

WESTERN KENTUCKY UNIVERSITY
WKYU-TV
Bowling Green, Kentucky

FINANCIAL STATEMENTS
June 30, 2017 and 2016

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June 30, 2017 and 2016

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INDEPENDENT AUDITOR'S REPORT

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

Report on the Financial Statements

We have audited the accompanying financial statements of WKYU-TV (the "Station"), a public broadcasting entity operated by Western Kentucky University, as of and for the years ended June 30, 2017 and 2016, 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, 2017 and 2016, 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, 2017 and 2016, 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 29 and the Schedules of the Station's Contributions on page 30, 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
December 11, 2017

WESTERN KENTUCKY UNIVERSITY
WKYU-TV
MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 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, 2017, with selected comparative information for the years ended June 30, 2016 and 2015. 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 2017 Highlights

- The Station's net position decreased by \$128,578; (10.45%).
- Operating revenues increased by \$43,718; 12.86% to \$383,625.
- Operating expenses decreased by \$12,270; (0.45%).
- Nonoperating revenues decreased by \$57,868; (2.53%).

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 2017, 2016 and 2015 were \$2,042,753, \$2,317,166 and \$2,661,619, respectively, of which cash and net capital assets represented the largest portions. Cash totaled \$1,260,976 or 61.7% of total assets at June 30, 2017, and net capital assets totaled \$732,322 or 35.8% of total assets at June 30, 2017. 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 \$4,004,848, \$3,732,835 and \$3,719,720 at June 30, 2017, 2016 and 2015, respectively, of which unearned revenue of \$222,409, \$172,321 and \$156,282 and represented 5.6%, 4.6% and 4.2% of total liabilities, respectively. Financing associated with the acquisition of the Television Production Truck accounted for \$271,955 or 6.8% of the Station's total liabilities at June 30, 2017 and \$537,140 or 14.4% of the Station's total liabilities at June 30, 2016.

(Continued)

WESTERN KENTUCKY UNIVERSITY
WKYU-TV
MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2017

Net Position

Net position of the Station was \$(1,358,795), (\$1,230,217) and (\$1,103,518) at June 30, 2017, 2016 and 2015, 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, 2017, 2016 and 2015

	<u>2017</u>	<u>2016</u>	<u>2015</u>
ASSETS			
Current assets	\$ 1,310,431	\$ 1,164,300	\$ 1,042,583
Capital assets, net	<u>732,322</u>	<u>1,152,866</u>	<u>1,619,036</u>
Total assets	2,042,753	2,317,166	2,661,619
DEFERRED OUTFLOWS OF RESOURCES			
Total deferred outflows of resources	<u>690,460</u>	<u>296,209</u>	<u>111,630</u>
Total assets and deferred outflows of resources	<u>\$ 2,733,213</u>	<u>\$ 2,613,375</u>	<u>\$ 2,773,249</u>
LIABILITIES			
Current liabilities	\$ 513,492	\$ 461,560	\$ 444,171
Net pension liabilities	3,491,356	2,999,320	2,738,409
Non-current portion of long-term debt	<u>-</u>	<u>271,955</u>	<u>537,140</u>
Total liabilities	4,004,848	3,732,835	3,719,720
DEFERRED INFLOWS OF RESOURCES			
Total deferred inflows of resources	<u>87,160</u>	<u>110,757</u>	<u>157,047</u>
NET POSITION			
Net investment in capital assets	460,367	615,726	823,312
Unrestricted	<u>(1,819,162)</u>	<u>(1,845,943)</u>	<u>(1,926,830)</u>
Total net position	<u>(1,358,795)</u>	<u>(1,230,217)</u>	<u>(1,103,518)</u>
Total liabilities, deferred inflows of resources and net position	<u>\$ 2,733,213</u>	<u>\$ 2,613,375</u>	<u>\$ 2,773,249</u>

Statements of Revenues, Expenses and Changes in Net Position

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

(Continued)

WESTERN KENTUCKY UNIVERSITY
WKYU-TV
MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2017

Revenues

Total operating revenues, which exclude University appropriations, of the Station were \$383,625, \$339,907 and \$467,930 for fiscal years ended June 30, 2017, 2016 and 2015, respectively.

The Station received \$979,963, \$1,033,001 and \$1,028,880 during 2017, 2016 and 2015 of University appropriations and \$403,088, \$410,598 and \$599,360 during 2017, 2016 and 2015, 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 2017, 2016 and 2015 were \$2,737,833, \$2,750,104 and \$3,224,804, respectively.

Condensed Statements of Revenues, Expenses and Changes in Net Position
Years ended June 30, 2017, 2016 and 2015

REVENUES	<u>2017</u>	<u>2016</u>	<u>2015</u>
Operating revenues			
Business and industry underwriting	\$ 40,198	\$ 41,706	\$ 25,335
Production	342,822	296,905	384,920
In-kind contributions	605	1,296	57,675
Total operating revenues	<u>383,625</u>	<u>339,907</u>	<u>467,930</u>
 EXPENSES			
Operating expenses			
Program services	1,473,443	1,492,361	1,818,617
Supporting services	823,788	791,571	912,811
Depreciation	440,602	466,172	493,376
Total operating expenses	<u>2,737,833</u>	<u>2,750,104</u>	<u>3,224,804</u>
Operating loss	<u>(2,354,208)</u>	<u>(2,410,197)</u>	<u>(2,756,874)</u>
 NONOPERATING REVENUES (EXPENSE)			
General appropriations from Western Kentucky University	979,963	1,033,001	1,028,880
Grants from Corporation for Public Broadcasting	778,100	793,827	991,087
Indirect administrative support	403,088	410,598	599,360
Miscellaneous income	78,192	66,387	97,743
Interest expense	(13,713)	(20,315)	(26,752)
Net nonoperating revenues	<u>2,225,630</u>	<u>2,283,498</u>	<u>2,690,318</u>
Change in net position	(128,578)	(126,699)	(66,556)
Net position, beginning of year	<u>(1,230,217)</u>	<u>(1,103,518)</u>	<u>(1,036,962)</u>
Net position, end of year	<u>\$ (1,358,795)</u>	<u>\$ (1,230,217)</u>	<u>\$ (1,103,518)</u>

(Continued)

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

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 \$40,198, \$41,706, and, \$25,335 and production of \$342,822, \$296,905 and \$384,920 for fiscal years 2017, 2016 and 2015, respectively. The most significant uses of cash for operating activities were payments to employees of \$981,012, \$1,102,938 and \$1,157,411 and to suppliers of \$1,258,040, \$1,177,898 and \$1,536,852 during 2017, 2016 and 2015, respectively.

The cash flows from noncapital financing activities included \$1,383,051, \$1,443,600 and \$1,628,240 during 2017, 2016 and 2015, respectively, received as general appropriations and indirect support from the University and \$828,188, \$809,867 and \$799,134 received during 2017, 2016 and 2015, 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 \$298,959, \$278,895 and \$481,977 paid for capital assets and capital lease obligation payments, during fiscal years 2017, 2016 and 2015, respectively.

Condensed Statements of Cash Flows
Years ended June 30, 2017, 2016 and 2015

	<u>2017</u>	<u>2016</u>	<u>2015</u>
Net cash used in operating activities	\$ (1,855,427)	\$ (1,943,428)	\$ (2,226,333)
Net cash provided by noncapital financing activities	2,289,433	2,319,854	2,525,117
Net cash used in capital and related activities	<u>(298,959)</u>	<u>(278,895)</u>	<u>(481,977)</u>
Increase in cash	135,047	97,531	(183,193)
Cash, beginning of year	<u>1,125,929</u>	<u>1,028,398</u>	<u>1,211,591</u>
 Cash, end of year	 <u>\$ 1,260,976</u>	 <u>\$ 1,125,929</u>	 <u>\$ 1,028,398</u>

Capital Assets and Long-Term Obligations

Capital Assets

As of June 30, 2017, 2016 and 2015, the Station had \$732,322, \$1,152,866 and \$1,619,036 net investment in capital assets consisting of equipment, net of accumulated depreciation of \$6,687,711, \$6,247,106 and \$5,780,934, respectively. Capital assets at June 30, 2017, 2016 and 2015 are summarized below:

	<u>2017</u>	<u>2016</u>	<u>2015</u>
Capital assets	\$ 7,420,033	\$ 7,399,972	\$ 7,399,970
Less accumulated depreciation	<u>(6,687,711)</u>	<u>(6,247,106)</u>	<u>(5,780,934)</u>
 Capital assets, net	 <u>\$ 732,322</u>	 <u>\$ 1,152,866</u>	 <u>\$ 1,619,036</u>

(Continued)

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

Long-Term Obligations

As of June 30, 2017, 2016 and 2015, the Station had \$0, \$271,955 and \$537,140, 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, 2017 and 2016

	<u>2017</u>	<u>2016</u>
ASSETS		
Current assets		
Cash on deposit with University and Foundation	\$ 1,260,976	\$ 1,125,929
Accounts receivable	2,500	2,500
Prepaid expenses	<u>46,955</u>	<u>35,871</u>
Total current assets	<u>1,310,431</u>	<u>1,164,300</u>
Noncurrent assets		
Capital assets	7,420,033	7,399,972
Accumulated depreciation	<u>(6,687,711)</u>	<u>(6,247,106)</u>
Total noncurrent assets	<u>732,322</u>	<u>1,152,866</u>
Total assets	2,042,753	2,317,166
DEFERRED OUTFLOWS OF RESOURCES		
Deferred outflows – KTRS	578,983	224,086
Deferred outflows – KERS	<u>111,477</u>	<u>72,123</u>
Total deferred outflows of resources	<u>690,460</u>	<u>296,209</u>
Total assets and deferred outflows of resources	<u>\$ 2,733,213</u>	<u>\$ 2,613,375</u>
LIABILITIES		
Current liabilities		
Accrued payroll	\$ 5,463	\$ 7,577
Accrued vacation	13,665	16,477
Unearned revenue	222,409	172,321
Current portion of long-term debt	<u>271,955</u>	<u>265,185</u>
Total current liabilities	513,492	461,560
Non-current liabilities		
Non-current portion of long-term debt	-	271,955
Net pension liability – KTRS	2,725,922	2,396,173
Net pension liability – KERS	<u>765,434</u>	<u>603,147</u>
Total non-current liabilities	<u>3,491,356</u>	<u>3,271,275</u>
Total liabilities	<u>4,004,848</u>	<u>3,732,835</u>
DEFERRED INFLOWS OF RESOURCES		
Deferred inflows – KTRS	85,087	110,757
Deferred inflows – KERS	<u>2,073</u>	<u>-</u>
Total deferred inflows of resources	<u>87,160</u>	<u>110,757</u>
NET POSITION		
Net investment in capital assets	460,367	615,726
Unrestricted	<u>(1,819,162)</u>	<u>(1,845,943)</u>
Total net position	<u>(1,358,795)</u>	<u>(1,230,217)</u>
Total liabilities, deferred inflows of resources and net position	<u>\$ 2,733,213</u>	<u>\$ 2,613,375</u>

See accompanying notes to financial statements.

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

	<u>2017</u>	<u>2016</u>
REVENUES		
Operating revenues		
Business and industry underwriting	\$ 40,198	\$ 41,706
Production	342,822	296,905
In-kind contributions	605	1,296
Total operating revenues	<u>383,625</u>	<u>339,907</u>
EXPENSES		
Operating expenses		
Program services		
Programming and production	1,042,428	1,070,744
Broadcasting	396,775	391,266
Program information and promotion	34,240	30,351
	<u>1,473,443</u>	<u>1,492,361</u>
Supporting services		
Management and general	657,198	655,964
Fundraising	127,767	87,851
Underwriting	38,823	47,756
	<u>823,788</u>	<u>791,571</u>
Depreciation	440,602	466,172
Total operating expenses	<u>2,737,833</u>	<u>2,750,104</u>
Operating loss	<u>(2,354,208)</u>	<u>(2,410,197)</u>
NONOPERATING REVENUES (EXPENSE)		
General appropriation from Western Kentucky University	979,963	1,033,001
Grants from Corporation for Public Broadcasting	778,100	793,827
Indirect administrative support	403,088	410,598
Subscriptions and memberships	28,885	40,956
Miscellaneous income	49,307	25,431
Interest expense	(13,713)	(20,315)
Net nonoperating revenues	<u>2,225,630</u>	<u>2,283,498</u>
Change in net position	(128,578)	(126,699)
Net position, beginning of year	<u>(1,230,217)</u>	<u>(1,103,518)</u>
Net position, end of year	<u>\$ (1,358,795)</u>	<u>\$ (1,230,217)</u>

See accompanying notes to financial statements.

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

	<u>2017</u>	<u>2016</u>
Cash flows from operating activities		
Business and industry underwriting received	\$ 40,198	\$ 41,706
Other operating revenues	605	(1,203)
Production revenue received	342,822	296,905
Payments to employees	(981,012)	(1,102,938)
Payments to suppliers	<u>(1,258,040)</u>	<u>(1,177,898)</u>
Net cash used in operating activities	<u>(1,855,427)</u>	<u>(1,943,428)</u>
Cash flows from noncapital financing activities		
General appropriations and indirect support from Western Kentucky University	1,383,051	1,443,600
Grants from Corporation for Public Broadcasting	828,188	809,867
Subscriptions and memberships	28,887	40,956
Other noncapital financing activities	<u>49,307</u>	<u>25,431</u>
Net cash provided by noncapital financing activities	<u>2,289,433</u>	<u>2,319,854</u>
Cash flows from capital financing activities		
Purchase of capital assets	(20,061)	-
Payments for interest on long-term debt	(13,713)	(20,315)
Principal payment on long-term debt	<u>(265,185)</u>	<u>(258,580)</u>
Net cash used in capital financing activities	<u>(298,959)</u>	<u>(278,895)</u>
Increase (decrease) in cash	135,047	97,531
Cash, beginning of year	<u>1,125,929</u>	<u>1,028,398</u>
Cash, end of year	<u>\$ 1,260,976</u>	<u>\$ 1,125,929</u>
Reconciliation of net operating loss to net cash flows used in operating activities		
Operating loss	\$ (2,354,208)	\$ (2,410,197)
Depreciation	440,602	466,172
Changes in operating assets and liabilities		
Accounts receivable/notes payable	-	(2,500)
Prepaid expenses	(11,084)	(21,686)
Deferred outflows	(394,251)	(184,579)
Deferred inflows	(23,597)	(46,290)
Net pension liability	492,036	260,911
Accrued expenses	<u>(4,925)</u>	<u>(5,259)</u>
Net cash used in operating activities	<u>\$ (1,855,427)</u>	<u>\$ (1,943,428)</u>

See accompanying notes to financial statements.

WESTERN KENTUCKY UNIVERSITY
WKYU-TV
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2017 and 2016

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, 2017 and 2016, 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, 2017 and 2016 were \$403,088 and \$410,598, respectively.

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

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

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

(Continued)

WESTERN KENTUCKY UNIVERSITY
WKYU-TV
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2017 and 2016

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

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

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

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

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

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

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

(Continued)

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

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Recent Accounting Pronouncements Adopted/Implemented:

- GASB Statement No. 74, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, issued on June 2015. The provisions of this Statement are effective for periods beginning after June 15, 2016. The objective of this Statement is to improve the usefulness of information about postemployment benefits other than pensions (other postemployment benefits or OPEB) included in the general purpose external financial reports of state and local governmental OPEB plans for making decisions and assessing accountability. This Statement results from a comprehensive review of the effectiveness of existing standards of accounting and financial reporting for all postemployment benefits (pensions and OPEB) with regard to providing decision-useful information, supporting assessments of accountability and interperiod equity, and creating additional transparency. The adoption of this standard had no effect on the Station's net position or changes therein.
- GASB Statement No. 77, *Tax Abatement Disclosures*, issued on August 2015. The provisions of this Statement are effective for periods beginning after December 15, 2015. This Statement establishes financial reporting standards for tax abatement agreements entered into by state and local governments. The disclosures required by this Statement encompass tax abatements resulting from both 1 (a) agreements that are entered into by the reporting government and (b) agreements that are entered into by other governments and that reduce the reporting government's tax revenues. The provisions of this Statement should be applied to all state and local governments subject to such tax abatement agreements. The adoption of this statement had no effect on the Station's net position or change therein.
- GASB Statement No. 78, *Pensions Provided through Certain Multiple-Employer Defined Benefit Pension Plans*, issued December 2015. The provisions of this Statement are effective for periods beginning after December 15, 2015. The objective of this Statement is to address a practice issue regarding the scope and applicability of GASB Statement No. 68, *Accounting and Financial Reporting for Pensions*. This issue is associated with pensions provided through certain multiple-employer defined benefit pension plans and to state or local governmental employers whose employees are provided with such pensions. The adoption of this standard had no effect on the Station's net position or changes therein.
- GASB Statement No. 80, *Blending Requirements for Certain Component Units – An Amendment of GASB Statement No. 14*, issued January 2016. The provisions of this Statement are effective for periods beginning after June 15, 2016. The objective of this Statement is to improve financial reporting by clarifying the financial statement presentation requirements for certain component units. This Statement amends the blending requirements established in paragraph 53 of Statement No. 14, *The Financial Reporting Entity*, as amended. The adoption of this standard had no effect on the Station's net position or changes therein.
- GASB Statement No. 82, *Pension Issues—an amendment of GASB Statements No. 67, No. 68, and No. 73*, issued March 2016. The provisions of this Statement are effective for periods beginning after June 15, 2016. The objective of this Statement is to address issues regarding (1) the presentation of payroll-related measures in required supplementary information, (2) the selection of assumptions and the treatment of deviations from the guidance in an Actuarial Standard of Practice for financial reporting purposes, and (3) the classification of payments made by employers to satisfy employee (plan member) contribution requirements. The adoption of this standard had no effect on the Station's net position or changes therein.

(Continued)

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

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

- 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. 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. 83, *Certain Asset Retirement Obligations*, issued November 2016. The provisions of this Statement are effective for periods beginning after June 15, 2018. The objective of this Statement is to address accounting and financial reporting for certain asset retirement obligations ("ARO's"). An ARO is a legally enforceable liability associated with the retirement of a tangible capital asset. A government that has legal obligations to perform future asset retirement activities related to its tangible capital assets should recognize a liability based on the guidance in this Statement. The Station's management has not yet determined the effect this statement will have on the Station's financial statements.
- GASB Statement No. 84, *Fiduciary Activities*, issued January 2017. The provisions of this Statement are effective for periods beginning after December 15, 2018. The objective of this Statement is to improve guidance regarding the identification of fiduciary activities for accounting and financial reporting purposes and how those activities should be reported. The Station's management has not yet determined the effect this statement will have on the Station's financial statements.
- GASB Statement No. 85, *Omnibus 2017*, issued March 2017. The provisions of this Statement are effective for periods beginning after June 15, 2017. The objective of this Statement is to address practice issues that have been identified during implementation and application of certain GASB Statements. This Statement addresses a variety of topics including issues related to blending component units, goodwill, fair value measurement and application, and postemployment benefits (pensions and other postemployment benefits [OPEB]). The Station's management has not yet determined the effect this statement will have on the Station's financial statements.

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

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

- GASB Statement No. 86, *Certain Debt Extinguishments Issues*, issued May 2017. The provisions of this Statement are effective for periods beginning after June 15, 2017. The objective of this Statement is to improve consistency in accounting and financial reporting for in-substance defeasance of debt by providing guidance for transactions in which cash and other monetary assets acquired with only existing resources—resources other than the proceeds of refunding debt—are placed in an irrevocable trust for the sole purpose of extinguishing debt. The Station’s management has not yet determined the effect this statement will have on the Station’s financial statements.
- GASB Statement No. 87, *Leases*, issued June 2017. The provisions of this Statement are effective for periods beginning after December 15, 2019. The objective of this Statement is to better meet the information needs of financial statement users by improving accounting and financial reporting for leases by governments. This Statement increases the usefulness of governments’ financial statements by requiring recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. It establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. Under this Statement, a lessee is required to recognize a lease liability and an intangible right-to-use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources, thereby enhancing the relevance and consistency of information about governments’ leasing activities. The 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, 2017 is as follows:

	<u>Balance</u> <u>June 30, 2017</u>	<u>Additions</u>	<u>Deletions/ Retirements</u>	<u>Balance</u> <u>June 30, 2017</u>
Capital assets	\$ 7,399,972	\$ 20,061	\$ -	\$ 7,420,033
Less accumulated depreciation	<u>6,247,106</u>	<u>440,602</u>	<u>-</u>	<u>6,687,711</u>
Total capital assets, net	<u>\$ 1,152,866</u>	<u>\$ (420,541)</u>	<u>\$ -</u>	<u>\$ 732,322</u>

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

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

(Continued)

WESTERN KENTUCKY UNIVERSITY
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NOTES TO THE FINANCIAL STATEMENTS
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NOTE 4 – NATURAL AND FUNCTIONAL CLASSIFICATIONS OF OPERATING EXPENSES

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

	Natural Classification 2017				
	Compensation and Benefits	Other	Non-capitalized		Total
			Property	Depreciation	
Program and supporting services	\$ 1,050,275	\$ 1,222,172	\$ 24,784	\$ -	\$ 2,297,231
Depreciation	<u>-</u>	<u>-</u>	<u>-</u>	<u>440,602</u>	<u>440,602</u>
 Total operating expenses	 <u>\$ 1,050,275</u>	 <u>\$ 1,222,172</u>	 <u>\$ 24,784</u>	 <u>\$ 440,602</u>	 <u>\$ 2,737,833</u>

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

NOTE 5 – LONG-TERM OBLIGATIONS

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

	Balance July 1, 2016	Additions	Deductions	Balance June 30, 2017	Current Portion
PNC Master Lease, Television Production Truck	\$ 537,140	\$ -	\$ (265,185)	\$ 271,955	\$ 271,955
	<u>\$ 537,140</u>	<u>\$ -</u>	<u>\$ (265,185)</u>	<u>\$ 271,955</u>	<u>\$ 271,955</u>

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
	<u>\$ 795,723</u>	<u>\$ -</u>	<u>\$ (258,583)</u>	<u>\$ 537,140</u>	<u>\$ 265,185</u>

(Continued)

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NOTES TO THE FINANCIAL STATEMENTS
June 30, 2017 and 2016

NOTE 5 – LONG-TERM OBLIGATIONS (Continued)

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, 2017, were as follows:

	<u>Total to be Paid</u>	<u>Principal</u>	<u>Interest</u>
Year ending June 30, 2018	<u>\$ 278,898</u>	<u>\$ 271,955</u>	<u>\$ 6,943</u>

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.

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, 2017 and 2016 were \$14,441 and \$11,899, respectively. Employees' contributions to the Optional Retirement Program for the year ended June 30, 2017 and 2016 were \$6,428 and \$5,312, respectively.

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WESTERN KENTUCKY UNIVERSITY
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NOTES TO THE FINANCIAL STATEMENTS
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NOTE 7 – PENSION PLAN (Continued)

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

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

NOTE 7 – PENSION PLAN (Continued)

	Tier 1 Participation Prior to <u>9/1/2008</u>	Tier 2 Participation <u>9/1/2008 through 12/31/13</u>	Tier 3 Participation <u>1/1/2014</u>
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, 2017, 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 40.24 and 30.84 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, 2017 and 2016 were \$37,766 and \$35,102, respectively, and equal to the required contributions for the year.

Pension liabilities, pension expense, and deferred outflows of resources and deferred inflows of resources related to pensions - At June 30, 2017 and 2016, the Station reported a liability of \$765,434 and \$603,147 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2016 and 2015, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of 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, 2017 and 2016, the Station's proportion was 0.46 percent and 0.41 percent.

For the year ended June 30, 2017 and 2016, the Station recognized non-hazardous pension expense of \$93,079 and \$58,231. At June 30, 2017 and 2016, the Station reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

<u>2017</u>	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Difference between expected and actual experience	\$ 799	\$ -
Net difference between projected and actual earnings on investments	11,751	-
Changes of assumptions	57,980	-
Changes in proportion and differences between employer contributions and proportionate share of contributions	3,181	2,073
Station contributions subsequent to measurement date	<u>37,766</u>	<u>-</u>
	<u>\$ 111,477</u>	<u>\$ 2,073</u>

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

NOTE 7 – PENSION PLAN (Continued)

<u>2016</u>	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
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	<u>35,102</u>	<u>-</u>
	<u>\$ 72,123</u>	<u>\$ -</u>

At June 30, 2017, the Station reported \$37,766 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, 2018. Deferred inflows of resources at June 30, 2017, related to pensions will be recognized in pension expense as follows:

2018	\$ 40,064
2019	24,622
2020	4,458
2021	<u>2,494</u>
	<u>\$ 71,638</u>

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

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

For the June 30, 2016 and 2015 actuarial valuation, the rates of mortality 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.

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

NOTE 7 – PENSION PLAN (Continued)

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

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

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

<u>2017</u>	<u>Target</u>	<u>Long-Term Nominal</u>
<u>Asset Class</u>	<u>Allocation</u>	<u>Rate of Return</u>
Combined Equity	50%	5.30%
Intermediate Duration Fixed Income	11	1.00
Customer KRS Fixed Income	11	3.33
Core Real Estate	5	4.25
Diversified Hedge Funds	10	4.00
Private Equity	2	8.00
Diversified Inflation Strategies	8	3.15
Cash	<u>3</u>	-0.25
Total	<u>100%</u>	
<u>2016</u>	<u>Target</u>	<u>Long-Term Nominal</u>
<u>Asset Class</u>	<u>Allocation</u>	<u>Rate of Return</u>
Domestic Equity	30%	8.45%
International Equity	22	8.85
Emerging Market Equity	5	10.50
Private Equity	7	11.25
Real Estate	5	7.00
Core U.S. Fixed Income	10	5.25
High Yield U.S. Fixed Income	5	7.25
Non U.S. Fixed Income	5	5.50
Commodities	5	7.75
TIPS	5	5.00
Cash	<u>1</u>	3.25
Total	<u>100%</u>	

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

NOTE 7 – PENSION PLAN (Continued)

Changes in Assumptions and Benefit Terms Since Prior Measurement Date - The final TPL as of June 30, 2016 reflects a decrease in the assumed investment rate of return and discount rate from 7.50% to 6.75%. The final TPL as of June 30, 2015 reflects a decrease in the assumed investment rate of return and discount rate from 7.75% to 7.50%.

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

- The assumed investment rate of return was decreased from 6.75% to 5.25%
- The salary increase assumption was decreased from 4.00% to 0.00%
- The inflation assumption was decreased from 3.25% to 2.30%

Discount rate - The discount rate used to measure the total pension liability was 6.75% for the June 30, 2016 actuarial valuation and 7.50% for the June 30, 2015 actuarial valuation. The projection of cash flows used to determine the discount rate assumed that local employers would contribute the actuarially determined contribution rate of projected compensation over the remaining 27-year amortization period of the unfunded actuarial accrued liability. The actuarial determined contribution rate is adjusted to reflect the phase in of anticipated gains on actuarial value of assets over the first four years of the projection period. Projected inflows from investment earnings were calculated using the long-term assumed investment return of 6.75% for the June 30, 2016 actuarial valuation and 7.50% for the June 30, 2015 actuarial valuations. The long-term assumed investment rate of return was applied to all periods of projected of benefit payments to determine the total pension liability.

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 6.75%. The following presents the University's proportionate share of the net pension liability at June 30, 2017 calculated using a discount rate 1% higher and 1% lower than the current rate:

	1% Decrease (5.75%)	Current Discount Rate (6.75%)	1% Increase (7.75%)
Proportionate of the Collective Net Pension Liability	\$ 862,316	\$ 765,435	\$ 684,011

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, 2016:

	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

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

(Continued)

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

NOTE 7 – PENSION PLAN (Continued)

	Tier 1 Participation Prior to <u>July 1, 2008</u>	Tier 2 Participation on or After <u>July 1, 2008</u>
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, 2017 and 2016, University employees were required to contribute 7.625 percent of their annual covered salary for retirement benefits. The University was contractually required to contribute 15.87 percent and 15.36 percent of covered payroll for the fiscal years ended June 30, 2017 and 2016, respectively. The actuarially determined amount, when combined with employee contributions, is expected to finance the cost of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. The University's total contributions to KTRS on behalf of the Station for the years ending June 30, 2017 and 2016 was \$70,525 and \$72,384, 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 approximately \$12,000 and \$10,000 for the years ending June 30, 2016 and 2015, respectively.

Pension liabilities, pension expense, and deferred outflows of resources and deferred inflows of resources related to pensions - At June 30, 2017 and 2016, the University reported a liability of \$2,725,922 and \$2,396,173 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2016 and 2015 and the total pension liability used to calculate the pension liability was determined by an actuarial valuation as of June 30, 2015 and 2014 and update procedures were used to roll forward the total pension liability to the measurement date. The 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, 2017 and 2016, the Station's proportion was 0.73 percent and 0.80 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:

	<u>2017</u>	<u>2016</u>
Station's proportionate share of the net pension liability	\$ 2,725,922	\$ 2,396,173
Commonwealth of Kentucky's proportionate share of the net pension liability associated with the Station	<u>256,913</u>	<u>243,669</u>
	<u>\$ 2,982,835</u>	<u>\$ 2,639,842</u>

(Continued)

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

NOTE 7 – PENSION PLAN (Continued)

For the year ended June 30, 2017 and 2016, the Station recognized pension expense of \$239,542 and \$128,747. At June 30, 2017 and 2016, the Station reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
<u>2017</u>		
Difference between expected and actual experience	\$ -	\$ 68,580
Net difference between projected and actual earnings on investments	84,225	-
Changes of assumptions	400,980	15,758
Changes in proportion and differences between employer contributions and proportionate share of contributions	23,253	749
Station contributions subsequent to measurement date	<u>70,525</u>	<u>-</u>
	<u>\$ 578,983</u>	<u>\$ 85,087</u>
<u>2016</u>		
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	<u>76,996</u>	<u>-</u>
	<u>\$ 224,086</u>	<u>\$ 110,757</u>

At June 30, 2017, the Station reported \$70,525 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:

2018	\$ 89,026
2019	89,026
2020	120,244
2021	95,023
2022	<u>30,052</u>
	<u>\$ 423,371</u>

(Continued)

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

NOTE 7 – PENSION PLAN (Continued)

Actuarial assumptions - The total pension liability was determined by an actuarial valuation as of June 30, 2015 and 2014, using the following actuarial assumptions, applied to all periods included in the measurement;

Inflation:	3.50%
Salary Increases	4.00% – 8.20%, including inflation
Investment Rate of Return	7.50%, net pension plan investment expense, including inflation

The rates of mortality for the period after service retirement are according to the RP-2000 Combined Mortality Table for Males and Females, as appropriate with adjustments for mortality improvements based on a projection of Scale AA to 2020 with a setback of 1 year for females.

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

The long-term expected return on plan was determined using a log-normal distribution analysis in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighing the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The June 30, 2017 and 2016 target allocations and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Nominal Rate of Return</u>
U.S. Equity	45.0%	6.4%
Non U.S. Equity	17.0	6.5
Fixed Income	24.0	1.6
High Yield Bonds	4.0	3.1
Real Estate	4.0	5.8
Alternatives	4.0	6.8
Cash	<u>2.0</u>	1.5
Total	<u>100.0%</u>	

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

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

(Continued)

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

NOTE 7 – PENSION PLAN (Continued)

Discount rate - The discount rate used to measure the total pension liability at June 30, 2016 was 4.20%. The projection of cash flows used to determine the discount rate assumed that plan member contributions will be made at the current contribution rates and the Employer contributions will be made at statutorily required rates. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members until the 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 3.01% 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, 2015 was 4.88%. The projection of cash flows used to determine the discount rate assumed that plan member contributions will be made at the current contribution rates and the Employer contributions will be made at statutorily required rates. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members until the 2036 plan year. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments through 2035 and a municipal bond index rate of 3.82% was applied to all periods of projected benefit payments after 2035. The 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 total pension liability as of June 30, 2016 reflects that the assumed municipal bond index rate decreased from 3.82% to 3.01%, resulting in a change in the SEIR from 4.88% to 4.20%. The impact of this change in the discount rate is a change in assumptions that is added to the expected total pension liability to determine the final total pension liability as of June 30, 2016.

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

	1% Decrease (<u>3.20%</u>)	Current Discount Rate (<u>4.20%</u>)	1% Increase (<u>5.20%</u>)
Proportionate share of the collective net pension liability	\$ 3,344,123	\$ 2,725,922	\$ 2,218,550

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, 2016:

	1% Decrease (<u>3.20%</u>)	Current Discount Rate (<u>4.20%</u>)	1% Increase (<u>5.20%</u>)
Proportionate share of the collective net pension liability	\$ 2,982,304	\$ 2,396,176	\$ 1,911,144

(Continued)

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

NOTE 7 – PENSION PLAN (Continued)

Summary Pension Plan Information:

<i>June 30, 2017</i>	KERS		<u>Total</u>
	<u>Non-hazardous</u>	<u>KTRS</u>	
Net pension liability	\$ 765,434	\$ 2,725,922	\$ 3,491,356
Deferred outflows of resources	111,477	578,983	690,460
Deferred inflows of resources	2,073	85,087	87,160
Pension expense	93,079	239,542	332,621

<i>June 30, 2016</i>	KERS		<u>Total</u>
	<u>Non-hazardous</u>	<u>KTRS</u>	
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

SUPPLEMENTARY INFORMATION

WESTERN KENTUCKY UNIVERSITY
WKYU-TV
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULES OF THE STATION'S PROPORTIONATE SHARE OF THE NET PENSION LIABILITY
June 30, 2017

KERS – Non-Hazardous	<u>2017</u>	<u>2016</u>	<u>2015</u>
Station's proportion of the net pension liability	0.007%	0.006%	0.008%
Station's proportionate share of the net pension liability	\$ 765,435	\$ 603,147	\$ 739,797
Station's covered payroll	\$ 89,844	\$ 129,108	\$ 129,108
Station's proportionate share of the net pension liability as a percentage of its covered payroll	851.96%	467.16%	573.01%
Plan fiduciary net position as a percentage of the total pension liability	14.80%	18.83%	22.32%
 KTRS	 <u>2017</u>	 <u>2016</u>	 <u>2015</u>
Station's proportion of the net pension liability	0.009%	0.010%	0.009%
Station's proportionate share of the net pension liability	\$ 2,725,922	\$ 2,396,176	\$ 1,988,612
State's proportionate share of the net pension liability associated with the Station	<u>256,916</u>	<u>243,664</u>	<u>226,780</u>
Total	<u>\$ 2,982,838</u>	<u>\$ 2,639,840</u>	<u>\$ 2,225,392</u>
Station's covered payroll	\$ 456,219	\$ 461,171	\$ 461,171
Station's proportionate share of the net pension liability as a percentage of its covered payroll	597.50%	519.58%	431.21%
Plan fiduciary net position as a percentage of the total pension liability	35.22%	42.49%	45.59%

Notes to the Schedule:

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

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

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

WESTERN KENTUCKY UNIVERSITY
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REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULES OF THE STATION'S CONTRIBUTIONS
June 30, 2017

KERS – Non-Hazardous	<u>2017</u>	<u>2016</u>	<u>2015</u>
Contractually required contribution	\$ 37,766	\$ 35,102	\$ 40,025
Contributions in relation to the contractually required contribution	<u>(37,766)</u>	<u>(35,102)</u>	<u>(40,025)</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Station's covered payroll	\$ 121,693	\$ 89,844	\$ 129,108
Contributions as a percentage of covered payroll	31.03%	39.07%	31.00%
 KTRS	 <u>2017</u>	 <u>2016</u>	 <u>2015</u>
Contractually required contribution	\$ 70,525	\$ 72,384	\$ 71,605
Contributions in relation to the contractually required contribution	<u>(70,525)</u>	<u>(72,384)</u>	<u>(71,605)</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Station's covered payroll	\$ 419,305	\$ 456,219	\$ 461,171
Contributions as a percentage of covered payroll	16.81%	15.87%	15.53%

Notes to the Schedule:

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

** 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.