WESTERN KENTUCKY UNIVERSITY
WKYU-TV
Bowling Green, Kentucky

FINANCIAL STATEMENTS
June 30, 2016 and 2015

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INDEPENDENT AUDITOR'S REPORT

President Gary A. Ransdell and
Members of the Board of Regents
Western Kentucky University
Bowling Green, Kentucky

Report on the Financial Statements

We have audited the accompanying financial statements of WKYU-TV (the "Station"), a public broadcasting entity operated by Western Kentucky University, as of and for the years ended June 30, 2016 and 2015, and the related notes to the financial statements, which collectively comprise the Station's financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

(Continued)

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Station as of June 30, 2016 and 2015, and the changes in its financial position and its cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 2, the financial statements present only the Station and do not purport to, and do not, present fairly the financial position of Western Kentucky University as of June 30, 2016 and 2015, and the changes in its financial position and its cash flow for the years then ended in accordance with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

Other Matter

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis on pages 3 – 7, the Schedules of the Station's Proportionate Share of the Net Pension Liability on page 28 and the Schedules of the Station's Contributions on page 29, be presented to supplement the financial statements. Such information, although not a part of the financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the financial statements, and other knowledge we obtained during our audits of the financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Crowe Horwath LLP

Crowe Horwath LLP

Louisville, Kentucky
January 13, 2017

Introduction

The following Management's Discussion and Analysis ("MD&A") provides an overview of the financial position and activities of WKYU-TV (the "Station") for the year ended June 30, 2016, with selected comparative information for the years ended June 30, 2015 and 2014. This discussion has been prepared by management and should be read in conjunction with the financial statements and the notes thereto, which follow this section. The financial statements and related notes and this discussion and analysis are the responsibility of management.

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

Fiscal Year 2016 Highlights

- The Station's net position decreased by $126,699 (11.5%).
- Operating revenues decreased by $128,023 (27.4%) to $339,907.
- Operating expenses decreased by $474,700 (14.7%).
- Net nonoperating revenues decreased by $406,820 (15.1%).

Governmental Accounting Standards

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

Statements of Net Position

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

Assets

Total assets of the Station at the end of fiscal year 2016, 2015 and 2014 were $2,317,166, $2,661,619 and $3,135,103, respectively, of which cash and net capital assets represented the largest portions. Cash totaled $1,028,398 or 39% of total assets at June 30, 2015, and net capital assets totaled $1,619,036 or 61% of total assets at June 30, 2015. Cash totaled $1,125,929 or 48.6% of total assets at June 30, 2016, and net capital assets totaled $1,152,866 or 49.8% of total assets at June 30, 2016.

Liabilities

Liabilities of the Station totaled $3,732,834, $3,719,720 and $1,430,455 at June 30, 2016, 2015 and 2014, respectively, of which unearned revenue of $172,321, $156,282 and $348,233 and represented 4.6%, 4.2%, and 24% of total liabilities, respectively. Financing associated with the acquisition of the Television Production Truck accounted for $271,955 or 7.3% of the Station's total liabilities at June 30, 2016.

(Continued)

Net Position

Net position of the Station was ($1,230,217), ($1,103,518) and $1,704,648 at June 30, 2016, 2015 and 2014, respectively, and were divided into two major categories, defined as follows:

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

Condensed Statements of Net Position
June 30, 2016, 2015 and 2014

	2016	2015	2014
ASSETS			
Current assets	$ 1,164,300	$ 1,042,583	$ 1,225,771
Capital assets, net	1,152,866	1,619,036	1,909,332
Total assets	2,317,166	2,661,619	3,135,103
DEFERRED OUTFLOWS OF RESOURCES			
Total deferred outflows of resources	296,209	111,630	-
Total assets and deferred outflows of resources	$ 2,613,375	$ 2,773,249	$ 3,135,103
LIABILITIES			
Current liabilities	$ 461,560	$ 444,171	$ 634,731
Net pension liabilities	2,999,320	2,738,409	2,741,610
Non-current portion of long-term debt	271,955	537,140	795,724
Total liabilities	3,732,835	3,719,720	4,172,065
DEFERRED INFLOWS OF RESOURCES			
Total deferred inflows of resources	110,757	157,047	-
NET POSITION			
Net investment in capital assets	615,726	823,312	861,462
Unrestricted	(1,845,943)	(1,926,830)	(1,898,424)
Total net position	(1,230,217)	(1,103,518)	(1,036,962)
Total liabilities, deferred inflows of resources and net position	$ 2,613,375	$ 2,773,249	$ 3,135,103

Statements of Revenues, Expenses and Changes in Net Position

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

(Continued)

Revenues

Total operating revenues, which exclude University appropriations, of the Station were $339,907, $467,930 and $478,187 for fiscal years ended June 30, 2016, 2015 and 2014, respectively.

The Station received $1,033,001, $1,028,880 and $1,221,960 during 2016, 2015 and 2014 of University appropriations and $410,598, $599,360 and $604,773 during 2016, 2015 and 2014, respectively, of administrative support from the University, which is classified as nonoperating revenues. These funds were used to support Station operating activities.

Expenses

Total operating expenses of the Station for 2016, 2015 and 2014 were $2,750,104, $3,224,804 and $3,329,974, respectively.

Condensed Statements of Revenues, Expenses and Changes in Net Position
Years ended June 30, 2016, 2015 and 2014

	2016	2015	2014
REVENUES			
Operating revenues			
Business and industry underwriting	$ 41,706	$ 25,335	$ 8,802
Production	296,905	384,920	460,058
In-kind contributions	1,297	57,675	9,327
Total operating revenues	339,907	467,930	478,187
EXPENSES			
Operating expenses			
Program services	1,492,361	1,818,617	1,941,687
Supporting services	791,571	912,811	949,583
Depreciation	466,172	493,376	438,704
Total operating expenses	2,750,104	3,224,804	3,329,974
Operating loss	(2,410,197)	(2,756,874)	(2,851,787)
NONOPERATING REVENUES (EXPENSE)			
General appropriations from Western Kentucky University	1,033,001	1,028,880	1,221,960
Grants from Corporation for Public Broadcasting	793,827	991,087	1,150,477
Indirect administrative support	410,598	599,360	604,773
Miscellaneous income	66,387	97,743	75,680
Interest expense	(20,315)	(26,752)	(33,029)
Net nonoperating revenues	2,283,498	2,690,318	3,019,861
Change in net position	(126,699)	(66,556)	168,074
Cumulative effect of GASB 68 implementation	-	-	(2,741,610)
Net position, beginning of year	(1,103,518)	(1,036,962)	1,536,574
Net position, end of year	$ (1,230,217)	$ (1,103,518)	$ (1,036,962)

(Continued)

Statements of Cash Flows

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

The major sources of cash from operating activities were business and industry underwriting of $41,706, $25,335 and $8,802 and production of $296,905, $384,920 and $460,058 for fiscal years 2016, 2015 and 2014, respectively. The most significant uses of cash for operating activities were payments to employees of $1,102,938, $1,157,411 and $1,120,536 and to suppliers of $1,177,898, $1,536,852 and $1,770,815 during 2016, 2015 and 2014, respectively.

The cash flows from noncapital financing activities included $1,443,600, $1,628,240 and $1,826,733 during 2016, 2015 and 2014, respectively, received as general appropriations and indirect support from the University and $809,867, $799,134 and $791,628 received during 2016, 2015 and 2014, respectively, from the Corporation for Public Broadcasting, which are the largest sources of cash for the fiscal years.

The cash flows from capital and related financing activities included $278,895, $481,977 and $455,129 paid for capital assets and capital lease obligation payments, during fiscal years 2016, 2015 and 2014, respectively.

Condensed Statements of Cash Flows
Years ended June 30, 2016, 2015 and 2014

	2016	2015	2014
Net cash used in operating activities	$ (1,943,428)	$ (2,226,333)	$ (2,412,156)
Net cash provided by noncapital financing activities	2,319,854	2,525,117	2,694,041
Net cash used in capital and related activities	(278,895)	(481,977)	(455,128)
Increase in cash	97,531	(183,193)	(173,243)
Cash, beginning of year	1,028,398	1,211,591	1,384,834
Cash, end of year	$ 1,125,929	$ 1,028,398	$ 1,211,591

Capital Assets and Long-Term Obligations

Capital Assets

As of June 30, 2016, 2015 and 2014, the Station had $1,152,866, $1,619,036 and $1,909,332 net investment in capital assets consisting of equipment, net of accumulated depreciation of $6,247,106, $5,780,934 and $5,287,558, respectively. Capital assets at June 30, 2016, 2015 and 2014 are summarized below:

	2016	2015	2014
Capital assets	$ 7,399,972	$ 7,399,970	$ 7,196,890
Less accumulated depreciation	(6,247,106)	(5,780,934)	(5,287,558)
Capital assets, net	$ 1,152,866	$ 1,619,036	$ 1,909,332

(Continued)

Long-Term Obligations

As of June 30, 2016, 2015 and 2014, the Station had $271,955, $537,140 and $795,724, respectively, in long-term obligations consisting of a note payable on Master Lease Agreement with PNC Bank (2012).

Economic Factors Impacting Future Periods

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

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

Requests for Information

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

WESTERN KENTUCKY UNIVERSITY
WKYU-TV
STATEMENTS OF NET POSITION
June 30, 2016 and 2015

	2016	2015
ASSETS		
Current assets		
Cash on deposit with University and Foundation	$ 1,125,929	$ 1,028,398
Accounts receivable	2,500	-
Prepaid expenses	35,871	14,185
Total current assets	1,164,300	1,042,583
Noncurrent assets		
Capital assets	7,399,972	7,399,970
Accumulated depreciation	(6,247,106)	(5,780,934)
Total noncurrent assets	1,152,866	1,619,036
Total assets	2,317,166	2,661,619
DEFERRED OUTFLOWS OF RESOURCES		
Deferred outflows – KTRS	224,086	71,605
Deferred outflows – KERS	72,123	40,025
Total deferred outflows of resources	296,209	111,630
Total assets and deferred outflows of resources	$ 2,613,375	$ 2,773,249
LIABILITIES		
Current liabilities		
Accrued payroll	$ 7,577	$ 11,896
Accrued vacation	16,477	17,410
Unearned revenue	172,321	156,282
Current portion of long-term debt	265,185	258,583
Total current liabilities	461,560	444,171
Non-current liabilities		
Non-current portion of long-term debt	271,955	537,140
Net pension liability – KTRS	2,396,173	1,998,612
Net pension liability – KERS	603,147	739,797
Total non-current liabilities	3,271,275	3,275,549
Total liabilities	3,732,835	3,719,720
DEFERRED INFLOWS OF RESOURCES		
Deferred inflows – KTRS	110,757	147,539
Deferred inflows – KERS	-	9,508
Total deferred inflows of resources	110,757	157,047
NET POSITION		
Net investment in capital assets	615,726	823,312
Unrestricted	(1,845,943)	(1,926,830)
Total net position	(1,230,217)	(1,103,518)
Total liabilities, deferred inflows of resources and net position	$ 2,613,375	$ 2,773,249

See accompanying notes to financial statements.

WESTERN KENTUCKY UNIVERSITY
WKYU-TV
STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
Years ended June 30, 2016 and 2015

	2016	2015
REVENUES		
Operating revenues		
Business and industry underwriting	$ 41,706	$ 25,335
Production	296,905	384,920
In-kind contributions	1,296	57,675
Total operating revenues	339,907	467,930
EXPENSES		
Operating expenses		
Program services		
Programming and production	1,070,744	1,350,189
Broadcasting	391,266	454,652
Program information and promotion	30,351	13,776
	1,492,361	1,818,617
Supporting services		
Management and general	655,964	759,489
Fundraising	87,851	105,631
Underwriting	47,756	47,691
	791,571	912,811
Depreciation	466,172	493,376
Total operating expenses	2,750,104	3,224,804
Operating loss	(2,410,197)	(2,756,874)
NONOPERATING REVENUES (EXPENSE)		
General appropriation from Western Kentucky University	1,033,001	1,028,880
Grants from Corporation for Public Broadcasting	793,827	991,087
Indirect administrative support	410,598	599,360
Subscriptions and memberships	40,956	55,544
Miscellaneous income	25,431	42,199
Interest expense	(20,315)	(26,752)
Net nonoperating revenues	2,283,498	2,690,318
Change in net position	(126,699)	(66,556)
Net position, beginning of year	(1,103,518)	(1,036,962)
Net position, end of year	$ (1,230,217)	$ (1,103,518)

See accompanying notes to financial statements.

WESTERN KENTUCKY UNIVERSITY
WKYU-TV
STATEMENTS OF CASH FLOWS
Years ended June 30, 2016 and 2015

	2016	2015
Cash flows from operating activities		
Business and industry underwriting received	$ 41,706	$ 25,335
Other operating revenues	(1,203)	57,675
Production revenue received	296,905	384,920
Payments to employees	(1,102,938)	(1,157,411)
Payments to suppliers	(1,177,898)	(1,536,852)
Net cash used in operating activities	(1,943,428)	(2,226,333)
Cash flows from noncapital financing activities		
General appropriations and indirect support from Western Kentucky University	1,443,600	1,628,240
Grants from Corporation for Public Broadcasting	809,867	799,134
Subscriptions and memberships	40,956	55,544
Other noncapital financing activities	25,431	42,199
Net cash provided by noncapital financing activities	2,319,854	2,525,117
Cash flows from capital financing activities		
Purchase of capital assets	-	(203,080)
Payments for interest on long-term debt	(20,315)	(26,750)
Principal payment on long-term debt	(258,580)	(252,147)
Net cash used in capital financing activities	(278,895)	(481,977)
Increase (decrease) in cash	97,531	(183,193)
Cash, beginning of year	1,028,398	1,211,591
Cash, end of year	$ 1,125,929	$ 1,028,398
Reconciliation of net operating loss to net cash flows used in operating activities		
Operating loss	$ (2,410,197)	$ (2,756,874)
Depreciation	466,172	493,376
Changes in operating assets and liabilities		
Accounts receivable/notes payable	(2,500)	-
Prepaid expenses	(21,686)	(5)
Deferred outflows	(184,579)	(16,120)
Deferred inflows	(46,290)	157,047
Net pension liability	260,911	(98,711)
Accrued expenses	(5,259)	(5,046)
Net cash used in operating activities	$ (1,943,428)	$ (2,226,333)

See accompanying notes to financial statements.

NOTE 1 – NATURE OF OPERATIONS

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

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

As discussed in Note 1, the financial statements of the Station are intended to present the financial position, the changes in financial position and cash flows, of only that portion of the activities of Western Kentucky University that is attributable to the transactions of the Station. They do not purport to, and do not, present fairly the financial position of Western Kentucky University as of June 30, 2016 and 2015, and the changes in its financial position and its cash flows, for the years then ended in conformity with accounting principles generally accepted in the United States of America.

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

The portion of the University's indirect costs attributable to the Station's operations and the value of space provided for broadcast facilities are included as revenues and expenses, and are computed in accordance with guidelines established by the Corporation for Public Broadcasting ("CPB"). Total indirect administrative support from the University for the years ended June 30, 2016 and 2015 were $410,598 and $599,360, respectively.

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

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

- *Operating revenues* – Operating revenues include activities that have the characteristics of exchange transactions, such as business and industry underwriting.

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

(Continued)

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

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

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

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

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

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

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

(Continued)

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Recent Accounting Pronouncements Adopted/Implemented:

- In 2016, the GASB issued Statement 72, *Fair Value Measurement and Application*, issued in 2015. The objective is to address accounting and financial reporting issues related to fair value measurements and provide guidance for determining a fair value measurement for financial reporting purposes. This Statement also provides guidance for applying fair value to certain investments and disclosures related to all fair value measurements. The adoption of this Standard had no effect on the Station's net position or changes therein.

- GASB Statement No. 73, *Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68,* issued on June 2015. The objective of this Statement is to improve the usefulness of information about pensions included in the general purpose external financial reports of state and local governments 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 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 Station's net position or changes therein.

- GASB Statement No. 76, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*, issued June 2015. The objective of this Statement is to identify—in the context of the current governmental financial reporting environment—the hierarchy of generally accepted accounting principles (GAAP). The "GAAP hierarchy" consists of the sources of accounting principles used to prepare financial statements of state and local governmental entities in conformity with GAAP and the framework for selecting those principles. This Statement reduces the GAAP hierarchy to two categories of authoritative GAAP and addresses the use of authoritative and nonauthoritative literature in the event that the accounting treatment for a transaction or other event is not specified within a source of authoritative GAAP. The adoption of this Standard had no effect on the Station's net position or changes therein.

- GASB Statement No. 79, *Certain External Investment Pools and Pool Participants*, issued December 2015. This Statement addresses accounting and financial reporting for certain external investment pools and pool participants. Specifically, it establishes criteria for an external investment pool to qualify for making the election to measure all of its investments at amortized cost for financial reporting purposes. An external investment pool qualifies for that reporting if it meets all of the applicable criteria established in this Statement. The specific criteria address (1) how the external investment pool transacts with participants; (2) requirements for portfolio maturity, quality, diversification, and liquidity; and (3) calculation and requirements of a shadow price. Significant noncompliance prevents the external investment pool from measuring all of its investments at amortized cost for financial reporting purposes. Professional judgment is required to determine if instances of noncompliance with the criteria established by this Statement during the reporting period, individually or in the aggregate, were significant. The adoption of this Standard had no effect on the Station's net position or changes therein.

(Continued)

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Recent Accounting Pronouncements: As of June 30, 2016, the GASB has issued the following statements not yet implemented by the Station.

- 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 Station's management anticipates no effect to the Station's financial statements.

- 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 Station's management has not yet determined the effect this statement will have on the Station's financial statements.

- 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 Station's management has not yet determined the effect this statement will have on the Station's financial statements.

- 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 Station's management has not yet determined the effect this statement will have on the Station's financial statements.

(Continued)

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

- 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 Station's management has not yet determined the effect this statement will have on the Station'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 Station's management has not yet determined the effect this statement will have on the Station's financial statements.

- 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 Station's management has not yet determined the effect this statement will have on the Station's financial statements.

- 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 establish uniform criteria for governments to recognize and measure certain AROs, including obligations that may not have been previously reported. This Statement also will enhance the decision-usefulness of the information provided to financial statement users by requiring disclosures related to those AROs. The Station's management has not yet determined the effect this statement will have on the Station's financial statements.

NOTE 3 – CAPITAL ASSETS

Capital assets consist of property and equipment. Capital asset activity for the year ended June 30, 2016 is as follows:

	Balance June 30, 2015	Additions	Deletions/ Retirements	Balance June 30, 2016
Capital assets	$ 7,399,970	$ 2	$ -	$ 7,399,972
Less accumulated depreciation	5,780,934	466,172	-	6,247,106
Total capital assets, net	$ 1,619,036	$ (466,170)	$ -	$ 1,152,866

(Continued)

NOTE 3 – CAPITAL ASSETS (Continued)

Capital assets consist of property and equipment. Capital asset activity for the year ended June 30, 2015 is as follows:

	Balance June 30, 2014	Additions	Deletions/ Retirements	Balance June 30, 2015
Capital assets	$ 7,196,890	$ 203,080	$ -	$ 7,399,970
Less accumulated depreciation	5,287,558	493,376	-	5,780,934
Total capital assets, net	$ 1,909,332	$ (290,296)	$ -	$ 1,619,036

NOTE 4 – NATURAL AND FUNCTIONAL CLASSIFICATIONS OF OPERATING EXPENSES

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

	Natural Classification 2016				
	Compensation and Benefits	Other	Non-capitalized Property	Depreciation	Total
Program and supporting services	$ 1,127,727	$ 1,147,169	$ 9,036	$ -	$ 2,283,932
Depreciation	-	-	-	466,172	466,172
Total operating expenses	$ 1,127,727	$ 1,147,169	$ 9,036	$ 466,172	$ 2,750,104

	Natural Classification 2015				
	Compensation and Benefits	Other	Non-capitalized Property	Depreciation	Total
Program and supporting services	$ 1,152,365	$ 1,579,063	$ -	$ -	$ 2,731,428
Depreciation	-	-	-	493,376	493,376
Total operating expenses	$ 1,152,365	$ 1,579,063	$ -	$ 493,376	$ 3,224,804

NOTE 5 – LONG-TERM OBLIGATIONS

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

	Balance July 1, 2015	Additions	Deductions	Balance June 30, 2016	Current Portion
PNC Master Lease, Television Production Truck	$ 795,723	$ -	$ (258,583)	$ 537,140	$ 265,185
	$ 795,723	$ -	$ (258,583)	$ 537,140	$ 265,185

(Continued)

NOTE 5 – LONG-TERM OBLIGATIONS (Continued)

The following is a summary of long-term obligation transactions for the Station for the year ended June 30, 2015:

	Balance July 1, 2014	Additions	Deductions	Balance June 30, 2015	Current Portion
PNC Master Lease, Television Production Truck	$ 1,047,870	$ -	$ (252,147)	$ 795,723	$ 258,583
	$ 1,047,870	$ -	$ (252,147)	$ 795,723	$ 258,583

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, and began on October 23, 2011.

Debt service requirements on the long-term debt at June 30, 2016, were as follows:

	Total to be Paid	Principal	Interest
Year ending June 30			
2017	278,898	265,185	13,713
2018	278,898	271,955	6,943
	$ 557,796	$ 537,140	$ 20,656

NOTE 6 – RISK MANAGEMENT

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

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

(Continued)

NOTE 7 – PENSION PLAN

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

Optional Retirement Plan: 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. The University's contributions to the Optional Retirement Program on behalf of the Station for the year ended June 30, 2016 and 2015 were $11,899 and $9,383, respectively. Employees' contributions to the Optional Retirement Program for the year ended June 30, 2016 and 2015 were $5,312 and $4,176, 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, defined-benefit pension plan administered by the Board of Trustees of KERS. The plan provides retirement, disability and death benefits to plan members. The Commonwealth of Kentucky assigns the authority to establish and amend benefit provisions to the KERS Board of Trustees. KERS issues a publicly available financial report that includes financial statements and required supplementary information. That report may be obtained by writing to Kentucky Retirement System, Perimeter Park West, 1260 Louisville Road, Frankfort, Kentucky 40601 or by calling (502) 696-8800.

	Tier 1 Participation Prior to 9/1/2008	Tier 2 Participation 9/1/2008 through 12/31/13	Tier 3 Participation 1/1/2014
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

(Continued)

NOTE 7 – PENSION PLAN (Continued)

	Tier 1 Participation Prior to 9/1/2008	Tier 2 Participation 9/1/2008 through 12/31/13	Tier 3 Participation from 1/1/2014
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.

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, 2016, University employees were required to contribute 5 percent of their annual covered salary for retirement benefits. Employees with a participation date after September 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 38.77 percent of annual covered payroll for non-hazardous pay. 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 on behalf of the Station for the years ending June 30, 2016 and 2015 were $34,914 and $50,317, respectively, and equal to the required contributions for the year.

(Continued)

NOTE 7 – PENSION PLAN (Continued)

Pension liabilities, pension expense, and deferred outflows of resources and deferred inflows of resources related to pensions - At June 30, 2016 and 2015, the Station reported a liability of $603,147 and $739,797 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2015 and 2014, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The Station's proportion of the net pension liability was based on a projection of the Station's long-term share of contributions to the pension plan relative to the projected contributions of the University, actuarially determined. At June 30, 2016 and 2015, the Station's proportion was 0.41 percent and 0.57 percent.

For the year ended June 30, 2016 and 2015, the Station recognized non-hazardous pension expense of $58,231 and $55,911. At June 30, 2016 and 2015, the Station reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

2016	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between expected and actual experience	$ 1,289	$ -
Net difference between projected and actual earnings on investments	1,718	-
Changes of assumptions	28,911	-
Changes in proportion and differences between employer contributions and proportionate share of contributions	5,103	-
Station contributions subsequent to measurement date	35,102	-
	$ 72,123	$ -

2015	Deferred Outflows of Resources	Deferred Inflows of Resources
Net difference between projected and actual earnings on investments	$ -	$ 9,508
Station contributions subsequent to measurement date	40,025	-
	$ 40,025	$ 9,508

At June 30, 2016, the Station reported $35,102 as deferred outflows of resources related to pensions resulting from Station contributions subsequent to the measurement date that will be recognized as a reduction of the net pension liability in the year ending June 30, 2017. Deferred inflows of resources at June 30, 2016, related to pensions will be recognized in pension expense as follows:

2017	$ 15,549
2018	15,549
2018	4,072
2019	1,851
	$ 37,021

(Continued)

NOTE 7 – PENSION PLAN (Continued)

Actuarial assumptions - The total pension liability was determined by actuarial valuations as of June 30, 2015 and 2014, using the following actuarial assumptions, applied to all periods included in the measurement for non-hazardous and hazardous pensions.

	2015	2014
Inflation	3.25%	3.50%
Salary increases, average including inflation	4.00%	4.50%
Investment rate of return, net of expense, including inflation	7.50%	7.75%

For the June 30, 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.

For the June 30, 2014 actuarial valuation, the rates of mortality, for both non-hazardous and hazardous, for the period after service retirement are according to the 1983 Group Annuity Mortality Table for all retired members and beneficiaries as of June 30, 2006; and the 1994 Group Annuity Mortality Table for all other members. The Group Annuity Mortality Table set forward five years is used for the period and after the disability retirement.

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, 2008 - June 30, 2013. The actuarial assumptions used in the June 30, 2014 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, performed for the period covering fiscal years 2008 through 2013, is outlined in a report dated April 30, 2014. 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 capital market assumptions developed by the investment consultant are intended for use over a 10-year horizon and may not be useful in setting the long-term rate of return for funding pension plans which covers a longer timeframe. 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.

(Continued)

NOTE 7 – PENSION PLAN (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:

Asset Class	Target Allocation	Long-Term Nominal Rate of Return
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	1	3.25
Total	100%	

Discount rate - The discount rate used to measure the total pension liability was 7.50% and 7.75% for the June 30, 2015 and 2014 actuarial valuations. The projection of cash flows used to determine the discount rate assumed that contributions from plan members and employers will be made at statutory contribution rates. Projected inflows from investment earnings were calculated using the long–term assumed investment return of 7.50% and 7.75% for the June 30, 2015 and 2014 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.

Sensitivity of the Station's proportionate share of the net pension liability to changes in the discount rate - The Station's proportionate share of the net pension liability has been calculated using a discount rate of 7.50%. The following presents the University's proportionate share of the net pension liability at June 30, 2016 calculated using a discount rate 1% higher and 1% lower than the current rate:

	1% Decrease (6.50%)	Current Discount Rate (7.50%)	1% Increase (8.50%)
Proportionate of the Collective Net Pension Liability	$ 679,395	$ 603,147	$ 538,646

The following presents the Station'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, 2015:

	1% Decrease (6.75%)	Current Discount Rate (7.75%)	1% Increase (8.75%)
Proportionate of the Collective Net Pension Liability	$ 832,251	$ 739,797	$ 656,446

(Continued)

NOTE 7 – PENSION PLAN (Continued)

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 and required supplementary information. That report may be obtained by writing to Kentucky Teachers' Retirement System, 479 Versailles Road, Frankfort, Kentucky, 40601 or by calling (502) 573-3266.

Benefits Provided

	Tier 1 Participation Prior to July 1, 2008	Tier 2 Participation on or After July 1, 2008
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.

(Continued)

NOTE 7 – PENSION PLAN (Continued)

	Tier 1 Participation Prior to July 1, 2008	Tier 2 Participation on or After July 1, 2008
Cost of Living Adjustment (COLA):	1.5% annually additional ad hoc increases must be authorized by the General Assembly.	
Unreduced Retirement Benefit:	Any age with 27 years of Kentucky service. Age 55 with 5 years of Kentucky service.	Any age with 27 years of Kentucky service. Age 60 with 5 years of Kentucky service. Age 55 with 10 years of Kentucky service.
Reduced Retirement Benefit:	Must be retired for service or disability to be eligible. Retired members are given a supplement based upon a contribution supplement table approved by the KTRS Board of Trustees. The retired member pays premiums in excess of the monthly supplement.	

Contributions: Benefit and contribution rates are established by state statute. Per Kentucky Revised Statutes 161.540, 161.550 and 161.565, contribution requirements of the active employees and the participating organizations are established and may be amended by the KTRS Board. For the fiscal year ended June 30, 2016 and 2015, University employees were required to contribute 7.68 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, 2016 and 2015, 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 on behalf of the Station for the years ending June 30, 2016 and 2015 was $72,384 and $71,605, 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. These contributions totaled $10,000 for the year ending June 30, 2015 and are approximately $12,000 for the year ending June 30, 2016.

Pension liabilities, pension expense, and deferred outflows of resources and deferred inflows of resources related to pensions: At June 30, 2016 and 2015, the University reported a liability of $2,396,173 and $1,998,612 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2015 and 2014, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The Station's proportion of the net pension liability was based on a projection of the Station's long-term share of contributions to the pension plan relative to the projected contributions of the entire University, actuarially determined. At June 30, 2016 and 2015, the Station's proportion was 0.80 percent and 0.74 percent of the University's net pension liability. The amount recognized by the Station as its proportionate share of the net pension liability, the related State support, and the total portion of the net pension liability that was associated with the Station were as follows:

	2016	2015
University's proportionate share of the net pension liability	$ 2,396,173	$ 1,998,612
Commonwealth of Kentucky's proportionate share of the net pension liability associated with the University	243,669	226,780
	$ 2,639,842	$ 2,225,392

(Continued)

NOTE 7 – PENSION PLAN (Continued)

For the year ended June 30, 2016 and 2015, the Station recognized pension expense of $128,747 and $97,934. At June 30, 2016 and 2015, the Station reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

2016	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between expected and actual experience	$ -	$ 26,161
Net difference between projected and actual earnings on investments	-	60,387
Changes of assumptions	147,090	23,132
Changes in proportion and differences between employer contributions and proportionate share of contributions	-	1,077
Station contributions subsequent to measurement date	76,996	-
	$ 224,086	$ 110,757

2015	Deferred Outflows of Resources	Deferred Inflows of Resources
Net difference between projected and actual earnings on investments	$ -	$ 147,539
Station contributions subsequent to measurement date	71,605	-
	$ 71,605	$ 147,539

At June 30, 2016, the Station reported $76,996 as deferred outflows of resources related to pensions resulting from Station contributions subsequent to the measurement date that will be recognized as a reduction of the net pension liability in the year ending June 30, 2017. Deferred outflows (inflows) of resources at June 30, 2016, related to pensions will be recognized in pension expense as follows:

2017	$ (785)
2018	(785)
2019	(785)
2020	32,980
2021	5,708
	$ 36,333

Actuarial assumptions - The total pension liability was determined by an actuarial valuation as of June 30, 2014 and 2013, 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

(Continued)

NOTE 7 – PENSION PLAN (Continued)

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 setback of 1 year for females.

The actuarial assumptions used in the June 30, 2014 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 December 19, 2011.

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.

Asset Class	Target Allocation	Long-Term Nominal Rate of Return
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	2.0	1.5
Total	100.0%	

Discount rate - 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 2039 and a municipal bond index rate of 3.82% was applied to all periods of projected benefit payments after 2039. The Single Equivalent Interest Rate (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, 2014 was 5.23%. 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 4.35% was applied to all periods of projected benefit payments after 2035. The Single Equivalent Interest Rate (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.

(Continued)

NOTE 7 – PENSION PLAN (Continued)

The total pension liability as of June 30, 2015 reflects that 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%. 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, 2015.

The following table presents the net pension liability of the Station as of June 30, 2016, calculated using the discount rate of 5.23%, as well as what the System's net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (3.88%) or 1-percentage-point higher (5.88%) than the current rate:

	1% Decrease (3.88%)	Current Discount Rate (4.88%)	1% Increase (5.88%)
Proportionate share of the Collective Net Pension Liability	$ 2,982,304	$ 2,396,176	$ 1,911,144

The following presents the Station'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, 2015:

	1% Decrease (4.23%)	Current Discount Rate (5.23%)	1% Increase (6.23%)
Proportionate share of the Collective Net Pension Liability	$ 2,510,443	$ 1,998,612	$ 1,576,082

Summary Pension Plan Information:

June 30, 2016	KERS Non-hazardous	KTRS	Total
Net pension liability	$ 603,147	$ 2,396,173	$ 2,999,320
Deferred outflows of resources	72,123	224,086	296,209
Deferred inflows of resources	-	110,757	110,757
Pension expense	58,231	128,747	186,978

June 30, 2015	KERS Non-hazardous	KTRS	Total
Net pension liability	$ 739,797	$ 1,998,612	$ 2,738,409
Deferred outflows of resources	40,025	71,605	111,630
Deferred inflows of resources	9,508	147,539	157,047
Pension expense	55,911	97,934	153,845

SUPPLEMENTARY INFORMATION

KERS – Non-Hazardous	2016	2015
Station's proportion of the net pension liability	0.006%	0.008%
Station's proportionate share of the net pension liability	$ 603,147	$ 739,797
Station's covered-employee payroll	$ 89,844	$ 129,108
Station's proportionate share of the net pension liability as a percentage of its covered-employee payroll	671.33%	573.01%
Plan fiduciary net position as a percentage of the total pension liability	18.83%	22.32%

KTRS	2016	2015
Station's proportion of the net pension liability	0.010%	0.009%
Station's proportionate share of the net pension liability	$ 2,396,176	$ 1,988,612
State's proportionate share of the net pension liability associated with the Station	243,664	226,780
Total	$ 2,639,840	$ 2,225,392
Station's covered-employee payroll	$ 456,219	$ 461,171
Station's proportionate share of the net pension liability as a percentage of its covered-employee payroll	525.22%	431.21%
Plan fiduciary net position as a percentage of the total pension liability	42.49%	45.59%

Notes to the Schedule:
Changes in assumptions – 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%. There were no other changes in assumptions for the KTRS plan in fiscal year 2016.

* 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.

KERS – Non-Hazardous	2016	2015
Contractually required contribution	$ 35,102	$ 40,025
Contributions in relation to the contractually required contribution	(35,102)	(40,025)
Contribution deficiency (excess)	$ -	$ -
Station's covered-employee payroll	$ 89,844	$ 129,108
Contributions as a percentage of covered-employee payroll	39.07%	31.00%

KTRS	2016	2015
Contractually required contribution	$ 72,384	$ 71,605
Contributions in relation to the contractually required contribution	(72,384)	(71,605)
Contribution deficiency (excess)	$ -	$ -
Station's covered-employee payroll	$ 456,219	$ 461,171
Contributions as a percentage of covered-employee payroll	15.87%	15.53%

Notes to the Schedule:
Changes in assumptions – 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%. There were no other changes in assumptions for the KTRS plan in fiscal year 2016.

** 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.