurement date	<u>41,793</u>	-
Total	<u>\$ 79,437</u>	<u>\$ 93,451</u>
 <u>2019</u>		
	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Difference between expected and actual experience	\$ 8,045	\$ 3,159
Change of assumptions	50,437	-
Changes in proportion and differences between employer contributions and proportionate shares of contributions	-	53,161
Net differences between expected and actual investment earning on plan investments	1,078	-
	<u>59,560</u>	<u>56,320</u>
Contributions subsequent to the measurement date	<u>45,326</u>	-
Total	<u>\$ 104,886</u>	<u>\$ 56,320</u>

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NOTE 6 - DEFINED BENEFIT PENSION AND OTHER POSTEMPLOYMENT BENEFITS PLANS
(Continued)

Kentucky Employees Retirement System (Continued)

Deferred outflows of resources resulting from employer contributions subsequent to the measurement date of \$41,793 will be recognized as a reduction of net pension liability in the year ending June 30, 2020. The remainder of the deferred outflows and deferred inflows of resources are amortized over three to five years with remaining amortization as follows:

Year ending June 30:	
2021	\$ (35,010)
2022	(20,061)
2023	(676)
2024	<u>(60)</u>
	<u>\$ (55,807)</u>

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

OPEB Information

Total OPEB Liability: The total OPEB liability was measured as of June 30, 2019 and 2018, using the following actuarial assumptions, applied to all periods included in the measurement:

June 30, 2019:

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

(Continued)

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NOTE 6 - DEFINED BENEFIT PENSION AND OTHER POSTEMPLOYMENT BENEFITS PLANS
(Continued)

Kentucky Employees Retirement System (Continued)

June 30, 2018:

Actuarial valuation date	June 30, 2017
Price inflation	2.30 percent
Payroll growth rate	0.00 percent
Salary increases	3.05 percent, average
Investment rate of return	6.25
Healthcare trend rates:	
Pre-65	Initial trend starting at 7.25 percent at January 1, 2019 and gradually decreasing to an ultimate trend rate of 4.05 percent over a period of 13 years.
Post-65	Initial trend starting at 5.10 percent at January 1, 2019 and gradually decreasing to an ultimate trend rate of 4.05 percent over a period of 11 years.

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

Discount rate assumptions:

- (a) **Discount Rate:** The discount rate used to measure the total OPEB liability was 5.73%, which was decreased from the 5.86% discount rate used in the prior year.
- (b) **Projected Cash Flows:** The projection of cash flows used to determine the discount rate assumed the local employers and plan members would contribute the actuarially determined contribution rate of projected compensation over the remaining 26-year amortization period of the unfunded actuarial accrued liability.
- (c) **Long-Term Rate of Return:** The long-term expected rate of return was determined by using a building-block method in which best-estimate ranges of expected future real rate of returns are developed for each asset class. The ranges are combined by weighting the expected future real rate of return by the target asset allocation percentage.
- (d) **Municipal Bond Rate:** The discount rate determination used a municipal bond rate of 3.13% as reported in Fidelity Index's "20 – Year Municipal GO AA Index" as of June 28, 2019, which was decreased from the 3.56% municipal bond rate used in the prior year.

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NOTE 6 - DEFINED BENEFIT PENSION AND OTHER POSTEMPLOYMENT BENEFITS PLANS
(Continued)

Kentucky Employees Retirement System (Continued)

- (e) Period of Projected Benefit Payments: Current assets, future contributions, and investment earnings are projected to be sufficient to pay the projected benefit payments from the retirement system. However, the cost associated with the implicit employer subsidy is not currently being included in the calculation of the system's actuarial determined contributions, and it is the actuary's understanding that any cost associated with the implicit subsidy will not be paid out of the system's trust. Therefore, the municipal bond rate was applied to future expected benefit payments associated with the implicit subsidy.
- (f) Assumed Asset Allocations: The long-term expected rate of return was determined by using a building-block method in which best-estimate ranges of expected future real rate of returns are developed for each asset class. The ranges are combined by weighting the expected future real rate of return by the target asset allocation percentage. The target asset allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

2019

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

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NOTE 6 - DEFINED BENEFIT PENSION AND OTHER POSTEMPLOYMENT BENEFITS PLANS
(Continued)

Kentucky Employees Retirement System (Continued)

2018

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
US Equity		
US Large Cap	5.00%	4.50%
US Mid Cap	6.00%	4.50%
US Small Cap	6.50%	5.50%
Non-US Equity		
International Developed	12.50%	6.50%
Emerging Markets	5.00%	7.25%
Global Bonds	4.00%	3.00%
Credit Fixed		
Global IG Credit	2.00%	3.75%
High Yield	7.00%	5.50%
Emerging Market Debt	5.00%	6.00%
Illiquid Private	10.00%	8.50%
Private Equity	10.00%	6.50%
Real Estate	5.00%	9.00%
Absolute Return	10.00%	5.00%
Real Return	10.00%	7.00%
Cash	<u>2.00%</u>	1.50%
 Total	 <u><u>100.00%</u></u>	

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

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(Continued)

Kentucky Employees Retirement System (Continued)

- (g) Sensitivity Analysis: This paragraph requires disclosure of the sensitivity of the net OPEB liability to changes in the discount rate and changes in the healthcare cost trend rate.

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

2020

	<u>1% Decrease</u> <u>(4.73%)</u>	<u>Current</u> <u>Discount Rate</u> <u>(5.73%)</u>	<u>1% Increase</u> <u>(6.73%)</u>
The Station's Net OPEB liability	\$ 194,016	\$ 161,732	\$ 137,361

2019

	<u>1% Decrease</u> <u>(4.86%)</u>	<u>Current</u> <u>Discount Rate</u> <u>(5.86%)</u>	<u>1% Increase</u> <u>(6.86%)</u>
The Station's Net OPEB liability	\$ 230,742	\$ 195,287	\$ 168,300

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

2020

	<u>1% Decrease</u>	<u>Current Healthcare</u> <u>Cost Trend Rate</u>	<u>1% Increase</u>
The Station's Net OPEB liability	\$ 138,430	\$ 161,732	\$ 192,593

2019

	<u>1% Decrease</u>	<u>Current Healthcare</u> <u>Cost Trend Rate</u>	<u>1% Increase</u>
The Station's Net OPEB liability	\$ 167,204	\$ 195,287	\$ 232,091

Employer's Portion of the Collective OPEB Liability: The Station's proportionate share of the net OPEB liability, at June 30, 2020 and 2019, is \$161,732, or approximately 0.001% and \$195,287, or approximately 0.008%. The net OPEB liabilities were distributed based on 2019 and 2018 actual employer contributions to the plan.

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NOTE 6 - DEFINED BENEFIT PENSION AND OTHER POSTEMPLOYMENT BENEFITS PLANS
(Continued)

Kentucky Employees Retirement System (Continued)

Measurement Date: June 30, 2019 and 2018 is the actuarial valuation date and measurement date upon which the total OPEB liability is based.

Changes in Assumptions and Benefit Terms: There were several assumption changes resulting from the 2018 Actuarial Experience Study including a change in the mortality tables to reflect updated mortality experience, and nominal changes in retirement, termination/withdrawal, and disability incidence rates. The changes resulted in an approximate 7% increase in the unfunded actuarial accrued liabilities and employer contribution rate, and a less than 5% decrease in the Plan's funded ratio. There were no benefit changes since the last actuarial report.

During the 2019 special legislative session, House Bill 1 was enacted, which allows certain employers in to elect to cease participating in the System as of June 30, 2020. Since each employer's election is unknown at this time and the legislation was enacted after the June 30, 2019 measurement date, no adjustments were made to the Total OPEB Liability to reflect this legislation.

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

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

OPEB Expense: The Station was allocated OPEB expense of \$7,123 and \$17,561 for the year ending June 30, 2020 and 2019, respectively.

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

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(Continued)

Kentucky Employees Retirement System (Continued)

Deferred inflows and outflows as of the Measurement Date include:

2020

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Difference between expected and actual experience	\$ -	\$ 25,990
Change of assumptions	24,921	3,671
Changes in proportion and differences between employer contributions and proportionate shares of contributions	-	23,472
Net differences between expected and actual investment earning on plan investments	<u>-</u>	<u>1,069</u>
	24,921	54,202
Contributions subsequent to the measurement date	<u>10,524</u>	<u>-</u>
Total	<u>\$ 35,445</u>	<u>\$ 54,202</u>

2019

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Difference between expected and actual experience	\$ -	\$ 14,166
Change of assumptions	23,421	820
Changes in proportion and differences between employer contributions and proportionate shares of contributions	-	7,366
Net differences between expected and actual investment earning on plan investments	<u>-</u>	<u>3,178</u>
	23,421	25,530
Contributions subsequent to the measurement date	<u>11,061</u>	<u>-</u>
Total	<u>\$ 34,482</u>	<u>\$ 25,530</u>

Deferred outflows of resources resulting from employer contributions subsequent to the measurement date of \$10,524 will be recognized as a reduction of net OPEB liability in the year ending June 30, 2020. The remainder of the deferred outflows and deferred inflows of resources are amortized over three to five years with remaining amortization as follows:

Year ending June 30:	
2021	\$ (6,478)
2022	(6,478)
2023	(11,179)
2024	<u>(5,146)</u>
	<u>\$ (29,281)</u>

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(Continued)

Kentucky Teachers' Retirement System

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

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

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

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

Pension Plan Information

Pension Benefits Provided: The information below summarizes the major retirement benefit provisions of KTRS plan. It is not intended to be, nor should it be interpreted as, a complete statement of all benefit provisions:

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 (Continued)

Kentucky Teachers' Retirement System (Continued)

	Tier 1 Participation Prior to <u>July 1, 2008</u>	Tier 2 Participation on or After <u>July 1, 2008</u>
Covered Employees:	University faculty and professional staff that do not choose the Optional Retirement Plan (Deferred Contribution)	University faculty and professional staff that do not choose the Optional Retirement Plan (Deferred Contribution)
Benefit Formula:	Final Compensation X Benefit Factor X Years of Service	
Final Compensation:	Average of the highest 5 annual salaries reduced 5% per year from the earlier of age 60 or the date 27 years of service would have been completed. Average of the highest 3 annual salaries if age 55 with 27 or more years of service. The minimum annual service allowance for all members is \$440 multiplied by credited service.	Average of the highest 5 annual salaries reduced 6% per year from the earlier of age 60 or the date 27 years of service would have been completed. Average of the highest 3 annual salaries if age 55 with 27 or more years of service. The minimum annual service allowance for all members is \$440 multiplied by credited service.
Benefit Factor:	Non-University members: 2.00% for service prior to 7/1/1983; 2.50% for service after 7/1/1983; 2.00% if participation after 7/1/2002 and less than 10 years; 2.50% if participation after 7/1/2002 and more than 10 years; 3.00% if retire after 7/1/2004 with more than 30 years. University members: 2.0% for each year of service.	Non-University members: 1.70% if less than 10 years; 2.00% if greater than 10 years, but no more than 20 years; 2.30% if greater than 20 years, but no more than 26 years; 2.50% if greater than 26 years, but no more than 30 years; 3.00% for service greater than 30 years. University members: 1.50% if less than 10 years; 1.70% if greater than 10 years, but less than 20 years; 1.85% if greater than 20 years, but less than 27 years; 2.00% if greater than 27 years.

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(Continued)

Kentucky Teachers' Retirement System (Continued)

Cost of Living Adjustment (COLA):	1.5% annually additional ad hoc increases must be authorized by the General Assembly.	
Unreduced Retirement Benefit:	Any age with 27 years of Kentucky service. Age 55 with 5 years of Kentucky service.	Any age with 27 years of Kentucky service. Age 60 with 5 years of Kentucky service. Age 55 with 10 years of Kentucky service.
Reduced Retirement Benefit:	Must be retired for service or disability to be eligible. Retired members are given a supplement based upon a contribution supplement table approved by the KTRS Board of Trustees. The retired member pays premiums in excess of the monthly supplement.	

Contributions - Benefit and contribution rates are established by state statute. Per Kentucky Revised Statutes 161.540, 161.550 and 161.565, contribution requirements of the active employees and the participating organizations are established and may be amended by the KTRS Board. For the fiscal year ended June 30, 2020 and 2019, University employees were required to contribute 8.185% of their annual covered salary for retirement benefits. The University was contractually required to contribute 15.865% (14.040% allocated to pension, 1.775% allocated to medical insurance and 0.05% allocated to life insurance) of covered payroll for the fiscal years ended June 30, 2020 and 2019. The actuarially determined amount, when combined with employee contributions, is expected to finance the cost of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability.

The University has met 100% of the contribution funding requirement for the fiscal years ended June 30, 2020 and 2019. Total contributions by the Plan were \$7,414,307 (\$6,247,531 related to pension and \$1,166,776 related to OPEB) and \$7,762,578 (\$6,538,986 related to pension and \$1,223,592 related to OPEB) for the years ended June 30, 2020 and 2019, respectively. In addition, the Commonwealth of Kentucky contributes ad hoc annual cost of living adjustments provided by the General Assembly for KTRS retirees. This contribution totaled \$7,086,818 and \$7,113,487 for the year ending June 30, 2020 and 2019. Contributions related to the Station were \$72,656 (\$61,230 related to pension and \$11,426 related to OPEB) and \$103,304 (\$90,830 related to pension and \$12,474 related to OPEB) for the years ended June 30, 2020 and 2019, respectively.

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

	<u>2020</u>	<u>2019</u>
Station's proportionate share of the net pension liability	\$ 783,029	\$ 999,838
Commonwealth of Kentucky's proportionate share of the net pension liability associated with the Station	<u>848,489</u>	<u>743,872</u>
	<u>\$ 1,631,518</u>	<u>1,743,710</u>

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NOTE 6 - DEFINED BENEFIT PENSION AND OTHER POSTEMPLOYMENT BENEFITS PLANS
(Continued)

Kentucky Teachers' Retirement System (Continued)

The net pension liability was measured as of June 30, 2019 and 2018. The Station's proportion of the net pension liability was based on actual contributions to the pension plan during the measurement period. At June 30, 2020 and 2019 Station's proportion was 0.005% percent and 0.007% respectively, and the Commonwealth of Kentucky's proportion associated with the Station was 0.006% and 0.005%, respectively.

For the years ended June 30, 2020 and 2019, the Station recognized pension expense of (\$531,000) and \$(453,840) and revenue of (\$84,420) and \$(36,486). At June 30, 2020, the Station reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

<u>2020</u>	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected an actual experience	\$ 2,334	\$ 49,955
Change in assumptions	66,362	416,955
Net difference between projected and actual earnings on investments	-	6,569
Changes in proportionate share of contributions	<u>37,636</u>	<u>722,201</u>
	106,332	1,195,680
Contributions subsequent to the measurement date	<u>61,226</u>	-
	<u>\$ 167,558</u>	<u>\$ 1,195,680</u>
<u>2019</u>	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected an actual experience	\$ 8,105	\$ 100,757
Change in assumptions	168,431	797,814
Net difference between projected and actual earnings on investments	-	24,712
Changes in proportionate share of contributions	<u>54,207</u>	<u>617,720</u>
	230,743	1,541,003
Contributions subsequent to the measurement date	<u>62,120</u>	-
	<u>\$ 292,863</u>	<u>\$ 1,541,003</u>

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(Continued)

Kentucky Teachers' Retirement System (Continued)

At June 30, 2020, the Station reported \$61,226 as deferred outflows of resources related to pensions resulting from Station contributions subsequent to the measurement date that will be recognized as a reduction of the net pension liability in the following fiscal year. Deferred outflows and deferred inflows of resources at June 30, 2020, related to pensions will be recognized in pension expense as follows:

Year ended June 30:		\$
2021		(528,182)
2022		(357,618)
2023		(174,813)
2024		(28,735)
		\$ (1,089,348)

Actuarial assumptions - The total pension liability ("TPL") was determined by actuarial valuations as of June 30, 2018 and 2017, using the following actuarial assumptions, applied to all periods included in the measurement:

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

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

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

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

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

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

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NOTE 6 - DEFINED BENEFIT PENSION AND OTHER POSTEMPLOYMENT BENEFITS PLANS
(Continued)

Kentucky Teachers' Retirement System (Continued)

<u>2018</u>	<u>Target</u>	<u>Long-Term Nominal</u>
<u>Asset Class</u>	<u>Allocation</u>	<u>Rate of Return</u>
U.S. Equity	40.0%	4.2%
Non-U.S. Equity	22.0	5.2
Fixed Income	15.0	1.2
Additional categories*	8.0	3.3
Real estate	6.0	3.8
Private equity	7.0	6.3
Cash	<u>2.0</u>	0.9
Total	<u>100.0%</u>	

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

Changes in Assumptions and Benefit Terms Since Prior Measurement Date - The total pension liability as of June 30, 2019 reflects that the assumed municipal bond index rate decreased from 3.89% to 3.50%, however, the Single Equivalent Interest Rate (SEIR) remained unchanged at 7.50%.

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

Discount rate - The discount rate used to measure the total pension liability at June 30, 2019 and 2018 was 7.50%. The projection of cash flows used to determine the discount rate assumed that plan member contributions will be made at the current contribution rates and the Employer contributions will contribute the Actuarially Determined Contribution (ADC) in accordance with the LIF's funding policy determined by a valuation performed on a date two years prior to the beginning of the fiscal year in which the ADC applies.

Based on those assumptions, the pension plan's fiduciary net position at June 30, 2019 was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Based on those assumptions, the pension plan's fiduciary net position at June 30, 2019 was projected to be available to make all projected future benefit payments of current plan members until the 2038 plan year. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments through 2037 and a municipal bond index rate of 3.50% was applied to all periods of projected benefit payments after 2037. The SEIR that discounts the entire projected benefit stream to the same amount as the sum of the present values of the two separate benefit payments streams was used to determine the total pension liability.

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NOTE 6 - DEFINED BENEFIT PENSION AND OTHER POSTEMPLOYMENT BENEFITS PLANS
(Continued)

Kentucky Teachers' Retirement System (Continued)

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

<u>2020</u>	1% Decrease <u>(6.50%)</u>	Current Discount Rate <u>(7.50%)</u>	1% Increase <u>(8.50%)</u>
Proportionate share of the Collective Net Pension Liability <i>(in thousands)</i>	\$ 999,105	\$ 783,029	\$ 600,170
<u>2019</u>	1% Decrease <u>(6.50%)</u>	Current Discount Rate <u>(7.50%)</u>	1% Increase <u>(8.50%)</u>
Proportionate share of the Collective Net Pension Liability <i>(in thousands)</i>	\$ 1,281,689	\$ 999,838	\$ 762,807

Medical Insurance Plan

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

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

Contributions - In order to fund the post-retirement healthcare benefit, seven and one-half percent (7.50%) of the gross annual payroll of members is contributed. Three percent (3.75%) is paid by member contributions and three quarters percent (.75%) from state appropriation and three percent (3.00%) from the employer. The state contributes the net cost of health insurance premiums for members who retired on or after July 1, 2010 who are in the non-Medicare eligible group. Also, the premiums collected from retirees as described in the plan description and investment interest help meet the medical expenses of the plan.

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NOTE 6 - DEFINED BENEFIT PENSION AND OTHER POSTEMPLOYMENT BENEFITS PLANS
(Continued)

Kentucky Teachers' Retirement System (Continued)

OPEB Liabilities, OPEB Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEBs - At June 30, 2020 and 2019, the Station reported a liability of \$198,147 and \$240,056, respectively, for its proportionate share of the collective net OPEB liability that reflected a reduction for state OPEB support provided to the Station. The collective net OPEB liability was measured as of June 30, 2019, and the total OPEB liability used to calculate the collective net OPEB liability was based on a projection of the Station's long-term share of contributions to the OPEB plan relative to the projected contributions of all participating employers, actuarially determined. At June 30, 2019 and 2018, the Station's proportion was 0.007% and 0.007%, respectively.

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

	<u>2020</u>	<u>2019</u>
Station's proportionate share of the net OPEB liability	\$ 198,147	\$ 240,056
State's proportionate share of the net OPEB liability associated with the Station	<u>88,386</u>	<u>117,487</u>
Total	<u>\$ 286,532</u>	<u>\$ 357,543</u>

For the years ended June 30, 2020 and 2019, the Station recognized OPEB expense of \$7,125 and \$10,080 and revenue of \$5,018 and \$8,237 for support provided by the State. At June 30, 2020, the Station reported deferred outflows of resources and deferred inflows of resources related to OPEBs from the following sources:

	<u>2020</u>	
	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Difference between expected and actual experience	\$ -	\$ 47,961
Changes of assumptions	5,273	-
Net difference between projected and actual earnings on OPEB plan investments	843	-
Changes in proportion and differences between Station contributions and proportionate share of contributions	<u>-</u>	<u>24,853</u>
	6,116	72,814
Station contributions subsequent to the measurement date	<u>11,205</u>	<u>-</u>
Total	<u>\$ 17,321</u>	<u>\$ 72,814</u>

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NOTE 6 - DEFINED BENEFIT PENSION AND OTHER POSTEMPLOYMENT BENEFITS PLANS
(Continued)

Kentucky Teachers' Retirement System (Continued)

<u>2019</u>	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Difference between expected and actual experience	\$ -	\$ 12,293
Changes of assumptions	3,297	-
Net difference between projected and actual earnings on OPEB plan investments	-	979
Changes in proportion and differences between Station contributions and proportionate share of contributions	-	<u>16,093</u>
	<u>3,297</u>	<u>29,365</u>
Station contributions subsequent to the measurement date	<u>11,438</u>	-
Total	<u>\$ 14,735</u>	<u>\$ 29,365</u>

Of the total amount reported as deferred outflows of resources related to OPEB, \$11,205 resulting from Station contributions subsequent to the measurement date and before the end of the fiscal year will be included as a reduction of the collective net OPEB liability in the year ended June 30, 2020. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized in the Station's OPEB expense as follows:

Year ended June 30:	
2021	\$ (12,789)
2022	(12,789)
2023	(12,358)
2024	(12,436)
2025	(10,133)
Thereafter	<u>(6,193)</u>
	<u>\$ (66,698)</u>

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NOTE 6 - DEFINED BENEFIT PENSION AND OTHER POSTEMPLOYMENT BENEFITS PLANS
(Continued)

Kentucky Teachers' Retirement System (Continued)

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

June 30, 2019:

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

June 30, 2018:

Actuarial valuation date	June 30, 2017
Investment rate of return	8.00%, net of OPEB plan investment expense, including inflation.
Salary increases	3.50 – 7.20%, including inflation
Inflation rate	3.00%
Real Wage Growth	0.50%
Wage Inflation	3.50%
Healthcare cost trend rates:	
Under 65	7.75% for FYE 2018 decreasing to an ultimate rate of 5.00% by FYE 2024
Ages 65 and Older	5.75% for FYE 2018 decreasing to an ultimate rate of 5.00% by FYE 2021
Medicare Part B Premiums	0.00% for FYE 2018 with an ultimate rate of 5.00% by 2030
Municipal Bond Index Rate	3.89%
Single Equivalent Interest Rate	8.00%, net of OPEB plan investment expense, including inflation.

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

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NOTE 6 - DEFINED BENEFIT PENSION AND OTHER POSTEMPLOYMENT BENEFITS PLANS
(Continued)

Kentucky Teachers' Retirement System (Continued)

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

The remaining actuarial assumptions (e.g. initial per capita costs, health care cost trends, rate of plan participation, rates of plan election, etc.) used in the June 30, 2019 valuation were based on a review of recent plan experience done concurrently with the June 30, 2018 valuation.

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

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

<u>2019</u>		
<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Nominal Rate of Return</u>
Global Equity	58.0%	5.1%
Fixed Income	9.0	1.2
Real Estate	6.5	3.8
Private Equity	8.5	6.3
Other Additional Categories	17.0	3.2
Cash (LIBOR)	<u>1.0</u>	0.9
Total	<u>100.0%</u>	
<u>2018</u>		
<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Nominal Rate of Return</u>
Global Equity	58.0%	4.6%
Fixed Income	9.0	1.2
Real Estate	5.5	3.8
Private Equity	6.5	6.3
Other Additional Categories	20.0	3.3
Cash (LIBOR)	<u>1.0</u>	0.9
Total	<u>100.0%</u>	

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NOTE 6 - DEFINED BENEFIT PENSION AND OTHER POSTEMPLOYMENT BENEFITS PLANS
(Continued)

Kentucky Teachers' Retirement System (Continued)

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

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

<u>2020</u>	1% Decrease <u>(7.00%)</u>	Current Discount Rate (8.00%)	1% Increase <u>(9.00%)</u>
Station's net OPEB liability (MI)	\$ 234,730	\$ 198,147	\$ 167,511

<u>2019</u>	1% Decrease <u>(7.00%)</u>	Current Discount Rate (8.00%)	1% Increase <u>(9.00%)</u>
Station's net OPEB liability (MI)	\$ 281,495	\$ 240,056	\$ 205,533

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

<u>2020</u>	1% Decrease <u>(7.00%)</u>	Current Trend Rate	1% Increase <u>(9.00%)</u>
Station's net OPEB liability (MI)	\$ 161,298	\$ 198,147	\$ 243,461

<u>2019</u>	1% Decrease <u>(7.00%)</u>	Current Trend Rate	1% Increase <u>(9.00%)</u>
Station's net OPEB liability (MI)	\$ 199,054	\$ 240,056	\$ 290,634

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NOTE 6 - DEFINED BENEFIT PENSION AND OTHER POSTEMPLOYMENT BENEFITS PLANS
(Continued)

Kentucky Teachers' Retirement System (Continued)

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

Changes of benefit terms – There were no changes in benefit terms for the year ending June 30, 2020 and 2019. For the year ending June 30, 2018, with the passage of House Bill 471, the eligibility for non-single subsidies (NSS) for the KEHP-participating members who retired prior to July 1, 2010 is restored, but the state will only finance, via its KEHP "Shared Responsibility" contributions, the costs of the NSS related to those KEHP-participating members who retired on or after July 1, 2010.

Methods and assumptions used in the actuarially determined contributions – The actuarially determined contribution rates, as a percentage of payroll, used to determine the actuarially determined contribution amounts in the Schedule of Employer Contributions are calculated as the of the indicated valuation date. The following actuarial methods and assumptions (from the indicated actuarial valuations) were used to determine contribution rates reported in that schedule for the year ending June 30, 2019 and 2018:

June 30, 2019:

Valuation date	June 30, 2018
Actuarial cost method	Entry Age Normal
Amortization method	Level Percent of Payroll
Amortization period	22 years
Asset valuation method	Five-year smoothed value
Inflation	3.00%
Real wage growth	0.50%
Wage inflation	3.50%
Salary increases, including wage inflation	3.50% - 7.20%
Discount rate	8.00%
Health care cost trends:	
Under 65	7.50% for FYE 2018 decreasing to an ultimate rate of 5.00% by FYE 2024
Ages 65 and Older	5.50% for FYE 2018 decreasing to an ultimate rate of 5.00% by FYE 2021
Medicare Part B Premiums	0.00% for FYE 2018 with an ultimate rate of 5.00% by 2030
Under Age 65 Claims	The current premium charged by KEHP is used as a base cost and is projected forward using only the health care trend assumption (no implicit rate subsidy is recognized)

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NOTE 6 - DEFINED BENEFIT PENSION AND OTHER POSTEMPLOYMENT BENEFITS PLANS
(Continued)

Kentucky Teachers' Retirement System (Continued)

June 30, 2018:

Valuation date	June 30, 2017
Actuarial cost method	Entry Age Normal
Amortization method	Level Percent of Payroll
Amortization period	23 years
Asset valuation method	Five-year smoothed value
Inflation	3.00%
Real wage growth	0.50%
Wage inflation	3.50%
Salary increases, including wage inflation	3.50% - 7.20%
Discount rate	8.00%
Health care cost trends:	
Under 65	7.75% for FYE 2018 decreasing to an ultimate rate of 5.00% by FYE 2024
Ages 65 and Older	5.75% for FYE 2018 decreasing to an ultimate rate of 5.00% by FYE 2024
Medicare Part B Premiums	0.00% for FYE 2018 with an ultimate rate of 5.00% by 2030
Under Age 65 Claims	The current premium charged by KEHP is used as a base cost and is projected forward using only the health care trend assumption (no implicit rate subsidy is recognized)

Life Insurance Plan

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

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

Contributions – In order to fund the post-retirement life insurance benefit, three hundredths of one percent (0.04%) of the gross annual payroll of members is contributed by the state.

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NOTE 6 - DEFINED BENEFIT PENSION AND OTHER POSTEMPLOYMENT BENEFITS PLANS
(Continued)

Kentucky Teachers' Retirement System (Continued)

OPEB Liabilities, OPEB Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEBs: At June 30, 2020 and 2019, the Station reported a liability of \$4,537 and \$4,313 for its proportionate share of the collective net OPEB liability that reflected a reduction for state OPEB support provided to the Station. The collective net OPEB liability was measured as of June 30, 2018, and the total OPEB liability used to calculate the collective net OPEB liability was based on a projection of the Station's long-term share of contributions to the OPEB plan relative to the projected contributions of all participating employers, actuarially determined. At June 30, 2019 and 2018, the Station's proportion was 0.014% and 0.015%.

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

	<u>2020</u>	<u>2019</u>
Station's proportionate share of the net OPEB liability	\$ 4,537	\$ 4,313
State's proportionate share of the net OPEB liability associated with the Station	<u>-</u>	<u>-</u>
Total	<u>\$ 4,537</u>	<u>\$ 4,313</u>

For the years ended June 30, 2020 and 2019, the Station recognized OPEB expense of \$813 and \$703 and revenue of \$49 and \$523 for support provided by the State. At June 30, 2020, the Station reported deferred outflows of resources and deferred inflows of resources related to OPEBs from the following sources:

	<u>2020</u>	
	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Difference between expected and actual experience	\$ -	\$ 98
Changes of assumptions	-	-
Net difference between projected and actual earnings on OPEB plan investments	931	-
Changes in proportion and differences between Station contributions and proportionate share of contributions	<u>-</u>	<u>294</u>
Station contributions subsequent to the measurement date	<u>931</u>	<u>392</u>
	<u>229</u>	<u>-</u>
Total	<u>\$ 1,160</u>	<u>\$ 392</u>

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NOTE 6 - DEFINED BENEFIT PENSION AND OTHER POSTEMPLOYMENT BENEFITS PLANS
(Continued)

Kentucky Teachers' Retirement System (Continued)

<u>2019</u>	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Difference between expected and actual experience	\$ 1,178	\$ -
Changes of assumptions	-	-
Net difference between projected and actual earnings on OPEB plan investments	-	95
Changes in proportion and differences between Station contributions and proportionate share of contributions	-	95
Station contributions subsequent to the measurement date	<u>1,178</u>	<u>190</u>
	<u>186</u>	<u>-</u>
Total	<u>\$ 1,364</u>	<u>\$ 190</u>

Of the total amount reported as deferred outflows of resources related to OPEB, \$229 resulting from Station contributions subsequent to the measurement date and before the end of the fiscal year will be included as a reduction of the collective net OPEB liability in the year ended June 30, 2020. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized in the Station's OPEB expense as follows:

Year ended June 30:	
2021	\$ 274
2022	274
2023	108
2024	(49)
2025	(49)
Thereafter	<u>(19)</u>
	<u>\$ 539</u>

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

June 30, 2019:

Actuarial valuation date	June 30, 2018
Investment rate of return	7.50%, net of OPEB plan investment expense, including inflation.
Projected salary increases	3.50 – 7.45%, including inflation
Inflation rate	3.00%
Real Wage Growth	0.50%
Wage Inflation	3.50%
Municipal Bond Index Rate	3.50%
Single Equivalent Interest Rate	7.50%, net of OPEB plan investment expense, including inflation.

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NOTE 6 - DEFINED BENEFIT PENSION AND OTHER POSTEMPLOYMENT BENEFITS PLANS
(Continued)

Kentucky Teachers' Retirement System (Continued)

June 30, 2018:

Actuarial valuation date	June 30, 2017
Investment rate of return	7.50%, net of OPEB plan investment expense, including inflation.
Projected salary increases	3.50 – 7.20%, including inflation
Inflation rate	3.00%
Real Wage Growth	0.50%
Wage Inflation	3.50%
Municipal Bond Index Rate	3.89%
Single Equivalent Interest Rate	7.50%, net of OPEB plan investment expense, including inflation.

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

The demographic actuarial assumptions for retirement, disability incidence, withdrawal, rates of plan participation, and rates of plan election used in the June 30, 2018 valuation were based on the results of the most recent actuarial experience studies for the University, which covered the five-year period ending June 30, 2016.

The remaining actuarial assumptions (e.g. initial per capita costs, rate of plan participation, rates of plan election, etc.) used in the June 30, 2018 valuation were based on a review of recent plan experience done concurrently with the June 30, 2015 valuation.

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

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

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

(Continued)

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

NOTE 6 - DEFINED BENEFIT PENSION AND OTHER POSTEMPLOYMENT BENEFITS PLANS
(Continued)

Kentucky Teachers' Retirement System (Continued)

<u>2018</u> <u>Asset Class*</u>	<u>Target</u> <u>Allocation</u>	<u>Long-Term Nominal</u> <u>Rate of Return</u>
U.S. Equity	40.0%	4.2%
International Equity	23.0	5.2
Fixed Income	18.0	1.2
Real Estate	6.0	3.8
Private Equity	5.0	6.3
Other Additional Categories	6.0	3.3
Cash (LIBOR)	<u>2.0</u>	0.9
Total	<u>100.0%</u>	

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

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

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

<u>2019</u>	<u>1%</u> <u>Decrease</u> <u>(6.50%)</u>	<u>Current</u> <u>Discount</u> <u>Rate (7.50%)</u>	<u>1%</u> <u>Increase</u> <u>(8.50%)</u>
Station's net OPEB liability (LI)	\$ 6,703	\$ 4,537	\$ 2,754
 <u>2018</u>			
	<u>1%</u> <u>Decrease</u> <u>(6.50%)</u>	<u>Current</u> <u>Discount</u> <u>Rate (7.50%)</u>	<u>1%</u> <u>Increase</u> <u>(8.50%)</u>
Station's net OPEB liability (LI)	\$ 6,565	\$ 4,313	\$ 2,461

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

WESTERN KENTUCKY UNIVERSITY
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REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULES OF THE STATION'S PROPORTIONATE SHARE OF THE NET PENSION LIABILITY
June 30, 2020 and 2019

KERS	<u>2020</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>
Station's proportion of the net pension liability	0.007%	0.008%	0.007%	0.007%
Station's proportionate share of the net pension liability	\$ 1,035,238	\$ 1,129,399	\$ 973,810	\$ 765,435
Station's covered payroll	\$ 92,235	\$ 90,390	\$ 78,185	\$ 89,844
Station's proportionate share of the net pension liability as a percentage of its covered payroll	1,122.39%	1,249.47%	1,245.52%	851.96%
Plan fiduciary net position as a percentage of the total pension liability	13.66%	12.84%	13.30%	14.80%
 KTRS				
Station's proportion of the net pension liability	0.005%	0.007%	0.005%	0.009%
Station's proportionate share of the net pension liability	\$ 783,029	\$ 999,838	\$ 1,449,248	\$ 2,725,922
State's proportionate share of the net pension liability associated with the Station	<u>848,489</u>	<u>743,872</u>	<u>1,155,023</u>	<u>256,916</u>
Total	<u>\$ 1,631,518</u>	<u>\$ 1,743,710</u>	<u>\$ 2,604,271</u>	<u>\$ 2,982,838</u>
Station's covered payroll	\$ 392,616	\$ 379,520	\$ 411,565	\$ 456,219
Station's proportionate share of the net pension liability as a percentage of its covered payroll	415.55%	263.45%	352.13%	597.5%
Plan fiduciary net position as a percentage of the total pension liability	58.8%	59.30%	39.83%	35.22%

Notes to the Schedule:

Changes in assumptions – In fiscal year 2020, for KERS, the salary increase assumption changed from 3.05%, average 3.55% - 15.55%, varies by service. There were no changes for KTRS. In fiscal year 2019, there were no changes to the KERS plan and the KTRS plan discount rate increased from 4.49% to 7.50%. In fiscal year 2018, the KERS plan discount rate and assumed investment rate of return decreased from 6.75% to 5.25%, the assumed rate of inflation decreased from 3.25% to 2.30% which also resulted in a 0.95% decrease in the salary increase assumption for all years of service. The payroll growth rate assumption decreased from 4.00% to 0.00% and the KTRS plan discount rate increased from 4.20% to 4.49%. In fiscal year 2017, the KERS investment rate and discount rate both decreased from 7.50% to 6.75% and the KTRS plan discount rate decreased from 4.88% to 4.20%. In fiscal year 2016, the KERS plan inflation rate decreased from 3.50% to 3.25%, the estimated salary increases decreased from 4.50% to 4.00%, and the investment rate and discount rate both decreased from 7.75% to 7.50%. Additionally, the mortality tables changed from the 1983 and 1994 Group Annuity Mortality Tables to the RP-2000 Combined Mortality Table projected with Scale BB to 2013 (adjusted for males and females). The KTRS plan discount rate decreased from 5.23% to 4.88%.

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

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

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REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULES OF THE STATION'S PENSION CONTRIBUTIONS
June 30, 2019 and 2018

KERS	<u>2020</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>
Contractually required contribution	\$ 41,795	\$ 45,329	\$ 44,901	\$ 37,766
Contributions in relation to the contractually required contribution	<u>(41,795)</u>	<u>(45,329)</u>	<u>(44,901)</u>	<u>(37,766)</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Station's covered payroll	\$ 84,083	\$ 92,235	\$ 90,390	\$ 78,185
Contributions as a percentage of covered payroll	49.71%	49.15%	49.67%	48.3%
KTRS				
Contractually required contribution	\$ 61,230	\$ 90,830	\$ 66,948	\$ 70,525
Contributions in relation to the contractually required contribution	<u>(61,230)</u>	<u>(90,830)</u>	<u>(66,948)</u>	<u>(70,525)</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Station's covered payroll	\$ 387,530	\$ 392,616	\$ 379,520	\$ 411,565
Contributions as a percentage of covered payroll	15.80%	23.13%	17.64%	17.14%

Notes to the Schedule:

Changes in assumptions - In fiscal year 2020, for KERS, the salary increase assumption changed from 3.05%, average to 3.55% - 15.55%, varies by service. There were no changes for KTRS. In fiscal year 2019, there were no changes to the KERS plan and the KTRS plan discount rate increased from 4.49% to 7.50%. In fiscal year 2018, the KERS plan discount rate and assumed investment rate of return decreased from 6.75% to 5.25%, the assumed rate of inflation decreased from 3.25% to 2.30% which also resulted in a 0.95% decrease in the salary increase assumption for all years of service, the payroll growth rate assumption decreased from 4.00% to 0.00% and the KTRS plan discount rate increased from 4.20% to 4.49%. In fiscal year 2017, the KERS investment rate and discount rate both decreased from 7.50% to 6.75% and the KTRS plan discount rate decreased from 4.88% to 4.20%. In fiscal year 2016, the KERS plan inflation rate decreased from 3.50% to 3.25%, the estimated salary increases decreased from 4.50% to 4.00%, and the investment rate and discount rate both decreased from 7.75% to 7.50%. Additionally, the mortality tables changed from the 1983 and 1994 Group Annuity Mortality Tables to the RP-2000 Combined Mortality Table projected with Scale BB to 2013 (adjusted for males and females). The KTRS plan discount rate decreased from 5.23% to 4.88%.

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

WESTERN KENTUCKY UNIVERSITY
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 REQUIRED SUPPLEMENTARY INFORMATION
 SCHEDULES OF THE STATION'S PROPORTIONATE SHARE OF THE NET OPEB LIABILITY
 June 30, 2020 and 2019

KERS	<u>2020</u>	<u>2019</u>
Station's proportion of the net OPEB liability	0.007%	0.008%
Station's proportionate share of the net OPEB liability	\$ 161,732	\$ 195,287
Station's covered payroll	\$ 92,235	\$ 90,390
Station's proportionate share of the net OPEB liability as a percentage of its covered payroll	175.34%	216.05%
Plan fiduciary net position as a percentage of the total OPEB liability	30.92%	27.32%
 KTRS – Medical Insurance		
Station's proportion of the net OPEB liability	0.007%	0.007%
Station's proportionate share of the net OPEB liability	\$ 198,147	\$ 240,056
Station's covered payroll	\$ 392,616	\$ 379,520
Station's proportionate share of the net OPEB liability as a percentage of its covered payroll	50.47%	63.25%
Plan fiduciary net position as a percentage of the total OPEB liability	32.58%	25.50%
 KTRS – Life Insurance		
Station's proportion of the net OPEB liability	0.015%	0.015%
Station's proportionate share of the net OPEB liability	\$ 4,537	\$ 4,313
Station's covered payroll	\$ 392,616	\$ 379,520
Station's proportionate share of the net OPEB liability as a percentage of its covered payroll	1.11%	1.14%
Plan fiduciary net position as a percentage of the total OPEB liability	73.40%	75.00%

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SCHEDULES OF THE STATION'S PROPORTIONATE SHARE OF THE NET OPEB LIABILITY
June 30, 2020 and 2019

Notes to the Schedule:

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

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

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

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

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

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

WESTERN KENTUCKY UNIVERSITY
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 REQUIRED SUPPLEMENTARY INFORMATION
 SCHEDULES OF THE STATION'S OPEB CONTRIBUTIONS
 June 30, 2020 and 2019

KERS	<u>2020</u>	<u>2019</u>
Contractually required contribution	\$ 8,561	\$ 9,280
Contributions in relation to the contractually required contribution	<u>(8,561)</u>	<u>(9,280)</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>
Station's covered payroll	\$ 84,083	\$ 92,235
Contributions as a percentage of covered payroll	10.18%	10.06%
 KTRS – Medical Insurance		
Contractually required contribution	\$ 11,205	\$ 12,322
Contributions in relation to the contractually required contribution	<u>(11,205)</u>	<u>(12,322)</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>
Station's covered payroll	\$ 387,530	\$ 392,616
Contributions as a percentage of covered payroll	2.89%	3.14%
 KTRS – Life Insurance		
Contractually required contribution	\$ 229	\$ 152
Contributions in relation to the contractually required contribution	<u>(229)</u>	<u>(152)</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>
Station's covered payroll	\$ 387,530	\$ 392,616
Contributions as a percentage of covered payroll	0.06%	0.04%

(Continued)

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SCHEDULES OF THE STATION'S OPEB CONTRIBUTIONS
June 30, 2020 and 2019

Notes to the Schedule:

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

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

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

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

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

* Employer contributions do not include the expected implicit subsidy.