

WESTERN KENTUCKY UNIVERSITY

Bowling Green, Kentucky

**REPORT ON AUDIT OF INSTITUTION
OF HIGHER EDUCATION
IN ACCORDANCE WITH UNIFORM GUIDANCE**

June 30, 2017

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INDEPENDENT AUDITOR'S REPORT

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

Report on the Financial Statements

We have audited the accompanying financial statements of the business-type activities and aggregate discretely presented component units of the Western Kentucky University ("University"), a component unit of the Commonwealth of Kentucky, as of and for the years ended June 30, 2017 and 2016, and the related notes to the financial statements, which collectively comprise the University's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audits. We did not audit the financial statements of Western Kentucky University Foundation, Inc., WKU Student Life Foundation, Inc., and College Heights Foundation, Inc. for the years ended June 30, 2017 and 2016, all of which make up the entire aggregate discretely presented component units of the University. Those financial statements were audited by other auditors whose reports thereon have been furnished to us, and our opinions, insofar as it relates to the amounts included for Western Kentucky University Foundation, Inc., WKU Student Life Foundation, Inc., and College Heights Foundation, Inc., for the years ended June 30, 2017 and 2016, are based solely on the reports of the other auditors. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement. The financial statements of Western Kentucky University Research Foundation, Inc., Western Kentucky University Foundation, Inc., WKU Student Life Foundation, Inc., and College Heights Foundation, Inc. were not audited in accordance with *Government Auditing Standards*.

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

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

Opinions

In our opinion, based on our audits and the reports of the other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities and aggregate discretely presented component units of the University, as of June 30, 2017 and 2016, and the respective changes in financial position and, where applicable, cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis on pages 3 through 13, the Schedules of the University's Proportionate Share of the Net Pension Liability on page 110, and the Schedules of the University's Contributions on page 111, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Report on Other Legal and Regulatory Requirements

In accordance with *Government Auditing Standards*, we have also issued our report dated October 3, 2017 on our consideration of the University's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the University's internal control over financial reporting and compliance.

Crowe Horwath LLP

Crowe Horwath LLP

Louisville, Kentucky
October 3, 2017

WESTERN KENTUCKY UNIVERSITY
MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2017 and 2016

Overview

Management's Discussion and Analysis (MD&A) of Western Kentucky University's ("WKU" or the "University") financial statements is intended to provide an overview of the financial position, changes in financial position and cash flows of the University as of and for the fiscal years ended June 30, 2017 and 2016. MD&A, in addition to the financial statements and the footnote disclosures, is the responsibility of University management.

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

An independent audit, performed by Crowe Horwath LLP, provides an opinion on the basic financial statements taken as a whole. Crowe Horwath LLP has expressed an unmodified opinion on the financial statements stating that such statements present fairly, in all material respects, the financial position of the University as of June 30, 2017 and 2016, and the changes in its financial position and its cash flows for the years then ended. Included in these financial statements are the financial statements of the Western Kentucky University Research Foundation, which is a blended component unit of the University's financial statements. Also included are the financial statements of the Western Kentucky University Foundation, College Heights Foundation and the Student Life Foundation, which are each discretely presented within the financial statements of the University. Crowe Horwath LLP received and relied upon audit reports prepared and work performed by other auditors as a basis of their opinion on the University's financial statements.

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

Reporting Entity

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

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

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WESTERN KENTUCKY UNIVERSITY
 MANAGEMENT'S DISCUSSION AND ANALYSIS
 June 30, 2017 and 2016

Fiscal Year 2017 Highlights

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

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

	<u>Fall 2016</u>	<u>Fall 2015</u>	<u>Fall 2014</u>
<u>Enrollment Base (Headcount)</u>			
Undergraduate applications	9,693	8,957	8,462
Undergraduate enrollment (including returning students)	17,595	17,310	17,459
First-time freshmen	3,192	3,121	3,136
Total graduate enrollment	2,676	2,753	2,719
Total enrollment	20,271	20,063	20,178

The following data, with a comparison between the 2016/2017, 2015/2016 and 2014/2015 school years, is provided to help assess the financial viability of the University:

	<u>June 30, 2017</u>	<u>June 30, 2016</u>	<u>June 30, 2015</u>
<u>Supporting Foundations</u>			
Endowments	\$152.7 million	\$139.9 million	\$142.9 million
Total cash receipts	23.3 million	23.1 million	15.2 million
<u>State Appropriations</u>			
General non-operating revenue	\$ 72,040,200	\$ 74,649,400	\$ 72,649,400
Capital appropriation	<u>20,432,639</u>	<u>4,506,562</u>	<u>1,336,482</u>
Total	<u>\$ 92,472,839</u>	<u>\$ 79,155,962</u>	<u>\$ 73,985,882</u>

Statement of Net Position

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

(Continued)

WESTERN KENTUCKY UNIVERSITY
MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2017 and 2016

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

A summary of the University's assets, deferred outflows of resources, liabilities, deferred inflows of resources, and net position, as of June 30, 2017, 2016 and 2015, is as follows:

Condensed Statement of Net Position (in Thousands)

	<u>2017</u>	<u>2016</u>	<u>2015</u>
ASSETS			
Current and non-current other assets	\$ 120,761	\$ 117,902	\$ 118,828
Capital assets, net	<u>477,901</u>	<u>464,951</u>	<u>469,551</u>
Total assets	<u>598,662</u>	<u>582,853</u>	<u>588,379</u>
DEFERRED OUTFLOWS OF RESOURCES			
Deferred loss on bond refunding	4,803	3,261	2,018
Deferred pension funding	<u>104,313</u>	<u>46,397</u>	<u>16,913</u>
Total deferred outflows of resources	<u>109,116</u>	<u>49,658</u>	<u>18,931</u>
Total assets and deferred outflows of resources	<u>\$ 707,778</u>	<u>\$ 632,511</u>	<u>\$ 607,310</u>
LIABILITIES			
Long-term obligations (current and non-current)	\$ 191,475	\$ 193,136	\$ 203,361
Net pension liability	542,851	449,729	402,061
Other liabilities	20,382	18,904	19,361
Unearned revenue	<u>12,216</u>	<u>9,717</u>	<u>9,049</u>
Total liabilities	<u>766,924</u>	<u>671,486</u>	<u>633,832</u>
DEFERRED INFLOWS OF RESOURCES			
Pension investment activity	12,348	13,845	21,895
NET POSITION			
Net investment in capital assets	293,198	277,377	271,460
Restricted			
Non-expendable	15,377	14,504	15,843
Expendable	12,905	14,004	20,069
Unrestricted	<u>(392,974)</u>	<u>(358,705)</u>	<u>(355,789)</u>
Total net position	<u>(71,494)</u>	<u>(52,820)</u>	<u>(48,417)</u>
Total liabilities, deferred inflows of resources and net position	<u>\$ 707,778</u>	<u>\$ 632,511</u>	<u>\$ 607,310</u>

Liabilities include pledges payable to the city of Bowling Green ("City") in the amount of \$22,009,419 for the Diddle Arena Improvements Project. Bonds payable for educational buildings total \$145,640,140 with final payments on the bonds scheduled for fiscal year 2036. Additionally, the university's net pension liability was \$542,851,248, \$449,728,846, and \$402,064,664, as of June 30, 2017, 2016, and 2015.

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Statement of Revenues, Expenses, and Changes in Net Position

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

The most significant source of non-operating revenue is state appropriations. State appropriations are non-operating because these funds are non-exchange revenues provided by the General Assembly to the University without the General Assembly directly receiving commensurate value (goods and services) for those revenues. Other important non-operating revenue sources include non-exchange grants and contracts and investment income.

Accordingly, the University reports net operating losses of \$(164,470,363), \$(135,630,664), and \$(144,136,957), for fiscal years 2017, 2016 and 2015, respectively.

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WESTERN KENTUCKY UNIVERSITY
MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2017 and 2016

A summary of the University's activities for the years ended June 30, 2017, 2016 and 2015 is as follows:

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

	<u>2017</u>	<u>2016</u>	<u>2015</u>
Operating revenues			
Net tuition and fees	\$ 138,712	\$ 139,398	\$ 134,272
Grants and contracts	966	778	707
Sales and services of educational departments	16,279	20,051	16,843
Auxiliary enterprises	22,018	20,598	20,896
Other	<u>21,876</u>	<u>19,244</u>	<u>18,914</u>
Total operating revenues	<u>199,851</u>	<u>200,069</u>	<u>191,632</u>
Operating expenses	<u>364,321</u>	<u>335,700</u>	<u>335,769</u>
Operating loss	<u>(164,470)</u>	<u>(135,631)</u>	<u>(144,137)</u>
Non-operating revenues (expenses)			
State appropriations	72,040	74,649	72,649
State appropriations – in-kind KTRS pension	-	1,488	1,502
Grants and contracts	58,455	58,775	60,949
Investment income (loss), net	1,280	(1,070)	243
Interest on capital asset-related debt	(6,206)	(6,809)	(6,430)
Other	<u>(206)</u>	<u>(337)</u>	<u>(73)</u>
Net non-operating revenues	<u>125,363</u>	<u>126,696</u>	<u>128,840</u>
Loss before capital contributions and special item	(39,107)	(8,935)	(15,297)
State capital appropriation	20,433	4,507	1,336
Additions to permanent endowment	-	25	-
Disposition of World Council Gifted and Talented Children	<u>-</u>	<u>-</u>	<u>(140)</u>
Decrease in net position	(18,674)	(4,403)	(14,101)
Net position, beginning of year	<u>(52,820)</u>	<u>(48,417)</u>	<u>(34,316)</u>
Net position, end of year	<u>\$ (71,494)</u>	<u>\$ (52,820)</u>	<u>\$ (48,417)</u>

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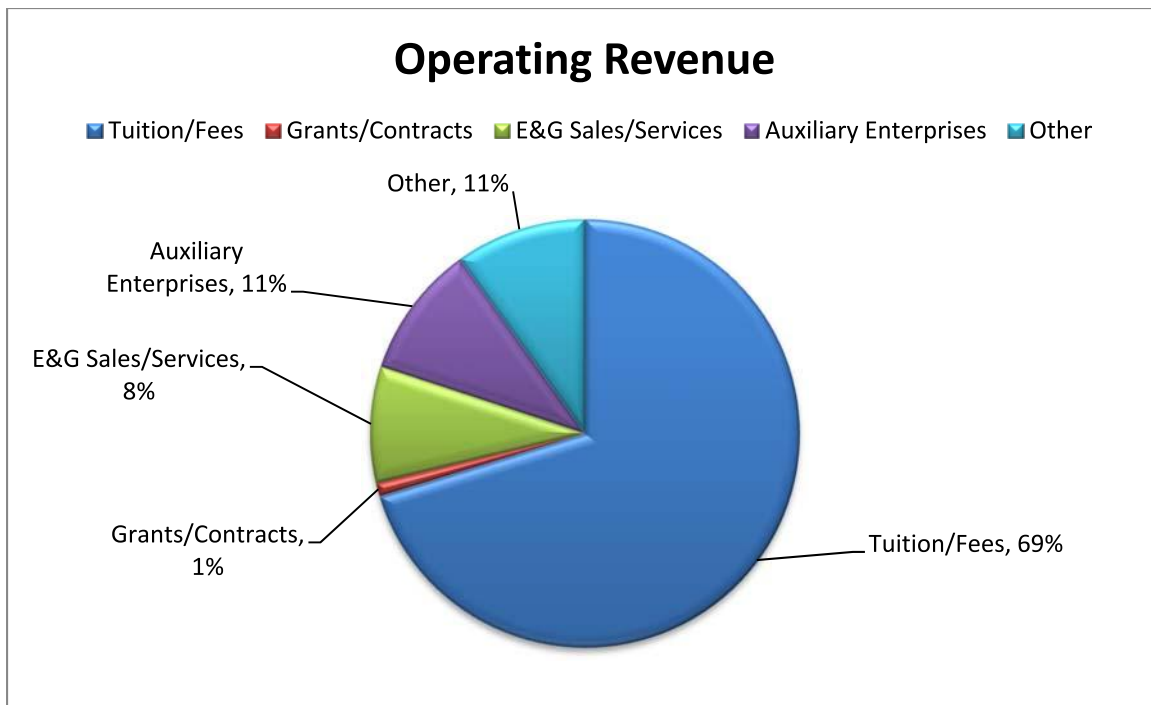
Operating Revenues

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

As noted in the aforementioned enrollment data the University's total headcount enrollment increased by approximately 1% between fall 2015 (20,063 students) and fall 2016 (20,271 students). As of fall 2016, approximately 77% of students enrolled at the University were Kentucky residents. An additional 6% of the student population came from Tennessee with many coming to the University through a state reciprocity agreement (*i.e.*, enrolled at in-state rates) or in the Tuition Incentive Program.

Tuition and fees revenue is recorded in the financial statements net of scholarship allowances, gift scholarships and institutional aid. A scholarship allowance is the difference between the stated charges for goods and services provided by the institution and the amount that is billed to students and third parties making payments on behalf of students. College Access Program and KEES Program have been included in the scholarship allowance after these sources have been used to satisfy a student's fees and charges. Any excess aid disbursed to the student is recognized as a student financial aid expense. Net tuition and fees, as of June 30, 2017 and 2016, were approximately 69% of the gross tuition and fees with approximately \$63.7 million and \$60.3 million, respectively, being recorded as scholarship allowance.

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



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

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WESTERN KENTUCKY UNIVERSITY
 MANAGEMENT'S DISCUSSION AND ANALYSIS
 June 30, 2017 and 2016

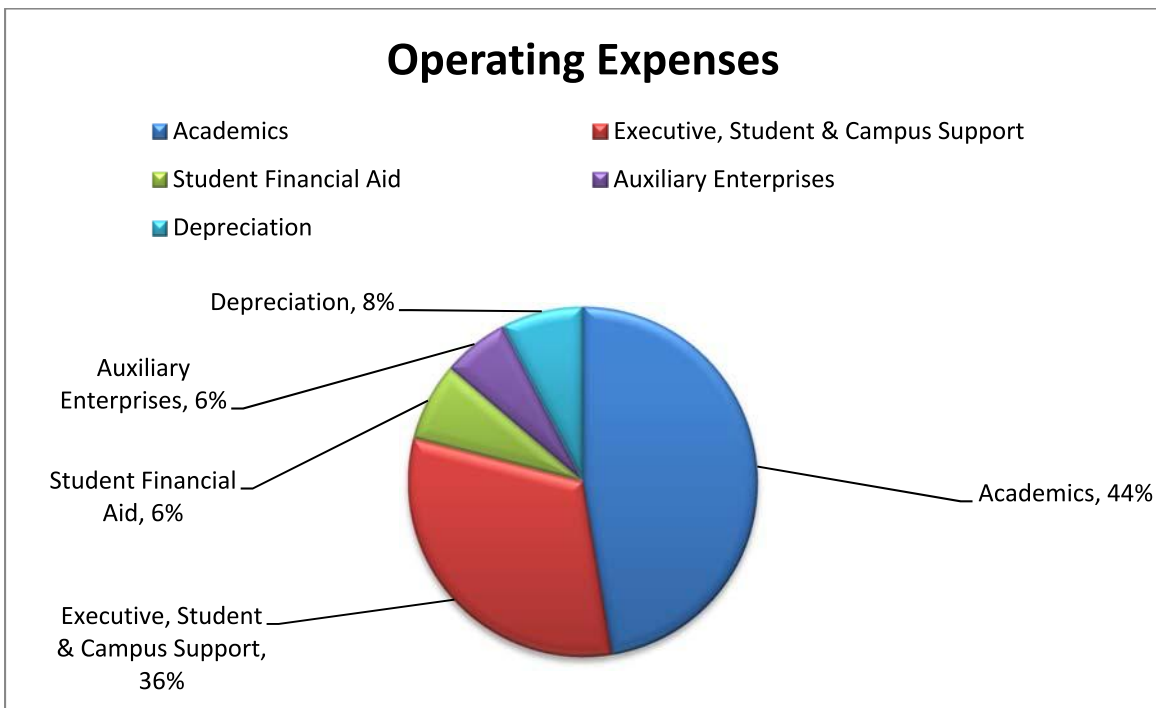
The grant and contract awards received in a given year are frequently multiyear awards for which only the current year activity related to the award will be recorded, *i.e.*, any cash received in excess of expenses incurred will be recorded as unearned revenue. Additionally, awards related to future periods are not recorded in the University's financial statements. The following chart provides a three-year comparison of total grants and contracts awarded (not received/recorded) during fiscal years 2017, 2016 and 2015.

Grants and Contracts Awards (Excluding Financial Aid)

	<u>2017</u>	<u>2016</u>	<u>2015</u>
Federal	\$ 11,301,862	\$ 8,148,805	\$ 9,962,091
State	2,599,206	2,789,047	2,386,558
Other	<u>10,752,838</u>	<u>4,824,894</u>	<u>9,119,317</u>
 Total	 <u>\$ 24,653,906</u>	 <u>\$ 15,762,746</u>	 <u>\$ 21,467,966</u>

Operating Expenses

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



(Continued)

WESTERN KENTUCKY UNIVERSITY
MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2017 and 2016

Non-operating Revenues and Expenses

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

The University's investments consist primarily of collateralized mortgage obligations and its equity in Commonwealth of Kentucky pooled investment funds. Investment income for the years ended June 30, 2017, 2016 and 2015 is comprised of the following:

	<u>2017</u>	<u>2016</u>	<u>2015</u>
Investment income	\$ 241,264	\$ 383,750	\$ 481,239
Net change for the year in the fair value of investments	<u>1,038,586</u>	<u>(1,453,646)</u>	<u>(237,934)</u>
	<u>\$ 1,279,850</u>	<u>\$(1,069,896)</u>	<u>\$ 243,305</u>

State appropriations were \$72,040,200, \$74,649,400, and \$72,649,400 for 2017, 2016 and 2015, respectively.

Change in Net Position

For the years ended June 30, 2017, 2016 and 2015, the University's net position decreased by \$(18,674,340), \$(4,402,207), and \$(14,100,874), respectively. The year-end net position for June 30, 2017, 2016 and 2015 were \$(71,494,030), \$(52,819,690), and \$(48,417,483) as restated, respectively.

Statements of Cash Flows

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

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

(Continued)

WESTERN KENTUCKY UNIVERSITY
MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2017 and 2016

The major sources of cash received for operating activities are tuition and fees of \$137,110,192 and \$140,563,813 and auxiliary enterprises of \$22,018,060 and \$20,598,357 at June 30, 2017 and 2016, respectively. Major uses of cash for operating activities were payments to employees for salaries and benefits of \$197,613,133 and \$202,679,548 and to suppliers and contractors of \$102,983,341 and \$97,327,370 at June 30, 2017 and 2016, respectively. A majority of the noncapital financing activities is state appropriations and grants and contracts. Principal and interest paid on capital debt and leases are recognized as capital and related financing activities. Investing activities recognize the cash flows from proceeds from sales and maturities of investments, purchases of investments and interest receipts.

The Statements of Cash Flows are summarized as follows:

Condensed Statements of Cash Flows (in thousands)

	<u>2017</u>	<u>2016</u>	<u>2015</u>
Cash Provided By (Used In)			
Operating activities	\$ (97,703)	\$ (95,888)	\$ (124,717)
Non-capital financing activities	127,579	131,883	133,468
Capital and related financing activities	(26,674)	(34,108)	(44,777)
Investing activities	<u>598</u>	<u>(588)</u>	<u>1,966</u>
Net increase (decrease) in cash and cash equivalents	3,800	1,299	(34,060)
Cash and cash equivalents, beginning of year	<u>65,380</u>	<u>64,081</u>	<u>98,141</u>
Cash and cash equivalents, end of year	<u>\$ 69,180</u>	<u>\$ 65,380</u>	<u>\$ 64,081</u>

Capital Asset and Long-term Obligations

Capital Assets

As of June 30, 2017, 2016 and 2015, the University had \$477.9 million, \$465.0 million and \$469.6 million invested in capital assets, net of accumulated depreciation of \$358.7 million, \$331.7 million and \$304.7 million, respectively. Capital assets at June 30, 2017, 2016 and 2015 are summarized below:

	<u>2017</u>	<u>2016</u>	<u>2015</u>
Land	\$ 12,627,736	\$ 12,627,736	\$ 11,083,687
Buildings and improvements	567,551,167	563,409,997	539,971,780
Infrastructure	68,006,262	66,904,512	65,294,073
Furniture, fixtures and equipment	84,413,839	81,733,943	79,041,528
Library materials	59,244,223	56,361,133	53,767,461
Construction in progress	<u>44,709,743</u>	<u>15,658,287</u>	<u>25,083,279</u>
Total capital assets	836,552,970	796,695,608	774,241,808
Less accumulated depreciation	<u>(358,652,064)</u>	<u>(331,744,657)</u>	<u>(304,690,708)</u>
Capital assets, net	<u>\$ 477,900,906</u>	<u>\$ 464,950,951</u>	<u>\$ 469,551,100</u>

The major construction projects in progress, as of June 30, 2017, consisted of the construction of the Science Campus and Parking Structure #3.

(Continued)

WESTERN KENTUCKY UNIVERSITY
MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2017 and 2016

Long-Term Obligations

As of June 30, 2017, 2016, and 2015, the University had \$191.5 million, \$193.1 million and \$203.4 million, respectively, in long-term obligations consisting of pledges payable to the city of Bowling Green, bonds payable (Consolidated Educational Buildings Revenue Bonds and General Receipts Bonds), capital leases and other long-term obligations. The long-term obligations, including the current portion, are summarized as follows:

	<u>2017</u>	<u>2016</u>	<u>2015</u>
Pledges to the City	\$ 22,009,419	\$ 23,935,466	\$ 25,721,513
General receipts bonds	145,640,140	143,138,429	149,405,878
Capital leases	17,783,492	18,386,156	18,955,905
Other long-term obligations	<u>6,042,094</u>	<u>7,675,964</u>	<u>9,278,156</u>
Total	<u>\$ 191,475,145</u>	<u>\$ 193,136,015</u>	<u>\$ 203,361,452</u>

Economic Factors Impacting Future Periods

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

- WKU's fall 2016 enrollment of just above 20,000 continued a trend of fewer nontraditional students. Enrollment of international undergraduate and graduate students decreased by 1.5 percent from fall 2015. WKU's continuing emphasis on the academic quality of the incoming class has resulted in an average ACT score of 22.6, which correlates with improved first year retention and further supports an expectation of a stable revenue base. Retention rates increased from 72.4 percent for fall 2015 to 72.8 percent for fall 2016. The increased emphasis on student retention will help stabilize a recurring revenue base.
- The Council on Postsecondary Education (CPE) has the statutory responsibility to approve tuition rates. Significant emphasis continues to be placed on setting tuition rates with modest increases that will not impede economic access to postsecondary education. At its March 31, 2017 meeting, in an effort to close the gap in tuition and fee increases among the Kentucky comprehensive universities, CPE approved a resident, undergraduate tuition and mandatory fee ceiling for academic year 2017-18. With this approval, WKU's resident, undergraduate tuition and mandatory fees for 2017-2018 will increase \$145 per semester for a total increase of 3.0 percent. CPE gives each institution more flexibility in determining nonresident, online and graduate tuition rates.
- House Bill 303, the Executive Branch Budget, was passed by the 2016 Regular Session of the Kentucky General Assembly and provides a state expenditure plan for the 2016-18 biennium. The FY18 budget reflects a 5% reduction in state funding which represents WKU's contribution to the Postsecondary Education Performance Fund. The performance funding model includes a distribution of allocable funding based 35 percent on student success, 35 percent on course completion, 10 percent on maintenance and operations, 10 percent on institutional support, and 10 percent on academic support. The FY18 budgeted state appropriation for WKU includes \$3,830,200 in performance funding. The amount of performance funding to be received exceeds WKU's contribution to the model by \$142,100, indicating favorable performance and outcomes under the new performance funding model. The FY 2018 budgeted state appropriation also includes an equity adjustment in the amount of \$2,347,900. The equity adjustment was a result of historical data revealing disparities in state support in the comprehensive institution sector.

(Continued)

WESTERN KENTUCKY UNIVERSITY
MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2017 and 2016

- Effective July 2017, WKU entered into a dining services contract with Aramark for a twenty-year service period. With this contract, Aramark has agreed to make capital investments on a scheduled basis through 2031. The funds provided by Aramark will be for dining facility renovations and for the purchase and installation of dining services equipment, area treatment, signage and marketing materials and other costs associated with the dining services program on WKU's premises.

Requests for Information

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

(Continued)

WESTERN KENTUCKY UNIVERSITY
STATEMENTS OF NET POSITION
June 30, 2017 and 2016

	<u>2017</u>	<u>2016</u>
ASSETS		
Current assets		
Cash and cash equivalents	\$ 65,404,599	\$ 63,772,219
Accounts receivable, net of allowance of \$3,292,088 and \$2,676,576 for 2017 and 2016, respectively	13,321,081	12,220,785
Federal and state grants receivable	6,447,878	8,278,231
Inventories	874,403	1,499,563
Loans to students	373,174	355,433
Lease receivable	255,000	250,000
Prepaid expenses and other	<u>4,866,645</u>	<u>4,996,704</u>
Total current assets	<u>91,542,780</u>	<u>91,372,935</u>
Noncurrent assets		
Restricted cash and cash equivalents	3,775,316	1,607,301
Long-term investments	184,771	179,457
Loans to students, net of allowance of \$548,366 each year	2,497,396	2,378,670
Assets held in trust	22,211,025	21,558,398
Lease receivable	550,000	805,000
Capital assets	836,552,970	796,695,608
Accumulated depreciation	<u>(358,652,064)</u>	<u>(331,744,657)</u>
Total noncurrent assets	<u>507,119,414</u>	<u>491,479,777</u>
Total assets	<u>598,662,194</u>	<u>582,852,712</u>
DEFERRED OUTFLOWS OF RESOURCES		
Deferred loss on bond refunding	4,802,946	3,261,216
Deferred outflows – KTRS	79,312,805	28,010,732
Deferred outflows – KERS Non-Hazardous	24,234,168	17,590,862
Deferred outflows – KERS Hazardous	<u>766,227</u>	<u>795,300</u>
Total deferred outflows of resources	<u>109,116,146</u>	<u>49,658,110</u>
Total assets and deferred outflows of resources	<u>\$ 707,778,340</u>	<u>\$ 632,510,822</u>

See accompanying notes to financial statements.

WESTERN KENTUCKY UNIVERSITY
STATEMENTS OF NET POSITION
June 30, 2017 and 2016

	<u>2017</u>	<u>2016</u>
LIABILITIES		
Current liabilities		
Accounts payable	\$ 12,482,730	\$ 10,603,898
Self-insured health liability	1,314,118	940,157
Self-insured workers' compensation liability	213,401	237,169
Accrued payroll and withholdings	1,201,822	1,414,441
Accrued compensated absences	3,006,017	3,076,280
Accrued interest	1,411,991	1,440,751
Unearned revenue	12,215,890	9,717,391
Long-term obligations - current	14,186,094	13,259,714
Deposits held in custody for others	<u>752,340</u>	<u>1,190,955</u>
Total current liabilities	<u>46,784,403</u>	<u>41,880,756</u>
Non-current liabilities		
Long-term obligations	177,289,051	179,876,301
Net pension liability – KTRS	373,414,035	299,521,616
Net pension liability – KERS Non-Hazardous	166,398,661	147,109,065
Net pension liability – KERS Hazardous	<u>3,038,552</u>	<u>3,098,165</u>
Total non-current liabilities	<u>720,140,299</u>	<u>629,605,147</u>
Total liabilities	<u>766,924,702</u>	<u>671,485,903</u>
DEFERRED INFLOWS OF RESOURCES		
Deferred inflows – KTRS	11,655,808	\$ 13,844,609
Deferred inflows – KERS Non-Hazardous	450,664	-
Deferred inflows – KERS Hazardous	<u>241,196</u>	<u>-</u>
Total deferred inflows	12,347,668	13,844,609
NET POSITION		
Net investment in capital assets	293,198,005	277,377,247
Restricted		
Non-expendable - endowments	15,376,469	14,504,139
Expendable		
Loans	3,104,481	3,596,056
Capital projects	9,800,699	10,407,703
Unrestricted	<u>(392,973,684)</u>	<u>(358,704,835)</u>
Total net position	<u>(71,494,030)</u>	<u>(52,819,690)</u>
Total liabilities, deferred inflows and net position	<u>\$ 707,778,340</u>	<u>\$ 632,510,822</u>

See accompanying notes to financial statements.

WESTERN KENTUCKY UNIVERSITY
WESTERN KENTUCKY UNIVERSITY FOUNDATION, INC.
STATEMENTS OF FINANCIAL POSITION
December 31, 2016 and 2015

	<u>2016</u>	<u>2015</u>
ASSETS		
Cash and cash equivalents	\$ 3,971,151	\$ 8,607,529
Pledges receivable, net	4,521,306	4,446,401
Due from the Warren County Downtown Economic Development Authority	-	1,948,048
Other receivables	3,300	41,399
Prepaid expenses and other current assets	90,391	65,287
Investments	66,463,498	56,825,469
Property, net	9,816,675	10,058,016
Assets held for others	<u>18,597,052</u>	<u>17,971,776</u>
Total assets	<u>\$ 103,463,373</u>	<u>\$ 99,963,925</u>
LIABILITIES AND NET ASSETS		
Accounts payable	\$ 1,480,198	\$ 275,772
Notes payable	1,076,896	61,896
Due to Western Kentucky University	119,306	119,306
Deferred gift liabilities	1,034,126	783,877
Capital lease obligation	817,313	1,074,853
Liability for assets held for others	<u>18,597,052</u>	<u>17,971,776</u>
Total liabilities	23,124,891	20,287,480
Unrestricted	9,884,637	12,466,886
Temporarily restricted	19,690,618	20,236,681
Permanently restricted	<u>50,763,227</u>	<u>46,972,878</u>
Total net assets	<u>80,338,482</u>	<u>79,676,445</u>
Total liabilities and net assets	<u>\$ 103,463,373</u>	<u>\$ 99,963,925</u>

See accompanying notes to financial statements.

WESTERN KENTUCKY UNIVERSITY
 WKU STUDENT LIFE FOUNDATION, INC.
 STATEMENTS OF FINANCIAL POSITION
 June 30, 2017 and 2016

	<u>2017</u>	<u>2016</u>
ASSETS		
Cash and cash equivalents	\$ 13,781,688	\$ 10,259,321
Accounts receivable - Western Kentucky University	346,452	405,418
Accounts receivable - students - net of allowance of \$344,042 and \$317,037 for 2017 and 2016, respectively	390,770	361,537
Net investment in direct financing lease - related party	1,812,846	1,883,876
Prepaid expenses	195,726	256,355
Assets limited as to use - restricted by bond indenture	26,953,810	9,178,723
Assets held for others - student deposits	586,550	601,261
Assets held by others - student deposits - cash	176,350	151,840
Derivative instruments, at fair value	839,555	1,863,578
Property and equipment, net	<u>98,039,671</u>	<u>93,541,076</u>
Total assets	<u>\$ 143,123,418</u>	<u>\$ 118,502,985</u>
LIABILITIES AND NET ASSETS		
Liabilities		
Accounts payable	\$ 1,727,040	\$ 1,003,976
Accrued expenses	363,721	294,105
Student deposits	762,900	753,101
Asset retirement obligation	794,269	794,594
Derivative instruments, at fair value	-	10,994,123
Long-term debt	<u>102,755,562</u>	<u>74,697,311</u>
Total liabilities	106,403,492	88,537,210
Net assets, unrestricted	<u>36,719,926</u>	<u>29,965,775</u>
Total liabilities and net assets	<u>\$ 143,123,418</u>	<u>\$ 118,502,985</u>

See accompanying notes to financial statements.

WESTERN KENTUCKY UNIVERSITY
COLLEGE HEIGHTS FOUNDATION, INC.
STATEMENTS OF FINANCIAL POSITION
December 31, 2016 and 2015

	<u>2016</u>	<u>2015</u>
ASSETS		
Cash and cash equivalents	\$ 1,366,101	\$ 632,031
Interest and dividends receivable	54,754	51,009
Investments	54,691,031	46,434,059
Beneficial interest in third-party trusts	4,493,343	4,250,498
Assets held for others	2,998,069	2,769,730
Other assets	<u>94,697</u>	<u>94,697</u>
Total assets	<u>\$ 63,697,995</u>	<u>\$ 54,232,024</u>
LIABILITIES AND NET ASSETS		
Liabilities		
Notes payable	\$ -	\$ 103,375
Refundable advances and gift annuity liabilities	3,021,699	3,093,957
Liability for assets held for others	<u>2,998,069</u>	<u>2,769,730</u>
Total liabilities	6,019,768	5,967,062
Net assets		
Unrestricted		
Designated for perpetual scholarship fund	86,240	(2,057,514)
Temporarily restricted	1,827,614	1,789,358
Permanently restricted	<u>55,764,373</u>	<u>48,533,118</u>
Total net assets	<u>57,678,227</u>	<u>48,264,962</u>
Total liabilities and net assets	<u>\$ 63,697,995</u>	<u>\$ 54,232,024</u>

See accompanying notes to financial statements.

WESTERN KENTUCKY UNIVERSITY
 STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
 Years ended June 30, 2017 and 2016

	<u>2017</u>	<u>2016</u>
REVENUES		
Operating revenues		
Tuition and fees, net of discounts and allowances of \$63,690,981 and \$60,350,059	\$ 138,711,613	\$ 139,398,091
Federal grants and contracts	315,356	332,088
State grants and contracts	104,951	64,913
Local and private grants and contracts	545,681	381,147
Sales and services of educational activities	16,278,531	20,051,165
Auxiliary enterprise revenues, net of discounts and allowances of \$1,633,102 and \$1,547,437	22,018,060	20,598,357
Other operating revenues	<u>21,876,554</u>	<u>19,243,539</u>
 Total operating revenues	 <u>199,850,746</u>	 <u>200,069,300</u>
EXPENSES		
Operating expenses		
Education and general		
Instruction	112,658,083	110,706,132
Research	8,113,760	7,299,227
Public service	15,007,292	14,774,737
Libraries	6,216,301	5,894,086
Academic support	20,265,266	19,024,604
Student services	33,232,830	33,231,140
Institutional support	69,195,133	41,553,008
Operation and maintenance of plant	29,380,587	30,443,008
Student financial aid	21,024,089	22,966,891
Depreciation	27,563,085	27,689,482
Auxiliary enterprises	<u>21,664,683</u>	<u>20,629,207</u>
 Total operating expenses	 <u>364,321,109</u>	 <u>334,211,522</u>
Operating loss	<u>(164,470,363)</u>	<u>(134,142,222)</u>
Non-operating revenues (expenses)		
State appropriations	\$ 72,040,200	\$ 74,649,400
Federal grants and contracts	34,455,567	35,529,129
Federal grants and contracts – ARRA	-	28,000
State grants and contracts	19,271,352	19,112,346
Local and private grants and contracts	4,727,985	4,105,508
Net investment income (loss)	1,279,850	(1,069,896)
Interest on capital asset-related debt	(6,206,314)	(6,809,056)
Gain (loss) on disposal of capital assets	(7,298)	657,557
Income (expense) on sale of investments	(9,025)	(116,263)
Other non-operating expenses	<u>(188,933)</u>	<u>(878,772)</u>
 Net non-operating revenues	 <u>125,363,384</u>	 <u>125,207,953</u>
Loss before other capital contributions and special item	(39,106,979)	(8,934,269)

See accompanying notes to financial statements.

WESTERN KENTUCKY UNIVERSITY
STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
Years ended June 30, 2017 and 2016

	<u>2017</u>	<u>2016</u>
Capital contributions		
State capital appropriation	\$ 20,432,639	\$ 4,506,562
Additions to permanent endowment	<u> -</u>	<u> 25,500</u>
Decrease in net position	(18,674,340)	(4,402,207)
Net position, beginning of year	<u>(52,819,690)</u>	<u>(48,417,483)</u>
Net position, end of year	<u>\$ (71,494,030)</u>	<u>\$ (52,819,690)</u>

See accompanying notes to financial statements.

WESTERN KENTUCKY UNIVERSITY
WESTERN KENTUCKY UNIVERSITY FOUNDATION, INC.
STATEMENT OF ACTIVITIES
Year ended December 31, 2016

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Revenues, gains and other support				
Contribution revenue:				
Contributions	\$ 1,135,225	\$ 7,170,461	\$ 3,530,049	\$ 11,835,735
Non-charitable contributions	44,320	1,364,915	260,300	1,669,535
Investment income	601,185	1,830,768	-	2,431,953
Net unrealized and realized gains (losses) on investments	276,046	2,877,144	-	3,153,190
Management fees	32,320	-	-	32,320
Net actuarial loss from deferred gift liabilities	-	(59,148)	-	(59,148)
Rental and royalty income	<u>40,592</u>	<u>156,584</u>	<u>-</u>	<u>197,176</u>
Total contribution revenue	2,129,688	13,340,724	3,790,349	19,260,761
Net assets released from restriction	<u>13,886,787</u>	<u>(13,886,787)</u>	<u>-</u>	<u>-</u>
Total revenues, gains (losses) and other support	16,016,475	(546,063)	3,790,349	19,260,761
Expenses				
Expenses on behalf of WKU programs				
Salaries/wages, payroll taxes, and benefits	1,635,632	-	-	1,635,632
Scholarships and honorariums	855,309	-	-	855,309
Gifts and donations	2,188,182	-	-	2,188,182
Capital expenditures	11,255,441	-	-	11,255,441
Professional fees and other services	181,560	-	-	181,560
Travel, meals, and entertainment	686,842	-	-	686,842
Dues/subscriptions and registrations	454,858	-	-	454,858
Printing, supplies, and other office expenses	318,966	-	-	318,966
Equipment rentals and maintenance	22,635	-	-	22,635
Interest expense	39,454	-	-	39,454
Other miscellaneous expenses	<u>103,011</u>	<u>-</u>	<u>-</u>	<u>103,011</u>
Total program expenses	17,741,890	-	-	17,741,890
Management and general				
Salaries/wages, payroll taxes, and benefits	399,851	-	-	399,851
Professional fees and other services	301,726	-	-	301,726
Travel, meals, and entertainment	28,822	-	-	28,822
Printing, supplies, and other office expenses	35,798	-	-	35,798
Provision for uncollectible pledges	<u>45,320</u>	<u>-</u>	<u>-</u>	<u>45,320</u>
Total management and general expenses	811,517	-	-	811,517

See accompanying notes to financial statements.

WESTERN KENTUCKY UNIVERSITY
 WESTERN KENTUCKY UNIVERSITY FOUNDATION, INC.
 STATEMENT OF ACTIVITIES
 Year ended December 31, 2016

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Fundraising				
Salaries/wages, payroll taxes, and benefits	\$ 11,199	\$ -	\$ -	\$ 11,199
Professional fees and other services	1,047	-	-	1,047
Gifts and donations	1,313	-	-	1,313
Travel, meals, and entertainment	11,662	-	-	11,662
Printing, supplies, and other office expenses	557	-	-	557
Other miscellaneous expenses	<u>19,539</u>	<u>-</u>	<u>-</u>	<u>19,539</u>
Total fundraising expenses	<u>45,317</u>	<u>-</u>	<u>-</u>	<u>45,317</u>
 Total expenses	 <u>18,598,724</u>	 <u>-</u>	 <u>-</u>	 <u>18,598,724</u>
 Change in net assets	 (2,582,249)	 (546,063)	 3,790,349	 662,037
 Net asset, beginning of year	 <u>12,466,886</u>	 <u>20,236,681</u>	 <u>46,972,878</u>	 <u>79,676,445</u>
 Net assets, end of year	 <u>\$ 9,884,637</u>	 <u>\$ 19,690,618</u>	 <u>\$ 50,763,227</u>	 <u>\$ 80,338,482</u>

See accompanying notes to financial statements.

WESTERN KENTUCKY UNIVERSITY
WESTERN KENTUCKY UNIVERSITY FOUNDATION, INC.
STATEMENT OF ACTIVITIES
Year ended December 31, 2015

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Revenues, gains and other support				
Contribution revenue:				
Contributions	\$ 996,457	\$ 3,389,319	\$ 6,860,029	\$ 11,245,805
Non-charitable contributions	1,009,534	2,585,201	8,710	3,603,445
Investment income	403,098	1,840,056	-	2,243,154
Net unrealized and realized gains (losses) on investments	(1,496,317)	(6,051,434)	-	(7,547,751)
Management fees	5,172	-	-	5,172
Net actuarial loss from deferred gift liabilities	-	(83,994)	-	(83,994)
Rental and royalty income	-	188,542	-	188,542
Total contribution revenue	<u>917,944</u>	<u>1,867,690</u>	<u>6,868,739</u>	<u>9,654,373</u>
Net assets released from restriction	<u>5,892,601</u>	<u>(5,892,601)</u>	<u>-</u>	<u>-</u>
Total revenues, gains (losses) and other support	6,810,545	(4,024,911)	6,868,739	9,654,373
Expenses				
Expenses on behalf of WKU programs				
Salaries/wages, payroll taxes, and benefits	1,369,488	-	-	1,369,488
Scholarships and honorariums	635,791	-	-	635,791
Gifts and donations	476,428	-	-	476,428
Capital expenditures	2,761,581	-	-	2,761,581
Professional fees and other services	184,672	-	-	184,672
Travel, meals, and entertainment	735,232	-	-	735,232
Dues/subscriptions and registrations	421,323	-	-	421,323
Printing, supplies, and other office expenses	422,143	-	-	422,143
Equipment rentals and maintenance	14,610	-	-	14,610
Interest expense	47,865	-	-	47,865
Other miscellaneous expenses	103,596	-	-	103,596
Total program expenses	<u>7,172,729</u>	<u>-</u>	<u>-</u>	<u>7,172,729</u>
Management and general				
Salaries/wages, payroll taxes, and benefits	439,313	-	-	439,313
Scholarships and honorariums	10,575	-	-	10,575
Professional fees and other services	345,810	-	-	345,810
Travel, meals, and entertainment	11,464	-	-	11,464
Printing, supplies, and other office expenses	17,567	-	-	17,567
Other miscellaneous expenses	5,840	-	-	5,840
Provision for uncollectible pledges	466,118	-	-	466,818
Total management and general expenses	1,296,687	-	-	1,296,687

See accompanying notes to financial statements.

WESTERN KENTUCKY UNIVERSITY
WESTERN KENTUCKY UNIVERSITY FOUNDATION, INC.
STATEMENT OF ACTIVITIES
Year ended December 31, 2015

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Fundraising				
Professional fees and other services	\$ 7,407	\$ -	\$ -	\$ 7,407
Gifts and donations	1,128	-	-	1,128
Travel, meals, and entertainment	19,903	-	-	19,903
Printing, supplies, and other office expenses	640	-	-	640
Other miscellaneous expenses	<u>9,956</u>	<u>-</u>	<u>-</u>	<u>9,956</u>
Total fundraising expenses	<u>39,034</u>	<u>-</u>	<u>-</u>	<u>39,034</u>
 Total expenses	 <u>8,508,450</u>	 <u>-</u>	 <u>-</u>	 <u>8,508,450</u>
 Change in net assets	 (1,697,905)	 (4,024,911)	 6,868,739	 1,145,923
 Net asset, beginning of year	 <u>14,164,791</u>	 <u>24,261,592</u>	 <u>40,104,139</u>	 <u>78,530,522</u>
 Net assets, end of year	 <u>\$ 12,466,886</u>	 <u>\$ 20,236,681</u>	 <u>\$ 46,972,878</u>	 <u>\$ 79,676,445</u>

See accompanying notes to financial statements.

WESTERN KENTUCKY UNIVERSITY
 WKU STUDENT LIFE FOUNDATION, INC.
 STATEMENTS OF ACTIVITIES
 Years ended June 30, 2017 and 2016

	<u>2017</u>	<u>2016</u>
OPERATING REVENUES		
Rent	\$ 21,828,684	\$ 21,588,283
Interest income – direct financing lease	123,119	127,638
Other	<u>1,227,895</u>	<u>1,233,654</u>
Total operating revenues	23,179,698	22,949,575
OPERATING EXPENSES		
Salaries, benefits and related expenses	6,178,820	5,814,505
Utilities	2,563,782	2,174,903
Repairs, maintenance and supplies	1,694,138	1,323,662
Management fees	84,500	84,500
Professional fees	113,730	313,514
Insurance	621,694	618,842
Depreciation and amortization	3,914,380	3,867,338
Bad debt expense	232,091	208,757
Other	<u>471,328</u>	<u>810,128</u>
Total operating expenses	<u>15,874,463</u>	<u>15,216,149</u>
Change in net assets from operations	7,305,235	7,733,426
NONOPERATING REVENUES (EXPENSES)		
Interest income	391,129	426,927
Interest expense and fees	(2,212,176)	(817,419)
Loss on bond issuance costs and premiums	(117,349)	(603,867)
Change in fair value of derivative instruments, net of settlement payments of \$1,236,787 and \$2,099,610 for 2017 and 2016, respectively	<u>1,387,312</u>	<u>(3,720,470)</u>
Total non-operating expenses	<u>(551,084)</u>	<u>(4,714,829)</u>
Change in unrestricted net assets	6,754,151	3,018,597
Unrestricted net assets, beginning of year	<u>29,965,775</u>	<u>26,947,178</u>
Unrestricted net assets, end of year	<u>\$ 36,719,926</u>	<u>\$ 29,965,775</u>

See accompanying notes to financial statements.

WESTERN KENTUCKY UNIVERSITY
COLLEGE HEIGHTS FOUNDATION, INC.
STATEMENT OF ACTIVITIES
Year ended December 31, 2016

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
REVENUES, GAINS AND OTHER SUPPORT				
Contributions	\$ 920,464	\$ 3,215,473	\$ 7,231,255	\$ 11,367,192
Investment income	151,321	1,355,469	-	1,506,790
Net realized and unrealized gains on investments	179,166	2,597,526	-	2,776,692
Net change in value of split-interest agreements	-	9,844	-	9,844
Net assets released from restrictions:				
Satisfaction of program restrictions	7,133,130	(7,133,130)	-	-
Loss on exchange of assets	-	(6,926)	-	(6,926)
Total revenues, gains and other support	<u>8,384,081</u>	<u>38,256</u>	<u>7,231,255</u>	<u>15,653,592</u>
EXPENSES				
Program:				
Scholarships and awards	5,332,401	-	-	5,332,401
Other	96,045	-	-	96,045
	<u>5,428,446</u>	<u>-</u>	<u>-</u>	<u>5,428,446</u>
Management and general:				
Salaries and benefits	502,841	-	-	502,841
Interest expense	1,595	-	-	1,595
Other	307,445	-	-	307,445
	<u>811,881</u>	<u>-</u>	<u>-</u>	<u>811,881</u>
Total expenses	<u>6,240,327</u>	<u>-</u>	<u>-</u>	<u>6,240,327</u>
CHANGE IN NET ASSETS	2,143,754	38,256	7,231,255	9,413,265
NET ASSETS, BEGINNING OF YEAR	<u>(2,057,514)</u>	<u>1,789,358</u>	<u>48,533,118</u>	<u>48,264,962</u>
NET ASSETS, END OF YEAR	<u>\$ 86,240</u>	<u>\$ 1,827,614</u>	<u>\$ 55,764,373</u>	<u>\$ 57,678,227</u>

See accompanying notes to financial statements.

WESTERN KENTUCKY UNIVERSITY
COLLEGE HEIGHTS FOUNDATION, INC.
STATEMENT OF ACTIVITIES
Year ended December 31, 2015

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
REVENUES, GAINS AND OTHER SUPPORT				
Contributions	\$ 876,954	\$ 3,090,896	\$ 901,740	\$ 4,869,590
Investment income	673,908	761,017	-	1,434,925
Net realized and unrealized gains on investments	(98,681)	(1,251,154)	-	(1,349,835)
Net change in value of split-interest agreements	-	(349,079)	-	(349,079)
Other revenue	13	-	-	13
Net assets released from restrictions:				
Satisfaction of program restrictions	2,162,383	(2,162,383)	-	-
Loss on exchange of assets	-	(17,050)	-	(17,050)
Total revenues, gains and other support	<u>3,614,577</u>	<u>72,247</u>	<u>901,740</u>	<u>4,588,564</u>
EXPENSES				
Program:				
Scholarships and awards	5,085,563	-	-	5,085,563
Other	125,923	-	-	125,923
	<u>5,211,486</u>	<u>-</u>	<u>-</u>	<u>5,211,486</u>
Management and general:				
Salaries and benefits	445,814	-	-	445,814
Interest expense	5,957	-	-	5,957
Other	276,237	-	-	276,237
	<u>728,008</u>	<u>-</u>	<u>-</u>	<u>728,008</u>
Total expenses	<u>5,939,494</u>	<u>-</u>	<u>-</u>	<u>5,939,494</u>
CHANGE IN NET ASSETS	(2,324,917)	72,247	901,740	(1,350,930)
NET ASSETS, BEGINNING OF YEAR	<u>267,403</u>	<u>1,717,111</u>	<u>47,631,378</u>	<u>49,615,892</u>
NET ASSETS, END OF YEAR	<u>\$ (2,057,514)</u>	<u>\$ 1,789,358</u>	<u>\$ 48,533,118</u>	<u>\$ 48,264,962</u>

See accompanying notes to financial statements.

WESTERN KENTUCKY UNIVERSITY
STATEMENTS OF CASH FLOWS
Years ended June 30, 2017 and 2016

	<u>2017</u>	<u>2016</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Tuition and fees	\$ 137,110,192	\$ 140,536,813
Grants and contracts	5,746,660	2,384,109
Payments to employees	(189,649,347)	(193,754,273)
Payments to suppliers	(89,907,604)	(85,381,471)
Loans issued to students, net of collection	(136,467)	305,042
Sales and services of educational departments	16,278,531	20,051,165
Other operating revenues	21,876,554	19,243,539
Auxiliary enterprise revenues	22,018,060	20,598,357
Auxiliary enterprise payments		
Payments to employees	(7,963,786)	(8,925,275)
Payments to suppliers	(13,075,737)	(10,945,899)
Net cash used in operating activities	<u>(97,702,944)</u>	<u>(94,399,451)</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
State appropriations	72,040,200	73,156,400
Grants and contracts receipts	58,454,904	58,746,983
Grants and contracts receipts – ARRA	-	28,000
Student organization agency receipts (disbursements) - net	(2,916,218)	(1,537,471)
Net cash provided by noncapital financing activities	<u>127,578,886</u>	<u>130,393,912</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Proceeds from sale of capital assets	33,997	684,101
Purchases of capital assets	(40,120,776)	(22,068,100)
Principal paid on capital debt and leases	(12,641,535)	(12,106,941)
Proceeds from debt issuance	9,630,577	-
Net proceeds from refunding of debt	2,347,028	1,916,775
Interest paid on capital debt and leases	(6,235,074)	(7,040,484)
State appropriations for capital acquisition	20,312,317	4,506,562
Net cash used in capital and related financing activities	<u>(26,673,466)</u>	<u>(34,108,087)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from sales and maturities of investments	555,953	119,429
Purchase of investments	(135,421)	(1,021,658)
Investment income	177,387	314,368
Net cash provided by (used in) investing activities	<u>597,919</u>	<u>(587,861)</u>
Net change in cash and cash equivalents	3,800,395	1,298,513
Cash and cash equivalents, beginning of year	<u>65,379,520</u>	<u>64,081,007</u>
Cash and cash equivalents, end of year	<u>\$ 69,179,915</u>	<u>\$ 65,379,520</u>

See accompanying notes to financial statements.

WESTERN KENTUCKY UNIVERSITY
 STATEMENTS OF CASH FLOWS
 Years ended June 30, 2017 and 2016

	<u>2017</u>	<u>2016</u>
Reconciliation of net operating loss to net cash used in operating activities		
Operating loss	\$ (164,470,363)	\$ (134,142,222)
Depreciation expense	27,563,085	27,689,482
Changes in operating assets and liabilities		
Accounts receivable, net	(1,100,296)	284,771
Federal and state grants receivable	1,830,353	1,336,837
Assets held in trust	14,965	106,596
Inventories	625,160	758,033
Loans to students, net	(136,467)	305,042
Prepaid expenses and other	130,059	113,857
Accounts payable and other current liabilities	1,445,273	(823,004)
Health insurance liability	350,193	(37,504)
Accrued payroll and payroll withholdings	(212,619)	(730,816)
Accrued compensated absences	(70,263)	(63,179)
Deferred outflows – pension liability	(57,916,306)	(29,484,113)
Deferred inflows – pension liability	(1,496,941)	(8,050,095)
Net pension liability	93,122,402	47,668,182
Unearned revenue	<u>2,618,821</u>	<u>668,682</u>
Net cash used in operating activities	<u>\$ (97,702,944)</u>	<u>\$ (94,399,451)</u>
Supplemental cash flows information		
Non-cash activities:		
Construction in process included in accounts payable	\$ 433,559	\$ 1,047,777
Refunding of debt	28,370,000	32,632,236
Reconciliation of cash and cash equivalents to the statement of net position		
Cash and cash equivalents	\$ 65,404,599	\$ 63,772,219
Restricted cash and cash equivalents	<u>3,775,316</u>	<u>1,607,301</u>
Total cash and cash equivalents	<u>\$ 69,179,915</u>	<u>\$ 65,379,520</u>

See accompanying notes to financial statements.

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

Nature of Operations: Western Kentucky University (the "University") is a state supported institution of higher education located in Bowling Green, Kentucky, and accredited by the Southern Association of Colleges and Schools Commission on Colleges. The University awards graduate and undergraduate degrees and serves a student population of approximately 20,300 and 20,100 in 2017 and 2016, respectively. The University is operated under the jurisdiction of a Board of Regents and is a component unit of the Commonwealth of Kentucky. Major federally funded student financial aid programs in which the University participates include the Federal Pell Grant, Federal Supplemental Educational Opportunity Grant, Federal Work Study, Federal Family Education Loan, Federal Direct Loan and Federal Perkins Loan Programs. The University extends unsecured credit to students.

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

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

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

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

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

The financial information included for each foundation noted above is derived from the respective foundation's annual audited financial statements. WKU Foundation, Inc. and College Heights Foundation, Inc. operate on a calendar year. Thus, the information included for each of these foundations is as of and for the years ended December 31, 2016 and 2015. The Student Life Foundation, Inc. operates on a fiscal year beginning July, 1 and extending through June 30; likewise the information contained herein is as of and for the years ended June 30, 2017 and 2016.

(Continued)

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

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

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

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

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

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

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

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

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

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

(Continued)

WESTERN KENTUCKY UNIVERSITY
NOTES TO FINANCIAL STATEMENTS
June 30, 2017 and 2016

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

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

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

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

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

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

The University capitalizes interest costs as a component of construction in progress, based on interest costs of borrowing specifically for the project, net of interest earned on investments acquired with the proceeds of borrowings. For the years ended June 30, 2017 and 2016, total interest capitalized was:

	<u>2017</u>	<u>2016</u>
Total interest expense incurred on borrowings for project	\$ 255,098	\$ -
Interest income from investment of proceeds of borrowings for project	<u>(38,056)</u>	<u>-</u>
Net interest cost capitalized	<u>\$ 187,042</u>	<u>\$ -</u>
Interest capitalized	\$ 187,042	\$ -
Interest charged to expense	<u>6,206,314</u>	<u>6,809,056</u>
Total interest incurred	<u>\$ 6,393,356</u>	<u>\$ 6,809,056</u>

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

(Continued)

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

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

Unearned Revenue: Tuition and fee revenues collected during the fiscal year, which relate to the period after June 30, 2017, have been recognized as unearned revenues. Unearned revenues arise when resources are received by the University before it has a legal claim to them, as when grant monies are received prior to the incurrence of qualifying expenditures. In subsequent periods, when both revenue recognition criteria are met, or when the University has a legal claim to the resources, the liability for unearned revenue is removed from the statement of net position and revenue is recognized. Unearned revenue also includes amounts received from grant and contract sponsors that have not yet been earned and unexpended state capital appropriations.

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

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

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

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

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

(Continued)

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

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

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

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

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

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

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

Recent Accounting Pronouncements Adopted/Implemented:

- GASB Statement No. 74, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, issued on June 2015. The provisions of this Statement are effective for periods beginning after June 15, 2016. The objective of this Statement is to improve the usefulness of information about postemployment benefits other than pensions (other postemployment benefits or OPEB) included in the general purpose external financial reports of state and local governmental OPEB plans for making decisions and assessing accountability. This Statement results from a comprehensive review of the effectiveness of existing standards of accounting and financial reporting for all postemployment benefits (pensions and OPEB) with regard to providing decision-useful information, supporting assessments of accountability and interperiod equity, and creating additional transparency. The adoption of this standard had no effect on the University's net position or changes therein.
- GASB Statement No. 77, *Tax Abatement Disclosures*, issued on August 2015. The provisions of this Statement are effective for periods beginning after December 15, 2015. This Statement establishes financial reporting standards for tax abatement agreements entered into by state and local governments. The disclosures required by this Statement encompass tax abatements resulting from both 1 (a) agreements that are entered into by the reporting government and (b) agreements that are entered into by other governments and that reduce the reporting government's tax revenues. The provisions of this Statement should be applied to all state and local governments subject to such tax abatement agreements. The adoption of this statement had no effect on the University's net position or change therein.

(Continued)

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

- GASB Statement No. 78, *Pensions Provided through Certain Multiple-Employer Defined Benefit Pension Plans*, issued December 2015. The provisions of this Statement are effective for periods beginning after December 15, 2015. The objective of this Statement is to address a practice issue regarding the scope and applicability of GASB Statement No. 68, *Accounting and Financial Reporting for Pensions*. This issue is associated with pensions provided through certain multiple-employer defined benefit pension plans and to state or local governmental employers whose employees are provided with such pensions. The adoption of this standard had no effect on the University's net position or changes therein.
- GASB Statement No. 80, *Blending Requirements for Certain Component Units – An Amendment of GASB Statement No. 14*, issued January 2016. The provisions of this Statement are effective for periods beginning after June 15, 2016. The objective of this Statement is to improve financial reporting by clarifying the financial statement presentation requirements for certain component units. This Statement amends the blending requirements established in paragraph 53 of Statement No. 14, *The Financial Reporting Entity*, as amended. The adoption of this standard had no effect on the University's net position or changes therein.
- GASB Statement No. 82, *Pension Issues—an amendment of GASB Statements No. 67, No. 68, and No. 73*, issued March 2016. The provisions of this Statement are effective for periods beginning after June 15, 2016. The objective of this Statement is to address issues regarding (1) the presentation of payroll-related measures in required supplementary information, (2) the selection of assumptions and the treatment of deviations from the guidance in an Actuarial Standard of Practice for financial reporting purposes, and (3) the classification of payments made by employers to satisfy employee (plan member) contribution requirements. The adoption of this standard had no effect on the University's net position or changes therein.

Recent Accounting Pronouncements: As of June 30, 2017, the GASB has issued the following statements not yet implemented by the University.

- GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, issued on June 2015. The provisions of this Statement are effective for periods beginning after June 15, 2017. The primary objective of this Statement is to improve accounting and financial reporting by state and local governments for postemployment benefits other than pensions (other postemployment benefits or OPEB). It also improves information provided by state and local governmental employers about financial support for OPEB that is provided by other entities. This Statement results from a comprehensive review of the effectiveness of existing standards of accounting and financial reporting for all postemployment benefits (pensions and OPEB) with regard to providing decision-useful information, supporting assessments of accountability and interperiod equity, and creating additional transparency. The University's management has not yet determined the effect this statement will have on the University's financial statements.
- GASB Statement No. 81, *Irrevocable Split-Interest Agreements*, issued March 2016. The provisions of this Statement are effective for periods beginning after December 15, 2016. The objective of this Statement is to improve accounting and financial reporting for irrevocable split-interest agreements by providing recognition and measurement guidance for situations in which a government is a beneficiary of the agreement. The University's management has not yet determined the effect this statement will have on the University's financial statements.

(Continued)

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

- GASB Statement No. 83, *Certain Asset Retirement Obligations*, issued November 2016. The provisions of this Statement are effective for periods beginning after June 15, 2018. The objective of this Statement is to address accounting and financial reporting for certain asset retirement obligations (“ARO’s”). An ARO is a legally enforceable liability associated with the retirement of a tangible capital asset. A government that has legal obligations to perform future asset retirement activities related to its tangible capital assets should recognize a liability based on the guidance in this Statement. The University’s management has not yet determined the effect this statement will have on the University’s financial statements.
- GASB Statement No. 84, *Fiduciary Activities*, issued January 2017. The provisions of this Statement are effective for periods beginning after December 15, 2018. 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 University’s management has not yet determined the effect this statement will have on the University’s financial statements.
- GASB Statement No. 85, *Omnibus 2017*, issued March 2017. The provisions of this Statement are effective for periods beginning after June 15, 2017. The objective of this Statement is to address practice issues that have been identified during implementation and application of certain GASB Statements. This Statement addresses a variety of topics including issues related to blending component units, goodwill, fair value measurement and application, and postemployment benefits (pensions and other postemployment benefits [OPEB]). The University’s management has not yet determined the effect this statement will have on the University’s financial statements.
- GASB Statement No. 86, *Certain Debt Extinguishments Issues*, issued May 2017. The provisions of this Statement are effective for periods beginning after June 15, 2017. The objective of this Statement is to improve consistency in accounting and financial reporting for in-substance defeasance of debt by providing guidance for transactions in which cash and other monetary assets acquired with only existing resources—resources other than the proceeds of refunding debt—are placed in an irrevocable trust for the sole purpose of extinguishing debt. The University’s management has not yet determined the effect this statement will have on the University’s financial statements.
- GASB Statement No. 87, *Leases*, issued June 2017. The provisions of this Statement are effective for periods beginning after December 15, 2019. The objective of this Statement is to better meet the information needs of financial statement users by improving accounting and financial reporting for leases by governments. This Statement increases the usefulness of governments’ financial statements by requiring recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. It establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. Under this Statement, a lessee is required to recognize a lease liability and an intangible right-to-use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources, thereby enhancing the relevance and consistency of information about governments’ leasing activities. The University’s management has not yet determined the effect this statement will have on the University’s financial statements.

Reclassifications: Certain reclassifications have been made to present last year’s financial statements on a basis comparable to the current year’s financial statements. These reclassifications had no effect on the change in net position or total net position.

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WESTERN KENTUCKY UNIVERSITY
NOTES TO FINANCIAL STATEMENTS
June 30, 2017 and 2016

NOTE 2 - ASSETS HELD IN TRUST

Assets held in trust as of June 30, 2017 and 2016 consisted of:

	<u>2017</u>	<u>2016</u>
Cash equivalents	\$ 3,342,320	\$ 3,759,360
Common equity, common fixed income and mutual funds	<u>18,868,705</u>	<u>17,799,038</u>
Fair value of assets held in trust	<u>\$ 22,211,025</u>	<u>\$ 21,558,398</u>

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

NOTE 3 - DEPOSITS AND INVESTMENTS

Cash

The carrying amount of cash and cash equivalents was \$69,179,915 and \$65,379,520 at June 30, 2017 and 2016, while the bank balances were \$44,100,074 and \$69,726,560 at June 30, 2017 and 2016. All account balances at banks were either insured by the Federal Deposit Insurance Corporation (FDIC) for \$250,000, or collateralized with securities of the U.S. Government or with letters of credit issued by the Federal Home Loan Bank held in the University's name by financial institutions acting as the University's agent.

Investments (excluding 457(f) Incentive Plan)

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

457(f) Incentive Plan Investments

Pursuant to plan documents, the investments included in this plan are directed by the beneficiaries of the account and consist of money market mutual funds. The beneficiaries of these investments vest a certain percentage of the account balance on an annual basis. The vested balance is paid to the beneficiary subsequent to the University's fiscal year end. The total amount vested and payable as of June 30, 2017 and 2016 was \$184,396 and \$180,227, respectively. The investments in this plan, by plan agreement, may be liquidated at any time and, as such, have been classified with maturities of less than one year.

The following schedule reports the fair values and maturities (using the segmented time distribution method) for the University's investments at June 30, 2017:

<u>Investment Type</u>	<u>Fair Value</u>	<u>One Year</u>	<u>One to Five Years</u>	<u>Six to Ten Years</u>	<u>Greater than Ten Years</u>
457(f) Incentive Plan	<u>\$ 184,771</u>	<u>\$ 184,771</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

(Continued)

WESTERN KENTUCKY UNIVERSITY
 NOTES TO FINANCIAL STATEMENTS
 June 30, 2017 and 2016

NOTE 3 - DEPOSITS AND INVESTMENTS (Continued)

The following schedule reports the fair values and maturities (using the segmented time distribution method) for the University's investments at June 30, 2016:

<u>Investment Type</u>	<u>Fair Value</u>	<u>One Year</u>	<u>One to Five Years</u>	<u>Six to Ten Years</u>	<u>Greater than Ten Years</u>
457(f) Incentive Plan	\$ 179,457	\$ 179,457	\$ -	\$ -	\$ -

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

The University has the following recurring fair value measurements as of June 30, 2017 and 2016:

- Money market mutual funds of \$184,771 and \$179,457, respectively, all of which are based on quoted market prices in active markets using the market approach (Level 1 inputs).
- Assets held in trust of \$22,211,025 and \$21,558,398, respectively, which is valued at net asset value (NAV). There are no unfunded commitments and funds can be redeemed on a daily basis. The investment strategy is a long-term growth strategy and the underlying funds in the trust include cash, common stock, mutual funds, and fixed income securities.

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

Credit Risk: The University's general investment policy is to apply the prudent-person rule: Investments are made as a prudent person would be expected to act, with discretion and intelligence, to seek reasonable income, preserve capital, and, in general, avoid speculative investments. The University's investment policy allows investments in U.S. Agency securities if such obligations are rated at the time of purchase at one of the three highest classifications established by at least two standard rating services.

The University did not have any investment in debt securities as of June 30, 2017 and 2016. Therefore, the University is not considered to have credit risk.

Custodial Credit Risk: For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the University will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The University's investment policy requires that all amounts in excess of any insurance limits be collateralized by securities eligible for University investment. The market value of the pledged securities shall equal or exceed the portion of the deposit requiring collateralization. The University is fully collateralized as of June 30, 2017 and 2016.

Of the University's cash balance as of June 30, 2017 and 2016, \$500,000 is secured by FDIC insurance, and \$39,150,728 and \$66,640,539, respectively, is collateralized by the pledging institution. Additionally, as of June 30, 2017 and 2016, \$4,449,346 and \$2,586,021 is held within various accounts with the Commonwealth of Kentucky.

(Continued)

WESTERN KENTUCKY UNIVERSITY
NOTES TO FINANCIAL STATEMENTS
June 30, 2017 and 2016

NOTE 3 - DEPOSITS AND INVESTMENTS (Continued)

Concentration of Credit Risk: The Commonwealth of Kentucky places no limit on the amount the University may invest in any one issuer. More than 90% percent of the University's investments are U.S. Treasury Obligations. The investments reported in the University's 457(f) Incentive Plan are beneficiary-directed money-market mutual funds.

Investment income (loss) for the year ended June 30, 2017 and 2016 consisted of:

	<u>2017</u>	<u>2016</u>
Interest income, including interest earned on cash equivalents	\$ 241,264	\$ 383,750
Net change in fair value of investments and assets held in trust	<u>1,038,586</u>	<u>(1,453,646)</u>
	<u>\$ 1,279,850</u>	<u>\$ (1,069,896)</u>

NOTE 4 - ACCOUNTS RECEIVABLE

Accounts receivable consist of the following as of June 30, 2017 and 2016:

	<u>2017</u>	<u>2016</u>
Tuition, fees, sales and services	\$ 15,036,567	\$ 13,279,530
Credit memos	319,966	859,389
Miscellaneous, other	<u>1,256,636</u>	<u>758,442</u>
	16,613,169	14,897,361
Less allowance for doubtful accounts	<u>(3,292,088)</u>	<u>(2,676,576)</u>
Accounts receivable, net	<u>\$ 13,321,081</u>	<u>\$ 12,220,785</u>

(Continued)

WESTERN KENTUCKY UNIVERSITY
NOTES TO FINANCIAL STATEMENTS
June 30, 2017 and 2016

NOTE 5 - CAPITAL ASSETS

Changes in capital assets for the year ended June 30, 2017 are summarized as follows:

	Balance July 1, 2016	Additions	Disposals	Transfers	Balance June 30, 2017
Non-depreciable capital assets:					
Land	\$ 12,627,736	\$ -	\$ -	\$ -	\$ 12,627,736
Construction in progress	15,658,287	35,584,915	-	(6,533,459)	44,709,743
	<u>28,286,023</u>	<u>35,584,915</u>	<u>-</u>	<u>(6,533,459)</u>	<u>57,337,479</u>
Depreciable capital assets:					
Buildings and improvements	563,409,997	-	-	4,141,170	567,551,167
Infrastructure	66,904,512	-	-	1,101,750	68,006,262
Furniture, fixtures and equipment	81,733,943	1,928,371	(539,014)	1,290,539	84,413,839
Library materials	56,361,133	3,041,049	(157,959)	-	59,244,223
	<u>768,409,585</u>	<u>4,969,420</u>	<u>(696,973)</u>	<u>6,533,459</u>	<u>779,215,491</u>
Less accumulated depreciation:					
Buildings and improvements	206,315,143	17,509,280	-	-	223,824,423
Infrastructure	24,286,661	3,058,554	-	-	27,345,215
Furniture, fixtures, and equipment	58,340,083	4,460,750	(497,719)	-	62,303,114
Library materials	42,802,770	2,534,501	(157,959)	-	45,179,312
	<u>331,744,657</u>	<u>27,563,085</u>	<u>(655,678)</u>	<u>-</u>	<u>358,652,064</u>
Net capital assets	<u>\$ 464,950,951</u>	<u>\$ 12,991,250</u>	<u>\$ (41,295)</u>	<u>\$ -</u>	<u>\$ 477,900,906</u>

Changes in capital assets for the year ended June 30, 2016 are summarized as follows:

	Balance July 1, 2015	Additions	Disposals	Transfers	Balance June 30, 2016
Non-depreciable capital assets:					
Land	\$ 11,083,687	\$ 1,544,049	\$ -	\$ -	\$ 12,627,736
Construction in progress	25,083,279	16,911,042	-	(26,336,034)	15,658,287
	<u>36,166,966</u>	<u>18,455,091</u>	<u>-</u>	<u>(26,366,034)</u>	<u>28,286,023</u>
Depreciable capital assets:					
Buildings and improvements	539,971,780	-	-	23,438,217	563,409,997
Infrastructure	65,294,073	-	-	1,610,439	66,904,512
Furniture, fixtures and equipment	79,041,528	1,814,566	(409,529)	1,287,378	81,733,943
Library materials	53,767,461	2,846,220	(252,548)	-	56,361,133
	<u>738,074,842</u>	<u>4,660,786</u>	<u>(662,077)</u>	<u>26,336,034</u>	<u>768,409,585</u>
Less accumulated depreciation:					
Buildings and improvements	188,842,860	17,472,283	-	-	206,315,143
Infrastructure	21,288,554	2,998,107	-	-	24,286,661
Furniture, fixtures, and equipment	53,947,631	4,775,437	(382,985)	-	58,340,083
Library materials	40,611,663	2,443,655	(252,548)	-	42,802,770
	<u>304,690,708</u>	<u>27,689,482</u>	<u>(635,533)</u>	<u>-</u>	<u>331,744,657</u>
Net capital assets	<u>\$ 469,551,100</u>	<u>\$ (4,573,605)</u>	<u>\$ (26,544)</u>	<u>\$ -</u>	<u>\$ 464,950,951</u>

(Continued)

WESTERN KENTUCKY UNIVERSITY
NOTES TO FINANCIAL STATEMENTS
June 30, 2017 and 2016

NOTE 5 - CAPITAL ASSETS (Continued)

A summary of construction in progress at June 30, 2017 and 2016 is as follows:

	<u>2017</u>	<u>2016</u>
Science Campus – Phase IV	\$ 31,492,835	\$ 8,031,137
Academic Complex Renovation – Phase II	-	1,289,894
Confucius Facility	-	1,608,822
Parking Structure 3	8,424,424	-
Others under \$1,000,000	<u>4,792,484</u>	<u>4,728,434</u>
	<u>\$ 44,709,743</u>	<u>\$ 15,658,287</u>

Contractual commitments in connection with all projects totaled \$12,623,129 and \$33,636,088 at June 30, 2017 and 2016.

NOTE 6 - UNEARNED REVENUE

Unearned revenue consisted of the following items as of June 30, 2017 and 2016:

	<u>2017</u>	<u>2016</u>
Unexpended state capital appropriations	\$ -	\$ 120,322
Summer school tuition and fees	5,277,928	5,779,053
Grants and contracts	5,196,425	2,246,106
Advance sale of football tickets	505,811	410,660
University master plan	139,360	144,325
Advanced capital improvement contribution	-	600,000
Miscellaneous	<u>1,096,366</u>	<u>416,925</u>
Total unearned revenue	<u>\$ 12,215,890</u>	<u>\$ 9,717,391</u>

NOTE 7 - LONG-TERM OBLIGATIONS

The following is a summary of long-term obligation transactions for the University for the year ended June 30, 2017:

	Balance <u>July 1, 2016</u>	<u>Additions</u>	<u>Reductions</u>	Balance <u>June 30, 2017</u>	Current <u>Portion</u>
Capital lease obligations	\$ 18,386,156	\$ -	\$ (602,664)	\$ 17,783,492	\$ 636,066
General receipts bonds payable, net of discounts	143,138,429	40,347,605	(37,845,894)	145,640,140	9,958,719
Other long-term debt	7,675,964	-	(1,633,870)	6,042,094	1,535,262
Pledges payable, net of discount premiums	<u>23,935,466</u>	<u>-</u>	<u>(1,926,047)</u>	<u>22,009,419</u>	<u>2,056,047</u>
Total bonds, pledges and capital leases	<u>\$ 193,136,015</u>	<u>\$ 40,347,605</u>	<u>\$ (42,008,475)</u>	<u>\$ 191,475,145</u>	<u>\$ 14,186,094</u>

(Continued)

WESTERN KENTUCKY UNIVERSITY
NOTES TO FINANCIAL STATEMENTS
June 30, 2017 and 2016

NOTE 7 - LONG-TERM OBLIGATIONS (Continued)

The following is a summary of long-term obligation transactions for the University for the year ended June 30, 2016:

	Balance <u>July 1, 2015</u>	<u>Additions</u>	<u>Reductions</u>	Balance <u>June 30, 2016</u>	Current <u>Portion</u>
Capital lease obligations	\$ 18,955,905	\$ -	\$ (569,749)	\$ 18,386,156	\$ 602,664
General receipts bonds payable, net of discounts	149,405,878	34,549,011	(40,816,460)	143,138,429	9,097,133
Other long-term debt	9,278,156	-	(1,602,192)	7,675,964	1,633,870
Pledges payable, net of discount premiums	<u>25,721,513</u>	<u>-</u>	<u>(1,786,047)</u>	<u>23,935,466</u>	<u>1,926,047</u>
Total bonds, pledges and capital leases	<u>\$ 203,361,452</u>	<u>\$ 34,549,011</u>	<u>\$ (44,774,448)</u>	<u>\$ 193,136,015</u>	<u>\$ 13,259,714</u>

General Receipts Bonds Payable

Bonds payable as of June 30, 2017 and 2016, are composed of General Receipts Bonds, Series 2006A, 2007A, 2009A, 2011A, 2012A, 2012B, 2013A, 2015A, 2016A, 2016B and 2016C. The bonds mature in varying amounts through September 1, 2033, with interest payable at annual rates ranging from 2.00% to 5.00%. Buildings and revenues from student registration fees are pledged as collateral against the Consolidated Educational Buildings Revenue Bond payable, whereas general receipts of the University are pledged as collateral against the General Receipts Bonds payable.

The total bonds payable as of June 30, 2017 and 2016 were as follows:

	<u>2017</u>	<u>2016</u>
General Receipts Bonds, Series 2006A, dated December 19, 2006, with interest rates from 3.625% to 3.80%. Final principal payment date was September 1, 2016.	\$ -	\$ 480,000
General Receipts Bonds, Series 2007A, dated May 30, 2007, with interest rates from 4.00% to 4.20%. Final principal payment date was September 1, 2016.	-	1,995,000
General Receipts Bonds, Series 2009A, dated February 18, 2009, with interest rates from 2.50% to 5.00%. Final principal payment date is September 1, 2028.	4,375,000	34,829,360
General Receipts Refunding Bonds, Series 2011A, dated November 15, 2011, with interest rates from 2.00% to 3.00%. Final payment date is May 1, 2023.	3,838,590	4,420,021
General Receipts Bonds, Series 2012A, dated June 6, 2012, with interest rates from 2.00% to 5.00%. Final principal payment date is May 1, 2032.	29,146,678	30,719,723
General Receipts Refunding Bonds, Series 2012B, dated June 6, 2012, with interest rates from 2.00% to 3.00%. Final principal payment date is May 1, 2023.	3,764,352	4,346,919

(Continued)

WESTERN KENTUCKY UNIVERSITY
NOTES TO FINANCIAL STATEMENTS
June 30, 2017 and 2016

NOTE 7 - LONG-TERM OBLIGATIONS (Continued)

General Receipts Bonds, Series 2013A, dated October 29, 2013, with interest rates from 2.00% to 4.75%. Final principal payment date is September 1, 2033.	\$ 32,201,671	\$ 33,639,222
General Receipts Refunding Bonds, Series 2015A, dated October 13, 2015, with interest rates from 2.00% to 3.00%. Final principal payment date is September 1, 2026.	6,161,772	6,206,451
General Receipts Refunding Bonds, Series 2016A, dated March 17, 2016, with interest rates from 2.00% to 5.00%. Final principal payment date is September 1, 2026.	26,165,401	26,499,733
General Receipts Bonds, Series 2016B, dated October 25, 2016, with interest rates from 2.00% to 4.00%. Final principal payment date is September 1, 2036	9,600,345	-
General Receipts Refunding Bonds, Series 2016C, dated October 25, 2016, with interest rates from 3.00% to 4.00%. Final principal payment date is September 1, 2028	<u>30,386,331</u>	<u>-</u>
Total bonds payable	<u>\$ 145,640,140</u>	<u>\$ 143,138,429</u>

The debt service requirements for the bonds payable as of June 30, 2017 are as follows:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2018	\$ 9,190,000	\$ 4,856,816	\$ 14,046,816
2019	9,440,000	4,603,691	14,043,691
2020	9,575,000	4,339,679	13,914,679
2021	9,860,000	4,050,166	13,910,166
2022	10,195,000	3,716,166	13,911,166
2023-2027	51,170,000	12,909,725	64,079,725
2028-2032	30,300,000	4,699,822	34,999,822
2033-2036	<u>7,775,000</u>	<u>514,550</u>	<u>8,289,550</u>
	137,505,000	39,690,615	177,195,615
Add: unamortized premiums, net of discounts	<u>8,135,140</u>	<u>-</u>	<u>8,135,140</u>
	<u>\$ 145,640,140</u>	<u>\$ 39,690,615</u>	<u>\$ 185,330,755</u>

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

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WESTERN KENTUCKY UNIVERSITY
NOTES TO FINANCIAL STATEMENTS
June 30, 2017 and 2016

NOTE 7 - LONG-TERM OBLIGATIONS (Continued)

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

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

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

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

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

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

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

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

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

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

(Continued)

WESTERN KENTUCKY UNIVERSITY
 NOTES TO FINANCIAL STATEMENTS
 June 30, 2017 and 2016

NOTE 7 - LONG-TERM OBLIGATIONS (Continued)

Capital Lease Obligations

The University has acquired certain real property and equipment under various lease-purchase contracts and other capital lease agreements. The costs of University assets held under capital leases totaled \$18,232,681 at June 30, 2017 and 2016, net of accumulated depreciation of \$2,357,041 and \$1,889,839, respectively. The following is a schedule by year of future minimum lease payments under the capital leases including interest at rates of 2.23% to 6.42% together with the present value of the future minimum lease payments as of June 30, 2017:

Year ending June 30	Total to be Paid	Present Value of Future Minimum Lease Payments	Interest Portion
2018	\$ 1,349,462	\$ 636,066	\$ 713,396
2019	1,368,362	679,984	688,378
2020	1,380,962	719,450	661,512
2021	1,108,162	469,498	638,664
2022	1,125,062	505,164	619,898
2023-2027	5,731,332	2,966,496	2,764,836
2028-2032	5,149,507	2,951,830	2,197,677
2033-2037	5,389,815	3,799,749	1,590,066
2038-2042	<u>5,677,505</u>	<u>5,055,255</u>	<u>622,250</u>
	<u>\$ 28,280,169</u>	<u>\$ 17,783,492</u>	<u>\$ 10,496,677</u>

Other Long-Term Debt

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

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

On September 11, 2011, the University entered into a Master Lease Agreement with PNC Bank. Under the provisions of this agreement, the total principal balance was drawn and held in an escrow account and dispersed as needed to pay costs associated with the acquisition of a Television Production Truck. The annual percentage rate for this financing is 3.49%. Payments of principal and interest of \$278,898 are due annually, beginning on October 23, 2011. The final principal payment is due on October 23, 2017.

(Continued)

WESTERN KENTUCKY UNIVERSITY
 NOTES TO FINANCIAL STATEMENTS
 June 30, 2017 and 2016

NOTE 7 - LONG-TERM OBLIGATIONS (Continued)

Debt service requirements on the other long-term debt at June 30, 2017, were as follows:

Year ending June 30	<u>Total to be Paid</u>	<u>Principal</u>	<u>Interest</u>
2018	\$ 1,641,376	\$ 1,535,217	\$ 106,159
2019	1,179,146	1,103,971	75,175
2020	968,301	912,875	55,426
2021	968,301	929,790	38,511
2022	948,301	926,675	21,626
2023	<u>643,272</u>	<u>633,566</u>	<u>9,706</u>
	<u>\$ 6,348,697</u>	<u>\$ 6,042,094</u>	<u>\$ 306,603</u>

Pledges Payable

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

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

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

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

(Continued)

WESTERN KENTUCKY UNIVERSITY
 NOTES TO FINANCIAL STATEMENTS
 June 30, 2017 and 2016

NOTE 7 - LONG-TERM OBLIGATIONS (Continued)

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

Year ending June 30	<u>Total to be Paid</u>	<u>Principal Series 2010</u>	<u>Interest Series 2010</u>
2018	\$ 2,816,155	\$ 2,045,000	\$ 771,155
2019	2,894,805	2,185,000	709,805
2020	2,984,255	2,340,000	644,255
2021	3,068,205	2,500,000	568,205
2022	3,005,705	2,525,000	480,705
2023-2026	<u>11,325,536</u>	<u>10,315,000</u>	<u>1,010,536</u>
	26,094,661	21,910,000	4,184,661
Add unaccrued premium	<u>99,419</u>	<u>99,419</u>	<u>-</u>
	<u>\$ 26,194,080</u>	<u>\$ 22,009,419</u>	<u>\$ 4,184,661</u>

NOTE 8 - OPERATING LEASES

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

Future minimum lease payments at June 30, 2017, were:

2018	\$ 1,009,079
2019	1,001,879
2020	987,704
2021	985,679
2022	922,691
Thereafter through 2038	<u>22,232,807</u>
	<u>\$ 27,139,839</u>

Lease expense was \$1,099,265 and \$1,325,504 for the year ended June 30, 2017 and 2016.

(Continued)

NOTE 9 - PENSION PLANS

Employees of the University are covered by one of three pension plans:

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. Contribution rates for plan members and the University expressed as a percentage of covered payrolls were 6.16% and 13.84%, respectively. Of the University's 13.84% contribution, 5.10% is paid to Kentucky Teachers' Retirement System for unfunded liabilities. Covered payroll totaled \$50,242,527 and \$46,204,654 for the years ended June 30, 2017 and 2016. The University's contributions to the Optional Retirement Program for the years ended June 30, 2017 and 2016 were \$4,209,894 and \$4,038,287, respectively. Employees' contributions to the Optional Retirement Program for the years ended June 30, 2017 and 2016 were \$3,094,940 and \$2,845,270, respectively.

Kentucky Employees' Retirement System - Defined Benefit Plan

Plan Description – The University contributes to the Kentucky Employees' Retirement System (KERS), a cost sharing - multiple employer public employee retirement system. KERS is a defined benefit plan providing for retirement, disability, death benefits and health insurance. Participants have a fully vested interest after the completion of 60 months of service, 12 of which are current service. KERS issues a publicly available financial report that includes financial statements, required supplementary information, and detailed information about the pension plan's fiduciary net position. That report may be obtained by writing to Kentucky Retirement Systems, Perimeter Park West, 1260 Louisville Road, Frankfort, Kentucky, 40601-6124 or by calling (502) 696-8800.

(Continued)

WESTERN KENTUCKY UNIVERSITY
 NOTES TO FINANCIAL STATEMENTS
 June 30, 2017 and 2016

NOTE 9 – PENSION PLANS (Continued)

Benefits Provided

Non-Hazardous

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

Hazardous

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

(Continued)

WESTERN KENTUCKY UNIVERSITY
NOTES TO FINANCIAL STATEMENTS
June 30, 2017 and 2016

NOTE 9 – PENSION PLANS (Continued)

Contributions - Benefit and contribution rates are established by state statute. Per Kentucky Revised Statute 61.565(3) contribution requirements of the active employees and the participating organizations are established and may be amended by the KRS Board. For the fiscal year ended June 30, 2017, University non-hazardous and hazardous employees were required to contribute 5 percent and 8 percent, respectively, of their annual covered salary for retirement benefits for the years ended June 30, 2017 and 2016. Non-hazardous and hazardous employees with a participation date after 9/1/2008 were required to contribute an additional 1 percent of their covered salary for retiree healthcare benefits. The University was contractually required to contribute 40.24 and 30.84 percent of annual covered payroll for non-hazardous pay and 21.08 and 16.37 percent for hazardous pay to the pension plan for the years ended June 30, 2017 and 2016. Actuarially determined as an amount that, when combined with employee contributions, is expected to finance the cost of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. The University's total contributions to KERS for the years ended June 30, 2017 and 2016 was \$8,457,176 and \$7,616,683, equal to the required contributions for the year.

Pension liabilities, pension expense, and deferred outflows of resources and deferred inflows of resources related to pensions - At June 30, 2017 and 2016, the University reported a liability of \$166,398,661 and \$147,109,065 for its proportionate share of the non-hazardous net pension liability and \$3,038,552 and \$3,098,165 for hazardous. The net pension liability was measured as of June 30, 2016 and 2015, respectively, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of those dates. The University's proportion of the net pension liability was based on actual contributions to the pension plan during the measurement period. At June 30, 2017, 2016, and 2015, the University's proportion was 1.4597 percent, 1.4664 percent, and 1.4466 percent for non-hazardous and 0.7759 percent, 0.9033 percent, and 0.8570 percent for hazardous, respectively.

For the years ended June 30, 2017 and 2016, the University recognized non-hazardous pension expense of \$20,234,655 and \$14,202,763 and \$324,093 and \$401,470 for hazardous. At June 30, 2017, the University reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
<u>2017</u>		
Non-hazardous:		
Difference between expected and actual experience	\$ 173,804	\$ -
Net difference between projected and actual earnings on investments	2,554,892	-
Changes of assumptions	12,604,393	-
Changes in proportion and differences between employer contributions and proportionate share of contributions	691,424	450,664
University contributions subsequent to measurement date	<u>8,209,655</u>	<u>-</u>
	24,234,168	450,664
Hazardous:		
Difference between expected and actual experience	18,368	-
Net difference between projected and actual earnings on investments	290,146	-
Changes of assumptions	157,943	-
Changes in proportion and differences between employer contributions and proportionate share of contributions	52,247	241,196
University contributions subsequent to measurement date	<u>247,523</u>	<u>-</u>
	<u>766,227</u>	<u>241,196</u>
	<u>\$ 25,000,395</u>	<u>\$ 691,860</u>

(Continued)

WESTERN KENTUCKY UNIVERSITY
NOTES TO FINANCIAL STATEMENTS
June 30, 2017 and 2016

NOTE 9 – PENSION PLANS (Continued)

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
<u>2016</u>		
Non-hazardous:		
Difference between expected and actual experience	\$ 314,285	\$ -
Net difference between projected and actual earnings on investments	418,996	-
Changes of assumptions	7,051,563	-
Changes in proportion and differences between employer contributions and proportionate share of contributions	1,244,563	-
University contributions subsequent to measurement date	<u>8,561,455</u>	<u>-</u>
	17,590,862	-
Hazardous:		
Difference between expected and actual experience	38,095	-
Net difference between projected and actual earnings on investments	18,149	-
Changes of assumptions	327,566	-
Changes in proportion and differences between employer contributions and proportionate share of contributions	93,064	-
University contributions subsequent to measurement date	<u>318,426</u>	<u>-</u>
	<u>795,300</u>	<u>-</u>
	<u>\$ 18,386,162</u>	<u>\$ -</u>

At June 30, 2017 and 2016, the University reported \$8,457,178 and \$8,879,881 as deferred outflows of resources related to pensions resulting from University contributions subsequent to the measurement date that will be recognized as a reduction of the net pension liability in the following fiscal year. Deferred outflows and deferred inflows of resources at June 30, 2017, related to pensions will be recognized in pension expense as follows:

	<u>Hazardous</u>	<u>Non-hazardous</u>	<u>Total</u>
2018	113,520	8,709,519	8,823,039
2019	54,518	5,352,667	5,407,185
2020	70,488	969,052	1,039,540
2021	<u>38,982</u>	<u>542,611</u>	<u>581,593</u>
	<u>\$ 277,508</u>	<u>\$ 15,573,849</u>	<u>\$ 15,851,357</u>

Actuarial assumptions - The total pension liability at the measurement date of June 30, 2016 and 2015 was determined by actuarial valuations as of June 30, 2016 and 2015, using the following actuarial assumptions, applied to all periods included in the measurement for non-hazardous and hazardous pensions.

	<u>2016</u>	<u>2015</u>
Inflation	3.25%	3.25%
Salary increases, average including inflation	4.00%	4.00%
Investment rate of return, net of expense, Non-Hazardous, including inflation	6.75%	7.50%
Investment rate of return, net of expense, Hazardous, including inflation	7.50%	7.50%

(Continued)

WESTERN KENTUCKY UNIVERSITY
NOTES TO FINANCIAL STATEMENTS
June 30, 2017 and 2016

NOTE 9 – PENSION PLANS (Continued)

For the June 30, 2016 and 2015 actuarial valuation, the rates of mortality for both non-hazardous and hazardous, for the period before retirement are according to the RP-2000 Combined Mortality Table projected with Scale BB to 2013 (multiplied by 50% for males and 30% for females). The rates of mortality for the period after service retirement are according to the RP-2000 Combined Mortality Table projected with Scale BB to 2013 (set back 1 year for females) for all healthy retired members and beneficiaries. 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.

The actuarial assumptions used in the June 30, 2016 valuation were based on the results of an actuarial experience study for the period July 1, 2008 - June 30, 2013. The actuarial assumptions used in the June 30, 2015 valuation were based on the results of an actuarial experience study for the period July 1, 2005 - June 30, 2008.

The long-term expected return on plan assets is reviewed as part of the regular experience studies prepared every five years for KERS. The most recent analysis is outlined in a report dated December 5, 2015. Several factors are considered in evaluating the long-term rate of return assumption including long-term historical data, estimates inherent in current market data, and a log - normal distribution analysis in which best-estimate ranges of expected future real rates of return (expected return, net of investment expense and inflation) were developed by the investment consultant for each major asset class. These ranges were 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 then adding expected Inflation. The assumption is intended to be a long-term assumption and is not expected to change absent a significant change in the asset allocation, a change in the inflation assumption, or a fundamental change in the market that alters expected returns in future years.

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

2017

<u>Asset Class</u>	<u>Non-hazardous</u>		<u>Hazardous</u>	
	<u>Target Allocation</u>	<u>Long-Term Nominal Rate of Return</u>	<u>Target Allocation</u>	<u>Long-Term Nominal Rate of Return</u>
Combined Equity	50%	5.30%	44%	5.40%
Combined Fixed Income	-	-	19	1.50%
Intermediate Duration Fixed Income	11	1.00%	-	-
Custom KRS Fixed Income	11	3.33%	-	-
Core Real Estate	5	4.25%	-	-
Real Estate	-	-	5	4.50%
Diversified Hedge Funds	10	4.00%	10	4.25%
Private Equity	2	8.00%	10	8.50%
Diversified Inflation Strategies	8	3.15%	10	3.50%
Cash	3	-0.25%	2	-0.25%
Total	<u>100%</u>		<u>100%</u>	

(Continued)

WESTERN KENTUCKY UNIVERSITY
NOTES TO FINANCIAL STATEMENTS
June 30, 2017 and 2016

NOTE 9 – PENSION PLANS (Continued)

2016

<u>Asset Class</u>	<u>Non-Hazardous and Hazardous</u>	
	<u>Target Allocation</u>	<u>Long-Term Nominal Rate of Return</u>
Domestic Equity	30%	8.45%
International Equity	22	8.85%
Emerging Market Equity	5	10.50%
Private Equity	7	11.25%
Real Estate	5	7.00%
Core U.S. Fixed Income	10	5.25%
High Yield U.S. Fixed Income	5	7.25%
Non U.S. Fixed Income	5	5.50%
Commodities	5	7.75%
TIPS	5	5.00%
Cash	<u>1</u>	3.25%
Total	<u>100%</u>	

Changes in Assumptions and Benefit Terms Since Prior Measurement Date - The final TPL as of June 30, 2016 reflects a decrease in the assumed investment rate of return and discount rate from 7.50% to 6.75% for the Non-Hazardous plan. There were no changes for the Hazardous plan. The final TPL as of June 30, 2015 reflects a decrease in the assumed investment rate of return and discount rate from 7.75% to 7.50% for both the Non-Hazardous and Hazardous plans.

Changes Since Measurement Date - The following changes in assumptions and benefit terms will be comprehended at the next measurement date of June 30, 2017. The impact on the University's financial statements from this change is not known.

- The assumed investment rate of return was decreased from 6.75% to 5.25% for the Non-Hazardous plan and from 7.50% to 6.25% for the Hazardous plan
- The salary increase assumption for both plans was decreased from 4.00% to 0.00%
- The inflation assumption for both plans was decreased from 3.25% to 2.30%

Discount rate - The discount rate used to measure the total pension liability was 6.75% (Non-Hazardous) and 7.50% (Hazardous) for the June 30, 2016 actuarial valuation and 7.50% (Non-Hazardous and Hazardous) for the June 30, 2015 actuarial valuation. The projection of cash flows used to determine the discount rate assumed that local employers would contribute the actuarially determined contribution rate of projected compensation over the remaining 27-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. Projected inflows from investment earnings were calculated using the long-term assumed investment return of 6.75% for Non-Hazardous and 7.50% for Hazardous for the June 30, 2016 actuarial valuation and 7.50% (Non-Hazardous and Hazardous) for the June 30, 2015 actuarial valuations. The long-term assumed investment rate of return was applied to all periods of projected of benefit payments to determine the total pension liability.

(Continued)

WESTERN KENTUCKY UNIVERSITY
NOTES TO FINANCIAL STATEMENTS
June 30, 2017 and 2016

NOTE 9 – PENSION PLANS (Continued)

Sensitivity of the University's proportionate share of the net pension liability to changes in the discount rate
- The University's proportionate share of the net pension liability has been calculated using a discount rate of 6.75% (Non-Hazardous) and 7.50% (Hazardous) for the June 30, 2016 actuarial valuation and 7.50% (Non-Hazardous and Hazardous) for the June 30, 2015 actuarial valuation. The following presents the University's proportionate share of the net pension liability (in thousands) calculated using a discount rate 1% higher and 1% lower than the current rate as of June 30, 2017:

	1% Decrease <u>(5.75/6.50%)</u>	Current Discount Rate <u>(6.75/7.50%)</u>	1% Increase <u>(7.75/8.50%)</u>
Non-Hazardous			
Proportionate share of the Collective Net Pension Liability	\$ 187,460	\$ 166,399	\$ 148,698
Hazardous			
Proportionate share of the Collective Net Pension Liability	\$ 3,818	\$ 3,039	\$ 2,385

The following presents the University's proportionate share of the net pension liability (in thousands) calculated using a discount rate 1% higher and 1% lower than the current rate as of June 30, 2016:

	1% Decrease <u>(6.50%)</u>	Current Discount Rate <u>(7.50%)</u>	1% Increase <u>(8.50%)</u>
Non-Hazardous			
Proportionate share of the Collective Net Pension Liability	\$ 165,706	\$ 147,109	\$ 131,377
Hazardous			
Proportionate share of the Collective Net Pension Liability	\$ 3,986	\$ 3,098	\$ 2,354

Kentucky Teachers' Retirement System - Defined Benefit Plan

Plan Description – Faculty and professional staff that do not participate on the aforementioned Optional Retirement Plan are required to participate in the Kentucky Teachers' Retirement System (KTRS), a cost sharing - multiple employer public employee retirement system. KTRS is a defined benefit plan providing for retirement, disability, death benefits and health insurance. Participants have a fully vested interest after the completion of 60 months of service, 12 of which are current service. KTRS issues a publicly available financial report that includes financial statements, required supplementary information, and detailed information about the pension plan's fiduciary net position. That report may be obtained by writing to Kentucky Teachers' Retirement System, 479 Versailles Road, Frankfort, Kentucky, 40601 or by calling (502) 573-3266.

(Continued)

WESTERN KENTUCKY UNIVERSITY
 NOTES TO FINANCIAL STATEMENTS
 June 30, 2017 and 2016

NOTE 9 – PENSION PLANS (Continued)

Benefits Provided

	Tier 1 Participation Prior to <u>July 1, 2008</u>	Tier 2 Participation on or After <u>July 1, 2008</u>
Covered Employees:	University faculty and professional staff that do not choose the Optional Retirement Plan (Deferred Contribution)	University faculty and professional staff that do not choose the Optional Retirement Plan (Deferred Contribution)
Benefit Formula:	Final Compensation X Benefit Factor X Years of Service	
Final Compensation:	Average of the highest 5 annual salaries reduced 5% per year from the earlier of age 60 or the date 27 years of service would have been completed. Average of the highest 3 annual salaries if age 55 with 27 or more years of service. The minimum annual service allowance for all members is \$440 multiplied by credited service.	Average of the highest 5 annual salaries reduced 6% per year from the earlier of age 60 or the date 27 years of service would have been completed. Average of the highest 3 annual salaries if age 55 with 27 or more years of service. The minimum annual service allowance for all members is \$440 multiplied by credited service.
Benefit Factor:	Non-University members: 2.00% for service prior to 7/1/1983; 2.50% for service after 7/1/1983; 2.00% if participation after 7/1/2002 and less than 10 years; 2.50% if participation after 7/1/2002 and more than 10 years; 3.00% if retire after 7/1/2004 with more than 30 years. University members: 2.0% for each year of service.	Non-University members: 1.70% if less than 10 years; 2.00% if greater than 10 years, but no more than 20 years; 2.30% if greater than 20 years, but no more than 26 years; 2.50% if greater than 26 years, but no more than 30 years; 3.00% for service greater than 30 years. University members: 1.50% if less than 10 years; 1.70% if greater than 10 years, but less than 20 years; 1.85% if greater than 20 years, but less than 27 years; 2.00% if greater than 27 years.
Cost of Living Adjustment (COLA):	1.5% annually additional ad hoc increases must be authorized by the General Assembly.	
Unreduced Retirement Benefit:	Any age with 27 years of Kentucky service. Age 55 with 5 years of Kentucky service.	Any age with 27 years of Kentucky service. Age 60 with 5 years of Kentucky service. Age 55 with 10 years of Kentucky service.
Reduced Retirement Benefit:	Must be retired for service or disability to be eligible. Retired members are given a supplement based upon a contribution supplement table approved by the KTRS Board of Trustees. The retired member pays premiums in excess of the monthly supplement.	

(Continued)

WESTERN KENTUCKY UNIVERSITY
 NOTES TO FINANCIAL STATEMENTS
 June 30, 2017 and 2016

NOTE 9 – PENSION PLANS (Continued)

Contributions - Benefit and contribution rates are established by state statute. Per Kentucky Revised Statutes 161.540, 161.550 and 161.565, contribution requirements of the active employees and the participating organizations are established and may be amended by the KTRS Board. For the fiscal years ended June 30, 2017 and 2016, University employees were required to contribute 7.625 percent of their annual covered salary for retirement benefits. The University was contractually required to contribute 15.87 percent and 15.36 percent of covered payroll for the fiscal years ended June 30, 2017 and 2016, respectively. The actuarially determined amount, when combined with employee contributions, is expected to finance the cost of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. The University's total contributions to KTRS for the years ending June 30, 2017 and 2016 were \$9,660,606 and \$9,624,424, respectively, and were equal to the required contributions for the year. In addition, the Commonwealth of Kentucky contributes ad hoc annual cost of living adjustments provided by the General Assembly for KTRS retirees at a contribution rate of 3.25% for the years ending June 30, 2017 and 2016.

Pension liabilities, pension expense, and deferred outflows of resources and deferred inflows of resources related to pensions - At June 30, 2017 and 2016, the University reported a liability for its proportionate share of the net pension liability that reflected a reduction for pension support provided to the University by the Commonwealth of Kentucky. The amount recognized by the University as its proportionate share of the net pension liability, the related State support, and the total portion of the net pension liability that was associated with the University were as follows:

	<u>2017</u>	<u>2016</u>
University's proportionate share of the net pension liability	\$ 373,414,035	\$ 299,521,616
Commonwealth of Kentucky's proportionate share of the net pension liability associated with the University	<u>35,193,522</u>	<u>30,458,564</u>
	<u>\$ 408,607,557</u>	<u>\$ 329,980,180</u>

The net pension liability was measured as of June 30, 2016 and 2015 and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of June 30, 2015 and 2014 and update procedures were used to roll forward the total pension liability to the measurement date. The University's proportion of the net pension liability was based on actual contributions to the pension plan during the measurement period. At June 30, 2017, 2016, and 2015, the University's proportion was 1.208 percent, 1.226 percent, and 1.251 percent, respectively, and the Commonwealth of Kentucky's proportion associated with the University was 0.114 percent, 0.125 percent, and 0.142 percent, respectively.

(Continued)

WESTERN KENTUCKY UNIVERSITY
 NOTES TO FINANCIAL STATEMENTS
 June 30, 2017 and 2016

NOTE 9 – PENSION PLANS (Continued)

For the year ended June 30, 2017 and 2016, the University recognized pension expense of \$32,813,935 and \$16,093,335 and recognized revenue of \$2,768,062 and \$1,488,442 for support provided by the Commonwealth. At June 30, 2017 and 2016, the University reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred In flows of Resources</u>
<u>2017</u>		
Net difference between projected and actual earnings on investments	\$ 11,537,648	\$ -
Change in assumptions	54,928,836	2,158,730
Differences between expected and actual experience	-	9,394,500
Changes in proportion and differences between employer contributions and proportionate share of contributions	3,185,715	102,578
Contributions subsequent to the measurement date	<u>9,660,606</u>	<u>-</u>
	<u>\$ 79,312,805</u>	<u>\$ 11,655,808</u>
	<u>Deferred Outflows of Resources</u>	<u>Deferred In flows of Resources</u>
<u>2016</u>		
Net difference between projected and actual earnings on investments	\$ -	\$ 7,548,318
Change in assumptions	18,386,308	2,891,518
Differences between expected and actual experience	-	3,270,119
Changes in proportion and differences between employer contributions and proportionate share of contributions	-	134,654
Contributions subsequent to the measurement date	<u>9,624,424</u>	<u>-</u>
	<u>\$ 28,010,732</u>	<u>\$ 13,844,609</u>

At June 30, 2017 and 2016, the University reported \$9,660,606 and \$9,624,424 as deferred outflows of resources related to pensions resulting from University contributions subsequent to the measurement date that will be recognized as a reduction of the net pension liability in the following fiscal year. Net deferred outflow (inflows) of resources at June 30, 2017, related to pensions will be recognized in pension expense as follows:

2018	\$ 12,195,350
2019	12,195,350
2020	16,471,723
2021	13,017,213
2022	<u>4,116,755</u>
	<u>\$ 57,996,391</u>

(Continued)

WESTERN KENTUCKY UNIVERSITY
 NOTES TO FINANCIAL STATEMENTS
 June 30, 2017 and 2016

NOTE 9 – PENSION PLANS (Continued)

Actuarial assumptions - The total pension liability was determined by actuarial valuations as of June 30, 2015 and 2014 and update procedures were used to roll forward the total pension liability to the measurement date, using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	3.50%
Salary Increases	4.00 – 8.20%, 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 AA to 2020 with a set back of 1 year for females.

The actuarial assumptions used in the June 30, 2015 valuation were based on the results of an actuarial experience study for the period July 1, 2005 - June 30, 2010 adopted by the Board on September 19, 2011. The results of the experience study for the period July 1, 2010-June 30, 2015 will be reflected in the June 30, 2016 valuation.

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 June 30, 2017 and 2016 target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Nominal Rate of Return</u>
U.S. Equity	45.0%	6.4%
Non U.S. Equity	17.0	6.5
Fixed Income	24.0	1.6
High Yield Bonds	4.0	3.1
Real estate	4.0	5.8
Alternatives	4.0	6.8
Cash	<u>2.0</u>	1.5
Total	<u><u>100%</u></u>	

Changes in Assumptions and Benefit Terms Since Prior Measurement Date - The total pension liability as of June 30, 2016 reflects that the assumed municipal bond index rate decreased from 3.82% to 3.01%, resulting in a change in the Single Equivalent Interest Rate (SEIR) from 4.88% to 4.20%. The total pension liability as of June 30, 2015 reflects the assumed municipal bond index rate decrease from 4.35% to 3.82%, resulting in a change in the SEIR from 5.23% to 4.88%.

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

(Continued)

WESTERN KENTUCKY UNIVERSITY
NOTES TO FINANCIAL STATEMENTS
June 30, 2017 and 2016

NOTE 9 – PENSION PLANS (Continued)

Discount rate - The discount rate used to measure the total pension liability at June 30, 2016 was 4.20%. 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 pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members until the 2040 plan year. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments through 2039 and a municipal bond index rate of 3.01% was applied to all periods of projected benefit payments after 2039. 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.

The discount rate used to measure the total pension liability at June 30, 2015 was 4.88%. 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 pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members until the 2036 plan year. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments through 2035 and a municipal bond index rate of 3.82% was applied to all periods of projected benefit payments after 2035. 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.

The total pension liability as of June 30, 2016 reflects that the assumed municipal bond index rate decreased from 3.82% to 3.01%, resulting in a change in the SEIR from 4.88% to 4.20%. The impact of this change in the discount rate is a change in assumptions that is added to the expected total pension liability to determine the final total pension liability as of June 30, 2016.

Sensitivity of the University's proportionate share of the net pension liability to changes in the discount rate - The following table presents the net pension liability of the University as of June 30, 2017, calculated using the discount rate of 4.20%, as well as what the University's net pension liability (in thousands) would be if it were calculated using a discount rate that is 1-percentage-point lower (3.20%) or 1-percentage-point higher (5.20%) than the current rate:

	1% Decrease <u>(3.20)</u>	Current Discount Rate <u>(4.20%)</u>	1% Increase <u>(5.20%)</u>
Proportionate share of the Collective Net Pension Liability <i>(in thousands)</i>	\$ 458,099	\$ 373,413	\$ 303,911

The following presents the University's proportionate share of the net pension liability (in thousands) calculated using a discount rate 1% higher and 1% lower than the current rate as of June 30, 2016:

	1% Decrease <u>(3.88)</u>	Current Discount Rate <u>(4.88%)</u>	1% Increase <u>(5.88%)</u>
Proportionate share of the Collective Net Pension Liability <i>(in thousands)</i>	\$ 372,788	\$ 299,522	\$ 238,893

(Continued)

WESTERN KENTUCKY UNIVERSITY
NOTES TO FINANCIAL STATEMENTS
June 30, 2017 and 2016

NOTE 9 – PENSION PLANS (Continued)

Summary Pension Plan Information:

	<u>KERS</u> <u>Non-hazardous</u>	<u>KERS</u> <u>Hazardous</u>	<u>KTRS</u>	<u>Total</u>
<i>June 30, 2017</i>				
Net pension liability	\$ 166,398,661	\$ 3,038,552	\$ 373,414,035	\$ 542,851,248
Deferred outflows of resources	24,234,168	766,227	79,312,805	104,313,200
Deferred inflows of resources	450,664	241,196	11,655,808	12,347,664
Pension expense	20,234,655	324,093	32,813,935	53,372,583

	<u>KERS</u> <u>Non-hazardous</u>	<u>KERS</u> <u>Hazardous</u>	<u>KTRS</u>	<u>Total</u>
<i>June 30, 2016</i>				
Net pension liability	\$ 147,109,065	\$ 3,098,165	\$ 299,521,616	\$ 449,516,767
Deferred outflows of resources	17,590,862	795,300	28,010,732	46,255,663
Deferred inflows of resources	-	-	13,844,609	13,844,609
Pension expense	14,202,763	401,470	16,093,335	30,086,666

NOTE 10 - COMMITMENTS AND CONTINGENCIES

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

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

NOTE 11 - RISK MANAGEMENT

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

(Continued)

WESTERN KENTUCKY UNIVERSITY
 NOTES TO FINANCIAL STATEMENTS
 June 30, 2017 and 2016

NOTE 11 - RISK MANAGEMENT (Continued)

Prior to 2006, the University had joined together with other Kentucky governmental entities to form a public entity risk pool currently operating as a common risk management and insurance program for its members. The University paid an annual premium to the pool for its workers' compensation insurance coverage. The pool's governing agreement specified that the pool will be self-sustaining through member premiums and will reinsure through commercial carriers for claims in excess of specified stop-loss amounts. In 2006, the University began self-insuring workers' compensation claims. Risk Management Services Corporation administers the university's workers' compensation claims. During 2017 and 2016, there were no significant reductions in insurance coverage from the previous years.

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

Changes in the balance of the self-insured health liability as of June 30, 2017, 2016, and 2015 are summarized as follows:

	<u>2017</u>	<u>2016</u>	<u>2015</u>
Balance, beginning of year	\$ 940,157	\$ 904,602	\$ 952,201
Claims and changes in estimates	13,317,073	12,674,653	13,850,771
Claims payments	<u>(12,943,112)</u>	<u>(12,639,098)</u>	<u>(13,898,370)</u>
Balance, end of year	<u>\$ 1,314,118</u>	<u>\$ 940,157</u>	<u>\$ 904,602</u>

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

Changes in the balance of the self-insured workers' compensation liability as of June 30, 2017, 2016, and 2015 are summarized as follows:

	<u>2017</u>	<u>2016</u>	<u>2015</u>
Balance, beginning of year	\$ 237,169	\$ 310,228	\$ 257,903
Claims and changes in estimates	315,522	256,673	462,519
Claims payments	<u>(339,290)</u>	<u>(329,732)</u>	<u>(410,194)</u>
Balance, end of year	<u>\$ 213,401</u>	<u>\$ 237,169</u>	<u>\$ 310,228</u>

NOTE 12 - REGIONAL UNIVERSITY EXCELLENCE TRUST FUND (RUETF)

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

(Continued)

WESTERN KENTUCKY UNIVERSITY
 NOTES TO FINANCIAL STATEMENTS
 June 30, 2017 and 2016

NOTE 12 - REGIONAL UNIVERSITY EXCELLENCE TRUST FUND (RUETF) (Continued)

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

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

Following is a summary of the funding for the RUETF as of June 30, 2017:

	CPE Funding <u>Received</u>	<u>External Matched Pledges</u>	
		<u>Received</u>	<u>Pledged</u>
Balance, July 1, 2016	\$ 14,211,209	\$ 16,131,673	\$ 261,500
New Pledges	-	-	-
Current year collections	<u>-</u>	<u>70,026</u>	<u>(70,026)</u>
Balance, June 30, 2017	<u>\$ 14,211,209</u>	<u>\$ 16,201,699</u>	<u>\$ 191,474</u>

Following is a summary of the funding for the RUETF as of June 30, 2016:

	CPE Funding <u>Received</u>	<u>External Matched Pledges</u>	
		<u>Received</u>	<u>Pledged</u>
Balance, July 1, 2015	\$ 14,185,709	\$ 16,020,260	\$ 372,913
New Pledges	-	-	-
Current year collections	<u>25,500</u>	<u>111,413</u>	<u>(111,413)</u>
Balance, June 30, 2016	<u>\$ 14,211,209</u>	<u>\$ 16,131,673</u>	<u>\$ 261,500</u>

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

(Continued)

WESTERN KENTUCKY UNIVERSITY
NOTES TO FINANCIAL STATEMENTS
June 30, 2017 and 2016

NOTE 13 - NATURAL AND FUNCTIONAL CLASSIFICATIONS OF OPERATING EXPENSES

The University's operating expenses by functional classification on June 30, 2017, were as follows:

Functional Classification	Compensation and Benefits	Supplies Contractual Services and Other	Utilities	Non Capitalized Property	Scholarships	Depreciation	Total
Instruction	\$ 97,438,919	\$ 14,107,434	\$ 10,755	\$ 1,100,975	\$ -	\$ -	\$ 112,658,083
Research	4,888,436	2,820,228	4,428	400,668	-	-	8,113,760
Public service	9,478,674	5,277,158	41,319	210,141	-	-	15,007,292
Libraries	5,310,403	873,185	-	32,713	-	-	6,216,301
Academic support	15,134,019	4,244,759	209,221	677,267	-	-	20,265,266
Student services	20,280,539	12,637,098	5,258	309,935	-	-	33,232,830
Institutional support	60,181,006	8,667,644	10,717	335,766	-	-	69,195,133
Operation and maintenance of plant	10,198,483	12,249,060	6,862,322	70,722	-	-	29,380,587
Student financial aid	165,141	656,664	-	-	20,202,284	-	21,024,089
Depreciation	-	-	-	-	-	27,563,085	27,563,085
Auxiliary enterprise	<u>7,963,786</u>	<u>11,192,896</u>	<u>2,396,442</u>	<u>111,559</u>	<u>-</u>	<u>-</u>	<u>21,664,683</u>
Total operating expenses	<u>\$231,039,406</u>	<u>\$ 72,726,126</u>	<u>\$ 9,540,462</u>	<u>\$ 3,249,746</u>	<u>\$ 20,202,284</u>	<u>\$ 27,563,085</u>	<u>\$ 364,321,109</u>

The University's operating expenses by functional classification on June 30, 2016, were as follows:

Functional Classification	Compensation and Benefits	Supplies Contractual Services and Other	Utilities	Non Capitalized Property	Scholarships	Depreciation	Total
Instruction	\$ 96,545,018	\$ 13,396,499	\$ 6,696	\$ 757,919	\$ -	\$ -	\$ 110,706,132
Research	4,520,459	2,561,927	18,998	197,843	-	-	7,299,227
Public service	9,639,022	4,976,047	11,624	148,044	-	-	14,774,737
Libraries	5,095,256	774,860	30	23,940	-	-	5,894,086
Academic support	14,523,029	4,249,429	5,052	247,094	-	-	19,024,604
Student services	20,399,144	12,545,032	9,740	277,224	-	-	33,231,140
Institutional support	34,587,475	6,720,833	9,177	235,523	-	-	41,553,008
Operation and maintenance of plant	16,234,269	7,664,370	6,534,587	9,782	-	-	30,443,008
Student financial aid	152,340	526,089	-	3,104	22,285,358	-	22,966,891
Depreciation	-	-	-	-	-	27,689,482	27,689,482
Auxiliary enterprise	<u>8,925,274</u>	<u>9,180,804</u>	<u>2,456,897</u>	<u>66,232</u>	<u>-</u>	<u>-</u>	<u>20,629,207</u>
Total operating expenses	<u>\$210,621,286</u>	<u>\$ 62,595,890</u>	<u>\$ 9,052,801</u>	<u>\$ 1,966,705</u>	<u>\$ 22,285,358</u>	<u>\$ 27,689,482</u>	<u>\$ 334,211,522</u>

(Continued)

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

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

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

Cash Equivalents: The Foundation generally considers all highly liquid investments (money market funds) to be cash equivalents. Certificates of deposit are designated for investment and are not considered to be cash equivalents.

Contributions: Gifts of cash and other assets received without donor stipulation are reported as unrestricted revenue and net assets. Gifts received with a donor stipulation that limits their use are reported as temporarily or permanently restricted revenue and net assets. When a donor-stipulated time restriction ends or the purpose of the restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions. Gifts and investment income that are originally restricted by the donor and for which the restriction is met in the same time period are recorded as temporarily restricted net assets and then released from restriction.

Gifts of land, buildings, equipment and other long-lived assets are reported as unrestricted revenue and net assets unless explicit donor stipulations specify how such assets must be used, in which case the gifts are reported as temporarily or permanently restricted revenue and net assets. Absent donor stipulations for the time long-lived assets must be held, expirations of restrictions resulting in reclassification of temporarily restricted net assets as unrestricted net assets are reported when the long-lived assets are placed in service.

Unconditional gifts expected to be collected within one year are reported at their realizable value. Unconditional gifts expected to be collected in future years are recorded at the present value of estimated future cash flows. The resulting discount is computed using risk-free interest rates applicable to the years in which the promises are received. Amortization using the level-yield method is included in contribution revenue. Conditional gifts are not included as support until the conditions are substantially met.

Spending Policy: The annual distribution goal of the Foundation is 3.00% of the endowment fund’s trailing twelve-month calendar quarter moving market average. The annual distribution goal for an individual endowment in its initial year is 3.00 of the beginning market value of the endowment asset. The annual distribution goal for the second and third years of an individual endowment is based on the average market value of the endowment asset for the preceding four calendar quarters and eight calendar quarters, respectively.

The annual distribution may be made at any time during the fiscal year, at the account administrator’s request. Annual distributions may not be carried over between fiscal years, unless a prior approval is granted by the Foundation’s Board of Trustees.

(Continued)

WESTERN KENTUCKY UNIVERSITY
NOTES TO FINANCIAL STATEMENTS
June 30, 2017 and 2016

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

Related Party Transactions: Accounts receivable from the Foundation and accounts payable to the Foundation as of the University's fiscal year ended June 30, 2017 and 2016 were insignificant.

Concentration of Credit Risk: Effective October 3, 2008, the federal deposit insurance coverage provided by the FDIC temporarily increased from \$100,000 to \$250,000 per depositor. Effective December 19, 2008, the FDIC enacted the Transaction Account Guarantee Program. Under the Transaction Account Guarantee Program, any non-interest bearing account at a participating bank is fully guaranteed by the FDIC for the account's entire balance.

The banks at which the Foundation maintains its cash deposits participate in the Transaction Account Guarantee Program. Accordingly, the Foundation's applicable cash balances are thus fully insured under the Transaction Account Guarantee Program.

Investments

As of December 31, 2016 and 2015, investments consist of the following:

	<u>2016</u>	<u>2015</u>
Certificates of deposit	\$ 2,574,543	\$ 2,554,648
Mutual funds	66,180,790	61,457,885
Corporate bonds/notes and other fixed income securities	15	15
Exchange traded funds	2,738,965	132,579
Equity securities	418,975	352,831
Real estate and other alternative investments	<u>13,147,262</u>	<u>10,299,287</u>
	85,060,550	74,797,245
Less: investments included above which are held for WKU	18,046,667	17,148,083
Less: investments included above which are held for HAF	<u>550,385</u>	<u>823,693</u>
	<u>\$ 66,463,498</u>	<u>\$ 56,825,469</u>

As previously indicated, investments include vested beneficial interests in various charitable remainder unitrusts and charitable remainder annuity trusts, all for which the Foundation acts as the trustee. One such charitable remainder annuity trust is invested in real estate. The carrying value of the related real estate investment is \$1,610,000 as of both December 31, 2016 and 2015, which approximates fair value.

(Continued)

WESTERN KENTUCKY UNIVERSITY
NOTES TO FINANCIAL STATEMENTS
June 30, 2017 and 2016

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

Pledges Receivable

As of December 31, 2016 and 2015, net pledges receivable consist of the following:

	<u>2016</u>	<u>2015</u>
Estimated to be collected in less than one year	\$ 1,836,817	\$ 1,886,461
Estimated to be collected in one to five years	2,973,681	2,876,458
Estimated to be collected thereafter	<u>731,344</u>	<u>778,746</u>
	5,541,842	5,541,665
Less: allowance for uncollectible pledges	<u>507,121</u>	<u>468,176</u>
	5,034,721	5,073,489
Less: discounts to net present value	<u>513,415</u>	<u>627,088</u>
	<u>\$ 4,521,306</u>	<u>\$ 4,446,401</u>

Discount rates on outstanding pledges due in more than one year range from 1.01% to 6.27%.

Due from the Warren County Downtown Economic Development Authority

In 2009, under the terms of a promissory note, the Foundation loaned \$3,800,000 to the Warren County Downtown Economic Development Authority (the Authority), the proceeds of which were to be used by the Authority to purchase property in conjunction with the development of "blocks 12A and 14 in the WKU Gateway to Downtown Bowling Green tax increment financing (TIF) district." The loan bears interest at a fixed rate of 8%. Semi-annual interest payments began in April 2010. The Authority has pledged as security for the loan the TIF revenue generated from "blocks 12A and 14."

As of December 31, 2015, the amount due from the Authority was \$1,948,048. The amount was received in full during 2016.

Property, Net

Effective November 27, 2013, the Foundation entered into a capital lease agreement to purchase property. Under this agreement, the Foundation made an initial payment of \$4,000,000 to the lessor and agreed to lease the property for a period of six years, maturing on November 1, 2019. At the end of the lease term, the title of the property will transfer to the Foundation in exchange for \$100. The fair market value of the property on November 27, 2013 was \$9,897,810. As part of the agreement, the Foundation recorded a gift-in-kind contribution of \$4,337,129, which represents the fair value of the property less the downpayment and present value of the capital lease payments.

As of December 31, 2016 and 2015, property consists of the following:

	<u>2016</u>	<u>2015</u>
Land	\$ 1,148,500	\$ 1,148,500
Building	<u>9,412,310</u>	<u>9,412,310</u>
	10,560,810	10,560,810
Accumulated depreciation	<u>(744,135)</u>	<u>(502,794)</u>
	<u>\$ 9,816,675</u>	<u>\$ 10,058,016</u>

(Continued)

WESTERN KENTUCKY UNIVERSITY
 NOTES TO FINANCIAL STATEMENTS
 June 30, 2017 and 2016

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

Assets Held for Others

Assets held for others represent resources in the possession of, but not under the control of the Foundation. As of December 31, 2016 and 2015, assets held for others consist of the following:

	<u>2016</u>	<u>2015</u>
WKU – Regional University Excellence Trust Fund	\$ 13,039,813	\$ 13,695,527
WKU – Self-insurance program funds	3,371,577	3,426,822
Hilltopper Athletic Foundation	550,385	823,693
Green River	25,277	25,726
WKU	1,610,000	-
Basketball Support Fund	<u>-</u>	<u>8</u>
	<u>\$ 18,597,052</u>	<u>\$ 17,971,776</u>

Accordingly, the accompanying statements of financial position as of December 31, 2016 and 2015 reflect a liability for assets held for others in the amount of \$18,597,052 and \$17,971,776, respectively.

Notes Payable

As of December 31, 2016 and 2015, bank notes payable consist of the following:

	<u>2016</u>	<u>2015</u>
Note payable to bank bearing interest at a fixed rate of 1.5% plus one-month LIBOR rate, quarterly interest payments through December 2016, plus a final interest payment with the final payment of principal due at maturity (January 2017), secured by all security interests. This note was paid in full in January 2017.	\$1,015,000	\$ -
Note payable to bank bearing interest at a fixed rate of 2.7%, interest paid quarterly, principal and unpaid interest accrued thereon due at maturity (June 2019, collateralized by security interest in a certificate of deposit.	<u>61,896</u>	<u>61,896</u>
	<u>\$1,076,896</u>	<u>\$ 61,896</u>

The Foundation has access to borrowings under a \$100,000 bank line of credit. As of December 31, 2015, no borrowings were outstanding under the line of credit. The line matured in December 2015 and was not renewed.

(Continued)

WESTERN KENTUCKY UNIVERSITY
NOTES TO FINANCIAL STATEMENTS
June 30, 2017 and 2016

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

Capital Lease

Effective November 27, 2013, the Foundation leased a building under an agreement that expires November 1, 2019. The interest rate on this lease is 3.25%

Minimum future lease payments for the next five years are as follows:

2017	\$ 287,413
2018	292,413
2019	<u>291,213</u>
	871,039
Less: amounts representing interest	<u>(53,726)</u>
	<u>\$ 817,313</u>

Deferred Gift Liabilities

The Foundation is party to various irrevocable split-interest agreements. A split-interest agreement is a gift that is partially for the Foundation's benefit and partially for the benefit of the respective donor or their designated beneficiaries. Upon acceptance of a split-interest agreement, the Foundation records the contributed asset and the actuarially determined present value of the liability payable to the beneficiary. Such split-interest agreements include charitable gift annuities and charitable remainder trusts.

A charitable gift annuity is an arrangement between a donor and the Foundation in which the donor contributes assets to the Foundation in exchange for a promise by the Foundation to pay a fixed amount to the donor or to others designated by the donor for a specified period of time. Obligations continue until the death of the beneficiary. The accompanying statements of financial position reflect liabilities totaling \$155,060 and \$163,087 as of December 31, 2016 and 2015, respectively, relative to the estimated present value of the future annuity obligations calculated using discount rates ranging from 1.53% to 6.95%. As of December 31, 2016 and 2015, cash, cash equivalents, and investments relative to charitable gift annuities total \$207,769 and \$179,239, respectively.

Charitable remainder trusts are arrangements in which a donor establishes and funds a trust with specified distributions to be made to the donor or designated beneficiaries over the trust's term. Upon the termination of the trust, the Foundation receives the assets remaining in the trust. Obligations to the beneficiaries are limited to the trust's assets. The accompanying statements of financial position reflect liabilities totaling \$879,066 and \$620,790 as of December 31, 2016 and 2015, respectively, relative to the estimated present value of the future obligations calculated using discount rates ranging from 1.76% to 7.20%. As of December 31, 2016 and 2015, cash, cash equivalents, and investments relative to charitable remainder trusts total \$1,609,430 and \$889,162, respectively.

Trust assets are reported at fair value in the same manner as are all Foundation investments. The income or loss recognized under these trusts is included in temporarily restricted net assets. Discount rates are determined in accordance with the Internal Revenue Code and represent the rate at the date of the contribution. The actuarial related assumptions used in calculating the respective present values include the beneficiary's age and life expectancies using the applicable mortality tables, the date of the gift, the fair value of the amount gifted, the estimated rate of return, the payout rate, the payment schedule, and the discount rate.

The carrying amount of the deferred gift liabilities estimates fair value and is calculated using Level 3 inputs.

(Continued)

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

Fair Value Measurements

Financial assets and liabilities valued using level 1 inputs are based on unadjusted quoted market prices within active markets. Financial assets and liabilities valued using level 2 inputs are based primarily on quoted prices for similar assets or liabilities in active or inactive markets. Financial assets and liabilities using level 3 inputs are valued using management's assumptions about the assumptions market participants would utilize in pricing the asset or liability.

The following is a description of the valuation methodologies used for the assets and liabilities measured at fair value. There have been no changes in the methodologies used to determine fair value as of December 31, 2016 and 2015.

Certificates of deposit: Carried at cost adjusted for accumulated interest earned through year-end, which approximates fair value.

Pledges receivable: The fair value of pledges receivable is the present value of the income that is expected to be collected in future years and is estimated by discounting the future cash flows. The discounts are computed using the risk-free interest rate applicable to the year the promise was received.

Mutual funds: Valued at the net asset value of the shares held by the Foundation at year-end.

Exchange traded funds and equity securities: Valued at the quoted market price of the shares held by the Foundation at year-end.

Real estate: Valued at the carrying values of the respective real estate investments, which approximate fair value. Management considers the carrying value of the two real estate investments to approximate fair value as of year-end.

Marketable alternatives: Valued at the net asset value as provided by the "fund" portfolio at year-end and if they are considered to have sufficient activity or liquidity within the respective "fund" portfolio at year-end.

Limited partnerships: The estimated fair values are based on information provided by the general partners of each of the respective partnerships. One of the limited partnerships invests primarily in marketable securities with a readily determinable fair value. The fair value of this limited partnership is determined by allocating the aggregate fair values of the underlying securities to each limited partner based on the number of units held by the partner. The other limited partnerships invest primarily in securities for which there is no public market or readily determinable fair value. Therefore, the fair values of such limited partnerships are estimated based on the initial cost of the investments adjusted for changes in the general partners' estimates of the fair values of the underlying assets, and are equivalent to net asset values.

The Foundation is a limited partner in all of these investments. None of the investments is considered to have sufficient activity or liquidity within the respective "fund." Under the terms of the respective limited partnership agreements, the limited partners are only liable for losses to the extent of their capital invested.

(Continued)

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

Fair Value Measurements (Continued)

Deferred gift liabilities: The estimated fair value is based on the present value of the income distributions or other payments to the donors or other designated beneficiaries during the terms of the respective split-interest agreements. The actuarial related assumptions used in calculating the respective present values include the beneficiary's age and life expectancies using the applicable mortality tables, the date of the gift, the fair value of the amount gifted, the estimated rate of return, the payout schedule, and the discount rate.

The following methods and assumptions were used by the Foundation in estimating the fair value of its other financial instruments:

Notes payable: The fair value of the Foundation's long-term debt is based on quoted market prices for the same or similar issues, giving consideration to the interest rates, maturities and other factors. The combined carrying value reported in the statements of financial position for notes payable approximates fair value.

Cash and other items for which Fair Value Disclosure is required: The carrying amount reported in the statements of financial position for such items is either fair value or approximates fair value, due to their short term nature.

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

(Continued)

WESTERN KENTUCKY UNIVERSITY
NOTES TO FINANCIAL STATEMENTS
June 30, 2017 and 2016

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

Fair Value Measurements (Continued)

The following table sets forth by level the fair value hierarchy, the Foundation's investments at fair value as of December 31, 2016:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Fair Value</u>
Certificates of deposit	\$ 2,574,543	\$ -	\$ -	\$ 2,574,543
Mutual funds				
Equities	34,112,494	-	-	34,112,494
Fixed income	29,410,366	-	-	29,410,366
Alternative investments	1,013,273	-	-	1,013,273
Open end mutual funds	1,644,657	-	-	1,644,657
Exchange traded funds				
Fixed income	2,642,955	-	-	2,642,955
Equities	96,010	-	-	96,010
Corporate bonds				
Rated C	-	15	-	15
Equity securities				
Consumer discretionary	42,826	-	-	42,826
Consumer staples	29,070	-	-	29,070
Energy	14,433	-	-	14,433
Financial	34,489	-	-	34,489
Health care	38,590	-	-	38,590
Industrials	45,972	-	-	45,972
Information technology	59,696	-	-	59,696
Materials	12,075	-	-	12,075
Exchange traded funds	120,775	-	-	120,775
Telecommunication services	5,765	-	-	5,765
Utilities	11,484	-	-	11,484
Other	3,800	-	-	3,800
Real estate and other alternative investments				
Real estate	-	-	1,610,000	1,610,000
Marketable alternatives	-	10,131,758	-	10,131,758
Limited partnership – private equity	-	-	1,405,504	1,405,504
	<u>\$ 71,913,273</u>	<u>\$ 10,131,773</u>	<u>\$ 3,015,504</u>	<u>\$ 85,060,550</u>

(Continued)

WESTERN KENTUCKY UNIVERSITY
NOTES TO FINANCIAL STATEMENTS
June 30, 2017 and 2016

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

Fair Value Measurements (Continued)

The following table sets forth by level the fair value hierarchy, the Foundation's investments at fair value as of December 31, 2015:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Fair Value</u>
Certificates of deposit	\$ 2,554,648	\$ -	\$ -	\$ 2,554,648
Mutual funds				
Equities	45,771,709	-	-	45,771,709
Fixed income	12,732,561	-	-	12,732,561
Alternative investments	2,953,615	-	-	2,953,615
Exchange traded funds				
Fixed income	17,052	-	-	17,052
Equities	115,527	-	-	115,527
Corporate bonds				
Rated C	-	15	-	15
Equity securities				
Consumer discretionary	41,253	-	-	41,253
Consumer staples	48,811	-	-	48,811
Energy	14,862	-	-	14,862
Financial	50,022	-	-	50,022
Health care	37,550	-	-	37,550
Industrials	49,977	-	-	49,977
Information technology	95,919	-	-	95,919
Materials	5,984	-	-	5,984
Telecommunication services	4,817	-	-	4,817
Utilities	3,636	-	-	3,636
Other	-	-	-	-
Real estate and other alternative investments				
Real estate	-	-	1,610,000	1,610,000
Marketable alternatives	-	7,249,409	-	7,249,409
Limited partnership – private equity	-	-	1,439,878	1,439,878
	<u>\$ 64,497,943</u>	<u>\$ 7,249,424</u>	<u>\$ 3,049,878</u>	<u>\$ 74,797,245</u>

(Continued)

WESTERN KENTUCKY UNIVERSITY
NOTES TO FINANCIAL STATEMENTS
June 30, 2017 and 2016

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

Fair Value Measurements (Continued)

The 2016 and 2015 activity with respect to the investments included above under Level 3 is as follows:

	<u>2016</u>	<u>2015</u>
Beginning of the year	\$ 3,049,878	\$ 3,109,445
Purchases	250,000	490,360
Sales	(561,621)	(783,969)
Net unrealized and realized appreciation	<u>277,247</u>	<u>234,042</u>
End of the year	<u>\$ 3,015,504</u>	<u>\$ 3,049,878</u>

The following table sets forth by level within the fair value hierarchy, the Foundation's deferred gift liabilities at fair value as of December 31, 2016:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Charitable remainder trusts				
Unitrusts	\$ -	\$ -	\$ 427,653	\$ 427,653
Annuity trusts	-	-	451,413	451,413
Charitable gift annuities	<u>-</u>	<u>-</u>	<u>155,060</u>	<u>155,060</u>
	<u>\$ -</u>	<u>\$ -</u>	<u>\$1,034,126</u>	<u>\$1,034,126</u>

The following table sets forth by level within the fair value hierarchy, the Foundation's deferred gift liabilities at fair value as of December 31, 2015:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Charitable remainder trusts				
Unitrusts	\$ -	\$ -	\$ 444,121	\$ 444,121
Annuity trusts	-	-	176,669	176,669
Charitable gift annuities	<u>-</u>	<u>-</u>	<u>163,087</u>	<u>163,087</u>
	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 783,877</u>	<u>\$ 783,877</u>

The 2016 and 2015 activity with respect to the deferred gift liabilities included above under Level 3 is as follows:

	<u>2016</u>	<u>2015</u>
Beginning of the year	\$ 783,877	\$ 956,643
New deferred gifts	773,125	33,000
Payments	(420,829)	(214,676)
Reduction attributable to death of donors	(161,195)	(75,084)
Net actuarial loss	<u>59,148</u>	<u>83,994</u>
End of year	<u>\$ 1,034,126</u>	<u>\$ 783,877</u>

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WESTERN KENTUCKY UNIVERSITY
NOTES TO FINANCIAL STATEMENTS
June 30, 2017 and 2016

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

Fair Value Measurements (Continued)

The following table provides additional information as of December 31, 2016 relative to alternative investments for which the fair values are determined using a net asset value per share (or its equivalent):

	<u>Fair Value</u>	<u>Unfunded Commitment</u>	<u>Redemption Frequency</u>	<u>Redemption Notice Period</u>
Marketable alternatives	\$ 10,131,758	\$ -	Yearly	30 days
Limited partnership – private equity	810,601	-	N/A	N/A
Limited partnership – private equity	4,641	-	N/A	N/A
Limited partnership – private equity	590,262	700,000	N/A	N/A

The following table provides additional information as of December 31, 2015 relative to alternative investments for which the fair values are determined using a net asset value per share (or its equivalent):

	<u>Fair Value</u>	<u>Unfunded Commitment</u>	<u>Redemption Frequency</u>	<u>Redemption Notice Period</u>
Marketable alternatives	\$ 7,249,409	\$ -	Yearly	30 days
Limited partnership – private equity	1,108,464	-	N/A	N/A
Limited partnership – private equity	31,284	-	N/A	N/A
Limited partnership – private equity	300,130	700,000	N/A	N/A

Restricted Net Assets

As of December 31, 2016 and 2015, temporarily restricted net assets consist of the following:

	<u>2016</u>	<u>2015</u>
Academic support/WKU programs	\$ 12,543,566	\$ 16,618,227
Athletics	2,242,847	1,369,035
Public services	839,912	1,418,130
Professorships	339,516	589,151
Scholarship funds	<u>3,724,777</u>	<u>242,138</u>
	<u>\$ 19,690,618</u>	<u>\$ 20,236,681</u>

(Continued)

WESTERN KENTUCKY UNIVERSITY
 NOTES TO FINANCIAL STATEMENTS
 June 30, 2017 and 2016

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

Restricted Net Assets (Continued)

As of December 31, 2016 and 2015, permanently restricted net assets consist of the following:

	<u>2016</u>	<u>2015</u>
Academic support/WKU programs	\$ 19,725,166	\$ 27,198,900
Scholarship funds	593,558	3,777,993
Professorships	28,582,716	14,195,199
Public service	1,371,452	1,375,659
Athletics	<u>490,335</u>	<u>425,127</u>
	<u>\$ 50,763,227</u>	<u>\$ 46,972,878</u>

Endowment Funds

On July 15, 2010, The Commonwealth of Kentucky adopted the *Uniform Prudent Management of Institutional Funds Act* (UPMIFA). The Foundation follows UPMIFA and its own governing documents. The Foundation has interpreted UPMIFA as requiring the preservation of the corpus of the donor-restricted endowment funds absent explicit donor stipulations to the contrary, and other amounts as deemed necessary by the board of trustees. As a result of this interpretation, the Foundation classifies as permanently restricted net assets (1) the original value of gifts donated to the permanent endowment, (2) the original value of subsequent gifts to the permanent endowment, and (3) accumulations to permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The Foundation has determined that the balance of its endowments includes funds on which there is no restriction on the use of the investment income or net appreciation, as well as funds that require that the income and net appreciation be restricted to certain uses for the benefit of participants.

The Foundation currently classifies as permanently restricted net assets the original value of contributions to the permanent endowment and the original value of any such subsequent contributions.

Endowment net asset composition by type of fund as of December 31, 2016 is as follows:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Donor-restricted endowment funds	\$ -	\$ -	\$ 50,763,227	\$ 50,763,227
Board designated endowment funds	<u>964,517</u>	<u>-</u>	<u>-</u>	<u>964,517</u>
	<u>\$ 964,517</u>	<u>\$ -</u>	<u>\$ 50,763,227</u>	<u>\$ 51,727,744</u>

(Continued)

WESTERN KENTUCKY UNIVERSITY
NOTES TO FINANCIAL STATEMENTS
June 30, 2017 and 2016

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

Endowment Funds (Continued)

Endowment net asset composition by type of fund as of December 31, 2015 is as follows:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Donor-restricted endowment funds	\$ -	\$ -	\$ 46,972,878	\$ 46,972,878
Board designated endowment funds	<u>3,418,235</u>	<u>-</u>	<u>-</u>	<u>3,418,235</u>
	<u>\$ 3,418,235</u>	<u>\$ -</u>	<u>\$ 46,972,878</u>	<u>\$ 50,391,113</u>

Changes in endowment net assets during the year ended December 31, 2016 are as follows:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment net assets, beginning of the year	\$ 3,418,235	\$ -	\$ 46,972,878	\$ 50,391,113
Contributions	1,040,093	-	3,790,349	4,830,442
Investment return	566,389	1,268,776	-	1,835,165
Realized and unrealized gains(losses)	138,411	2,654,285	-	2,792,696
Amounts appropriated of expenditure	<u>(4,198,611)</u>	<u>(3,923,061)</u>	<u>-</u>	<u>(8,121,672)</u>
Endowment net assets, end of year	<u>\$ 964,517</u>	<u>\$ -</u>	<u>\$ 50,763,227</u>	<u>\$ 51,727,744</u>

Changes in endowment net assets during the year ended December 31, 2015 are as follows:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment net assets, beginning of the year	\$ 6,076,492	\$ 5,495,002	\$ 40,104,139	\$ 51,675,633
Contributions	888,221	-	6,868,739	7,756,960
Investment return	401,994	1,622,287	-	2,024,281
Realized and unrealized gains(losses)	(1,496,322)	(5,563,309)	-	(7,059,631)
Amounts appropriated of expenditure	<u>(2,452,150)</u>	<u>(1,553,980)</u>	<u>-</u>	<u>(4,006,130)</u>
Endowment net assets, end of year	<u>\$ 3,418,235</u>	<u>\$ -</u>	<u>\$ 46,972,878</u>	<u>\$ 50,391,113</u>

(Continued)

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

Endowment Funds (Continued)

Funds with deficiencies:

From time to time, the fair value of assets associated with individual donor restricted endowment funds may fall below the level that the donor or UPMIFA requires the Foundation to retain as a fund of perpetual duration. In accordance with GAAP, deficiencies of this nature are reported in unrestricted net assets when they occur. As of December 31, 2016 and 2015, funds were deficient by approximately \$1,197,000 and \$672,000, respectively.

Return objectives and risk parameters:

The Foundation has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowments while seeking to maintain the purchasing power of the endowment assets. The Foundation's spending and investment policies work together to achieve this objective. The investment policy establishes an achievable return objective through the diversification of asset classes. The current long-term return objective is to return 6.7% net of related investment management fees. Actual returns in any given year may vary from this objective.

Strategies employed for achieving return objectives:

To satisfy its long-term rate-of-return objectives, the Foundation relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). The Foundation targets a diversified asset allocation that places a greater emphasis on mutual funds and equity-based investments to achieve its long-term return objectives within prudent risk parameters.

Spending policy and how the investment objectives relate to the spending policy:

Effective July 1, 2012, the Foundation's annual distribution goal is 3% of the endowment fund's trailing twelve-month calendar quarter moving market value average (prior to July 1, 2012, the annual distribution goal was 4.5%). The annual distribution goal for an individual endowment in its initial year shall be 3% of the beginning market value of the endowment. In the second and third years, the annual distribution goal shall be based on the average market value of the endowment for the preceding four and eight calendar quarters, respectively. The annual distribution from accumulated earnings may be made at any time during the fiscal year. Annual distributions may not be carried over between fiscal years unless the Foundation's Board of Trustees grants prior approval to do so.

The Foundation's objective is to maintain the purchasing power of endowment assets as well as to provide additional real growth through new gifts and investment returns.

Pension Plans

Through WKU, the Foundation participates in the Kentucky Employees' Retirement System (KERS) and the Kentucky Teachers' Retirement System (KTRS), both of which are cost-sharing, multiple-employer, defined benefit pension plans administered by the respective KERS and KTRS Boards of Trustees. Both KERS and KTRS provide retirement, disability, and death benefits to the Foundation's eligible employees. The Foundation reimburses WKU for the Foundation's share of the contributions made on behalf of eligible employees. As of December 31, 2016, 43.71% and 15.87% of annual covered wages, respectively (38.77% and 15.63% as of December 31, 2015, respectively). Employer contributions made under KERS and KTRS on behalf of Foundation employees total approximately \$53,000 and \$47,000 for the years ended December 31, 2016 and 2015, respectively.

(Continued)

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

Deferred Compensation Arrangement

In 2008, the Foundation implemented a non-qualified deferred compensation plan whereby the President of WKU earns deferred compensation in the amount of \$50,000 annually for a period of fifteen years through 2022. The Foundation funds a "rabbi" trust (for which a third party will act as the trustee) with the annual \$50,000. All such amounts allocated to the employee shall be deferred for payment to the employee on, or beginning on, the employee's retirement date. Should the employee leave WKU prior to the end of the fifteen year arrangement, such employee would only receive the amount of deferred compensation relative to the number of years employed. On January 29, 2016, the President announced his intent to retire on June 30, 2017.

Related Party Transactions

Over time, the Foundation has advanced funds to the WKU Real Estate Corporation (Corporation) for various campus improvement and construction projects. No formal loan agreement exists. Accordingly, there are no formal repayment terms. The advances are non-interest bearing and are uncollateralized/unsecured. During 2016, the Foundation did not make any advances to the Corporation. During 2015, the Foundation did not make any advances to the Corporation and the Corporation repaid a total of \$154,028. As of December 31, 2016 and 2015, there is no remaining amount due from the Corporation.

Accounts payable as of December 31, 2016 and 2015 include approximately \$1,445,000 and \$201,000, respectively, which are payable to WKU.

The Foundation leased to WKU the real estate owned by a charitable remainder annuity trust, for which the Foundation is the trustee and the remainder beneficiary. Under the lease, the amount of the quarterly rent payments represents the quarterly payments to the donor or to others designated by the donors under the trust agreement. Under the lease, the Foundation annually receives \$180,000 (\$45,000 each quarter) of rental income. This trust ended in 2016 and the real estate is being held by the Foundation for WKU. Accordingly, rental income from WKU for the years ended December 31, 2016 and 2015 totals \$135,000 and \$180,000, respectively, and is recognized as rental income in the accompanying consolidated statements of activities.

From June 2013 through November 2014, the Foundation leased facilities from WKU for office space. The amount due to WKU totals \$119,306. There is no formal repayment terms and the amount is non-interest bearing.

(Continued)

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

Nature of Operations: WKU Student Life Foundation, Inc. (“Student Life”) is a Kentucky nonprofit corporation formed to facilitate the re-capitalization and renovation of the student residential facilities of the University. Student Life is a legally separate, tax-exempt component unit of the University that manages renovations of the student residential facilities (15 residence halls and 4,950 beds on the main campus) on behalf of the University. Student Life has a board of directors separate from that of the University; however, the chair and other members of the Western Kentucky University Foundation's board of trustees are also board members of Student Life. Because Student Life and the Foundation have common boards of trustees, and as the purpose of Student Life is to operate exclusively in support of the Foundation, which is a component unit created to benefit the University as described above, Student Life is considered a component unit of the University and is discretely presented in the University's financial statement package. Student Life's revenues and other support are derived principally from rental of living space to students of the University.

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

Cash and Cash Equivalents: Student Life considers all liquid investments with original maturities of three months or less, not included in assets limited as to use, to be cash equivalents. At June 30, 2017 and 2016, cash equivalents consisted primarily of money market funds. At June 30, 2017 and 2016, the Foundation's cash accounts exceeded federally insured limits by approximately \$43 million and \$13.5 million, respectively.

Assets Limited as to Use and Investment Return: Investments in equity securities having a readily determinable fair value and in all debt securities are carried at fair value. Other investments are valued at the lower of cost (or fair value at time of donation, if acquired by contribution) or fair value. Investment return includes dividend, interest and other investment income, realized and unrealized gains and losses on investments carried at fair value and realized gains and losses on other investments.

Loans and Accounts Receivable: Student Life's loans and accounts receivable consist primarily of amounts due from the University. The majority of the amounts due from the University are student housing rental fees paid to Student Life through the University, as well as debt service payments paid to Student Life by the University.

Property and Equipment: Property and equipment are recorded at cost and depreciated on a straight-line basis over the estimated useful life of each asset.

Student Life capitalizes interest costs as a component of construction-in-progress, based on interest costs of borrowings specifically for the project, net of interest earned on investments acquired with the proceeds of the borrowings.

WESTERN KENTUCKY UNIVERSITY
 NOTES TO FINANCIAL STATEMENTS
 June 30, 2017 and 2016

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

Net Investment in Direct Financing Lease – Related Party

A food service building is leased to the University through June 2033. The lease is accounted for as a direct financing lease. The net investment in direct financing lease consists of the following at June 30, 2017 and 2016:

	<u>2017</u>	<u>2016</u>
Total minimum lease payments to be received	\$ 2,135,646	\$ 2,329,796
Estimated residual value of building (unguaranteed)	873,095	873,095
Less: unearned income	<u>1,195,895</u>	<u>1,319,015</u>
 Net investment in direct financing lease	 <u>\$ 1,812,846</u>	 <u>\$ 1,883,876</u>

Future minimum lease payments to be received by the Foundation are as follows:

2018		194,149
2019		194,149
2020		194,149
2021		194,149
2022		194,149
Thereafter		<u>1,164,901</u>
		<u>\$ 2,135,646</u>

At June 30, 2017 and 2016, the carrying amount of the direct financing lease is a reasonable estimate of its fair value. The Foundation annually reviews the unguaranteed residual value of the leased building.

Assets Limited as to Use

Assets limited as to use at June 30, 2017 and 2016, consisted of the following:

	<u>2017</u>	<u>2016</u>
Money market accounts	\$ 22,697,751	\$ 2,720,743
Commercial paper	<u>4,256,059</u>	<u>6,457,980</u>
	<u>\$ 26,953,810</u>	<u>\$ 9,178,723</u>

(Continued)

WESTERN KENTUCKY UNIVERSITY
NOTES TO FINANCIAL STATEMENTS
June 30, 2017 and 2016

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

Assets Held for Others – Student Deposits

Assets held for others, which represent student deposits, at June 30, 2017 and 2016 consisted of the following:

	<u>2017</u>	<u>2016</u>
Money market accounts	\$ 586,550	\$ 302,946
Bonds	<u>-</u>	<u>298,315</u>
Total	<u>\$ 586,550</u>	<u>\$ 601,261</u>

Property and Equipment

Property and equipment at June 30, 2017 and 2016, consisted of:

	<u>2017</u>	<u>2016</u>
Land	\$ 4,058,993	\$ 4,058,993
Land improvements	1,331,637	1,331,637
Buildings	45,206,556	45,206,556
Building improvements	75,856,800	75,644,442
Vehicles	168,277	168,277
Furnishings and fixtures	10,050,349	9,158,394
Software for chill water plant	346,903	-
Construction in progress	<u>8,505,313</u>	<u>1,554,045</u>
	145,524,828	137,122,344
Less accumulated depreciation and amortization	<u>47,485,157</u>	<u>43,581,268</u>
	<u>\$ 98,039,671</u>	<u>\$ 93,541,076</u>

Asset Retirement Obligation

The Foundation has recognized an asset retirement obligation (ARO) associated with the retirement of a tangible long-lived asset be recognized as a liability in the period in which it is incurred or becomes determinable (as defined by the standard) even when the timing and/or method of settlement may be conditional on a future event. The Foundation's conditional AROs primarily relates to asbestos contained in buildings the Foundation owns. Environmental regulations exist in Kentucky requiring the Foundation to handle and dispose of asbestos properly if a building undergoes renovations or is demolished.

A summary of changes in AROs is included in the table below.

	<u>2017</u>	<u>2016</u>
Balance, July 1	\$ 794,594	\$ 780,724
Liabilities settled	(325)	(30,000)
Accretion expense	<u>-</u>	<u>43,870</u>
Balance, June 30	<u>\$ 794,269</u>	<u>\$ 794,594</u>

(Continued)

WESTERN KENTUCKY UNIVERSITY
NOTES TO FINANCIAL STATEMENTS
June 30, 2017 and 2016

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

Long-Term Debt and Letter of Credit

Long-term debt consisted of the following:

	<u>2017</u>	<u>2016</u>
Series 2015 Industrial Building Refunding Revenue Bonds – floating variable rate paid monthly based upon 67% of LIBOR, plus 80 basis points through February 23, 2016, then 85 basis points through June 30, 2016. All-in rate as of June 30, 2016 was 1.16%. These bonds were refunded in February 2017.	\$ -	\$ 74,820,000
Series 2017A – Direct Purchase Bonds – Tax Exempt Fixed rate of 3.068% - refunding of Series 2015 Bonds, payable in monthly installments of principal and interest. Annual principal payments range from \$1,930,059 to \$7,025,639 through 2041; \$13,640,565 principal payment due in 2030; collateralized by all real estate. Unamortized debt issuance costs as of June 30, 2017 and 2016, were \$229,884 and \$0, respectively.	96,603,582	-
Series 2017B – Direct Purchase Bonds – Taxable Fixed rate of 2.68% - refunding of Series 2015 Bonds, payable in monthly installments of principal and interest. Annual principal payments range from \$1,099,220 to \$3,241,200 through 2019 collateralized by all real estate. Unamortized debt issuance costs as of June 30, 2017 and 2016, were \$14,917 and \$0, respectively.	6,396,780	-
	103,000,362	74,820,000
Less unamortized bond issuance costs	244,801	122,689
	<u>\$ 102,755,561</u>	<u>\$ 74,697,311</u>

The Foundation is required to maintain certain financial ratios and debt reserve and repair and replacement account balances in accordance with the bond agreement.

Aggregate annual maturities of long-term debt are listed below:

2018	\$ 5,085,639
2019	5,300,638
2020	5,520,639
2021	5,755,739
2022	6,000,639
Thereafter	75,337,068
	<u>\$ 103,000,362</u>

(Continued)

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

Derivative Financial Instruments

The Foundation entered into the following agreements to limit its exposure to changes in cash flows resulting from changes in the interest rate on its variable rate bonds.

1. Simultaneously, with the issuance of its 2008 bonds payable, the Foundation entered into an interest rate swap agreement with a bank. The Foundation receives interest from the counterparty based on 68% of the 30-day U.S. LIBOR rate and pays interest to the counterparty at 3.63% on notional amounts of \$15,350,067 as of June 30, 2016, which is reduced periodically over the term of the swap. This swap was terminated and replaced with the Series 2017B Bonds.
2. The Foundation entered into a swap agreement effective June 1, 2015. The Foundation paid 3.285% on notional amounts beginning at \$47,795,000 that reduces periodically over the term of the swap agreement. The notional amount was \$45,890,000 as of June 30, 2016. The Foundation received interest from the counterparty at 67% of the 30-day LIBOR rate, which was .1495% as of June 30, 2016. This agreement had a termination date of June 1, 2025; however, this swap was terminated and replaced with the Series 2017B Bonds.
3. In August 2000, the Foundation entered into a forward sale agreement with a bank in conjunction with its Series 2000 Bonds. This agreement provides for a guaranteed rate of return of 6.3% annually on the balance of commercial paper or other investments held in the debt reserve fund. In conjunction with the refunding of the Series 2015 Bonds and the issuance of Series 2017 Bonds, the required balance of the debt service reserve fund was reduced from \$6,275,000 to \$4,145,000. This agreement has a termination date of May 1, 2022. Balances of \$4,338,640 and \$6,457,980 were on deposit as of June 30, 2017 and 2016, respectively, of the 2000 series bonds.

The estimated fair value of these derivative arrangements at June 30, 2017 was:

<u>Type</u>	<u>Effective Date</u>	<u>Maturity Date</u>	<u>Underlying Index</u>	<u>Fair Value June 30, 2017</u>
(1) – Forward Sale Agreement	August 8, 2000	May 1, 2022	Return on Sale Underlying Investments	\$ 839,555
Assets				<u>\$ 839,555</u>

(Continued)

WESTERN KENTUCKY UNIVERSITY
NOTES TO FINANCIAL STATEMENTS
June 30, 2017 and 2016

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

Derivative Financial Instruments (Continued)

The estimated fair value of these derivative arrangements at June 30, 2016 was:

<u>Type</u>	<u>Effective Date</u>	<u>Maturity Date</u>	<u>Underlying Index</u>	<u>Fair Value June 30, 2016</u>
(1) – Swap	January 25, 2008	June 3, 2024	LIBOR	(2,771,859)
(2) – Swap	June 1, 2015	June 1, 2025	LIBOR	<u>(8,222,264)</u>
Liabilities				<u>\$ (10,994,123)</u>
(3) – Forward Sale Agreement	August 8, 2000	May 1, 2022	Return on Sale Underlying Investments	<u>\$ 1,863,578</u>
Assets				<u>\$ 1,863,578</u>

The statements of activities reflect the following components:

	<u>2017</u>	<u>2016</u>
Net cash payments made under the interest rate swap agreements	(1,236,787)	(2,099,609)
Change in fair value of the derivative agreements	<u>2,624,099</u>	<u>(1,620,861)</u>
	<u>\$ 1,387,312</u>	<u>\$ (3,720,470)</u>

The table below presents certain information regarding the Foundation's derivative instruments:

	<u>2017</u>	<u>2016</u>
Fair value of derivative instruments	\$ 839,555	\$ 1,863,578
Statement of financial position location of fair value amount	Asset	Asset
Fair value of derivative instruments	\$ -	\$ 10,994,123
Statement of financial position location of fair value amount	Liability	Liability

(Continued)

WESTERN KENTUCKY UNIVERSITY
NOTES TO FINANCIAL STATEMENTS
June 30, 2017 and 2016

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

Related Party Transactions

The Foundation and University are related parties as described in Note 1. The financial statements include the following amounts related to the University:

	<u>2017</u>		<u>2016</u>
Accounts receivable from WKU – student housing and related fees	\$ 346,452	\$	405,418
Accounts receivable from WKU – other	390,770		361,537
Net investment in direct financing lease	1,812,846		1,883,876
Accounts payable – operating expenses	763,300		870,588
Interest income – direct financing lease	123,119		127,638
Operating lease income	41,940		41,940
Chilled water service fees	757,149		804,666
Management fees	84,500		84,500

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

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

The Foundation receives rent revenue from the University for the lease of retail space at one of the Foundation's residence halls. The lease is currently under negotiation for another five-year term with annual lease payments ranging from \$54,511 to \$59,004.. The rent was \$41,940 for the years ended June 30, 2017 and 2016. The revenue from this lease is included in other revenues.

The Foundation receives fees from the University relating to chilled water services. The fees were \$757,149 and \$804,666 for the years ended June 30, 2017 and 2016. These fees are included in other revenues.

The University provides certain direct and indirect support to the Foundation and the Foundation provides certain direct and indirect support to the University. Both organizations have no objective basis for determining the value of these activities. However, as a part of the management agreement, the Foundation does provide an annual amount to the University to help offset such related costs. The management fees were \$84,500 in fiscal years 2017 and 2016.

(Continued)

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

Disclosures about Fair Value of Financial Instruments

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Fair value measurements must maximize the use of observable inputs and minimize the use of unobservable inputs. There is a hierarchy of inputs that may be used to measure fair value:

- Level 1 – Quoted prices in active markets for identical assets or liabilities
- Level 2 – Observable inputs other than Level 1 prices, such as quoted prices for similar assets or liabilities, quoted prices in markets that are not active or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities.
- Level 3 – Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities.

Recurring Measurements

The following tables present the fair value measurements of assets and liabilities recognized in the accompanying statements of financial position measured at fair value on a recurring basis and the level within the fair value hierarchy in which the fair value measurements fall at June 30, 2017:

	<u>Fair Value Measurements Using</u>			
	<u>Fair Value</u>	<u>Quoted Prices in Active Markets for Identical Assets (Level 1)</u>	<u>Significant Other Observable Inputs (Level 2)</u>	<u>Significant Unobservable Inputs (Level 3)</u>
Derivative instruments				
Forward sale agreement – 2000 bond series	\$ 839,555	\$ -	\$ -	\$ 839,555
	<u>\$ 839,555</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 839,555</u>
Cash equivalents – money market accounts	\$ 12,458,435	\$ 12,458,435	\$ -	\$ -
Assets limited as to use – money market accounts	22,697,751	22,697,751	-	-
Assets limited as to use – commercial paper	4,256,058	-	4,256,058	-
Assets held for others – student deposits – WKU	176,350	-	176,350	-
Assets held for others – student deposits – money market accounts	765,787	765,787	-	-

(Continued)

WESTERN KENTUCKY UNIVERSITY
NOTES TO FINANCIAL STATEMENTS
June 30, 2017 and 2016

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

Disclosures about Fair Value of Financial Instruments (Continued)

Recurring Measurements

The following tables present the fair value measurements of assets and liabilities recognized in the accompanying statements of financial position measured at fair value on a recurring basis and the level within the fair value hierarchy in which the fair value measurements fall at June 30, 2016:

	Fair Value Measurements Using			
	Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Derivative instruments				
Swap – 2000 bond series	\$ (8,222,264)	\$ -	\$ (8,222,264)	\$ -
Swap – 2006 bond series	-	-	-	-
Swap – 2008 bond series	(2,771,859)	-	(2,771,859)	-
Forward sale agreement – 2000 bond series	<u>1,863,578</u>	<u>-</u>	<u>-</u>	<u>1,863,578</u>
	<u>\$ (9,130,545)</u>	<u>\$ -</u>	<u>\$ (10,994,123)</u>	<u>\$ 1,863,578</u>
Cash equivalents – money market accounts	\$ 9,028,161	\$ 9,028,161	\$ -	\$ -
Assets limited as to use – money market accounts	2,720,743	2,720,743	-	-
Assets limited as to use – commercial paper	6,457,980	-	6,457,980	-
Assets held for others – student deposits – bonds	285,350	-	285,350	-
Assets held for others – student deposits – money market accounts	315,911	315,911	-	-

Following is a description of the valuation methodologies and inputs used for assets and liabilities measured at fair value on a recurring basis and recognized in the accompanying statements of financial position, as well as the general classification of such assets and liabilities pursuant to the valuation hierarchy. There have been no significant changes in the valuation techniques during the year ended June 30, 2017. For assets classified within Level 3 of the fair value hierarchy, the process used to develop the fair value is described below.

(Continued)

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

Disclosures about Fair Value of Financial Instruments (Continued)

Derivative Instruments

Derivative instruments are classified within both Level 2 and Level 3 of the valuation hierarchy. For derivative instruments in Level 2, the fair values are estimated using standard pricing models, forward-looking interest rate curves and discounted cash flows that are observable or that can be corroborated by observable market data and, therefore, are classified within Level 2 of the valuation hierarchy.

For derivative instruments in Level 3, the fair values are estimated by the counterparties using proprietary calculations for which the inputs are not observable and, therefore, are classified within Level 3 of the valuation hierarchy.

Fair value determinations for Level 3 measurements of the derivative instruments are the responsibility of management. Management receives the fair value determined by the counter-parties on a monthly or annual basis. Management challenges the reasonableness of the fair values by comparing them to historical results and forward-looking expectations.

Money Market Funds

Money market funds are stated at cost, plus accrued interest, which approximates market value and are based on quoted prices in active markets for identical investments. Therefore, these investments are classified within Level 1 of the valuation hierarchy.

Bonds and Commercial Paper

Bonds and commercial paper are stated at fair market value and are based on quoted prices for similar assets and are therefore classified within Level 2 of the valuation hierarchy.

(Continued)

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

Disclosures about Fair Value of Financial Instruments (Continued)

Level 3 Reconciliation

The following is a reconciliation of the beginning and ending balances of recurring fair value measurements recognized in the accompanying statements of financial position using significant unobservable Level 3 inputs:

	<u>Asset – Forward Sale Agreement 2017 Bond Series</u>
Balance, July 1, 2015	\$ 1,665,814
Total realized and unrealized losses included in change in unrestricted net assets	<u>197,764</u>
Balance, June 30, 2016	\$ 1,863,578
Total realized and unrealized losses included in change in unrestricted net assets	<u>(1,024,023)</u>
Balance, June 30, 2017	<u>\$ 839,555</u>

Unobservable (Level 3) Inputs

The fair values of the Foundation’s derivative instruments are determined by the counterparties to the instruments, which are third parties, using proprietary pricing models and they do not provide the inputs to the Foundation. The Foundation does not make any adjustment to that value.

Fair Value of Financial Instruments

The following table presents estimated fair values of the Foundation’s financial instruments at June 30, 2017:

	2017	
	Carrying Amount	Fair Value
Financial assets		
Cash and cash equivalents	\$ 13,781,688	\$ 13,781,688
Net investment in direct financing lease	1,812,846	1,812,846
Derivative instruments	839,555	839,555
Financial liabilities		
Long-term debt	\$ 103,000,362	\$ 103,000,362

(Continued)

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

Disclosures about Fair Value of Financial Instruments (Continued)

The following table presents estimated fair values of the Foundation’s financial instruments and the level within the fair value hierarchy in which the fair value measurements fall at June 30, 2016:

	2016	
	Carrying Amount	Fair Value
Financial assets		
Cash and cash equivalents	\$ 10,259,321	\$ 10,259,321
Net investment in direct financing lease	1,883,876	1,883,876
Derivative instruments	1,863,578	1,863,578
Financial liabilities		
Long-term debt	\$ 74,820,000	\$ 74,820,000
Derivative instruments	10,994,123	10,994,123

Cash and Cash Equivalents

The carrying amount approximates fair value.

Net Investment in Direct Financing Lease

The carrying amount approximates fair value.

Long-Term Debt

Fair value is estimated based on the borrowing rates currently available to the Foundation for bank loans with similar terms and maturities.

Pension Plans

As described previously, the Foundation has no employees; however, the University has designated certain employees to work exclusively or partially for the Foundation. The University participates in three multi-employer pension plans maintained by the state of Kentucky. The plans provide defined benefits to eligible University employees providing services to the Foundation. The Foundation reimburses the University for the Foundation’s share of the actuarially determined contributions to the plans, which currently range from 13.84% to 48.59% of its covered payroll based upon the individual’s retirement category. Contributions reimbursed to the University were \$646,829 and \$790,297 for the years ended June 30, 2017 and 2016, respectively.

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WESTERN KENTUCKY UNIVERSITY
 NOTES TO FINANCIAL STATEMENTS
 June 30, 2017 and 2016

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

Pension Plans (Continued)

Costs have been allocated among the student housing program and management and general expenses as of June 30, 2017 and 2016, as follows:

	<u>2017</u>	<u>2016</u>
Student housing program	\$ 14,654,654	\$ 13,825,268
Management and general	<u>1,219,811</u>	<u>1,390,881</u>
	<u>\$ 15,874,465</u>	<u>\$ 15,216,149</u>

Commitments

As of June 30, 2017, the Foundation had ongoing commitments to expand and renovate the following residence halls and construct additional rental offerings with the corresponding estimated costs:

	<u>Estimated Cost</u>
Hilltopper Hall Building	\$ 21,527,000
Northeast and Southwest Hall improvements	1,801,000
Fire Panel replacement	103,000
Zacharias and Meredith Hall flooring upgrades	40,000
Transformer – electrical upgrades	<u>110,000</u>
	<u>\$ 23,581,000</u>

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

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

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

(Continued)

WESTERN KENTUCKY UNIVERSITY
NOTES TO FINANCIAL STATEMENTS
June 30, 2017 and 2016

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

Contributions and Nature of Restrictions: Unrestricted revenues and net assets result from receiving contributions without donor stipulations, earnings on investments and the release of restricted assets, less program and administrative expenses incurred. Temporarily restricted revenues and net assets result from contributions and other inflows of assets whose use by College Heights is limited by donor-imposed stipulations that either expire with the passage of time or can be fulfilled and removed by actions of College Heights pursuant to those stipulations; and from reclassifications to/from other classes of net assets as a consequence of donor-imposed stipulations, their expiration by passage of time or their fulfillment and removal by actions of College Heights pursuant to those stipulations. Permanently restricted revenues and net assets result from contributions and other inflows of assets whose use by College Heights is permanently restricted by donor-imposed stipulations.

Cash Equivalents: The Foundation considers all liquid investments with original maturities of three months or less to be cash equivalents. At December 31, 2016 and 2015, cash equivalents consisted primarily of checking accounts and money market accounts held at brokerage houses.

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

Investments in certificates of deposit are stated at cost, which approximates fair value.

Investments consist of the following at December 31, 2016 and 2015:

	<u>2016</u>	<u>2015</u>
Certificates of deposit	\$ 783,650	\$ 882,592
Mutual funds	25,528,204	23,358,608
Equity securities	16,482,414	11,756,248
U. S. government and government agency obligations	179	250
Exchange traded funds	8,406,712	8,015,349
Exchange traded notes	-	30,359
Corporate bonds and other fixed income securities	3,908,027	3,516,595
Futures	116,515	229,681
Real estate partnership interest	1,000,000	-
Real estate and real estate investment trusts	<u>1,317,454</u>	<u>1,242,457</u>
	57,547,155	49,032,139
 Investments included above held for:		
University	(2,189,017)	(2,027,484)
WKU Foundation	<u>(663,107)</u>	<u>(570,596)</u>
	<u>\$ 54,691,031</u>	<u>\$ 46,434,059</u>

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

(Continued)

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

Management considers the carrying value of real estate to approximate fair value at December 31, 2016. Real estate investment trust values are reported at fair value based upon an independent valuation performed at least annually.

Investment advisory fees for the years ended December 31, 2016 and 2015 were \$180,158 and \$159,405, respectively.

Assets Held In Trust, Gift Annuities and Refundable Advances

The Foundation is party to various split-interest agreements. A split-interest agreement is a gift that is partially for the Foundation's benefit and partially for the benefit of the respective donor or their designated beneficiaries. When the Foundation is the trustee and upon acceptance of a split-interest agreement, the Foundation records the contributed asset and the actuarially determined present value of the liability payable to the beneficiary. When the Foundation is not the trustee of the split-interest agreement, the beneficial interest and contribution is recorded at the actuarially determined present value when notified. These agreements include charitable gift annuities and charitable remainder unitrusts.

A charitable gift annuity is an arrangement between a donor and the trustee in which the donor contributes assets to the trustee in exchange for a promise by the trustee to pay a fixed amount to the donor or to others designated by the donor for a specific period of time. Obligations continue until the death of the beneficiary. The accompanying statements of financial position as of December 31, 2016 and 2015 reflect liabilities totaling \$2,353,045 and \$2,390,532, relative to the estimated present value of the future annuity obligations calculated using discount rates ranging from 1.09% to 11.5% for the annuities which the Foundation acts as the trustee. At December 31, 2016 and 2015, investments relative to charitable gift annuities totaled \$3,927,849 and \$3,988,925, respectively.

Charitable remainder trusts are arrangements in which a donor establishes and funds a trust with specified distributions to be made to the donor or designated beneficiaries over the trust's term. Upon the termination of the trust, the Foundation receives the assets remaining in the trust. Obligations to the beneficiaries are limited to the trust's assets. The accompanying statements of financial position as of December 31, 2016 and 2015 reflect liabilities totaling \$668,654 and \$703,425, relative to the estimated present value of the future obligations calculated using discount rates ranging from 5.3% to 8%. At December 31, 2016 and 2015, investments relative to charitable remainder trusts totaled \$1,484,183 and \$1,485,926, respectively.

Trust assets are reported at fair value in the same manner as are all Foundation investments. The income or loss recognized under these trusts is included in temporarily restricted net assets. Discount rates are determined in accordance with the Internal Revenue Code and represent the rate at the date (month and year) of the contribution. Actuarial assumptions used in calculating present values, include the beneficiary's age and life expectancies using the applicable mortality tables, the date of the gift, the fair market value of the principal donated, the estimated rate of return, the payout rate, the payment schedule, and the discount rate.

The carrying amount of the deferred gift liabilities estimates fair value and is calculated using Level 3 inputs.

(Continued)

WESTERN KENTUCKY UNIVERSITY
NOTES TO FINANCIAL STATEMENTS
June 30, 2017 and 2016

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

Assets Held For Others

Assets held for others represent resources in the possession of, but not under the control of, the Foundation and represent funds received for investment by the Foundation through the Commonwealth of Kentucky's Regional University Excellence Trust Fund, funds held by the Foundation on behalf of the WKU Foundation for an employee deferred compensation benefit plan, and funds held by the Foundation at year end for the benefit of other beneficiaries. Assets held for others at December 31, 2016 and 2015 consist of the following:

	<u>2016</u>	<u>2015</u>
WKU - Regional University Excellence Trust Fund	\$ 2,189,017	\$ 2,027,484
WKU Foundation trust	663,107	570,596
Assets held – other beneficiaries	<u>145,945</u>	<u>171,650</u>
	<u>\$ 2,998,069</u>	<u>\$ 2,769,730</u>

Accordingly, the statement of financial position reflects liabilities for assets held for others in the amounts of \$2,998,069 and \$2,769,730 as of December 31, 2016 and 2015, respectively.

Notes Payable

	<u>2016</u>	<u>2015</u>
Notes payable at December 31, 2016 and 2015 consist of the following:		
U.S. Bank amended promissory note, dated December 31, 2012; principal due in quarterly installments of \$17,383 plus interest at 2.95%; outstanding principal and accrued interest due June 30, 2016; unsecured.	\$ -	\$ 24,375
U.S. Bank installment note, dated December 13, 2005; Amendment to Note dated December 13, 2015; principal due in quarterly installments of \$4,500, plus interest equal to prime rate minus 1%; outstanding principal and accrued interest due December 13, 2019; unsecured.	<u>-</u>	<u>79,000</u>
	<u>\$ -</u>	<u>\$ 103,375</u>

(Continued)

WESTERN KENTUCKY UNIVERSITY
NOTES TO FINANCIAL STATEMENTS
June 30, 2017 and 2016

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

Restricted Net Assets

At December 31, 2016 and 2015, temporarily restricted net assets consist of the following:

	<u>2016</u>	<u>2015</u>
Scholarship funds	\$ 1,814,914	\$ 1,776,658
Other program support	<u>12,700</u>	<u>12,700</u>
	<u>\$ 1,827,614</u>	<u>\$ 1,789,358</u>

At December 31, 2016 and 2015, permanently restricted net assets consist of the following:

	<u>2016</u>	<u>2015</u>
Scholarship funds	\$ 45,847,525	\$ 45,476,002
Other program support	<u>9,916,848</u>	<u>3,057,116</u>
	<u>\$ 55,764,373</u>	<u>\$ 48,533,118</u>

Fair Value Measurements

FASB ASC 820-10 establishes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to measurements involving significant unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy are as follows:

- Level 1 - Quoted prices in active markets for identical assets or liabilities.
- Level 2 - Observable inputs such as quoted prices in active markets for similar assets or liabilities or quoted prices for identical or similar assets or liabilities in markets that are not active or unobservable inputs that are derived principally from or corroborated by observable market data.
- Level 3 - Unobservable inputs that are based on the Foundation's own assumptions as to how knowledgeable parties would price assets or liabilities that are not corroborated by market data.

(Continued)

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

Fair Value Measurements (Continued)

The following is a description of the valuation methodologies used for the assets and liabilities measured at fair value. There have been no changes in the methodologies used to determine fair value at December 31, 2016 and 2015.

Certificates of deposit: Carried at cost, which approximates fair value.

Mutual funds: Valued at the net asset value of the shares held by the Foundation at year-end.

U. S. government and government agency obligations: Valued using a yield curve matrix derived from quoted prices for similar assets in active markets.

Corporate bonds/notes and other fixed income securities: Valued using a yield curve matrix derived from quoted prices for similar assets in active markets.

Exchange traded funds: Valued at the quoted market price of the shares held by the Foundation at year-end.

Exchange traded notes: Valued at the quoted market price of the shares held by the Foundation at year-end.

Equity securities: Valued at the quoted market price of the shares held by the Foundation at year end.

Real estate: Valued at the carrying values of the respective real estate investments, which approximate fair value.

Real estate investment trusts: Valued at the net asset value of the shares held by the Foundation at year-end.

Futures: Valued at the quoted market price of the shares held by the Foundation at year-end.

Beneficial interest in third party trusts: The estimated fair value is based on the present value of the income distributions or other payments to the donors or other designated beneficiaries during the terms of the respective split-interest agreements. The actuarial related assumptions used in calculating the respective present values include the beneficiary's age and life expectancy using the applicable mortality tables, the date of the gift, the fair value of the amount gifted, the estimated rate of return, the payout rate, the payment schedule, and the discount rate.

Deferred gift liabilities: The estimated fair value is based on the present value of the income distributions or other payments to the donors or other designated beneficiaries during the terms of the respective split-interest agreements. The actuarial related assumptions used in calculating the respective present values include the beneficiary's age and life expectancy using the applicable mortality tables, the date of the gift, the fair value of the amount gifted, the estimated rate of return, the payout rate, the payment schedule, and the discount rate.

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

(Continued)

WESTERN KENTUCKY UNIVERSITY
NOTES TO FINANCIAL STATEMENTS
June 30, 2017 and 2016

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

Fair Value Measurements (Continued)

The following table sets forth by level within the fair value hierarchy, the Foundation's assets (investments) at fair value at December 31, 2016:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Certificates of deposit	\$ 783,650	\$ -	\$ -	\$ 783,650
Mutual funds				
Equities	14,607,640	-	-	14,607,640
Fixed income	<u>10,920,564</u>	<u>-</u>	<u>-</u>	<u>10,920,564</u>
	<u>25,528,204</u>	<u>-</u>	<u>-</u>	<u>25,528,204</u>
U. S. government and government agency obligations - not rated	<u>-</u>	<u>179</u>	<u>-</u>	<u>179</u>
Corporate bonds/notes and other fixed income securities				
Rated Aaa	-	984,435	-	984,435
Rated Aa1 to Aa3	-	773,777	-	773,777
Rated A1 to A3	-	1,849,032	-	1,849,032
Rated Bbb1 to Bbb3	-	284,769	-	284,769
Rated Bb1 to Bb3	<u>-</u>	<u>16,014</u>	<u>-</u>	<u>16,014</u>
	<u>-</u>	<u>3,908,027</u>	<u>-</u>	<u>3,908,027</u>
Exchange traded funds	<u>8,406,712</u>	<u>-</u>	<u>-</u>	<u>8,406,712</u>
Equity securities				
Consumer discretionary	3,368,733	-	-	3,368,733
Consumer staples	563,423	-	-	563,423
Energy	279,806	-	-	279,806
Financial	3,897,059	-	-	3,897,059
Health care	1,230,600	-	-	1,230,600
Industrials	1,713,955	-	-	1,713,955
Information technology	3,852,272	-	-	3,852,272
Materials	571,498	-	-	571,498
Services	822,624	-	-	822,624
Utilities	<u>182,444</u>	<u>-</u>	<u>-</u>	<u>182,444</u>
	<u>16,482,414</u>	<u>-</u>	<u>-</u>	<u>16,482,414</u>
Real estate	<u>-</u>	<u>-</u>	<u>1,024,714</u>	<u>1,024,714</u>
Real estate partnership interests	<u>-</u>	<u>-</u>	<u>1,000,000</u>	<u>1,000,000</u>
Real estate investment trusts	<u>292,740</u>	<u>-</u>	<u>-</u>	<u>292,740</u>
Futures	<u>116,515</u>	<u>-</u>	<u>-</u>	<u>116,515</u>
Total investments	<u>\$ 51,610,235</u>	<u>\$ 3,908,206</u>	<u>\$ 2,024,714</u>	<u>\$ 57,543,155</u>

(Continued)

WESTERN KENTUCKY UNIVERSITY
NOTES TO FINANCIAL STATEMENTS
June 30, 2017 and 2016

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

Fair Value Measurements (Continued)

The following table sets forth by level within the fair value hierarchy, the Foundation's assets (investments) at fair value at December 31, 2015:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Certificates of deposit	\$ 882,592	\$ -	\$ -	\$ 882,592
Mutual funds				
Equities	13,722,053	-	-	13,722,053
Fixed income	<u>9,636,555</u>	<u>-</u>	<u>-</u>	<u>9,636,555</u>
	<u>23,358,608</u>	<u>-</u>	<u>-</u>	<u>23,358,608</u>
U. S. government and government agency obligations - not rated	<u>-</u>	<u>250</u>	<u>-</u>	<u>250</u>
Corporate bonds/notes and other fixed income securities				
Rated Aaa	-	895,858	-	895,858
Rated Aa1 to Aa3	-	464,215	-	464,125
Rated A1 to A3	-	1,644,615	-	1,644,215
Rated Baa1 to Baa3	<u>-</u>	<u>511,907</u>	<u>-</u>	<u>511,907</u>
	<u>-</u>	<u>3,516,595</u>	<u>-</u>	<u>3,516,595</u>
Exchange traded funds	<u>8,015,349</u>	<u>-</u>	<u>-</u>	<u>8,015,349</u>
Exchange traded notes	<u>30,359</u>	<u>-</u>	<u>-</u>	<u>30,359</u>
Equity securities				
Consumer discretionary	2,793,301	-	-	2,793,301
Consumer staples	674,714	-	-	674,714
Energy	436,708	-	-	436,708
Financial	2,638,159	-	-	2,638,159
Health care	796,121	-	-	796,121
Industrials	1,594,843	-	-	1,594,843
Information technology	2,577,983	-	-	2,577,983
Telecommunications	129,134	-	-	129,314
Services	<u>115,285</u>	<u>-</u>	<u>-</u>	<u>115,285</u>
	<u>11,756,248</u>	<u>-</u>	<u>-</u>	<u>11,756,248</u>
Real estate	<u>-</u>	<u>-</u>	<u>1,024,714</u>	<u>1,024,714</u>
Real estate investment trusts	<u>217,743</u>	<u>-</u>	<u>-</u>	<u>217,743</u>
Futures	<u>229,681</u>	<u>-</u>	<u>-</u>	<u>229,681</u>
Total investments	<u>\$ 44,490,580</u>	<u>\$ 3,516,845</u>	<u>\$ 1,024,714</u>	<u>\$ 49,032,139</u>

(Continued)

WESTERN KENTUCKY UNIVERSITY
 NOTES TO FINANCIAL STATEMENTS
 June 30, 2017 and 2016

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

Fair Value Measurements (Continued)

At December 31, 2016 and 2015, investments included above under Level 3 represent Foundation investments in real estate. The 2016 and 2015 activity, with respect to the investments included above under Level 3, is as follows:

	<u>2016</u>	<u>2015</u>
Beginning of the year	\$ 1,024,714	\$ 1,057,214
Additional investments	1,385,000	125,000
Investments sold	<u>(385,000)</u>	<u>(157,500)</u>
End of the year	<u>\$ 2,024,714</u>	<u>\$ 1,024,714</u>

Realized gains (losses) on the sale of real estate totaled \$44,190 and \$62,329 for 2016 and 2015, respectively, and are reported in net realized and unrealized gains (losses) on investments in the statement of activities.

The following table sets forth by level within the fair value hierarchy, the Foundation's beneficial interest in third party trusts at fair value at December 31, 2016:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Trusts held by third party	\$ <u> </u> -	\$ <u> </u> -	\$ 4,493,343	\$ 4,493,343

The following table sets forth by level within the fair value hierarchy, the Foundation's beneficial interest in third party trusts at fair value at December 31, 2015:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Trusts held by third party	\$ <u> </u> -	\$ <u> </u> -	\$ 4,250,498	\$ 4,250,498

The 2016 and 2015 activity, with respect to the third party trusts included above under Level 3, is as follows:

	<u>2016</u>	<u>2015</u>
Beginning of the year	\$ 4,250,498	\$ 4,313,427
Net actuarial gain	<u>242,845</u>	<u>(62,929)</u>
End of the year	<u>\$ 4,493,343</u>	<u>\$ 4,250,498</u>

(Continued)

WESTERN KENTUCKY UNIVERSITY
NOTES TO FINANCIAL STATEMENTS
June 30, 2017 and 2016

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

Fair Value Measurements (Continued)

The following table sets forth by level within the fair value hierarchy, the Foundation's liabilities (deferred gift liabilities) at fair value at December 31, 2016:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Charitable remainder unitrusts	\$ -	\$ -	\$ 668,654	\$ 668,654
Charitable gift annuities	<u>-</u>	<u>-</u>	<u>2,353,045</u>	<u>2,353,045</u>
	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 3,021,699</u>	<u>\$ 3,021,699</u>

The following table sets forth by level within the fair value hierarchy, the Foundation's liabilities (deferred gift liabilities) at fair value at December 31, 2015:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Charitable remainder unitrusts	\$ -	\$ -	\$ 703,425	\$ 703,425
Charitable gift annuities	<u>-</u>	<u>-</u>	<u>2,390,532</u>	<u>2,390,532</u>
	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 3,093,957</u>	<u>\$ 3,093,957</u>

The 2016 and 2015 activity, with respect to the liabilities (deferred gift liabilities) included above under Level 3, is as follows:

	<u>2016</u>	<u>2015</u>
Beginning of the year	\$ 3,093,957	\$ 3,273,308
New deferred gifts	63,305	23,108
Payment obligations	(475,092)	(487,515)
Reduction attributable to death of donors	-	(4,686)
Net actuarial loss	<u>339,529</u>	<u>289,742</u>
End of the year	<u>\$ 3,021,699</u>	<u>\$ 3,093,957</u>

Endowment Funds

In 2008, the FASB issued ASC 958-205-45-28, *Classification of Donor-Restricted Endowment Funds Subject to an Enacted Version of the Uniform Prudent Management of Institutional Funds Act*. This pronouncement provided guidance on the net asset classification of donor-restricted endowment funds for a not-for-profit organization that is subject to an enacted version of the Uniform Prudent Management of Institutional Funds Act of 2006 (UPMIFA). The pronouncement also improved disclosures about an organization's endowment funds, both donor restricted endowment funds and board designated endowment funds.

In 2010, the state of Kentucky enacted UPMIFA legislation, the effective date of which was July 15, 2010. Accordingly, the Foundation adopted the enacted state of Kentucky UPMIFA legislation for the year ending December 31, 2010.

Currently, the Foundation classifies as permanently restricted net assets the original value of contributions to the permanent endowment and the original value of any such subsequent contributions.

(Continued)

WESTERN KENTUCKY UNIVERSITY
 NOTES TO FINANCIAL STATEMENTS
 June 30, 2017 and 2016

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

Endowment Funds (Continued)

At December 31, 2016, endowment net assets consist of the following:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Board designated endowment funds	\$ 3,764,872	\$ -	\$ -	\$ 3,764,872
Donor restricted endowment funds	-	-	55,764,373	55,764,373
	<u>\$ 3,764,872</u>	<u>\$ -</u>	<u>\$ 55,764,373</u>	<u>\$ 59,529,245</u>

At December 31, 2015, endowment net assets consist of the following:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Board designated endowment funds	\$ 3,988,338	\$ -	\$ -	\$ 3,988,338
Donor restricted endowment funds	-	-	48,533,118	48,533,118
	<u>\$ 3,988,338</u>	<u>\$ -</u>	<u>\$ 48,533,118</u>	<u>\$ 52,521,456</u>

Changes in endowment net assets during the year ended December 31, 2016 are as follows:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Beginning of the year	\$ 3,988,338	\$ -	\$ 48,533,118	\$ 52,521,456
Contributions	920,465	-	7,231,255	8,151,720
Investment return				
Investment income	151,321	-	-	151,321
Net appreciation (unrealized and realized)	251,311	-	-	251,311
Appropriation of endowment assets for expenditure	<u>(1,546,563)</u>	<u>-</u>	<u>-</u>	<u>(1,546,563)</u>
End of the year	<u>\$ 3,764,872</u>	<u>\$ -</u>	<u>\$ 55,764,373</u>	<u>\$ 59,529,245</u>

(Continued)

WESTERN KENTUCKY UNIVERSITY
NOTES TO FINANCIAL STATEMENTS
June 30, 2017 and 2016

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

Endowment Funds (Continued)

Changes in endowment net assets during the year ended December 31, 2015 are as follows:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Beginning of the year	\$ 4,189,577	\$ -	\$ 47,631,378	\$ 51,820,955
Contributions	876,954	-	901,740	1,778,694
Investment return				
Investment income	673,908	-	-	673,908
Net appreciation (unrealized and realized)	(262,416)	-	-	(262,416)
Appropriation of endowment assets for expenditure	<u>(1,489,685)</u>	<u>-</u>	<u>-</u>	<u>(1,489,685)</u>
End of the year	<u>\$ 3,988,338</u>	<u>\$ -</u>	<u>\$ 48,533,118</u>	<u>\$ 52,521,456</u>

Funds with deficiencies:

From time to time, the fair value of assets associated with individual donor restricted endowment funds may fall below the level that the donor or UPMIFA requires the Foundation to retain as a fund of perpetual duration. In accordance with GAAP, deficiencies of this nature are reported in unrestricted net assets when they occur. There are no such deficiencies as of December 31, 2016 and 2015.

Return objectives and risk parameters:

The Foundation has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowments while seeking to maintain the purchasing power of the endowment assets. The Foundation's spending and investment policies work together to achieve this objective. The investment policy establishes an achievable return objective through the diversification of asset classes. The current long-term return objective is to return 4.5% above CPI (consumer price index). Actual returns in any given year may vary from this objective.

Strategies employed for achieving return objectives:

To satisfy its long-term rate-of-return objectives, the Foundation relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). The Foundation targets a diversified asset allocation that places a greater emphasis on mutual funds and equity-based investments to achieve its long-term objectives within prudent risk parameters.

Spending policy and how the investment objectives relate to the spending policy:

The Foundation's annual distribution target is 4% of the endowment fund's trailing three-year (twelve calendar quarters) moving market value average. The annual distribution from accumulated earnings may be made at any time during the fiscal year. Annual distributions may not be carried over between fiscal years unless the Foundation's Board of Directors grants prior approval to do so.

(Continued)

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

Related Party Transactions

Western Kentucky University provides the facilities in which the Foundation offices are located and also processes the Foundation's payroll. No rent or administrative expenses are charged to the Foundation by the University and the Foundation does not recognize revenue and expense related to these transactions, as the amounts thereof are immaterial. The Foundation also owns a parking lot which is used by the University for which no rent is charged.

During 2016 and 2015, the Foundation and Western Kentucky University Foundation, Inc. (WKUF), a separate WKU related foundation, exchanged the management and administrative responsibilities for certain scholarship and special project funds. The total funds gross asset fair value received by the Foundation from the WKUF was \$6,926 less than the total funds gross asset fair value transferred from the Foundation to the WKUF in 2015 and \$17,050 less than the total funds gross asset fair value transferred from the Foundation to the WKUF in 2014. These differences are reported as an unusual gain / (loss) in the statements of activities in accordance with FASB ASC 225-20-45-16.

Employees' Retirement Plans

Through the University, the Foundation participates in the Kentucky Employees' Retirement System (KERS) and the Kentucky Teachers Retirement System (KTRS), both of which are cost sharing, multiple-employer, defined benefit pension plans administered by the respective KERS and KTRS boards of trustees. The Foundation is not represented on either of the boards of trustees. Both KERS and KTRS provide retirement, disability, and death benefits to the Foundation's eligible employees. The service retirement benefit is a lifetime benefit. The Foundation reimburses the University for the Foundation's share of the contributions made on behalf of eligible Foundation employees. Both multiple employer plans pay a defined amount upon retirement based on the length of service and the final average salary of the employee, along with a retirement multiplier. Retirement eligibility is determined by the employee's age and years of service. Total contributions of \$57,954 and \$52,955 in 2016 and 2015 were expensed to salaries and benefits for ongoing participation in these plans.

The risks of participating in these multiple employer defined benefit pension plans are different from single-employer plans because: (a) assets contributed to the multiple employer plan by one employer may be used to provide benefits to employees of other participating employers, (b) if a participating employer stops contributing to the plan, the unfunded obligations of the plan may be required to be borne by the remaining participating employers, and (c) if the Foundation chooses to stop participating in one of the multiple employer plans, it may be required to pay a withdrawal liability to the plan. The Foundation has no plans to withdraw from its multiple employer retirement plans.

(Continued)

WESTERN KENTUCKY UNIVERSITY
NOTES TO FINANCIAL STATEMENTS
June 30, 2017 and 2016

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

Employees' Retirement Plans (Continued)

The following presents information about the Foundation's multiple employer plans.

Pension Fund	EIN and Plan # (if available)	Total Plan Assets	Accumulated Benefit Obligations	% Funded	Total Plan Assets	Accumulated Benefit Obligations	% Funded
		June 30, 2016	June 30, 2016	2016	June 30, 2015	June 30, 2015	2015
KERS	61-0600439	2,671,773,682	14,161,404,553	18.9%	2,907,677,697	\$13,255,106,236	22.0%
KTRS	61-0600439	17,496,894	32,028,227	54.6%	17,219,520	31,149,962	55.3%

Pension Fund	EIN and Plan # (if available)	Foundation Contributions	Foundation Contributions	Surcharge Imposed	Funding Improvement Plan / Rehab Plan	Expiration of Collective Bargain Agreement
		2016	2015			
KERS	61-0600439	\$ 30,232	\$ 26,193	no	no	n/a
KTRS	61-0600439	27,722	26,762	no	no	n/a
		<u>\$ 57,954</u>	<u>\$ 52,955</u>			

Current year contributions under KERS made on behalf of eligible employees represent 38.77% of covered wages for January through June, 2016, and 48.59% of covered wages for July through December 2016. Employer contribution rates for 2015 were 38.77% of covered wages for the year ended December 31, 2015. Employer contributions made under KERS on behalf of Foundation employees totaled \$30,232 and \$26,193 for the years ended December 31, 2016 and 2015. The employer contribution rate is expected to remain at 48.59% through June 30, 2017. The KERS participants contribute 5% of their covered wages if their participation date is prior to September 1, 2008 or 6% if the date is after September 1, 2008.

Current year contributions under KTRS made on behalf of these eligible employees represent 15.87% of covered wages for the year ended December 31, 2016. Employer contribution rates for 2015 were 15.36% of covered wages for January through June and 15.87% for July through December 2015. Employer contributions made under KTRS on behalf of Foundation employees totaled \$27,722 and \$26,762 for the years ended December 31, 2016 and 2015. The KTRS participants contribute 6.5% of their covered wages if their participation date is prior to July 1, 2008 or 7.16% if the date is after July 1, 2008.

The Foundation is not obligated for any minimum contributions for either the KERS or KTRS plan. Based on the most recent annual financial report of each plan, the Foundation did not contribute more than 5% of the total contributions to either plan.

Additional Cash Flow Information

	<u>2016</u>	<u>2015</u>
Cash paid for interest during the year	\$ <u>1,595</u>	\$ <u>5,957</u>
Noncash Investing and Financing Activities		
Real estate received as contribution	\$ 385,000	\$ 125,000
Partnership interest received as contribution	1,000,000	-
Investment securities received as contributions	<u>5,379,712</u>	<u>46,726</u>
	<u>\$ 6,764,712</u>	<u>\$ 171,726</u>

WESTERN KENTUCKY UNIVERSITY
 REQUIRED SUPPLEMENTARY INFORMATION
 SCHEDULES OF THE UNIVERSITY'S PROPORTIONATE SHARE OF THE NET PENSION LIABILITY
 (in thousands)
 June 30, 2017 and 2016

	<u>2017</u>	<u>2016</u>	<u>2015</u>
KERS – Non-Hazardous			
University's proportion of the net pension liability	1.46%	1.47%	1.45%
University's proportionate share of the net pension liability	\$ 166,399	\$ 147,109	\$ 129,789
University's covered payroll	\$ 26,455	\$ 22,769	\$ 23,946
University's proportionate share of the net pension liability as a percentage of its covered payroll	628.99%	646.09%	537.83%
Plan fiduciary net position as a percentage of the total pension liability	14.80%	18.83%	22.32%
KERS – Hazardous			
University's proportion of the net pension liability	0.78%	0.90%	0.86%
University's proportionate share of the net pension liability	\$ 3,039	\$ 3,098	\$ 2,189
University's covered payroll	\$ 1,352	\$ 1,310	\$ 1,203
University's proportionate share of the net pension liability as a percentage of its covered payroll	224.78%	236.49%	181.96%
Plan fiduciary net position as a percentage of the total pension liability	57.41%	61.70%	68.74%
KTRS			
University's proportion of the net pension liability	1.21%	1.23%	1.25%
University's proportionate share of the net pension liability	\$ 373,414	\$ 299,522	\$ 270,083
State's proportionate share of the net pension liability associated with the University	<u>35,194</u>	<u>30,458</u>	<u>30,646</u>
Total	<u>\$ 408,608</u>	<u>\$ 329,980</u>	<u>\$ 300,729</u>
University's covered payroll	\$ 57,439	\$ 56,089	\$ 56,329
University's proportionate share of the net pension liability as a percentage of its covered payroll	650.11%	534.01%	479.47%
Plan fiduciary net position as a percentage of the total pension liability	35.22%	42.49%	45.59%

Notes to the Schedule:

Changes in assumptions – In fiscal year 2017, the KERS Non-Hazardous investment rate and discount rate both decreased from 7.50% to 6.75% and the KTRS plan discount rate decreased from 4.88% to 4.20%. In fiscal year 2016, the KERS plan inflation rate decreased from 3.50% to 3.25%, the estimated salary increases decreased from 4.50% to 4.00%, and the investment rate and discount rate both decreased from 7.75% to 7.50%. Additionally, the mortality tables changed from the 1983 and 1994 Group Annuity Mortality Tables to the RP-2000 Combined Mortality Table projected with Scale BB to 2013 (adjusted for males and females). The KTRS plan discount rate decreased from 5.23% to 4.88%.

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

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

WESTERN KENTUCKY UNIVERSITY
 REQUIRED SUPPLEMENTARY INFORMATION
 SCHEDULES OF THE UNIVERSITY'S CONTRIBUTIONS
 (in thousands)
 June 30, 2017 and 2016

	<u>2017</u>	<u>2016</u>	<u>2015</u>
KERS – Non-Hazardous			
Contractually required contribution	\$ 8,210	\$ 7,397	\$ 7,022
Contributions in relation to the contractually required contribution	<u>(8,210)</u>	<u>(7,397)</u>	<u>(7,022)</u>
Contribution deficiency (excess)	\$ -	\$ -	\$ -
University's covered payroll	\$ 26,181	\$ 26,455	\$ 22,769
Contributions as a percentage of covered payroll	31.36%	27.96%	30.84%
KERS – Hazardous			
Contractually required contribution	\$ 248	\$ 220	\$ 214
Contributions in relation to the contractually required contribution	<u>(248)</u>	<u>(220)</u>	<u>(214)</u>
Contribution deficiency (excess)	\$ -	\$ -	\$ -
University's covered payroll	\$ 1,342	\$ 1,352	\$ 1,310
Contributions as a percentage of covered payroll	18.48%	16.27%	16.34%
KTRS			
Contractually required contribution	\$ 9,661	\$ 9,624	\$ 9,676
Contributions in relation to the contractually required contribution	<u>(9,661)</u>	<u>(9,624)</u>	<u>(9,676)</u>
Contribution deficiency (excess)	\$ -	\$ -	\$ -
University's covered payroll	\$ 56,508	\$ 57,439	\$ 56,089
Contributions as a percentage of covered payroll	17.09%	16.76%	17.25%

Notes to the Schedule:
Changes in assumptions - In fiscal year 2017, the KERS Non-Hazardous investment rate and discount rate both decreased from 7.50% to 6.75% and the KTRS plan discount rate decreased from 4.88% to 4.20%. In fiscal year 2016, the KERS plan inflation rate decreased from 3.50% to 3.25%, the estimated salary increases decreased from 4.50% to 4.00%, and the investment rate and discount rate both decreased from 7.75% to 7.50%. Additionally, the mortality tables changed from the 1963 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.

SUPPLEMENTAL INFORMATION

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

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the business-type activities and the aggregate discretely presented component units of Western Kentucky University ("the University") as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the University's basic financial statements, and have issued our report thereon dated October 3, 2017. Our report includes a reference to other auditors who audited the financial statements of Western Kentucky University Foundation, Inc., WKU Student Life Foundation, Inc. and College Heights Foundation, Inc. (discretely presented component units), as described in our report on the University's financial statements. The financial statements of the discretely presented component units were not audited in accordance with *Government Auditing Standards*. The financial statements of the Western Kentucky University Research Foundation, Inc. were not audited in accordance with *Government Auditing Standards*, and accordingly, this report does not include reporting on internal control over financial reporting or instances of reportable noncompliance associated with Western Kentucky University Research Foundation, Inc.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the University's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the University's internal control. Accordingly, we do not express an opinion on the effectiveness of the University's internal control.

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the University's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Crowe Horwath LLP

Crowe Horwath LLP

Louisville, Kentucky
October 3, 2017

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

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

Report on Compliance for Each Major Federal Program

We have audited Western Kentucky University's ("the University") compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of the University's major federal programs for the year ended June 30, 2017. The University's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

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

Auditor's Responsibility

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

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

Opinion on Each Major Federal Program

In our opinion, the University complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2017.

Report on Internal Control over Compliance

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

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

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

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

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

We have audited the financial statements of the business-type activities and the aggregate discretely presented component units of the University as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the University's basic financial statements. We issued our report thereon dated October 3, 2017, which contained unmodified opinions on those financial statements. Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by the Uniform Guidance and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditure of federal awards is fairly stated in all material respects in relation to the basic financial statements as a whole.

Crowe Horwath LLP

Crowe Horwath LLP

Louisville, Kentucky
October 3, 2017

WESTERN KENTUCKY UNIVERSITY
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
Year ended June 30, 2017

<u>Federal Agency Cluster/Program</u>	<u>Pass Through Number</u>	<u>CFDA No.</u>	<u>Amount Expended</u>
Student Financial Aid Cluster			
U. S. Department of Education			
Direct Programs			
Federal Supplemental Educational Opportunity Grants	n/a	84.007	296,476
Federal Work Study	n/a	84.033	739,962
Federal Perkins Loan Program	n/a	84.038	3,856,889
Federal Pell Grant Program	n/a	84.063	22,720,712
Federal Direct Student Loans	n/a	84.268	91,631,449
TEACH Grants	n/a	84.379	<u>20,503</u>
Total U. S. Department of Education-Direct			119,265,991
TOTAL STUDENT FINANCIAL AID CLUSTER			<u>119,265,991</u>
Research and Development Cluster			
U. S. Department of Agriculture			
Direct Programs			
Agricultural Research Basic and Applied Research	n/a	10.001	568,958
Agriculture and Food Research Initiative (AFRI)	n/a	10.310	36,940
Capacity Building for (NLGCA)	n/a	10.326	<u>127,732</u>
Total U. S. Department of Agriculture-Direct			733,630
Total U.S. Department of Agriculture			<u>733,630</u>
U. S. Department of Commerce			
Pass Through Programs			
Global Science & Technology Inc.			
Contract (NOAA Sci Tech Mesonet)	SA 12-WKU01-003-001	11.CON	123,390
Synoptic Data Corp			
Contract SGT Task Order Mesonet of KY	PO17-00640/TASK2017-0115	11.CON	<u>893</u>
Total U. S. Department of Commerce-Pass Through			124,283
Total U. S. Department of Commerce			<u>124,283</u>
U. S. Department of Interior			
Direct Programs			
Rivers, Trails and Conservation Asst.	n/a	15.921	6,872
Cooperative Research & Training Programs			
SPA Resources of the Nat. Park System	n/a	15.945	<u>64,979</u>
U. S. Department of Interior-Direct			71,851
Total U. S. Department of Interior			<u>71,851</u>
U. S. Department of Justice			
Pass Through Programs			
KY Justice & Public Safety Cabinet			
Juvenile Justice & Delinquency Prev. Allocation	2013-JF-FX-0051 (DMC-WKU)	16.540	<u>8,177</u>
Total U. S. Department of Justice-Pass Through			8,177
Total U. S. Department of Justice			<u>8,177</u>
U. S. Department of Transportation			
Pass Through Programs			
Oldham County Emergency Management Agency			
Interagency Hazard Materials Public-Sector	LETTER DATED 5/16/17	20.703	<u>5,297</u>
Total U. S. Department of Transportation-Pass Through			5,297
Total U. S. Department of Transportation			<u>5,297</u>
National Aeronautics and Space Administration			
Direct Programs			
Science	n/a	43.001	<u>72,250</u>
Total National Aeronautics and Space Administration-Direct			72,250

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

WESTERN KENTUCKY UNIVERSITY
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
Year ended June 30, 2017

<u>Federal Agency Cluster/Program</u>	<u>Pass Through Number</u>	<u>CFDA No.</u>	<u>Amount Expended</u>
Research and Development Cluster (Continued)			
National Aeronautics and Space Administration (Continued)			
Pass Through Programs			
University of Louisville			
Education	ULRF-14-0315	43.008	24,613
Education	ULRF-14 0315A	43.008	24,017
University of Kentucky Research Foundation			
Education	3048109993-15-246	43.008	1,356
Education	3210000183-16-118	43.008	2,028
Education	3210000183-16-122	43.008	4,203
Education	3210000183-16-121	43.008	502
Education	3200000029-16-209	43.008	29,759
Education	3210000183-17-140	43.008	15,700
Education	3200000029-17-229	43.008	2,855
Total National Aeronautics and Space Administration-Pass Through			<u>105,033</u>
Total National Aeronautics and Space Administration			<u>177,283</u>
National Endowment for the Arts			
Direct Programs			
Promotion of the Arts Grants to Organizations & Indv.	n/a	45.024	1,286
Total National Endowment for the Arts-Direct			<u>1,286</u>
Total National Endowment for the Arts			<u>1,286</u>
National Science Foundation			
Direct Programs			
Engineering Grants	n/a	47.041	26,365
Mathematical and Physical Sciences	n/a	47.049	115,791
Geosciences	n/a	47.050	33,363
Biological Sciences	n/a	47.074	326,047
Social Behavioral and Economic Sciences	n/a	47.075	96,772
Education and Human Sciences	n/a	47.076	169,277
Office of International and Integrative Activities	n/a	47.079	74,354
Total National Aeronautics and Space Administration-Direct			<u>841,969</u>
Pass Through Programs			
Brigham Young University			
Mathematical & Physical Sciences	SUB# 16-0476	47.049	6,060
University of Kentucky Research Foundation			
Education and Human Resources	3048111054-14-128	47.076	34,455
KY NSF EPSCoR-UKRF			
Office of Integrative Activities	3200000271-16-072	47.083	20,839
Office of Integrative Activities	3200000271-17-046	47.083	11,916
Office of Integrative Activities	3200000271-17-039	47.083	13,527
Office of Integrative Activities	3200000271-17-044	47.083	13,880
Office of Integrative Activities	3200000271-17-041	47.083	10,651
Office of Integrative Activities	3200000271-16-056	47.083	2,118
Office of Integrative Activities	3200000271-16-058	47.083	1,171
Office of Integrative Activities	3200000271-16-051	47.083	1,480
Office of Integrative Activities	3200000271-16-218	47.083	3,359
Office of Integrative Activities	3200000271-16-216	47.083	4,734
Office of Integrative Activities	3200000271-16-205	47.083	534
Office of Integrative Activities	3200000271-16-217	47.083	2,923
Office of Integrative Activities	3200000271-16-220	47.083	2,951
Office of Integrative Activities	3200000271-16-219	47.083	276
Office of Integrative Activities	3200000271-17-018	47.083	27,059
Office of Integrative Activities	3200000271-17-020	47.083	20,972
Office of Integrative Activities	3200000271-17-021	47.083	3,302
Office of Integrative Activities	3200000271-17-047	47.083	69,449
Office of Integrative Activities	3200000271-17-042	47.083	13,528
Office of Integrative Activities	3200000271-17-040	47.083	19,993
Office of Integrative Activities	3200000271-17-043	47.083	8,555
Office of Integrative Activities	3200000271-17-212	47.083	16,905

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

WESTERN KENTUCKY UNIVERSITY
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
Year ended June 30, 2017

<u>Federal Agency Cluster/Program</u>	<u>Pass Through Number</u>	<u>CFDA No.</u>	<u>Amount Expended</u>
Research and Development Cluster (Continued)			
National Science Foundation (Continued)			
Pass Through (Continued)			
KY NSF EPSCoR-UKRF(Continued)			
Office of Integrative Activities	3200000271-17-214	47.083	7,263
Office of Integrative Activities	3200000271-17-213	47.083	3,190
Office of Integrative Activities	3200000271-17-211	47.083	<u>4,427</u>
Total National Science Foundation-Pass Through			325,517
Total National Science Foundation			<u>1,167,486</u>
U. S. Department of Veteran Affairs			
Direct Programs			
Contract (Systems Redesign Services)	n/a	64.CON	<u>22,279</u>
U. S. Department of Veteran Affairs-Direct			22,279
Total U. S. Department of Veteran Affairs			<u>22,279</u>
U. S. Department of Energy			
Direct Programs			
Department of Energy-Contracts	n/a	81.CON	<u>4,071</u>
U.S. Department of Energy-Direct			4,071
Total U.S. Department of Energy			<u>4,071</u>
U. S. Department of Education			
Pass Through Programs			
Kentucky Department of Education			
Mathematics and Science Partnerships	PON2 540 1600000514 1	84.366	56,834
Mathematics and Science Partnerships	PON2 540 1700000640 1	84.366	108,269
Green River Regional Ed Coop			
Race to the Top-District Grants	AGREEMENT DATED 03/20/13	84.416	<u>358,244</u>
U. S. Department of Education-Pass Through			523,347
Total U. S. Department of Education			<u>523,347</u>
U. S. Department of Health and Human Services			
Direct Programs			
NIH-Cancer Treatment Research	n/a	93.395	119,642
NIH-Biomedical Research and Research Training	n/a	93.859	<u>86,703</u>
U. S. Department of Health and Human Services-Direct			206,345
Pass Through Programs			
University of Kentucky Research Foundation			
Occupational Safety and Health Program	3200000144-16-096	93.262	4,654
Occupational Safety and Health Program	3200000840-17-069	93.262	4,198
University of Louisville			
Research on Healthcare Costs, Quality &Outcomes	ULRF-15-0351	93.226	19,193
Biomedical Research & Research Training	ULRF 13-1493B-07	93.859	392,731
Biomedical Research & Research Training	ULRF 13-1493B-08	93.859	206,924
Biomedical Research & Research Training	ULRF 13-1493C-02	93.859	21,668
Biomedical Research & Research Training	ULRF 13-1493C-01	93.859	49,412
University of Wisconsin at Eau Claire			
Mental Health Research Grants	SUB# AAB4884	93.242	<u>18,775</u>
Total U. S. Department of Health and Human Services-Pass Through			717,555
Total U. S. Department of Health and Human Services			<u>923,900</u>
U. S. Department of Homeland Security			
Direct Programs			
Program Unknown (Hydraulics-WDS)	n/a	97.UNK	<u>11,130</u>
Total U. S. Department of Homeland Security-Direct			11,130

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

WESTERN KENTUCKY UNIVERSITY
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
Year ended June 30, 2017

<u>Federal Agency Cluster/Program</u>	<u>Pass Through Number</u>	<u>CFDA No.</u>	<u>Amount Expended</u>
Research and Development Cluster (Continued)			
U. S. Department of Homeland Security (Continued)			
Pass Through Programs			
National Institute for Hometown Security			
Pilot Demonstration or Earmarked Projects	05-07-WKU	91.001	9,695
Homeland Security Adv Research Proj. Agency (B)	06-07-WKU	97.065	7,910
Contract (Disruptions in Water Service)	HSHQDC07-3-00005	97.CON	<u>96,941</u>
Total U. S. Department of Homeland Security-Pass Through			114,546
Total U. S. Department of Homeland Security			<u>125,676</u>
TOTAL RESEARCH AND DEVELOPMENT CLUSTER			<u>3,888,566</u>
CDBG-Entitlement Grants Cluster			
Housing and Urban Development			
Pass Through Programs			
Housing Authority of Bowling Green			
CDBG/Entitlement Grants	MOA 1/14/16	14.218	(731)
CDBG/Entitlement Grants	MOA 10/31/16	14.218	<u>33,433</u>
Total Housing and Urban Development-Pass Through			32,702
TOTAL CDBG-ENTITLEMENT GRANTS CLUSTER			<u>32,702</u>
Highway Planning and Construction Cluster			
U. S. Department of Transportation			
Pass Through Programs			
Kentucky Transportation Cabinet			
Highway Planning and Construction	PO2 628 1100003434	20.205	<u>1,488</u>
Total U. S. Department of Transportation-Pass Through			1,488
TOTAL HIGHWAY PLANNING AND CONSTRUCTION CLUSTER			<u>1,488</u>
Special Education Cluster (IDEA)			
U. S. Department of Education			
Pass Through Programs			
University of Kentucky Research Foundation			
Special Education Grants to States	3200000919-17-108	84.027	<u>15,000</u>
Total U. S. Department of Education-Pass Through			15,000
TOTAL SPECIAL EDUCATION CLUSTER (IDEA)			<u>15,000</u>
TRIO Cluster			
U. S. Department of Education			
Direct Programs			
TRIO Student Support Services	n/a	84.042	277,073
TRIO Talent Search	n/a	84.044	796,479
TRIO Upward Bound	n/a	84.047	584,159
TRIO Educational Opportunity Centers	n/a	84.066	<u>239,613</u>
Total U. S. Department of Education-Direct			1,897,324
TOTAL TRIO CLUSTER			<u>1,897,324</u>
CCDF Cluster			
U. S. Department of Health and Human Services			
Pass Through Programs			
University of Kentucky Research Foundation			
Child Care Development Block Grant	3200000993-17-098	93.575	<u>37,500</u>
Total U. S. Department of Health and Human Services-Pass Through			37,500
TOTAL CCDF CLUSTER			<u>37,500</u>

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

WESTERN KENTUCKY UNIVERSITY
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
Year ended June 30, 2017

<u>Federal Agency Cluster/Program</u>	<u>Pass Through Number</u>	<u>CFDA No.</u>	<u>Amount Expended</u>
Head Start			
U. S. Department of Health and Human Services			
Direct Programs			
Head Start	n/a	93.600	1,532,732
Total U. S. Department of Health and Human Services-Direct			1,532,732
Pass Through Programs			
Murray Head Start			
Head Start	04CH4761/02	93.600	234,662
Total U. S. Department of Health and Human Services-Pass Through			234,662
TOTAL HEAD START			<u>1,767,394</u>
OTHER FEDERAL			
U. S. Department of Agriculture			
Direct Programs			
Agricultural Research Basic and Applied Research	n/a	10.001	16,154
Total U. S. Department of Agriculture-Direct			16,154
Total U. S. Department of Agriculture			<u>16,154</u>
U.S. Department of Commerce			
Direct Programs			
Manufacturing Extension Partnership	n/a	11.611	349,896
Total U. S. Department of Commerce-Direct			349,896
Total U. S. Department of Commerce			<u>349,896</u>
U.S. Department of Defense			
Pass Through Programs			
URS Group			
Contract	Subcontract #76008	12.CON	(125)
Institute of International Education			
The Language Flagship Grants to Institutions of Higher Education	NSEP-U631063-WKU-CHN	12.550	23,343
The Language Flagship Grants to Institutions of Higher Education	#0054-WKU-21-CHN-280-PO1	12.550	306,292
The Language Flagship Grants to Institutions of Higher Education	#0054-WKU-21-SSC-280-PO2	12.550	(640)
The Language Flagship Grants to Institutions of Higher Education	#0054-WKU-21-SSC-280-PO3	12.550	25,218
			<u>354,213</u>
Total U. S. Department of Defense-Pass Through			354,088
Total U. S. Department of Defense			<u>354,088</u>
U. S. Department of Interior			
Direct Programs			
Outdoor Recreation Acquisition Development and Planning	n/a	15.916	(25,542)
Rivers Trails and Conservation Assistance	n/a	15.921	14,041
Cooperative Research & Training Programs- Resources of the NPS	n/a	15.945	179,222
Total U. S. Department of Interior-Direct			167,721
U. S. Department of Interior			<u>167,721</u>
National Aeronautics and Space Administration			
Pass Through Programs			
AURA Inc.			
Science	N67288C-N	43.001	40,182
			<u>40,182</u>

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

WESTERN KENTUCKY UNIVERSITY
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
Year ended June 30, 2017

<u>Federal Agency Cluster/Program</u>	<u>Pass Through Number</u>	<u>CFDA No.</u>	<u>Amount Expended</u>
Other Federal (continued)			
National Aeronautics and Space Administration (continued)			
Northern Kentucky University Education	4000972-S6	43.008	2,681
Pass Through Programs (continued)			
University of Kentucky Research Foundation Education	3200000161-16-114	43.008	2,865
Education	3200000161-17-145	43.008	550
Education	3200000161-17-144	43.008	<u>1,154</u>
			<u>7,250</u>
Total National Aeronautics and Space Administration-Pass Through			47,432
Total National Aeronautics and Space Administration			<u>47,432</u>
National Endowment for the Arts			
Direct Programs			
Promotion of the Arts_Grants to Organizations and Individuals	n/a	45.024	<u>10,315</u>
Total National Endowment for the Arts-Direct			10,315
Total National Endowment for the Arts			<u>10,315</u>
National Endowment for Humanities			
Direct Programs			
Promotion of the Humanities Division of Preservation	n/a	45.149	<u>5,211</u>
Total National Endowment for Humanities-Direct			5,211
Total National Endowment for Humanities			<u>5,211</u>
Small Business Administration			
Pass Through Programs			
University of Kentucky Research Foundation Small Business Centers	3200000358-16-174	59.037	21,882
Small Business Centers	3200001037-17-163	59.037	<u>47,302</u>
			<u>69,184</u>
Small Business Administration-Pass Through			69,184
Total Small Business Administration			<u>69,184</u>
U. S. Department of Energy			
Direct Programs			
TVA Diversity Alliance Agreement		81.UNK	<u>1,000</u>
Total U. S. Department of Energy-Direct			1,000
Total U. S. Department of Energy			<u>1,000</u>
Environmental Protection Agency			
Pass Through Programs			
Kentucky Association for Environmental Ed Environmental Education Grants	Agreement Dated 8/30/16	66.951	4,822
Earth Force Inc. Environmental Education Grants	Agreement Dated 12/1/16	66.951	<u>170</u>
Environmental Protection Agency-Pass Through			4,992
Total Environmental Protection Agency			<u>4,992</u>
U. S. Department of Education			
Direct Programs			
Undergraduate Intl Studies & Foreign Lang.	n/a	84.016	<u>38,148</u>
Total U. S. Department of Education-Direct			38,148
Pass Through Programs			
Kentucky Department of Education Title I Grants to Local Educational Agencies	PON2 540 1700001316 1	84.010	372,600

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

WESTERN KENTUCKY UNIVERSITY
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
Year ended June 30, 2017

<u>Federal Agency Cluster/Program</u>	<u>Pass Through Number</u>	<u>CFDA No.</u>	<u>Amount Expended</u>
Other Federal (continued)			
U. S. Department of Education (continued)			
Pass Through Programs (continued)			
Kentucky Cabinet for Workforce Development			
Career and Technical Ed.-Basic Grants to States	PON2 540 1600002697 1	84.048	34,247
Career and Technical Ed.-Basic Grants to States	PON2 540 1600003898 1	84.048	72,514
Education Professional Standards Board			
Career and Technical Ed.-Basic Grants to States	PO2 183 1600000951 1	84.048	(1,126)
Education Professional Standards Board (continued)			
Career and Technical Ed.-Basic Grants to States	PO2 183 1700001096 1	84.048	<u>3,609</u>
			109,244
Kentucky Department of Education			
Javits Gifted and Talented Student Ed	PON2 540 1600000974 1	84.206	45,339
Javits Gifted and Talented Student Ed	PON2 540 1700000386 1	84.206	<u>27,612</u>
			72,951
Kentucky Council on Postsecondary Education			
Gaining Early Awareness & Readiness for Undergraduate Programs			
	PO2 415 1600004719 1	84.334	36,959
Gaining Early Awareness & Readiness for Undergraduate Programs			
	PO2 415 1700003737 1	84.334	<u>45,249</u>
			82,208
National Writing Project Corporation			
Supporting Effective Instruction State Grant			
	Amend#2 92-KY06-SEED2012	84.367	4,839
Supporting Effective Instruction State Grant			
	#92-KY06-SEED2016-ILI	84.367	3,239
Kentucky Council on Postsecondary Education			
Supporting Effective Instruction State Grant			
	PO2 415 1700003773	84.367	<u>11,049</u>
			19,127
University of Kentucky Research Foundation			
Race to the Top-Early Learning Challenge			
	3200000715-17-179	84.412	80,581
Green River Regional Ed. Coop			
Race to the Top-District Grants			
	FFSA DATED 10/14/15	84.416	<u>51</u>
Total U. S. Department of Education-Pass Through			736,762
Total U.S. Department of Education			<u>774,910</u>
U.S. Department of Health and Human Services			
Direct Programs			
Occupational Safety and Health Program			
	n/a	93.262	49,790
Advanced Education Nursing Traineeships			
	n/a	93.358	<u>272,574</u>
U. S. Department of Health and Human Services-Direct			322,364
Pass Through Programs			
Kentucky Population Health Institute			
Environmental Public Health & Emerg. Response			
	KPHI 303	93.070	2,128
University of Louisville			
Area Health Education Centers-Model Programs			
	ULRF 12-1074C1-01	93.107	19,647
Area Health Education Centers-Model Programs			
	ULRF 12-1074D1-01	93.107	<u>80,450</u>
			100,097
Meharry Medical College			
Substance Abuse & Mental Health Services			
	130506RZ070-03	93.243	9,860
University of Kentucky Research Foundation			
Occupational Safety and Health Program			
	3210000146-16-060	93.262	3,459
Eastern Kentucky University			
Foster Care Title IV-E			
	453224-17-134	93.658	172,410
Foster Care Title IV-E			
	453229-17-133	93.658	<u>8,065</u>
			180,475
U. S. Department of Health and Human Services-Pass Through			296,019
Total U. S. Department of Health and Human Services			<u>618,383</u>
TOTAL OTHER FEDERAL			<u>2,419,286</u>
TOTAL FEDERAL EXPENDITURES			<u>129,325,251</u>

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

WESTERN KENTUCKY UNIVERSITY
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
Year ended June 30, 2017

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

<u>CFDA Number/Federal Program</u>	<u>Subrecipient</u>	<u>Fiscal 2017 Expenditures</u>
10.326 Capacity Building for NLGCA	West Virginia University Research	16,674
11.611 Manufacturing Ext Partnership	Northern Kentucky University	91,682
47.076 Education and Human Resources	Adler Planetarium Corp	859
47.076 Education and Human Resources	Cornell University	1,198
93.600 Head Start	Audubon Area Community Services, Inc.	222,684
93.600 Head Start	Murray Head Start	<u>442,729</u>
Total Federal Awards Paid to Subrecipients		<u>\$ 775,826</u>

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

WESTERN KENTUCKY UNIVERSITY
NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
Year ended June 30, 2017

NOTE 1 – BASIS OF ACCOUNTING

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

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

NOTE 2 – LOANS

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

The University administers the Federal Perkins Loan Program (CFDA Number 84.038). At June 30, 2017, the University had loans outstanding in the amount of \$3,418,936 with an allowance for doubtful accounts of \$548,366.

NOTE 3 – FEDERAL INSURANCE

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

WESTERN KENTUCKY UNIVERSITY
 SCHEDULE OF FINDINGS AND QUESTIONED COSTS
 June 30, 2017

PART I – SUMMARY OF AUDITORS' RESULTS

Financial Statements

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

Unmodified

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

_____ Yes X No

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

_____ Yes X None Reported

Noncompliance material to financial statements noted?

_____ Yes X No

Federal Awards

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

_____ Yes X No

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

_____ Yes X None Reported

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

Unmodified

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

_____ Yes X No

Identification of major programs:

CFDA Number(s)

Name of Federal Program or Cluster Number

	Federal Student Aid Cluster (consisting of):
84.007	Federal Supplemental Educational Opportunity Grants
84.033	Federal Work Study Program
84.038	Federal Perkins Loan Program
84.063	Federal Pell Grant Program
84.268	Federal Direct Student Loans
84.379	Teacher Education Assistance for College and Higher Education Grants
	TRIO Cluster (consisting of):
84.042	TRIO Student Support Services
84.044	TRIO Talent Search
84.047	TRIO Upward Bound
84.066	TRIO Educational Opportunity Centers

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

 750,000

Auditee qualified as low-risk auditee?

 X Yes _____ No

PART II – FINANCIAL STATEMENT FINDINGS

None

PART III – FINDINGS AND QUESTIONED COSTS – MAJOR FEDERAL AWARDS

None

WESTERN KENTUCKY UNIVERSITY
PRIOR YEAR FINDINGS AND QUESTIONED COSTS
June 30, 2017

There were no findings or questioned costs in the prior year.