INDEPENDENT AUDITOR'S REPORT

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

Secretary of Finance and
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Introduction

Management's Discussion and Analysis of Kentucky State University's (the University) financial statements provide an overview of the financial position and activities of the University for the year ended June 30, 2019, with comparative information for the year ended June 30, 2018. This discussion has been prepared by management and should be read in conjunction with the financial statements and the notes thereto, which follow this section. The financial statements and related notes and this discussion and analysis are the responsibility of management.

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

Basis of Presentation

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

Financial Highlights

The University's financial position at June 30, 2019, reflected total assets and deferred outflows of $117.6 million and total liabilities and deferred inflows of $121.5 million. Total net position was $(3.9) million.

Total assets and deferred outflows decreased by $10.8 million or 8.4%, primarily due to a decrease in cash and cash equivalents used in operations. Total liabilities and deferred inflows decreased by $5.9 million or 4.6% primarily due to decreases in the net pension liability related to KTRS.

Unrestricted net position, which the University reserves for spending in programs and other capital-related contingencies, decreased $1.5 million.

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

Operating revenues were $35.0 million and operating expenditures were $70.7 million, resulting in a loss from operations of $35.7 million. Net non-operating revenues were $30.6 million, including $25.7 million in state appropriations, which, when combined with the loss from operations and capital appropriations, resulted in an overall decrease in net position of $5.0 million.

Using the Financial Statements

The University's Financial Statements consist of three financial statements: a Statement of Net Position (Balance Sheet); a Statement of Revenues, Expenses and Changes in Net Position (Income Statement);

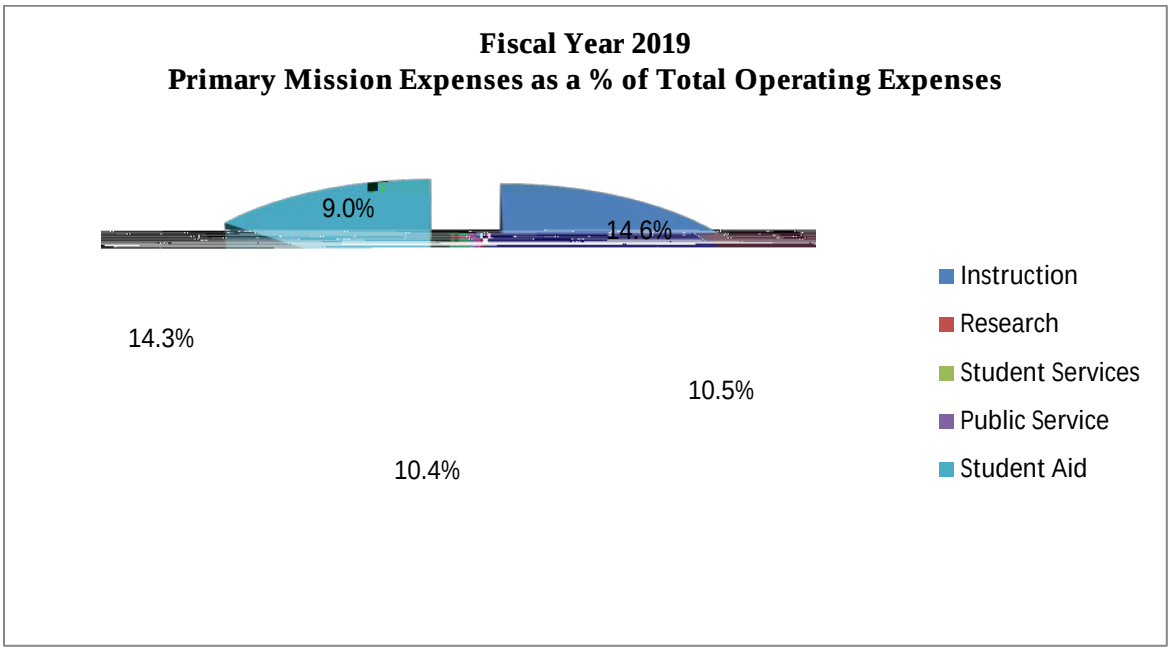
Assets and Deferred Outflows: As of

Condensed Statement of Revenues, Expenses and Changes in Net Position

	2019	2018
REVENUES		
Student tuition and fees, net	$	

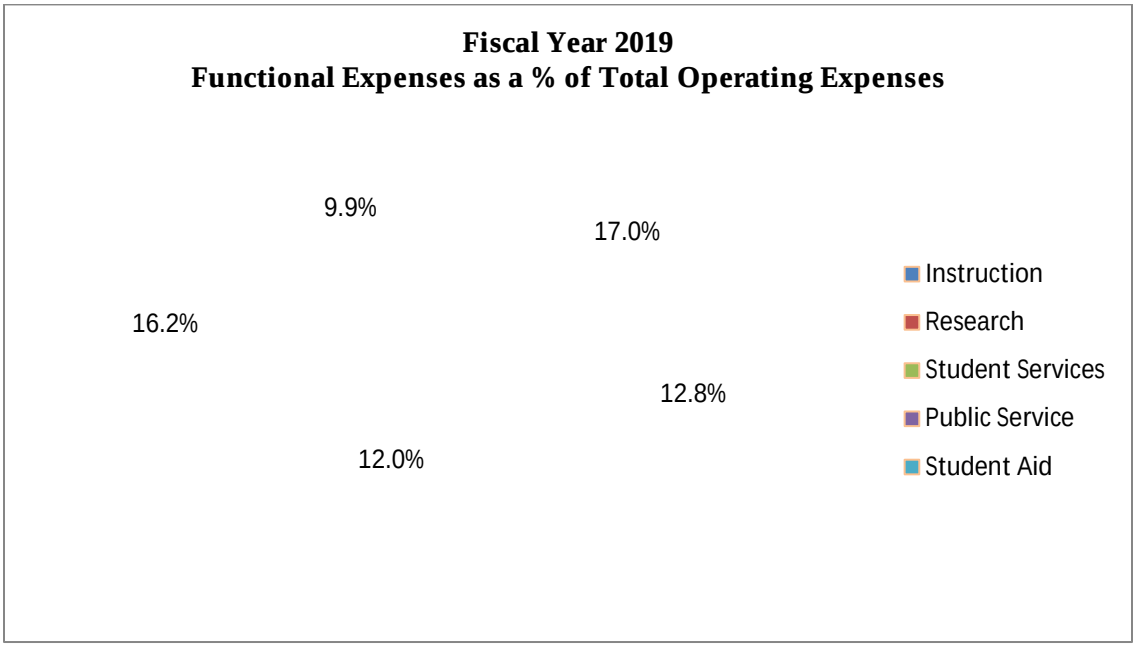
Operating Revenue

Total operating revenues were $35.0 million for the year ended June 30, 2019, which was consistent with FY18. The primary components of operating revenue were federal, state and local grants and contracts of $19.6 million (56.1%), student tuition and fees, net, of $9.7 million (27.8%) and auxiliary services and other revenues of $5.6 million (16.1%). FY19 net student tuition and fees revenue decreased by $1.8 million compared to FY18. FY19 grants and contracts revenue increased $in 5on w 3.313ey p7$4 (c)-8 (c



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

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



State Appropriations

State appropriations represent approximately 40.0% of all operating and non-operating revenues. The level of state support is a key factor influencing the University's overall financial condition. State appropriation is unrestricted revenue and is included as non-operating revenue. State appropriations are used to support payroll and benefits for University employees.

The following details the net Commonwealth appropriations received by the University for fiscal years ending June 30, 2019 and 2018.

	2019	2018
Commonwealth appropriations	$ 25,749,000	$ 26,462,300

Capital Appropriations for the Commonwealth

The University faces financial challenges to maintain and upgrade its capital assets including its infrastructure, buildings and grounds. A combination of revenue sources funds the University's investment in capital improvements, including appropriations provided by the Commonwealth of Kentucky. In fiscal year 2019, the Commonwealth provided capital appropriations of $151,277 to the University. State capital appropriations plus federal sources play an important role in the University's efforts to address deferred maintenance projects.

Grant and Contract Revenue

The following table details the University's grant and contract revenue for fiscal years ended June 30, 2019 and 2018.

	2019	2018
Federal grants and contracts, operating	$ 18,007,131	$ 15,982,090
Federal grants and contracts, non-operating	4,261,886	4,391,839
State grants and contracts	1,607,921	2,689,931
Total grants and contracts	$ 23,876,938	$ 23,063,860

Capital Plan

The University continues to face financial challenges to maintain and upgrade its capital assets including its infrastructure, buildings and grounds. A combination of revenue sources fund the University's investment in capital improvements. Those include appropriations provided by the Commonwealth of Kentucky. In fiscal year 2016-17, the Commonwealth funded one capital project, appropriating state bond funds toward Repair Boilers and Aging Distribution Lines. As of June 30, 2019, $8.9 million has been expended on this project. State capital appropriations for deferred maintenance were not appropriated. Federal funds are the primary source for the University's College of Agriculture and Land Grant departments.

The graph in ***Figure 3*** shows a two-year trend of designated, non-designated, and combined spending. Designated spending increased $1.4 million in 2019. Non-designated spending increased $1.3 million in 2019. Combined spending increased $2.7 million in 2019.

Figure 3

Capital Asset and Debt Administration

Capital Assets

Capital assets, net of accumulated depreciation, totaled $75.2 million at June 30, 2019, a decrease of $1.7 million. Capital assets as of June 30, 2019 and significant changes in capital assets during the year are as follows (in millions):

	June 30, 2019	Net Additions (Reductions) FY 18-19	June 30, 2018
Land and land improvements	$ 6.3	$ -	$ 6.3 6.3
Buildings, fixed equipment and infrastructure	155 8		J i ft aw [(J)-8ltJa asm(ar (.)-1.1 (2

Long-Term Debt

At June 30, 2019, bonds and lease payable amounted to $3.4 million, as summarized below:

KENTUCKY STATE UNIVERSITY
STATEMENT OF NET POSITION
June 30, 2019

ASSETS	
Current assets	
Cash and cash equivalents	$ 2,002,952
Accounts, grants and loans receivable, net	6,630,604

See accompanying notes to financial statements.

KENTUCKY STATE UNIVERSITY FOUNDATION, INC.

KENTUCKY STATE UNIVERSITY
STATEMENT OF CASH FLOWS
Year ended June 30, 2019

Cash flows from operating activities	
Tuition and fees	$ 9,620,776
Grants and contracts	18,210,886
Payments to suppliers	(25,529,497)
Payments to employees	(43,025,130)
Payments to students	(6,037,006)
Collection of loans issued to students	106,884
Auxiliary enterprises:	
Residence halls and dining	4,334,243
Bookstore	113,190
Other auxiliaries	13,618
Other payments	1,195,356
Net cash from operating activities	(40,996,680)
Cash flows from non -capital financing activities	
State appropriations	25,749,000
Federal grants and contracts	4,261,886
Net cash from non-capital financing activities	30,010,886
Cash flows from capital financing activities	
Purchases of capital assets	(2,180,306)
Draws on line of credit	2,061,650
Principal paid on capital debt	(834,386)
Interest paid on capital debt	(284,060)
Capital appropriations	151,277
Net cash from capital financing activities	(1,085,825)
Cash flows from investing activities	
Investment income	871,874
Proceeds from sale of investments	21,917,476
Purchases of investments	(22,703,965)
Net cash from investing activiti	

(Continued)

KENTUCKY STATE UNIVERSITY
STATEMENT OF CASH FLOWS
Year ended June 30, 2019

Reconciliation of net operating loss to net cash from operating activities	
Operating loss	$ (35,746,406)

See accompanying notes to financial statements.

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

Scholarship Discounts and Allowances: Financial aid to students is reported in the financial statements under the alternative method as prescribed by the National Association of College and University Business Officers (NACUBO). Certain aid, such as loans and (tcco se 0--8 2 (l)331 4 (s)-8 (0--8 3 (ar)-6.3 pr)-1s Tc 0 Tw 17.6871

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

- GASB Statement 89, *Accounting for Interest Cost Incurred Before the End of a Construction Period.* This statement requires that interest cost incurred before the end of a construction period be recognized as an expense in the period in which the cost is incurred. As a result, interest cost incurred will not be included in the historical cost of a capital asset. It is effective for periods beginning after December 15, 2019. The University will implement this statement during its fiscal year ending June 30, 2021.

- GASB Statement 90, *Majority Equity Interest.* This statement requires that majority equity interests be reported as an investment. It is effective for the fiscal year ending June 30, 2020.

- GASB Statement 91, *Conduit Debt Obligations*. This statement requires a single method of reporting conduit debt obligations by issuers. It is effective for the fiscal year ending June 30, 2022.

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

NOTE 2 - CASH, CASH EQUIVALENTS, AND INVESTMENTS

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

At June 30, 2019, the University had petty cash funds totaling zero, and deposits as reflected by bank balances as follows:

	2019
Insured, commercial banks	$ 250,000

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

As of June 30, 2019, the University had the following investments and maturities:

Investment Maturities (in years)

Investment Type	Fair Value	< 1	1-5	6-10	11-20
Money market funds	$ 906,553	$ 906,553	$ -	$ -	$ -
Equites and equity funds	9,173,677	9,173,677	-	-	-
Alternative strategies funds	1,673,078	1,673,078	-	-	-
Real assets funds	349,125	349,125	-	-	-
Corporate bonds	1,017,146	155,716	357,770	503,660	-
Government bonds	1,050,684	424,054	286,750	339,880	-
Other bond funds	4,350,770	4,350,770	-	-	-
	$ 18,521,033	$17,032,973	$ 644,520	$ 843,540	$ -

(Continued)

NOTE 9 – DEFINED BENEFIT PENSION PLANS

Kentucky Employees' Retirement System - Defined Benefit Plan

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

Benefits Provided

	Tier 1 Participation Prior to September 1, 2008	Tier 2 Participation September 1, 2008 through December 31, 2013	Tier 3 Participation January 1, 2014
Non-Hazardous			
Benefit Formula	Final Compensation x Benefit Factor x Years of Service		Cash Balance Plan
Final Compensation	Average of the highest 5 fiscal years (must contain at least 48 months). Includes lump-sum compensation payments (before and at retirement).	5 complete fiscal years 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

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NOTE 9 – DEFINED BENEFIT PENSION PLANS (Continued)

	Tier 1 Participation Prior to September 1, 2008	Tier 2 Participation September 1, 2008 through December 31, 2013	Tier 3 Participation January 1, 2014
Reduced Retirement Benefit	Any age with 25 years of service. Age 55 with 5 years of service.	Age 60 with 10 years of service. Excludes purchased service (exception: refunds, omitted, free military).	No reduced retirement benefit.
Hazardous			
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).		

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NOTE 9 – DEFINED BENEFIT PENSION PLANS (Continued)

pension plan for the year ended June 30, 2019. These amounts were actuarially determined as an amount

(Continued)

NOTE 9 – DEFINED BENEFIT PENSION PLANS (Continued)

At June 30, 2019, the University reported $1,864,909 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, 2019, related to pensions will be recognized in pension expense as follows:

	Non-Hazardous	Hazardous
2020	$ 4,250	$ 341,507
2021	(366,242)	203,464
2022	(61,189)	(3,753)
2023	(19,174)	(5,243)
	$ (442,355)	$ 535,975

Actuarial assumptions: (continued)

NOTE 9 – DEFINED BENEFIT PENSION PLANS (Continued)

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

	Non-hazardous	
Asset Class	Target Allocation	Long-Term Nominal Rate of Return
2019		
U.S. Equity	17.50%	4.73%
International Equity	17.50	6.71
Global Bonds U.S.	U6.c 0.013 Tw 1.807 0 Td [(G)-7.1 (l)3.1 (oba)-12.3 (l)3.1 (B)2.3 (on)-12.3 (ds)	

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NOTE 9 – DEFINED BENEFIT PENSION PLANS (Continued)

(Continued)

NOTE 9 – DEFINED BENEFIT PENSION PLANS (Continued)

Benefits Provided

Tier 1 Participation Prior to July 1, 2008	P a

NOTE 9 – DEFINED BENEFIT PENSION PLANS (Continued)

	Tier 1 Participation Prior to July 1, 2008

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NOTE 9 – DEFINED BENEFIT PENSION PLANS (Continued)

For the year ended June 30, 2019, the University was allocated pension expense of $(11,109,346). The University also recognized revenue of $1,957,491 for support provided by the Commonwealth. At June 30, 2019, the University reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

Deferred

(Continued)

NOTE 9 – DEFINED BENEFIT PENSION PLANS (Continued)

The long-term expected return on pension plan investments was determined using a log-normal distribution analysis in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighing the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The target allocation and best estimates of arithmetic real rates of return for each major asset class for the June 30, 2018 actuarial valuation, are summarized in the following table:

Asset Class	Target Allocation	Long-Term Nominal Rate of Return
U.S. Equity	40.0%	4.2%
International Equity	22.0	5.2
Fixed Income	15.0	1.2
Additional Categories (Incl. Hedge Funds, High Yield, Non-U.S. Developed Bonds, and Private Credit Strategies)	8.0	3.3
Real Estate	6.0	3.8
Private Equity	7.0	6.3
Cash	2.0	0.9
Total	100%	

Changes in Assumptions and Benefit Terms Since Prior Measurement Date - The total pension liability (TPL) as of June 30, 2018 reflects that the assumed municipal bond index rate increased from 3.56% to - 3.89%, resulting in a change in the Single Equiv.6 (of)-13.2 ( )0.7 (J)-8 (une)0.7 (30,)

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NOTE 9 – DEFINED BENEFIT PENSION PLANS (Continued)

Sensitivity of the University's proportionate share of the net pension liability to changes in the discount rate - The following table presents the net pension liability of the University as of June 30, 2019, calculated using the discount rate of 7.50%, as well as what the University's net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (6.50%) or 1-percentage-point higher (8.50%) than the current rate:

	1% Decrease (6.50%)	Current Discount Rate (7.50%)	1% Increase (8.50%)
Proportionate share of the Collective Net Pension Liability	$ 28,993,190	$ 22,617,418	$ 17,255,524

Summary Pension Plan Information:

	KERS Hazardous/ Non-hazardous	KTRS	Total
June 30, 2019			
Net pension liability	$31,938,136	$22,617,418	$ 54,555,554
Deferred outflows of resources	4,047,446	9,613,829	13,661,275
Deferred inflows of resources	2,088,917	37,072,194	39,161,111
Pension expense (income)	2,170,425	(11,109,346)	(8,938,921)

NOTE 10 - OTHER POSTEMPLOYMENT BENEFITS PLANS (OPEB)

In addition to the pension plans disclosed in Note 9, the University's employees participate in the

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

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

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

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

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

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

(Continued)

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

(b) Projected Cash Flows: The projection of cash flows used to determine the discount rate assumed the local employers and plan members would contribute the actuarially determined contribution rate of projected compensation over the remaining 26-year amortization period of the unfunded actuarial accrued liability.

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

(d) Municipal Bond Rate : The discount rate determination used a municipal bond rate of 3.62% as reported in Fidelity Index's "20 – Year Municipal GO AA Index" as of June 30, 2018.

(e) Period of Projected Benefit Payments: Current assets, future contributions, and investment earnings are projected to be sufficient to pay the projected benefit payments from the retirement system. However, the cost associated with the imp2 (or)-4(nt)11.4 (pr)-6.3 (oj)-8.9 (ec)-8heo8:5iheem,he ombith

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

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

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

Non-hazardous

The following presents the University's allocated portion of the Non-hazardous net OPEB liability of the System, calculated using the discount rate of 5.86% percent, as well as what the University's allocated portion of the System's net OPEB liability would be if it were calculated using a discount rate that is 1-percentage-point lower (4.86 percent) or 1-percentage-point higher (6.86 percent) than the current rate for Non-hazardous:

	1% Decrease (4.86%)	Current Discount Rate (5.86%)	1% Increase (6.86%)
The University's Net OPEB liability – Non-hazardous	$ 6,333,300	$ 5,397,902	$ 4,619,413

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

	1% Decrease	Current Healthcare Cost Trend Rate	1% Increase
The University's Net OPEB liability – Non-hazardous	$ 4,589,344	$ 5,397,902	$ 6,370,312

Hazardous

The following presents The University's allocated portion of the Hazardous net OPEB liability of the System, calculated using the discount rate of 5.88% percent, as well as what the University's allocated portion of the System's net OPEB liability would be if it were calculated using a discount rate that is 1-percentage-point lower (4.88 percent) or 1-percentage-point higher (6.88 percent) than the current rate for Hazardous:

	1% Decrease (4.88%)	Current Discount Rate (5.88%)	1% Increase (6.88%)
The University's Net OPEB liability – Hazardous	$ 62,059	$ (61,667)	$ (160,873)

(Continued)

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

The following presents the University's allocated portion of the Hazardous net OPEB liability of the System,

(Continued)

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

OPEB Liabilities, OPEB Expense, and Deferred Outflows of Resources and Deferred Inflows of

(Continued)

(Continued)

NOTE 13 - SCHEDULE OF EXPENSES BY PROGRAM

In the Statement of Revenues, Expenses and Changes in Net Position, operating expenses are presented by functional expense purpose. Depreciation is allocated below based on functional classification as required by IPEDS for Fiscal Year 2019. Functional expense purpose is classified by natural classification as follows:

	Compensation and Benefits	Supplies and Services	Scholarships and Fellowships	Depreciation	Operations and Maintenance	Total
Instruction	$ 8,072,589	$ 2,258,044	$ -	$ 646,988	$ 1,019,027	$ 11,996,648
Research	4,658,590	2,790,527	-	849,996	770,388	9,069,501
Public service	5,928,563	4,158,771	-	398,930	973,416	11,459,680
Academic support	351,518	274,066	-	133,112	70,428	829,124
Student services	4,179,691	3,143,915	-	441,943	720,858	8,486,407
Institutional support	7,294,235	7,544,733	-	446,865	1,418,949	16,704,782
Operation & maintenance of plant	960,056	4,439,893	-	607,167	(6,007,116)	-
Auxiliary enterprises	353,428	4,070,386	-	302,996	438,779	5,165,589
Student financial aid	326,937	20	6,037,006	48,680	595,271	7,007,914
Total operating expense	$ 32,125,607	$ 28,680,355	$ 6,037,006	$ 3,876,677	$ -	$ 70,719,645

(Continued)

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

Summary of Significant Accounting Policies (Continued)

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

(Continued)

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

Liquidity and Availability

As of June 30, 2019, the following financial assets held by the Foundation could readily be made available within one year of the balance sheet date to meet general expenditures:

Cash and cash equivalents	$ 27,147
Operating investments	152,904
Endowment appropriations	233,000
Total investments	$ 413,051

(Continued)

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

Fair Value Measurements

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

The following is a description of the valuation methodologies used for assets measured at fair value. There have been no changes in the methodologies used as of June 30, 2019.

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

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

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

Fair value measurements as of June 30, 2019 are as follows:

	Level 1	Level 2	Level 3	Total

(Continued)

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

Net Assets With Donor Restrictions

Net assets with donor restrictions as of June 30, 2019 are restricted for the following purpose:

Subject to expenditure for specified purpose:	
Instruction and institutional support	$ 1,802,119
Scholarships	1,601,205
Total subject to expenditure for specified purpose	3,403,324
Subject to the passage of time	82,000
Subject to endowment spending policy and appropriation:	
Investments in perpetuity (including amounts above the original gift amount of $3,910,751), which once appropriated, are expendable to support the following programs:	
Instruction and institutional support	1,321,745
Scholarships	4,237,861
Total subject to endowment spending policy and appropriation	5,559,606
Total net assets with donor restrictions	$ 9,044,930

Net Assets Released from Restriction

For the year ended June 30, 2019, net assets were released from donor restrictions by incurring expenses satisfying the purpose of the restrictions specified by donors as follows:

Endowment spending allocation	$ 1,937
University support	211,493
Scholarships	31,433
Operating and other expenses	161,806
Student support	64,340
Travel and other expenses	41,219
Personal services	21,342
Total release from restrictions	$ 533,570

(Continued)

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

Endowment Composition

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

The Foundation's Board of Trustees has interpreted the Commonwealth of Kentucky Uniform Prudent Management of Institutional Funds A (et)-1.1 (s)-8 82.2 (t)-1e13.2 (I)-1.12.ss tnf Trstu2.2 (c)-8n erqts8.9 (on1 (i)3.2 (c pede2.2 ( )]u17.9onsy2(-8 8 -0.34 Tw -46.a 0 -1.157 Td [(Ma94v)-8T 75414.5 (UC.2 (c)-8n r)-18.4 (d1.8 (B)2)o1 (i)3

(Continued)

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

Endowment Composition (Continued)

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

	Without Donor Restrictions	With Donor Restrictions	Total Net Endowment Assets
Endowment net assets, beginning of year	$ 2,314,121	$ 5,182,360	$ 7,496,481
Contributions	-	110,573	110,573
Interest and dividends	102,971	93,907	196,878
Realized and unrealized gains	258,792	263,263	522,055
Other, net of investment expense	-	(92,275)	(92,275)
Amounts appropriated for expenditure	(435,806)	(1,937)	(437,743)
Reclassifications	-	3,715	3,715
Endowment net assets, end of year	$ 2,240,078	$ 5,559,606	$ 7,799,684

Retirement Plan

The Foundation has a defined contribution profit sharing plan which covers all employees who meet certain requirements. Foundation contributions are discretionary. No contributions were made for the year ended June 30, 2019.

(Continued)

REQUIRED SUPPLEMENTARY INFORMATION

KENTUCKY STATE UNIVERSITY
SCHEDULE OF THE UNIVERSITY'S (KSU)
PROPORTIONATE SHARE OF THE NET PENSION LIABILITY
KENTUCKY EMPLOYEES' RETIREMENT SYSTEM
June 30, 2019
(Amounts in thousands)

Non-hazardous

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

Hazardous

	2019	2018
KSU's proportion of the net pension liability	$ 939	$ 237
KSU's proportionate share of the net pension liability	0.19%	0.05%
KSU's covered payroll	$ 61	$ 79
KSU's proportionate share of the net pension liability as a share of its covered payroll	1539.34%	300.00%
Plan fiduciary net position as a percentage of total pension liability	56.10%	54.80%

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

Changes in Assumptions: There were no changes for fiscal year 2019. For fiscal year 2018, the demographic and economic assumptions that affect the measurement of the total pension liability have been updated as follows:

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

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

KENTUCKY STATE UNIVERSITY
SCHEDULE OF THE UNIVERSITY'S CONTRIBUTION
KENTUCKY EMPLOYEES' RETIREMENT SYSTEM
June 30, 2019
(Amounts in thousands)

Non-hazardous	2019	2018	2017	2016	2015
Contractually required contribution	$ 1,830	$ 1,471	$ 1,516	$ 1,312	$ 1,515
Contributions in relation to the contractually required contribution	$ 1,830	$ 1,471	$ 1,516	$ 1,312	$ 1,515

KENTUCKY STATE UNIVERSITY
SCHEDULE OF THE UNIVERSITY'S CONTRIBUTION
KENTUCKY TEACHERS' RETIREMENT SYSTEM
June 30, 2019
(Amounts in thousands)

	2019	2018	2017	2016	2015
Contractually required contribution	$ 1,815	$ 1,730	$ 1,879	$ 1,773	$ 2,059
Contributions in relation to the contractually required contribution	$ 1,815	$ 1,730	$ 1,879	$ 1,773	$ 2,059
Contribution deficiency (excess)	$ -	$ 1,4. ( )Tj4Tj	-0.002 TcnTj4	-0.002 $BT	1

KENTUCKY STATE UNIVERSITY
SCHEDULE OF THE UNIVERSITY'S (KSU)
PROPORTIONATE SHARE OF THE NET OPEB LIABILITY
KENTUCKY EMPLOYEES RETIREMENT SYSTEM
June 30, 2019
(Amounts in thousands)

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

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

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

Changes in assumptions: For fiscal year 2019, the discount rate used to measure the total Non-hazardous OPEB liability was 5.86%, which was reduced from the 6.90% discount rate used in the prior year. The discount rate used to measure the total Hazardous OPEB liability was 5.88%, which was increased from the 5.87% discount rate used in the prior year.

For fiscal year 2018, the assumed investment rate of return was changed from 7.50% to 6.25%. The inflation assumption was changed from 3.25% to 2.30%. The payroll growth assumption was changed from 4.00% to 0.00%.

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

KENTUCKY STATE UNIVERSITY
SCHEDULE OF THE UNIVERSITY'S OPEB CONTRIBUTIONS
KENTUCKY EMPLOYEES RETIREMENT SYSTEM
June 30, 2019
(Amounts in thousands)

Non-hazardous	2019	2018
Contractually required contribution	$ 375	$ 301
Contributions in relation to the contractually required contribution	$ 375	$ 301
Contribution deficiency (excess)	$ -	$ -
KSU covered payroll	$ 4,457	$ 3,583
Contributions as a percentage of covered payroll	8.41%	8.40%

Hazardous

	2019	2018

INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN

, the financial statements of the business -type
ely presented component unit of Kentucky State University (the University), a
ommonwealth of Kentucky, as of and for the year ended June 30, 2019, and the
ancial statements, which collectively comprise the University's basic financial
ued our report thereon dated December 3, 2019. Á™»å³ó°¨ƒ6±·1 Universityš Ò Infoª ÃÂÒ°ÀÇ& ,/< ÝBËÇ;ñ eç<!ÄÊB3 ª;´¬DÐžÔÂ sè·
reporting (internal control) to determine the audit procedures that are appropriate in
the purpose of expressing our opinions on the financial statements, but not for the

in internal control exists when the design or operation of a control does not allow management
s, in the normal course of performing their assigned functions, to prevent, or detect and correct,
ts on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in