

**WESTERN KENTUCKY UNIVERSITY**  
**WKYU-FM RADIO**  
Bowling Green, Kentucky

**FINANCIAL STATEMENTS**  
June 30, 2017 and 2016

WESTERN KENTUCKY UNIVERSITY  
WKYU-FM RADIO

FINANCIAL STATEMENTS  
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-FM Radio (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 audit 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.

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### ***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 its changes in 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 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 audit 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-FM RADIO  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
June 30, 2017

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***Introduction***

The following Management's Discussion and Analysis ("MD&A") provides an overview of the financial position and activities of WKYU-FM Radio (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.

***Fiscal Year 2017 Highlights***

- The Station's net position decreased by \$828,038; (121.58%).
- Operating revenues increased by \$2,998; 1.65% to \$185,008.
- Operating expenses increased by \$770,009; 39.18%.
- Nonoperating revenues decreased by \$100,163; (5.62%).

***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 years 2017, 2016 and 2015 were \$2,315,630, \$2,465,302 and \$2,344,521, respectively, of which cash represented the largest portion. Cash totaled \$2,229,103, \$2,341,955, \$2,164,012, or 96%, 95% and 92%, of total assets for fiscal years 2017, 2016 and 2015, respectively.

***Liabilities***

Liabilities of the Station consisted of \$16,142, \$15,637, \$17,632, of accrued employee costs at June 30, 2017, 2016 and 2015, respectively. Additionally, unearned revenue from the Corporation for Public Broadcasting ("CPB") grants as of June 30, 2017, 2016 and 2015 was \$279,791, \$176,072 and \$96,578, respectively.

***Net Position***

Net position of the Station was \$(146,965), \$681,073 and \$641,937 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.

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(Continued)

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

**Condensed Statements of Net Position**  
**June 30, 2017, 2016 and 2015**

	<u>2017</u>	<u>2016</u>	<u>2015</u>
<b>ASSETS</b>			
Current assets	\$ 2,258,260	\$ 2,378,473	\$ 2,243,111
Noncurrent			
Capital assets, net	<u>57,370</u>	<u>86,829</u>	<u>101,410</u>
Total assets	<u>2,315,630</u>	<u>2,465,302</u>	<u>2,344,521</u>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>			
Total deferred outflows of resources	<u>537,784</u>	<u>163,639</u>	<u>58,915</u>
<b>Total assets and deferred outflows of resources</b>	<u>\$ 2,853,414</u>	<u>\$ 2,628,941</u>	<u>\$ 2,403,436</u>
<b>LIABILITIES</b>			
Current liabilities	\$ 295,933	\$ 191,709	\$ 114,210
Net pension liabilities	<u>2,631,324</u>	<u>1,688,320</u>	<u>1,545,098</u>
Total liabilities	<u>2,927,257</u>	<u>1,880,029</u>	<u>1,659,308</u>
<b>DEFERRED INFLOWS OF RESOURCES</b>			
Total deferred inflows of resources	<u>73,122</u>	<u>67,839</u>	<u>102,191</u>
<b>NET POSITION</b>			
Net investment in capital assets	57,370	86,829	101,410
Unrestricted	<u>(204,335)</u>	<u>594,244</u>	<u>540,527</u>
Total net position	<u>(146,965)</u>	<u>681,073</u>	<u>641,937</u>
<b>Total liabilities, deferred inflows of resources and net position</b>	<u>\$ 2,853,414</u>	<u>\$ 2,628,941</u>	<u>\$ 2,403,436</u>

**Statement of Revenues, Expenses and Change in Net Position**

The Statement of Revenues, Expenses and Change in Net Position 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.

**Revenues**

Total operating revenues, which exclude University appropriations, of the Station for the fiscal years 2017, 2016 and 2015 were \$185,008, \$182,010 and \$239,553, respectively. The primary sources of operating revenues were from underwriting of \$182,008, \$178,280 and \$175,113 and in-kind contributions of \$3,000, \$3,730 and \$64,440 for 2017, 2016 and 2015, respectively.

Nonoperating revenues included nonoperating grants and contracts of \$112,104, \$534,643 and \$242,401 from the Corporation for Public Broadcasting and other agencies for fiscal years ended June 30, 2017, 2016 and 2015, respectively. Grant revenues related to nonexchange type agreements are classified as nonoperating revenues. In a nonexchange agreement, the Station receives dollars from another party without directly giving a service or product of equal value in exchange.

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

The Station received \$847,505, \$793,472 and \$750,212 of University appropriations and \$348,544, \$317,966 and \$336,989 of administrative support from the University for fiscal years ended June 30, 2017, 2016 and 2015, respectively, which are 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 \$2,735,410, \$1,965,401 and \$1,989,841, respectively. Total program services expenses were \$1,149,352, \$1,014,642 and \$942,100 and total supporting services expenses were \$1,556,599, \$922,157 and \$1,019,113 for 2017, 2016 and 2015, respectively. Depreciation expense was not allocated to each program group, but is presented as a single expense item representing depreciation for all areas of the Station. Depreciation expense totaled \$29,459, \$28,602 and \$28,628 for 2017, 2016 and 2015, respectively.

**Condensed Statement of Revenues, Expenses and Change in Net Position**  
**Years Ended June 30, 2017, 2016 and 2015**

	<u>2017</u>	<u>2016</u>	<u>2015</u>
<b>REVENUES</b>			
Operating revenues			
Underwriting	\$ 182,008	\$ 178,280	\$ 175,113
In-kind contribution	3,000	3,730	64,440
Total operating revenues	<u>185,008</u>	<u>182,010</u>	<u>239,553</u>
<b>EXPENSES</b>			
Operating expenses			
Program services	1,149,352	1,014,642	942,100
Supporting services	1,556,599	922,157	1,019,113
Depreciation	29,459	28,602	28,628
Total operating expenses	<u>2,735,410</u>	<u>1,965,401</u>	<u>1,989,841</u>
<b>Operating loss</b>	<u>(2,550,402)</u>	<u>(1,783,391)</u>	<u>(1,750,288)</u>
<b>NONOPERATING REVENUES</b>			
General appropriations from Western			
Kentucky University	847,505	793,472	750,212
Indirect administrative support	348,544	317,966	336,989
Grants and contracts	112,104	534,643	242,401
Subscriptions and memberships	201,518	216,100	246,709
Miscellaneous income (investment loss)	212,693	(39,654)	180,660
Net nonoperating revenues	<u>1,722,364</u>	<u>1,822,527</u>	<u>1,756,971</u>
<b>Change in net position</b>	(828,038)	39,136	6,683
<b>Net position, beginning of year, as restated</b>	<u>681,073</u>	<u>641,937</u>	<u>635,254</u>
<b>Net position, end of year</b>	<u>\$ (146,965)</u>	<u>\$ 681,073</u>	<u>\$ 641,937</u>

(Continued)

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

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**Statements of Cash Flows**

The statements of cash flows provide 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 source of cash from operating activities was business and industry underwriting of \$182,008, \$178,280 and \$175,113 for 2017, 2016 and 2015, respectively. The most significant uses of cash for operating activities were payments to (and on behalf of) employees of \$311,726, \$726,878 and \$695,252 and to suppliers of \$1,823,246, \$1,191,923 and \$1,277,180 for 2017, 2016 and 2015, respectively.

The cash flows from noncapital financing activities included \$1,196,049, \$1,111,438 and \$1,087,201 for 2017, 2016 and 2015, respectively, received as general appropriations and indirect administrative support from the University, which is the largest source of cash for the fiscal years.

**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	\$ (1,938,935)	\$ (1,710,057)	\$ (1,730,228)
Net cash provided by noncapital financing activities	1,826,083	1,902,021	1,745,555
Net cash used in capital and related financing activities	<u>-</u>	<u>(14,021)</u>	<u>-</u>
Increase in cash	(112,852)	177,943	15,327
Cash, beginning of year	<u>2,341,955</u>	<u>2,164,012</u>	<u>2,148,685</u>
Cash, end of year	<u>\$ 2,229,103</u>	<u>\$ 2,341,955</u>	<u>\$ 2,164,012</u>

**Capital Assets**

As of June 30, 2017, 2016 and 2015, the Station had \$57,370, \$86,829 and \$101,410 and invested in capital assets, net of accumulated depreciation of \$1,111,402, \$1,081,943 and \$1,053,341, respectively. Capital assets at June 30, 2017, 2016 and 2015 are summarized below:

	<u>2017</u>	<u>2016</u>	<u>2015</u>
Equipment	\$ 1,168,772	\$ 1,168,772	\$ 1,154,751
Less accumulated depreciation	<u>(1,111,402)</u>	<u>(1,081,943)</u>	<u>(1,053,341)</u>
Capital assets	<u>\$ 57,370</u>	<u>\$ 86,829</u>	<u>\$ 101,410</u>

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WESTERN KENTUCKY UNIVERSITY  
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MANAGEMENT'S DISCUSSION AND ANALYSIS  
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***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 153A, 1906 College Heights Blvd., Bowling Green, Kentucky 42101. You may also contact David Brinkley via email at [david.brinkley@wku.edu](mailto:david.brinkley@wku.edu) or via phone at (270) 745-6140.

WESTERN KENTUCKY UNIVERSITY  
WKYU-FM RADIO  
STATEMENTS OF NET POSITION  
June 30, 2017 and 2016

	<u>2017</u>	<u>2016</u>
<b>ASSETS</b>		
Current assets		
Cash on deposit with University and Foundation	\$ 2,229,103	\$ 2,341,955
Prepaid expenses	<u>29,157</u>	<u>36,518</u>
Total current assets	<u>2,258,260</u>	<u>2,378,473</u>
Noncurrent assets		
Capital assets	1,168,772	1,168,772
Accumulated depreciation	<u>(1,111,402)</u>	<u>(1,081,943)</u>
Total noncurrent assets	<u>57,370</u>	<u>86,829</u>
Total assets	2,315,630	2,465,302
<b>DEFERRED OUTFLOWS OF RESOURCES</b>		
Deferred outflows – KTRS	491,739	137,253
Deferred outflows – KERS	<u>46,045</u>	<u>26,386</u>
Total deferred outflows of resources	<u>537,784</u>	<u>163,639</u>
<b>Total assets and deferred outflows of resources</b>	<u>\$ 2,853,414</u>	<u>\$ 2,628,941</u>
<b>LIABILITIES</b>		
Current liabilities		
Accrued payroll	\$ 4,610	\$ 4,925
Accrued vacation	11,532	10,712
Unearned revenue	<u>279,791</u>	<u>176,072</u>
Total current liabilities	<u>295,933</u>	<u>191,709</u>
Non-current liabilities		
Net pension liability – KTRS	2,315,167	1,467,656
Net pension liability – KERS	<u>316,157</u>	<u>220,664</u>
Total non-current liabilities	<u>2,631,324</u>	<u>1,688,320</u>
Total liabilities	<u>2,927,258</u>	<u>1,880,029</u>
<b>DEFERRED INFLOWS OF RESOURCES</b>		
Deferred inflows – KTRS	72,266	67,839
Deferred inflows – KERS	<u>856</u>	<u>-</u>
Total deferred inflows of resources	<u>73,122</u>	<u>67,839</u>
<b>NET POSITION</b>		
Net investment in capital assets	57,370	86,829
Unrestricted	<u>(204,335)</u>	<u>594,244</u>
Total net position	<u>(146,965)</u>	<u>681,073</u>
<b>Total liabilities, deferred inflows of resources and net position</b>	<u>\$ 2,853,414</u>	<u>\$ 2,628,941</u>

See accompanying notes to financial statements.

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

	<u>2017</u>	<u>2016</u>
<b>REVENUES</b>		
Operating revenues		
Business and industry underwriting	\$ 182,008	\$ 178,280
In-kind contributions	<u>3,000</u>	<u>3,730</u>
Total operating revenues	<u>185,008</u>	<u>182,010</u>
<b>EXPENSES</b>		
Operating expenses		
Program services		
Programming and production	956,607	826,205
Broadcasting	146,402	132,383
Program information and promotion	<u>46,343</u>	<u>56,055</u>
	1,149,352	1,014,642
Supporting services		
Management and general	1,266,571	637,426
Fundraising	174,276	154,560
Underwriting	<u>115,752</u>	<u>130,171</u>
	1,556,599	922,157
Depreciation	<u>29,459</u>	<u>28,602</u>
Total operating expenses	<u>2,735,410</u>	<u>1,965,401</u>
<b>Operating loss</b>	<u>(2,550,402)</u>	<u>(1,783,391)</u>
<b>NONOPERATING REVENUES</b>		
General appropriation from Western		
Kentucky University	847,505	793,472
Indirect administrative support	348,544	317,966
Grants from Corporation for Public Broadcasting	112,104	534,643
Subscriptions and memberships	201,518	216,100
Miscellaneous income (investment loss)	<u>212,693</u>	<u>(39,654)</u>
Net non-operating revenues	<u>1,722,364</u>	<u>1,822,527</u>
<b>Change in net position</b>	(828,038)	39,136
<b>Net position, beginning of year</b>	<u>681,073</u>	<u>641,937</u>
<b>Net position, end of year</b>	<u>\$ (146,965)</u>	<u>\$ 681,073</u>

See accompanying notes to financial statements.

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

	<u>2017</u>	<u>2016</u>
<b>Cash flows from operating activities</b>		
Business and industry underwriting received	\$ 182,008	\$ 178,280
Other operating revenues	14,029	30,464
Payments to employees	(311,726)	(726,878)
Payments to suppliers	<u>(1,823,246)</u>	<u>(1,191,923)</u>
Net cash used in operating activities	<u>(1,938,935)</u>	<u>(1,710,057)</u>
<b>Cash flows from noncapital financing activities</b>		
General appropriation and indirect support from Western Kentucky University	1,196,049	1,111,438
Grants from Corporation for Public Broadcasting	215,823	614,137
Subscriptions and memberships	201,518	216,100
Other noncapital financing activities	<u>212,693</u>	<u>(39,654)</u>
Net cash provided by noncapital financing activities	<u>1,826,083</u>	<u>1,902,021</u>
<b>Cash flows from capital financing activities</b>		
Purchase of capital assets	<u>-</u>	<u>(14,021)</u>
<b>Increase in cash</b>	<u>(112,852)</u>	<u>177,943</u>
Cash, beginning of year	<u>2,341,955</u>	<u>2,164,012</u>
<b>Cash, end of year</b>	<u>\$ 2,229,103</u>	<u>\$ 2,341,955</u>
<b>Reconciliation of net operating loss to net cash flows used in operating activities</b>		
Operating loss	\$ (2,550,402)	\$ (1,783,391)
Depreciation expense	29,459	28,602
Changes in operating assets and liabilities		
Prepaid expenses	(3,668)	15,847
Accounts receivable	11,029	26,734
Deferred outflows	(374,145)	(104,724)
Deferred inflows	5,283	(34,352)
Net pension liability	943,004	143,223
Accrued expenses	<u>505</u>	<u>(1,996)</u>
Net cash flows used in operating activities	<u>\$ (1,938,935)</u>	<u>\$ (1,710,057)</u>

See accompanying notes to financial statements.

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

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**NOTE 1 – NATURE OF OPERATIONS**

WKYU-FM (the "Station") is a public radio 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 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 change 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 support from the University for the years ended June 30, 2017 and 2016 was \$348,544 and \$317,966, respectively.

Expenses: When an expense is incurred for which both restricted and unrestricted resources 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.

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

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**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").

Accounts Receivable: Accounts receivable consists of business and industry underwriting and subscriptions and memberships. Accounts receivable are recorded net of estimated uncollectible amounts, if any.

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:

- |                                     |              |
|-------------------------------------|--------------|
| • Furniture, fixtures and equipment | 3 - 15 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.

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(Continued)

WESTERN KENTUCKY UNIVERSITY  
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**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 University's net position or changes therein.
- GASB Statement No. 82, *Pension Issues—an amendment of GASB Statements No. 67, No. 68, and No. 73*, issued March 2016. The provisions of this Statement are effective for periods beginning after June 15, 2016. The objective of this Statement is to address issues regarding (1) the presentation of payroll-related measures in required supplementary information, (2) the selection of assumptions and the treatment of deviations from the guidance in an Actuarial Standard of Practice for financial reporting purposes, and (3) the classification of payments made by employers to satisfy employee (plan member) contribution requirements. The adoption of this standard had no effect on the Station's net position or changes therein.

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(Continued)

WESTERN KENTUCKY UNIVERSITY  
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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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**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 equipment. Capital asset activity for the year ended June 30, 2017 is as follows:

	<u>Balance June 30, 2016</u>	<u>Additions</u>	<u>Deletions/ Retirements</u>	<u>Balance June 30, 2017</u>
Equipment	\$ 1,168,772	\$ -	\$ -	\$ 1,168,772
Less accumulated depreciation	<u>1,081,943</u>	<u>29,459</u>	<u>-</u>	<u>1,111,402</u>
Total capital assets, net	<u>\$ 86,829</u>	<u>\$ (29,459)</u>	<u>\$ -</u>	<u>\$ 57,370</u>

Capital assets activity for the year ended June 30, 2016 is as follows:

	<u>Balance June 30, 2015</u>	<u>Additions</u>	<u>Deletions/ Retirements</u>	<u>Balance June 30, 2016</u>
Equipment	\$ 1,154,751	\$ 14,021	\$ -	\$ 1,168,772
Less accumulated depreciation	<u>1,053,341</u>	<u>28,602</u>	<u>-</u>	<u>1,081,943</u>
Total capital assets, net	<u>\$ 101,410</u>	<u>\$ (14,581)</u>	<u>\$ -</u>	<u>\$ 86,829</u>

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(Continued)

WESTERN KENTUCKY UNIVERSITY  
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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 Property	Depreciation	Total
Program and supporting services	\$ 886,374	\$ 1,819,577	\$ -	\$ -	\$ 2,705,951
Depreciation	-	-	-	29,459	29,459
Total operating expenses	<u>\$ 886,374</u>	<u>\$ 1,819,577</u>	<u>\$ -</u>	<u>\$ 29,459</u>	<u>\$ 2,735,410</u>

	Natural Classification 2016				
	Compensation and Benefits	Other	Non-capitalized Property	Depreciation	Total
Program and supporting services	\$ 729,029	\$ 1,187,592	\$ 20,178	\$ -	\$ 1,936,799
Depreciation	-	-	-	28,602	28,602
Total operating expenses	<u>\$ 729,029</u>	<u>\$ 1,187,592</u>	<u>\$ 20,178</u>	<u>\$ 28,602</u>	<u>\$ 1,965,401</u>

**NOTE 5 – RISK MANAGEMENT**

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

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

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(Continued)

WESTERN KENTUCKY UNIVERSITY  
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**NOTE 6 – 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 \$39,684 and \$33,325, respectively. Employees' contributions to the Optional Retirement Program for the year ended June 30, 2017 and 2016 were \$17,663 and \$14,830, respectively.

Kentucky Employee's 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 from <u>1/1/2014</u>
<b>Benefit Formula:</b>	Final Compensation X Benefit Factor X Years of Service		Cash Balance Plan
<b>Final Compensation:</b>	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
<b>Benefit Factor:</b>	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.

(Continued)

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**NOTE 6 – 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>
<b>Cost of Living Adjustment (COLA):</b>	No COLA unless authorized by the Legislature. If authorized, the COLA is limited to 1.5%. This impacts all retirees regardless of Tier.		
<b>Unreduced Retirement Benefit:</b>	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.	
<b>Reduced Retirement Benefit:</b>	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 \$15,599 and \$13,227, respectively, and equal to the required contributions for the year.

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(Continued)

WESTERN KENTUCKY UNIVERSITY  
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**NOTE 6 – PENSION PLAN** (Continued)

*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 \$316,157 and \$220,664 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 0.19 percent and 0.15 percent.

For the year ended June 30, 2017 and 2016, the Station recognized non-hazardous pension expense of \$38,446 and \$21,304. 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:

	Deferred Outflows of Resources	Deferred Inflows of Resources
<u>2017</u>		
Difference between expected and actual experience	\$ 330	\$ -
Net difference between projected and actual earnings on investments	4,855	-
Changes of assumptions	23,947	-
Changes in proportion and differences between employer contributions and proportionate share of contributions	1,314	856
Station contributions subsequent to measurement date	<u>15,599</u>	<u>-</u>
	<u>\$ 46,045</u>	<u>\$ 856</u>
 <u>2016</u>		
Difference between expected and actual experience	\$ 472	\$ -
Net difference between projected and actual earnings on investments	628	-
Changes of assumptions	10,577	-
Changes in proportion and differences between employer contributions and proportionate share of contributions	1,867	-
Station contributions subsequent to measurement date	<u>12,842</u>	<u>-</u>
	<u>\$ 26,386</u>	<u>\$ -</u>

At June 30, 2017, the Station reported \$15,599 as deferred outflows of resources related to pensions resulting from University contributions subsequent to the measurement date that will be recognized as a reduction of the net pension liability in the year ending June 30, 2017. Deferred outflows of resources at June 30, 2017, related to pensions will be recognized in pension expense as follows:

2018	\$ 16,548
2019	10,170
2020	1,841
2021	<u>1,031</u>
	<u>\$ 29,590</u>

(Continued)

WESTERN KENTUCKY UNIVERSITY  
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**NOTE 6 – PENSION PLAN** (Continued)

*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 and hazardous pensions.

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

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%
Custom 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>	

(Continued)

WESTERN KENTUCKY UNIVERSITY  
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**NOTE 6 – PENSION PLAN** (Continued)

<u>2016</u>	<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Nominal Rate of Return</u>
	Domestic Equity	30%	8.45%
	International Equity	22	8.85
	Emerging Market Equity	5	10.50
	Private Equity	7	11.25
	Real Estate	5	7.00
	Core U.S. Fixed Income	10	5.25
	High Yield U.S. Fixed Income	5	7.25
	Non U.S. Fixed Income	5	5.50
	Commodities	5	7.75
	TIPS	5	5.00
	Cash	<u>1</u>	3.25
	Total	<u>100%</u>	

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

	<u>1% Decrease (5.75%)</u>	<u>Current Discount Rate (6.75%)</u>	<u>1% Increase (7.75%)</u>
Proportionate of the Collective Net Pension Liability	\$ 356,174	\$ 316,157	\$ 282,526

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**NOTE 6 – PENSION PLAN** (Continued)

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	\$ 248,559	\$ 220,664	\$ 197,066

**KTRS - 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>
<b>Covered Employees:</b>	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)
<b>Benefit Formula:</b>	Final Compensation X Benefit Factor X Years of Service	
<b>Final Compensation:</b>	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.
<b>Benefit Factor:</b>	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)



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**NOTE 6 – PENSION PLAN (Continued)**

	Tier 1 Participation Prior to <u>July 1, 2008</u>	Tier 2 Participation on or After <u>July 1, 2008</u>
<b>Cost of Living Adjustment (COLA):</b>	1.5% annually additional ad hoc increases must be authorized by the General Assembly.	
<b>Unreduced Retirement Benefit:</b>	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.
<b>Reduced Retirement Benefit:</b>	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 \$59,898 and \$34,932, respectively, and were equal to the required contributions for the year. In addition, the Commonwealth of Kentucky contributes ad hoc annual cost of living adjustments provided by the General Assembly for KTRS retirees at a contribution rate of 3.25% for the years ending June 30, 2017 and 2016.

*Pension liabilities, pension expense, and deferred outflows of resources and deferred inflows of resources related to pensions* - At June 30, 2017 and 2016, the University reported a liability of \$2,315,167 and \$1,467,656 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 0.62 percent and 0.49 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	\$ 2,315,167	\$ 1,467,656
Commonwealth of Kentucky's proportionate share of the net pension liability associated with the Station	<u>218,200</u>	<u>149,247</u>
	<u>\$ 2,533,367</u>	<u>\$ 1,616,903</u>

(Continued)

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

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**NOTE 6 – PENSION PLAN** (Continued)

For the year ended June 30, 2017 and 2016, the Station recognized pension expense of \$203,446 and \$78,857. 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:

	Deferred Outflows of Resources	Deferred Inflows of Resources
<u>2017</u>		
Difference between expected and actual experience	\$ -	\$ 58,246
Net difference between projected and actual earnings on investments	71,533	-
Changes of assumptions	340,557	13,384
Changes in proportion and differences between employer contributions and proportionate share of contributions	19,751	636
Station contributions subsequent to measurement date	<u>59,898</u>	<u>-</u>
	<u>\$ 491,739</u>	<u>\$ 72,266</u>
<u>2016</u>		
Difference between expected and actual experience	\$ -	\$ 16,024
Net difference between projected and actual earnings on investments	-	36,987
Changes of assumptions	90,093	14,168
Changes in proportion and differences between employer contributions and proportionate share of contributions	-	660
Station contributions subsequent to measurement date	<u>47,160</u>	<u>-</u>
	<u>\$ 137,253</u>	<u>\$ 67,839</u>

At June 30, 2017, the Station reported \$59,898 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, 2017, related to pensions will be recognized in pension expense as follows:

2018	\$ 75,611
2019	75,611
2020	102,125
2021	80,707
2022	<u>25,521</u>
	<u>\$ 359,575</u>

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(Continued)

WESTERN KENTUCKY UNIVERSITY  
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NOTES TO THE FINANCIAL STATEMENTS  
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**NOTE 6 – 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 set back of 1 year for females.

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

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

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

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(Continued)

WESTERN KENTUCKY UNIVERSITY  
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NOTES TO THE FINANCIAL STATEMENTS  
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**NOTE 6 – 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 2040 plan year. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments through 2039 and a municipal bond index rate of 3.01% was applied to all periods of projected benefit payments after 2039. The 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	\$ 2,840,214	\$ 2,315,167	\$ 1,884,248

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>3.88%</u> )	Current Discount Rate ( <u>4.88%</u> )	1% Increase ( <u>5.88%</u> )
Proportionate share of the collective net pension liability	\$ 1,826,661	\$ 1,467,656	\$ 1,170,576

(Continued)

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

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**NOTE 6 – PENSION PLAN** (Continued)

Summary Pension Plan Information:

	KERS		
	<u>Non-hazardous</u>	<u>KTRS</u>	<u>Total</u>
<i>June 30, 2017</i>			
Net pension liability	\$ 316,157	\$ 2,315,167	\$ 2,631,324
Deferred outflows of resources	46,045	491,739	537,784
Deferred inflows of resources	856	72,266	73,122
Pension expense	38,446	203,446	241,892
	KERS		
	<u>Non-hazardous</u>	<u>KTRS</u>	<u>Total</u>
<i>June 30, 2016</i>			
Net pension liability	\$ 220,664	\$ 1,467,656	\$ 1,688,320
Deferred outflows of resources	26,386	137,253	163,639
Deferred inflows of resources	-	67,839	67,839
Pension expense	21,304	78,857	100,161

## **SUPPLEMENTARY INFORMATION**

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

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<b>KERS – Non-Hazardous</b>	<u>2017</u>	<u>2016</u>	<u>2015</u>
Station's proportion of the net pension liability	0.003%	0.002%	0.002%
Station's proportionate share of the net pension liability	\$ 316,157	\$ 220,664	\$ 194,684
Station's covered payroll	\$ 33,929	\$ 33,354	\$ 33,354
Station's proportionate share of the net pension liability as a percentage of its covered payroll	931.81%	661.58%	583.69%
Plan fiduciary net position as a percentage of the total pension liability	14.80%	18.83%	22.32%
 <b>KTRS</b>	 <u>2017</u>	 <u>2016</u>	 <u>2015</u>
Station's proportion of the net pension liability	0.008%	0.006%	0.006%
Station's proportionate share of the net pension liability	\$ 2,315,167	\$ 1,467,656	\$ 1,350,414
State's proportionate share of the net pension liability associated with the Station	<u>218,203</u>	<u>149,244</u>	<u>153,230</u>
Total	<u>\$ 2,533,370</u>	<u>\$ 1,616,900</u>	<u>\$ 1,503,644</u>
Station's covered payroll	\$ 220,183	\$ 253,153	\$ 253,153
Station's proportionate share of the net pension liability as a percentage of its covered payroll	1,051.47%	579.75%	533.44%
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

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<b>KERS – Non-Hazardous</b>	<u>2017</u>	<u>2016</u>	<u>2015</u>
Contractually required contribution	\$ 15,599	\$ 13,227	\$ 13,241
Contributions in relation to the contractually required contribution	<u>(15,599)</u>	<u>(13,227)</u>	<u>(13,241)</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Station's covered payroll	\$ 49,744	\$ 33,929	\$ 33,354
Contributions as a percentage of covered payroll	31.36%	38.98%	39.70%
 <b>KTRS</b>	 <u>2017</u>	 <u>2016</u>	 <u>2015</u>
Contractually required contribution	\$ 59,898	\$ 34,932	\$ 38,855
Contributions in relation to the contractually required contribution	<u>(59,898)</u>	<u>(34,932)</u>	<u>(38,855)</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Station's covered payroll	\$ 350,350	\$ 220,183	\$ 253,153
Contributions as a percentage of covered payroll	17.10%	15.86%	15.35%

**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.