KENTUCKY AUTHORITY FOR EDUCATIONAL TELEVISION

Consolidated Financial Statements and Supplementary Information

Years Ended June 30, 2018 and 2017
with Report of Independent Auditors

CONTENTS

WHERE LEARNING COMES TO LIFE

November 2, 2018

To the Board of Directors
Kentucky Authority for Educational Television

The Annual Financial Report of the Kentucky Authority for Educational Television (Authority or KET) for the fiscal year ended June 30, 2018 is hereby submitted to the Authority and all others interested in the financial position of KET.

The Authority is a public body corporate and politic of the Commonwealth of Kentucky established by Kentucky Revised Statute Chapter 168 that prescribes and enforces regulations governing the use of educational television; television facilities, and related functions; and, the production and transmission of educational television programs and related services. The Authority is a component unit of the Commonwealth of Kentucky and the basic financial statements of the Authority are included in the Commonwealth of Kentucky's basic financial statements as a discretely presented component unit.

Management has prepared the basic financial statements of KET and is responsible for the integrity and fairness of the information presented. Some amounts included in the basic financial statements may be based upon estimates and judgments. These estimates and judgments were made utilizing the best business practices available. The accounting policies followed in the preparation of these basic financial statements conform to US Generally Accepted Accounting Principles (GAAP). Financial information presented throughout the Annual Financial Report is consistent with the basic financial statements.

Ultimate responsibility for the basic financial statements and Annual Financial Report rests with the Board of Directors. The Executive Director and KET's staff assist the Board in its responsibilities. Systems of internal control and supporting procedures are maintained to provide assurance that transactions are authorized, assets safeguarded, and proper records maintained. These controls include standards in hiring and training employees, the establishment of an organizational structure, and the communications of policies and guidelines throughout the organization. The cost of a control should not exceed the benefits to be derived; the objective is to provide reasonable, rather than absolute assurance, that the basic financial statements are free of any material misstatements.

Kentucky Educational Television Foundation, Inc. (Foundation) and Commonwealth Fund for KET, Inc. (Fund) are separate tax-exempt Kentucky corporations, which receive, hold, and administer gifts and grants in the name of the Authority. The Foundation also assists the Authority in the development and production of educational programs and services for the benefit of the citizens of the Commonwealth of Kentucky. The Authority and the Foundation are administered by the same Executive Director and governed by the same Board of Directors, except for the Foundation whose Board also includes a member of the Board of Directors of Friends of KET.

KET, an agency of state government since 1968, produces and provides innovative and relevant programs and services, giving all citizens in the Commonwealth access to in-depth information and to cultural and educational opportunities. KET's mission is "to make Kentucky a better place and strengthen its communities by educating, inspiring, informing and connecting its citizens through the power of public media."

It is important to note that KET is one of the few state agencies that operates 24/7/365, is federally licensed by the Federal Communications Commission (FCC), and maintains its own facilities, which include the Network Center (110,000 sq. ft. on 7 acres), and 16 transmitters and tower sites located across the Commonwealth.

KET's external auditors, Dean Dorton Allen & Ford, PLLC, Certified Public Accountants, have conducted an independent audit of the basic financial statements in accordance with Generally Accepted Government Auditing Standards. This audit is described in their Independent Auditors' Report on page two. Management has provided the external auditors with full and unrestricted access to KET's staff to discuss their audit and related findings as to the integrity of the financial reporting and the adequacy of internal controls for the preparation of the basic financial statements.

GAAP requires that management provide a narrative introduction, overview and analysis to accompany the basic financial statements in the form of a Management Discussion and Analysis (MD&A). This Letter of Transmittal should be read in conjunction with the MD&A, which can be found immediately following the report of the independent auditor.

Respectfully,

Shae Hopkins
Executive Director & Chief Executive Officer

Todd E. Coleman, CPA
Senior Director – Finance & Administration

Report of Independent Auditors

Board of Directors
Kentucky Authority for Educational Television
Lexington, Kentucky

Report on the Financial Statements

We have audited the accompanying basic consolidated financial statements of Kentucky Authority for Educational Television, a component unit of the Commonwealth of Kentucky, and its discretely presented component unit, the Commonwealth Fund for KET, Inc., (collectively, KET), which comprise the consolidated statement of net position as of June 30, 2018, the related consolidated statements of revenues, expenses, and changes in net position and cash flows for the year then ended, and the related notes to the consolidated financial statements (collectively, the financial statements).

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with the 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 audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of KET as of June 30, 2018, and the changes in its financial position and its cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 2 to the financial statements, effective July 1, 2017, KET adopted Governmental Accounting Standards Board Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions (OPEB)*. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis on pages 5 - 11, the Schedule of Proportionate Share of the Net Pension Liability on page 52, the Schedule of Pension Contributions on page 53, the Schedule of Proportionate Share of the Net OPEB Liability on page 54 and the Schedule of OPEB Contributions on page 55 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of the financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Auditors

The financial statements of KET, as of and for the year ended June 30, 2017, were audited by other auditors, whose report, dated October 9, 2017, expressed an unmodified opinion on those statements. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2017, is consistent, in all material respects, with the audited financial statements from which it has been derived.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated November 2, 2018 on our consideration of KET's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering KET's internal control over financial reporting and compliance.

Dean Dorton Allen Ford, PLLC

November 2, 2018
Lexington, Kentucky

KENTUCKY AUTHORITY FOR EDUCATIONAL TELEVISION

Management's Discussion and Analysis *(Unaudited)*

Our discussion and analysis of Kentucky Authority for Educational Television (the Authority), its blended component unit, Kentucky Educational Television Foundation, Inc. (the Foundation), and its discretely presented component unit, the Commonwealth Fund for KET, Inc. (the Fund), (collectively, KET) provides an overview of KET's financial activity for the fiscal year ended June 30, 2018. It is supplementary information required by the Governmental Accounting Standards Board (GASB) and is intended to provide an easily readable explanation of the information in the basic consolidated financial statements (hereafter, the financial statements). It should be read in conjunction with the financial statements, which begin on page 12.

Financial Highlights - The Authority and Foundation

- The assets and deferred outflows are less than its liabilities and deferred inflows of resources by approximately $46.0 million and $37.8 million at June 30, 2018 and 2017, respectively.

- General fund appropriations from the Commonwealth of Kentucky decreased by approximately $600,000 or 4%, and increased by $1.1 million or 9% for the fiscal years ended June 30, 2018 and 2017, respectively.

- Programming and production costs, including related depreciation expense totaled $13.7 million (or, 43%) and $14.9 million (or, 53%) of the total operating expenses for fiscal years ended June 30, 2018 and 2017, respectively.

- The Corporation for Public Broadcasting (CPB) provided support of approximately $3.4 million (or, 14%) of the operating budgets for each of the fiscal years 2018 and 2017, respectively.

- Unrestricted support received from the Fund totaled $2.9 million (or, 12%) and $3.0 million (or, 12%) of the total support for fiscal years 2018 and 2017, respectively.

- Pursuant to the Commonwealth's General Fund Budget Reduction Order 18-01 (Reduction Order) issued on December 28, 2017, the general fund appropriation for fiscal 2018 was reduced from $13,923,200 to $13,204,400 (or, $718,800). This reduction has been properly reflected in the financial statements. The Reduction Order was issued to all state agencies to prevent a deficit in the Commonwealth's finances.

- During fiscal 2017, the Authority began the Congressionally mandated Repacking Project (the Project) for its 16 stations. The Project is required by the Federal Communications Commission (FCC), which will be reimbursing the costs incurred. The Project involves upgrading each transmitter site to meet the new telecommunications industry standard (TIA-222 rev. G) and installing new transmission systems to operate in the FCC re-assigned DTV channels. The Project is anticipated to take three years to complete with an estimated total cost of $21 million. As each transmitter site is upgraded, each will be capitalized and transferred from the construction in progress account. Each site will have its own separate budget as required by the FCC to maintain individual site costs since each site has its own license number. As of June 30, 2018, total costs incurred for the Project amounted to approximately $840,000. In fiscal 2019, the Commonwealth budgeted approximately $2.1 million of bonds for KET for additional equipment costs not reimbursed by the FCC.

Overview of the Financial Statements

The financial statements are prepared using the flow of economic resources measurement focus and the accrual basis of accounting. They take into account all revenues and expenses of the fiscal year even if no cash had been received or paid. KET's financial statements include:

Consolidated Statements of Net Position:

The Consolidated Statements of Net Position provides both short-term and long-term information about KET's financial position, which assists in assessing KET's economic condition at the end of the fiscal year.

Consolidated Statements of Revenues, Expenses and Changes in Net Position:

The Consolidated Statements of Revenues, Expenses and Changes in Net Position presents information showing how KET's financial position has changed since the beginning of the fiscal year.

Consolidated Statements of Cash Flows:

The Consolidated Statements of Cash Flows provides relevant information about the cash receipts and cash payments of KET during the fiscal years. These statements assess KET's ability to generate future net cash flows, meet future obligations as they become due, KET's need for future external financing, the reasons for differences in operating and related cash receipts and payments, and the effects on KET's financial position of cash and non-cash investing, capital and financing activities.

Notes to the Financial Statements:

Notes to the financial statements provide necessary information to understand the data provided in the financial statements. They are an integral part of the financial statements and focus on the primary government and its activities.

Blended Component Unit:

The Foundation was formed in 1971 as a nonprofit corporation operating in the Commonwealth of Kentucky to support and further the educational, charitable and public purposes and activities of the Authority. The Foundation's primary purpose is to receive, hold and administer grants in the name of the Authority. The Foundation also assists in the development and production of educational television programs and materials for the benefit of the Commonwealth's citizens. The Foundation is presented as a blended component unit of the Authority with its financial information included with the Authority's because it is administered by the same Executive Director and governed by the same Board of Directors.

Overview of the Financial Statements, continued

Discretely Presented Component Unit:

The Fund is a discretely presented component unit of the Authority. The Fund's operations are to support the Authority, which has financial accountability, but have certain independent qualities as well. More information on the discretely presented component unit can be found in the Description of the Organization in Note 1 of the financial statements.

Financial Analysis - The Authority and the Foundation

Net Position:

Net position serves as a useful indicator of a government's financial position. Net position totaled ($56.0) million at the end of fiscal 2018, as compared to ($37.8) million at the end of fiscal 2017.

The largest portion of net position is the negative balance for unrestricted net position of ($63.6) million and ($45.6) million at June 30, 2018 and 2017, respectively. Long-term liabilities, such as the net pension liability and the net OPEB liability are recognized on the Consolidated Statements of Net Position. The net pension liability totaled $63.7 million, or 78% of total liabilities, at June 30, 2018 and $52.9 million, or 91% of total liabilities, at June 30, 2017. The net OPEB liability totaled $12.1 million, or 15% of total liabilities, at June 30, 2018.

Condensed Statements of Net Position as of June 30

	2018	% Increase (Decrease)	2017
Current assets	$ 5,641,496	10%	$ 5,114,161
Investments	1,224,640	-11%	1,382,104
Noncurrent assets	746,330	117%	343,917
Capital assets, net	6,317,488	-14%	7,377,599
Total assets	$ 13,929,954	-2%	$ 14,217,781
Deferred outflows of resources	$ 15,339,471	79%	$ 8,553,209
Current liabilities	$ 4,379,389	30%	$ 3,377,053
Noncurrent liabilities	77,120,933	41%	54,527,527
Total liabilities	$ 81,500,322	41%	$ 57,904,580
Deferred inflows of resources	$ 3,748,413	38%	$ 2,714,652
Net position:			
Invested in capital assets	$ 5,276,557	-15%	$ 6,211,318
Non-expendable	250,000	0%	250,000
Expendable - restricted for capital projects	1,417,984	103%	697,982
Expendable - for specific operating activities	669,057	9%	614,206
Unrestricted	(63,592,908)	-39%	(45,621,748)
Total net position	$ (55,979,310)	-48%	$ (37,848,242)

Financial Analysis - The Authority and the Foundation, continued

Changes in Net Position:

Net position decreased by $8.6 million during the fiscal year ended June 30, 2018 and decreased by $3.6 million during the fiscal year ended June 30, 2017. The primary reasons for the decrease are due to changes in the pension plan assumptions, adoption of OPEB accounting standard and the depreciation of equipment related to the digital conversion project.

Condensed Statements of Revenues, Expenses and Changes in Net Position for Years Ended June 30

	2018	% Increase (Decrease)	2017
Operating revenues	**$ 6,914,995**	**-8%**	$ 7,515,654
Operating expenses	**31,832,121**	**13%**	28,126,314
Net operating loss	**(24,917,126)**	**21%**	(20,610,660)
Non-operating revenues (expenses):			
State appropriation	**13,504,400**	**-4%**	14,064,300
Support received from the Fund	**2,858,000**	**-3%**	2,958,048
Interest expense	**(36,386)**	**22%**	(29,917)
Interest and investment income	**8,797**	**4%**	8,469
Change in net position	**(8,582,315)**		(3,609,760)
Net position, beginning of year, as previously reported	**(37,848,242)**		(34,238,482)
Retroactive adoption of OPEB accounting standard	**(9,548,753)**		-
Net position, beginning of year, as adjusted	**(47,396,995)**		(34,238,482)
Net position, end of year	**$ (55,979,310)**		$ (37,848,242)

Analysis of Capital Asset Activity for the Authority

The following table summarizes selected capital assets activity for the Authority as of June 30:

	2018	2017
Capital assets not being depreciated	**$ 920,163**	$ 493,225
Other capital assets, at historical cost	**50,875,210**	51,130,189
Total, at cost	**51,795,373**	51,623,414
Accumulated depreciation	**(45,477,885)**	(44,245,815)
Related debt	**(1,040,932)**	(1,166,281)
Capital assets, net	**$ 5,276,556**	$ 6,211,318

Net capital assets decreased 15% and decreased 2% for fiscal years 2018 and 2017, respectively. Depreciation totaled $1.6 million, or 5% of operating expenses, and $1.6 million, or 6% of operating expenses, for fiscal years 2018 and 2017, respectively.

Financial Highlights of Discretely Presented Component Unit

The Fund was formed in 1994 as a nonprofit corporation operating in the Commonwealth of Kentucky to support and further the educational, charitable and public purposes and activities of the Authority and the related Foundation. The Fund's primary purpose is to receive, hold and administer funds provided by its fundraising activities for the benefit of KET.

Key financial highlights of the Fund include:

- The assets of the Fund exceeded its liabilities by approximately $24.3 million and $22.0 million at June 30, 2018 and 2017, respectively.
- Net position increased by $2.3 million and $2.9 million for the fiscal years ended June 30, 2018 and 2017, respectively.
- The Fund raised approximately $5.4 million in total revenue for the fiscal year ended June 30, 2018, compared to $5.7 million for the fiscal year ended June 30, 2017.
- Total support provided to the Foundation was approximately $2.9 million and $3.0 million for the fiscal years ended June 30, 2018 and 2017, respectively.

Financial Highlights of Discretely Presented Component Unit, continued

The Fund currently maintains four endowments:

– The W. Paul and Lucille Caudill Little Arts Endowment was established in 1993, to support arts education. The endowment funds are used to educate through the support of quality productions and programs in the fine arts to develop creativity in children 12 years old and under. The account balance at June 30, 2018 and 2017 totaled $2,752,245 and $2,588,029, respectively.

– In October 2003, the Fund established the Endowment for Kentucky Productions. This endowment is used to support KET's production, acquisition, and broadcast of quality programs and events that document or celebrate the people, places, history and legends of Kentucky. The account balance at June 30, 2018 and 2017 totaled $3,362,837 and $3,174,165, respectively.

– In 1999, the Fund established the Endowment for OLP/21st Century Fund. This endowment is used to support KET's public affairs programming and events. The account balance at June 30, 2018 and 2017 totaled $680,707 and $665,219, respectively.

– In October 2014, the Fund established the John R. Hall Endowment for Education. This endowment is used to support KET's educational resources and services from cradle to career. The account balance at June 30, 2018 and 2017 totaled $1,624,585 and $1,553,462, respectively.

Discussion of Currently Known Facts, Decisions or Conditions

Economic Factors:

Budget reductions and minimal increases in state appropriations have made it increasingly difficult for the agency to continue to provide the current level of services within the operating funds available. Budget cuts and mandated fixed expense increases, without sufficient revenues to offset, have continued to erode KET's base.

Digital Infrastructure:

The General Assembly appropriated $15,707,000 (in the 2006-2008 biennial budget) for the digital conversion of KET's Network Center infrastructure, to include production and master control. This work was completed in 2010.

In 2015, the General Assembly appropriated $2,000,000 for conversion of the facilities and equipment used to provide statewide legislative coverage. This project was completed in 2016.

The next phase of KET's digital transition is estimated to cost $2.1 million for the replacement of the broadcast distribution system (transmitters, translators, and microwave radios) which were installed in 2002.

Repacking Project:

During fiscal 2017, the Authority began the Congressionally mandated Repacking Project (the Project) for its 16 stations. The Project is required by the Federal Communications Commission (FCC), which will be reimbursing the costs incurred. The Project involves upgrading each transmitter site to meet the new telecommunications industry standard (TIA-222 rev. G) and installing new transmission systems to operate in the FCC re-assigned DTV channels. The Project is anticipated to take three years to complete with an estimated cost of $21 million. As each transmitter site is upgraded, each will be capitalized and transferred from the construction in progress account. Each site will have its own separate budget as required by the FCC to maintain individual site costs since each site has its own license number. As of June 30, 2018, total costs incurred for the Project amounted to approximately $840,000. In fiscal 2019, the Commonwealth budgeted approximately $2.1 million of bond funds for KET for additional equipment costs not reimbursed by the FCC.

Contacting the Authority's Financial Management

This financial report is designed to provide a general overview of the Authority's financial position. If you have questions about this report or need additional information, contact the Business Office, Kentucky Educational Television, 600 Cooper Drive, Lexington, KY 40502-2296, or www.ket.org.

KENTUCKY AUTHORITY FOR EDUCATIONAL TELEVISION

Consolidated Statements of Net Position

June 30, 2018 and 2017

	Kentucky Authority for Educational Television	Commonwealth Fund for KET, Inc.	2018 Reporting Entity	2017 Reporting Entity
Assets				
Current assets:				
Cash and cash equivalents	$ 1,821,469	$ 2,618,489	$ 4,439,958	$ 4,019,857
Investments	484,465	15,091,911	15,576,376	14,534,573
Receivables:				
Grants receivable	982,568	40,000	1,022,568	49,310
Underwriting	-	195,260	195,260	157,412
Accrued interest	-	34,565	34,565	27,352
Accounts receivable	168,175	11,474	179,649	104,876
Costs incurred for programs not yet broadcast	127,360	-	127,360	172,387
Public and instructional television program rights, current	115,988	-	115,988	130,428
Promises to give, current	-	71,750	71,750	156,750
Receivable from the Fund	2,100,517	-	2,100,517	2,313,916
Prepaid expenses	325,419	32,587	358,006	498,615
Total current assets	6,125,961	18,096,036	24,221,997	22,165,476
Noncurrent assets:				
Restricted cash and cash equivalents	690,720	337,786	1,028,506	712,377
Promises to give, net of current	-	63,000	63,000	288,000
Restricted investments	740,175	8,073,914	8,814,089	8,016,225
Public and instructional television program rights, net of current	55,610	-	55,610	34,733
Capital assets, net	6,317,488	186,481	6,503,969	7,591,769
Total noncurrent assets	7,803,993	8,661,181	16,465,174	16,643,104
Total assets	$ 13,929,954	$ 26,757,217	$ 40,687,171	$ 38,808,580
Deferred Outflows of Resources				
Deferred amount related to pension plan	$ 13,009,004	$ -	$ 13,009,004	$ 8,553,209
Deferred amount related to OPEB	2,330,467	-	2,330,467	-
Total deferred outflows of resources	$ 15,339,471	$ -	$ 15,339,471	$ 8,553,209

	Kentucky Authority for Educational Television	Commonwealth Fund for KET, Inc.	2018 Reporting Entity	2017 Reporting Entity
Liabilities				
Current liabilities:				
Accounts payable	$ 431,484	$ 3,365	$ 434,849	$ 371,814
Payable to the Authority and the Foundation	-	2,100,517	2,100,517	2,313,916
Accrued wages	1,034,427	-	1,034,427	1,034,188
Compensated leave, current	758,499	-	758,499	694,220
Current maturities of note payable	129,472	-	129,472	125,349
Unearned revenue	2,025,507	368,677	2,394,184	1,426,306
Total current liabilities	4,379,389	2,472,559	6,851,948	5,965,793
Noncurrent liabilities:				
Note payable, net of current maturities	911,460	-	911,460	1,040,932
Compensated leave, net of current	443,411	-	443,411	571,077
Net pension liability	63,700,233	-	63,700,233	52,915,518
Net OPEB liability	12,065,829	-	12,065,829	-
Total noncurrent liabilities	77,120,933	-	77,120,933	54,527,527
Total liabilities	$ 81,500,322	$ 2,472,559	$ 83,972,881	$ 60,493,320
Deferred Inflows of Resources				
Deferred amount related to pension plan	$ 955,429	$ -	$ 955,429	$ 47,982
Deferred amount related to OPEB	259,647	-	259,647	-
Unearned lease incentive payment	2,533,337	-	2,533,337	2,666,670
Total deferred inflows of resources	$ 3,748,413	$ -	$ 3,748,413	$ 2,714,652
Net Position				
Invested in capital assets, net of related debt	$ 5,276,557	$ 186,481	$ 5,463,038	$ 6,425,488
Restricted:				
Non-expendable	250,000	2,023,583	2,273,583	2,273,583
Expendable:				
Restricted for capital projects	1,417,984	-	1,417,984	697,982
Expendable for specific operating activities	669,057	6,052,728	6,721,785	6,132,422
Unrestricted	(63,592,908)	16,021,866	(47,571,042)	(31,375,658)
Total net position	$ (55,979,310)	$ 24,284,658	$ (31,694,652)	$ (15,846,183)

See accompanying notes.

KENTUCKY AUTHORITY FOR EDUCATIONAL TELEVISION

Consolidated Statements of Revenues, Expenses, and Changes in Net Position

Years ended June 30, 2018 and 2017

	Kentucky Authority for Educational Television	**Commonwealth Fund for KET, Inc.**	**2018 Reporting Entity**	2017 Reporting Entity
Operating revenues:				
Charges for services	$ **1,976,818**	$ **-**	$ **1,976,818**	$ 2,298,787
Private gifts and grants	**4,364,564**	**200,450**	**4,565,014**	5,209,301
Adult and continuing education	**451,511**	**-**	**451,511**	503,904
Fundraising	**-**	**5,199,568**	**5,199,568**	5,018,115
Fees received from the Fund	**26,400**	**-**	**26,400**	26,400
Miscellaneous	**95,702**	**17,214**	**112,916**	166,383
Total operating revenues	**6,914,995**	**5,417,232**	**12,332,227**	13,222,890
Operating expenses:				
Programming and production	**13,713,905**	**-**	**13,713,905**	14,869,829
Broadcasting	**2,554,417**	**-**	**2,554,417**	2,428,691
Program information	**918,899**	**-**	**918,899**	973,273
Management	**2,989,754**	**1,121,386**	**4,111,140**	4,415,690
Fundraising	**15,503**	**957,983**	**973,486**	957,533
Pension expense	**10,442,702**	**-**	**10,442,702**	6,616,761
OPEB expense	**1,196,941**	**-**	**1,196,941**	-
Total operating expenses	**31,832,121**	**2,079,369**	**33,911,490**	30,261,777
Operating (loss) income	**(24,917,126)**	**3,337,863**	**(21,579,263)**	(17,038,887)
Nonoperating revenue (expenses):				
State appropriation	**13,504,400**	**-**	**13,504,400**	14,064,300
Support received from the Fund	**2,858,000**	**-**	**2,858,000**	2,958,048
Payments to the Foundation	**-**	**(2,858,000)**	**(2,858,000)**	(2,958,048)
Interest expense	**(36,386)**	**-**	**(36,386)**	(29,917)
Interest and investment income	**8,797**	**1,802,736**	**1,811,533**	2,264,490
Total nonoperating revenue (expenses)	**16,334,811**	**(1,055,264)**	**15,279,547**	16,298,873
Change in net position	**(8,582,315)**	**2,282,599**	**(6,299,716)**	(740,014)
Net position, beginning of year, as previously reported	**(37,848,242)**	**22,002,059**	**(15,846,183)**	(15,106,169)
Adjustment applicable to prior years resulting from the retroactive change in accounting for OPEB upon adoption of a new accounting standard (Note 2)	**(9,548,753)**	**-**	**(9,548,753)**	-
Net position, beginning of year, as adjusted	**(47,396,995)**	**22,002,059**	**(25,394,936)**	(15,106,169)
Net position, end of year	$ **(55,979,310)**	$ **24,284,658**	$ **(31,694,652)**	$ (15,846,183)

See accompanying notes.

KENTUCKY AUTHORITY FOR EDUCATIONAL TELEVISION

Consolidated Statements of Cash Flows

Years ended June 30, 2018 and 2017

	Kentucky Authority for Educational Television	Commonwealth Fund for KET, Inc.	2018 Reporting Entity	2017 Reporting Entity
Cash flows from operating activities:				
Cash received from customers	$ 3,111,300	$ 5,780,371	$ 8,891,671	$ 2,088,105
Cash received from contributions	3,695,407	-	3,695,407	10,285,549
Cash paid to suppliers for goods and services	(12,927,802)	(2,250,703)	(15,178,505)	(11,897,717)
Cash paid for personnel services	(9,441,532)	-	(9,441,532)	(11,755,984)
Net cash (used in) provided by operating activities	(15,562,627)	3,529,668	(12,032,959)	(11,280,047)
Cash flows from noncapital financing activities:				
State appropriation	13,504,400	-	13,504,400	14,064,300
Contributions from (to) component units	2,858,000	(2,858,000)	-	-
Net cash (used in) provided by noncapital financing activities	16,362,400	(2,858,000)	13,504,400	14,064,300
Cash flows from capital and related financing activities:				
Purchase of program rights	-	-	-	(168,529)
Payments on long-term debt	(125,349)	-	(125,349)	(121,356)
Interest paid on long-term debt	(36,386)	-	(36,386)	(29,917)
Purchase of capital assets	(534,034)	(4,095)	(538,129)	(1,402,906)
Net cash used in capital and related financing activities	(695,769)	(4,095)	(699,864)	(1,722,708)
Cash flows from investing activities:				
Net investment activity in Commonwealth's cash and investment pool	92,812	-	92,812	(411,808)
Purchase of investments	-	(6,716,145)	(6,716,145)	(7,156,811)
Proceeds from sales of investments	72,796	6,133,718	6,206,514	5,252,078
Investment earnings	653	380,819	381,472	356,897
Net cash (used in) provided by investing activities	166,261	(201,608)	(35,347)	(1,959,644)
Net increase (decrease) in cash and cash equivalents	270,265	465,965	736,230	(898,099)
Cash and cash equivalents, beginning of year	2,241,924	2,490,310	4,732,234	5,630,333
Cash and cash equivalents, end of year	$ 2,512,189	$ 2,956,275	$ 5,468,464	$ 4,732,234
Reconciliation of cash and cash equivalents to statement of net position:				
Cash and cash equivalents	$ 1,821,469	$ 2,618,489	$ 4,439,958	$ 4,019,857
Restricted cash and cash equivalents	690,720	337,786	1,028,506	712,377
Total cash and cash equivalents	$ 2,512,189	$ 2,956,275	$ 5,468,464	$ 4,732,234

KENTUCKY AUTHORITY FOR EDUCATIONAL TELEVISION

Consolidated Statements of Cash Flows, continued

Years ended June 30, 2018 and 2017

	Kentucky Authority for Educational Television	Commonwealth Fund for KET, Inc.	2018 Reporting Entity	2017 Reporting Entity
Reconciliation of operating (loss) income to net cash (used in) provided by operating activities:				
Operating (loss) income	$ **(24,917,126)**	$ **3,337,863**	$ **(21,579,263)**	$ (17,038,887)
Adjustments:				
Depreciation and amortization	**1,594,145**	**31,784**	**1,625,929**	1,654,955
Amortization of program rights	**-**	**-**	**-**	168,529
Increase (decrease) in cash due to changes in:				
Accounts receivable	**(78,116)**	**3,343**	**(74,773)**	38,721
Promises to give	**-**	**310,000**	**310,000**	40,000
Grants receivable	**(978,258)**	**5,000**	**(973,258)**	161,276
Underwriting receivable	**-**	**(37,848)**	**(37,848)**	24,801
Receivable from the Fund	**213,399**	**-**	**213,399**	786,678
Costs incurred for programs not yet broadcast	**45,027**	**-**	**45,027**	198,273
Public and instructional television program rights	**(6,437)**	**-**	**(6,437)**	5,078
Prepaid expenses	**144,902**	**(4,293)**	**140,609**	745,906
Accounts payable	**65,675**	**(2,640)**	**63,035**	196,163
Payables to the Authority and the Foundation	**-**	**(213,399)**	**(213,399)**	(786,678)
Accrued wages	**239**	**-**	**239**	60,914
Compensated leave	**(63,387)**	**-**	**(63,387)**	(69,109)
Deferred outflows of resources - pension related	**(4,455,795)**	**-**	**(4,455,795)**	(3,502,932)
Deferred outflows of resources - OPEB related	**(2,330,467)**	**-**	**(2,330,467)**	-
Deferred lease incentive payment	**(133,333)**	**-**	**(133,333)**	(133,333)
Deferred inflows of resources - pension related	**907,447**	**-**	**907,447**	(38,386)
Deferred inflows of resources - OPEB related	**259,647**	**-**	**259,647**	-
Net pension liability	**10,784,715**	**-**	**10,784,715**	7,127,247
Net OPEB liability	**2,517,076**	**-**	**2,517,076**	-
Unearned revenue	**868,020**	**99,858**	**967,878**	(919,263)
Net cash (used in) provided by operating activities	$ **(15,562,627)**	$ **3,529,668**	$ **(12,032,959)**	$ (11,280,047)
Supplemental disclosures of cash flow information:				
Noncash investing, capital, and financing activities:				
Change in fair value of investments	$ **-**	$ **185,841**	$ **185,841**	$ 1,321,136

1. Description of the Organization

The Kentucky Authority for Educational Television (the Authority) is a public body, corporate and politic, of the Commonwealth of Kentucky (the Commonwealth) established by Kentucky Revised Statute (KRS) Chapter 168 that prescribes and enforces regulations governing the use of educational television, television facilities and related functions, the production and transmission of educational television programs and related services. The Authority is a component unit of the Commonwealth's basic financial statements as a discretely presented component unit.

The basic consolidated financial statements (hereafter, the financial statements) of the Authority present the activities of the Authority (primary government) and its significant component units. The component units discussed below are included in the Authority's reporting entity because of the significance of their operational or financial relationships with the Authority. The component units, although legally separate entities, are in substance part of the Authority's operations and exist solely to provide services for the Authority.

Blended Component Unit

The financial statements of the Authority include the operations of the Kentucky Educational Television Foundation, Inc. (the Foundation) which is a legally separate tax-exempt organization supporting the Authority. The Foundation also assists the Authority in the development and production of educational television programs and materials for the benefit of the citizens of the Commonwealth. The Authority and the Foundation are administered by the same Executive Director and governed by the same Board of Directors (the Board) with the exception of the Foundation whose Board includes a member of the Friends of KET. Although it is legally separate from the Authority, data from the Foundation is reported as if it were part of the Authority because it is substantively the same.

All significant intercompany transactions and balances have been eliminated in the financial statements.

Discretely Presented Component Unit

The Commonwealth Fund for KET, Inc. (the Fund) is a legally separate tax-exempt Kentucky corporation which receives, holds, and administers gifts and grants in the name of the Authority. The Fund acts primarily as a fundraising organization to supplement the resources that are available to the Authority and the Foundation in support of their programs. The majority of resources or income thereon that the Fund holds and invests is restricted by donors to the activities of the Authority and the Foundation. These restricted resources held by the Fund can only be used by, or for the benefit of, the Authority and the Foundation. The Fund is considered a component unit of the Authority and is discretely presented in the Authority's financial statements. Separate financial statements for the Fund can be obtained from the Fund's business office.

2. Summary of Significant Accounting Policies

This summary of significant accounting policies of the Authority, and its discretely presented component unit, (collectively, KET) is presented to assist in understanding KET's financial statements. The financial statements and related notes are representations of KET management who is responsible for their integrity and objectivity. The following is a summary of the significant accounting policies consistently followed by KET in the preparation of its financial statements:

Basis of Presentation

The accompanying financial statements have been prepared in accordance with accounting principles generally accepted in the United State of America (GAAP) for state governments as prescribed by the Governmental Accounting Standard Board (GASB). The Authority and the Fund are presented as enterprise funds and are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows.

The financial statements of KET include disclosures required by the "Principles of Accounting and Financial Reporting for Public Telecommunications Entities" as prescribed by the Public Telecommunications Financing Act of 1978 (Public Law 95-567).

Change in Accounting Principle

Effective July 1, 2017, KET was required to adopt GASB Statement No. 75, "A*ccounting and Financial Reporting for Postemployment Benefits Other Than Pensions (OPEB)*" (Statement 75). Statement 75 replaced the requirements of GASB Statements No. 45, "*Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*", as amended, and No. 57, "*OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans*". Statement 75 is applicable for governmental agencies that provide defined benefit OPEB to recognize their long-term obligation for OPEB as a liability to more comprehensively and comparably measure the annual cost. KET participates in the Kentucky Employees Retirement System (KERS) OPEB plan administered by the Board of Trustees of the Kentucky Retirement Systems. This is a cost-sharing, multiple employer defined benefit OPEB plan, which covers all eligible full-time employees and provides health insurance benefits. Cost-sharing governmental employers, such as KET, are required to report a net OPEB liability, OPEB expense and OPEB-related deferred outflows/inflows of resources based on their proportionate share of the collective amounts for all governmental agencies in the plan.

Statement 75 requires retrospective application, however, KET has determined that restatement of all prior periods presented is not practical. Thus, the cumulative effect of adopting Statement 75 is reported as a restatement of the beginning net position for 2018. The adjustment resulted in a $9,548,753 reduction in beginning net position for 2018.

2. Summary of Significant Accounting Policies, continued

Use of Estimates

The process of preparing financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Description of Net Position Classes

Net position is classified in various components as follows:

Invested in capital assets, net of related debt - Consists of capital assets net of accumulated depreciation and reduced by the current balances of any outstanding borrowings used to finance the purchase or construction of those assets.

Restricted non-expendable - Consists of non-capital assets subject to externally imposed stipulations that they be maintained permanently.

Restricted expendable - Consists of non-capital assets that must be used for particular purpose, as specified by creditors, grantors, or donors external to KET.

Unrestricted - Unrestricted net position is remaining net position that does not meet the definition of investment in capital assets, net of related debt or restricted net position.

Cash and Cash Equivalents

Cash and cash equivalents include certain investments in highly liquid debt instruments with original maturities of three months or less.

Investments

Investments are stated at fair value. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Purchases and sales of securities are recorded on a trade-date basis. Interest income is recorded on the accrual basis. Dividends are recorded on the ex-dividend date. Interest and investment income includes the unrealized gains or losses from changes in the fair value of the investments, as well as the realized gains and losses on investments bought and sold, during the year.

2. Summary of Significant Accounting Policies, continued

Receivables

KET routinely grants open-end credit to schools, universities and other state public broadcasting systems. Receivables are stated at the amount management expects to collect from outstanding balances. Management provides for probable uncollectible amounts through provision for bad debt expense and an adjustment to a valuation allowance based on its assessment of the current status of individual accounts. KET considers accounts receivable to be fully collectible within one year; accordingly, no allowance for doubtful accounts is required. If amounts become uncollectible, they will be charged to operations when that determination is made.

Contributions and Promises to Give

Contributions and unconditional promises to give are recorded as revenues in the period received and are recorded as unrestricted, expendable, or nonexpendable support depending on the existence and nature of any donor restrictions. Contributions of assets other than cash are recorded at their estimated fair value.

Conditional promises to give are recorded only when the conditions on which they depend are substantially met and the promises become unconditional. Promises to give are stated at the net present value of the expected future payments. In addition, management provides for probable uncollectible amounts through provision for bad debt expense and an adjustment to a valuation allowance based on its assessment of the current status of individual pledges. Based on these criteria, the Fund has estimated no allowance for doubtful accounts at June 30, 2018 because management expects no material losses.

Costs Incurred for Programs Not Yet Broadcast

Costs incurred for programs not yet broadcast relate to programs produced that will be broadcast in subsequent periods. Grants and contributions received by KET restricted to support such programs are included in unearned revenue if the donor requires commensurate value in return for their support. As the programs are initially broadcast, the costs incurred by KET will be recorded as expenses and the unearned revenue will be recorded as revenue. If the donor's support is non-reciprocal in nature, the grants and contributions are included as revenue in expendable net position for specific operating activities.

Program status is evaluated annually. Costs associated with programs not considered to have future benefit are adjusted to net realizable value.

Public and Instructional Television Program Rights

Program series and other syndicated products are recorded at the lower of unamortized cost based on the gross amount of the related liability, or estimated net realizable value. Generally, purchased program rights for KET are amortized on a straight-line basis over the period of expected usage. Amortization expense for the years ended June 30, 2018 and 2017 was $189,649 and $174,838, respectively.

2. Summary of Significant Accounting Policies, continued

Capital Assets

Capital assets are stated at cost or, in the case of donated property, at the estimated fair value at the date of the gift to KET. The capitalization threshold for KET is $5,000. Depreciation is calculated on the straight-line method over the estimated useful lives of the assets, which ranges from two to thirty years.

Federal Communications Commission Licenses

The Authority's Federal Communication Commission (FCC) licenses are stated at cost and amortized on a straight-line basis over an estimated useful life of twenty years. The licenses became fully amortized as of June 30, 2017.

Operating Revenues and Expenses

Operating revenues and expenses for enterprise funds are those that result from providing services. It also includes all revenues and expenses not related to capital and related financing, non-capital financing, or investing activities.

Program and Production Underwriting

Revenue for program and production underwriting is recorded on a pro rata basis for the period covered.

Pensions and Other Post-Employment Benefits (OPEB)

KET participates in the KERS administered by the Board of Trustees of the Kentucky Retirement Systems. These are cost-sharing, multiple employer defined benefit pension and OPEB plans, which cover all eligible full-time employees and provide for retirement, health insurance, disability and death benefits to plan members.

In accordance with GASB Statement No. 68, *Accounting and Financial Reporting for Pensions*, and Statement 75, cost-sharing governmental employers are required to report a net pension and OPEB liability, pension and OPEB expense and pension and OPEB related deferred outflows/inflows of resources based on their proportionate share of the collective amounts for all governments in the plans. For purposes of measuring the net pension and OPEB liability, deferred outflows of resources and deferred inflows of resources related to pensions and OPEB, and pension and OPEB expense, information about the fiduciary net position of KERS and additions to or deductions from KERS' fiduciary net position have been determined on the same basis as they are reported by KERS. For this purpose, benefit payments and health insurance premiums (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

2. Summary of Significant Accounting Policies, continued

Subsequent Events

Management has evaluated subsequent events for accounting and disclosure requirements through November 2, 2018, the date the financial statements were available to be issued.

3. Cash Deposits

The Authority and the Foundation

A portion of the Authority's cash is a part of the Commonwealth's cash and investment pool. The carrying amount of the Authority's cash and cash equivalents invested in the Commonwealth's cash and investment pool at June 30, 2018 and 2017 was $356,610 and $263,798, respectively. See the Commonwealth's Comprehensive Annual Financial Report for the year ended June 30, 2018, for disclosure of the credit risk classification of the Commonwealth's cash and investment pool.

The Authority and Foundation have deposits with financial institutions at June 30, 2018 and 2017. The carrying amount of the Authority's and Foundation's deposits with financial institutions was $2,155,579 and $1,978,126 at June 30, 2018 and 2017, respectively. The Authority's and Foundation's cash balances were fully collateralized on June 30, 2018 and 2017 with securities held by the Authority's and Foundation's agent in the Authority's and Foundation's name. Of the bank balance, $250,000 at each financial institution is insured by the Federal Depository Insurance Corporation (FDIC).

The Fund

The carrying amount of the Fund's deposits was $2,956,275 and $2,490,310 at June 30, 2018 and 2017, respectively. The Fund's cash balances were fully collateralized at June 30, 2018 and 2017. Included in the Fund's deposits at June 30, 2018 and 2017, are depository accounts that invest in overnight repurchase agreements totaling $2,465,577 and $1,996,429, respectively.

4. Investments

The Authority and the Foundation

A portion of the Authority's investments are held directly in the Commonwealth's cash and investment pool, which has statutory responsibility and authority to safeguard the funds. At June 30, 2018 and 2017, the Authority's share of investments in the Commonwealth's cash and investment pool totaled $490,175 and $655,783, respectively. Legally authorized investments generally include obligations of or guaranteed by the United States; obligations of any corporation of the United States Government; asset backed securities; U.S. dollar denominated corporate securities; collateralized certificates of deposit; bankers' acceptances; commercial paper and repurchase agreements. The Commonwealth is also eligible to invest in reverse repurchase agreements. See the Commonwealth's Comprehensive Annual Financial Report for the year ended June 30, 2018 for disclosure of the credit risk classification of the Commonwealth's cash and investment pool.

4. Investments, continued

The Authority and the Foundation, continued

Custodial credit risk for deposits is the risk that in the event of an institution's failure, the Authority's deposits may not be returned. As of June 30, 2018 and 2017, the Authority's investments are neither insured nor registered, but are held by the Authority's custodial agent in the Authority's name.

All other investments held by the Authority and the Foundation at June 30, 2018, consist entirely of certificates of deposit with its financial institutions and the entire balance was insured by the FDIC. All certificates of deposit can be withdrawn without penalty, given a 7-day notice. The net investment value, which approximates fair value, of the Authority's and the Foundation's investments was $734,465 and $726,321 at June 30, 2018 and 2017, respectively. The investment income for the Authority and the Foundation totaled $8,797 and $8,469 for the year ended June 30, 2018 and 2017, respectively, and consisted of interest earned.

The Fund

The Fund's investment policy permits the following investments:

- Obligations and contracts for future delivery of obligations backed by the full faith and credit of the United States or a United States governmental agency or corporation, including but not limited to:
    - United States Treasury
    - Farmers Home Administration
    - Governmental National Mortgage Association
    - Federal National Mortgage Association
    - Federal Home Loan Bank
    - Federal Farm Credit Banks
- Collateralized Certificates of Deposit or uncollateralized Certificates of Deposit issued by banks rated in one of the three highest categories by a nationally recognized agency or other interest bearing accounts in depository institutions chartered by Kentucky or the United States to the extent guaranteed by deposit insurance
- Commercial paper rated as investment grade
- Bankers' acceptances for banks rated in one of the three highest categories by a nationally recognized rating agency
- Mutual Funds
- Publicly held individual equities or stock mutual funds

The policy limits the interest rate risk, market risk, and concentration of credit risk as follows:

- No more than 75% of the total funds should be invested in equities or stock funds
- No more than 30% of the total funds should be invested in bonds, other fixed income obligations or cash and cash equivalents

4. Investments, continued

The Fund, continued

- No more than 15% of the total funds should be invested in cash or cash equivalents
- No more than 10% of total funds should be invested in obligations of one obligor, unless that obligor is in the United States government or agencies thereof
- No more than 25% of the total funds should be in one mutual fund
- Equity investment in any one company shall be limited in market value to 10% of the total funds
- The Fund shall not hold unsecured investments in any one industry in an amount exceeding 20% of the market value of the total funds

Concentration of credit risk is the risk of loss attributed to the magnitude of a government's investment in a single issuer. The Fund's investments are currently invested with approximately 9.7% and 10.1% in domestic corporate bonds and 12.3% and 6.7% in fixed income mutual funds and exchange traded funds (ETFs) at June 30, 2018 and 2017, respectively. ETFs are marketable securities that track an index, a commodity, bonds, or a basket of assets like an index fund. ETFs trade like common stocks on the stock exchange.

The Fund's investment balances were comprised of the following at June 30, 2018:

Investment Type	Fair Value	Weighted Average Maturity	Rating
U.S. Government Bonds	**752,092**	4.03	AAA/N/A
Domestic Corporate Bonds	**95,698**	2.21	AAA
Domestic Corporate Bonds	**705,102**	3.47	AA
Domestic Corporate Bonds	**1,004,641**	3.62	A
Domestic Corporate Bonds	**432,464**	2.38	BBB
Domestic Equities	**10,230,228**	N/A	N/A
Real Estate Investment Trusts	**266,585**	N/A	N/A
Fixed Income Mutual Funds	**2,858,033**	N/A	N/A
Equity Mutual Funds	**6,222,582**	N/A	N/A
Certificates of Deposit	**598,400**	N/A	N/A
Total	**$ 23,165,825**		

4. Investments, continued

The Fund, continued

The Fund's investment balances were comprised of the following at June 30, 2017:

Investment Type	Fair Value	Weighted Average Maturity	Rating
U.S. Government Bonds	780,513	4.50	AAA/N/A
Domestic Corporate Bonds	98,387	3.21	AAA
Domestic Corporate Bonds	748,848	4.05	AA
Domestic Corporate Bonds	851,752	3.76	A
Domestic Corporate Bonds	449,521	2.63	BBB
Domestic Equities	11,348,290	N/A	N/A
Real Estate Investment Trusts	341,130	N/A	N/A
Fixed Income Mutual Funds	1,410,240	N/A	N/A
Equity Mutual Funds	4,630,757	N/A	N/A
Certificates of Deposit	509,256	N/A	N/A
Total	$ 21,168,694		

Investment return is summarized as follows for the year ended June 30:

	2018	2017
Interest and dividend income	**$ 501,666**	$ 452,722
Realized gains	**1,228,863**	584,497
Unrealized gains	**185,841**	1,321,136
Investment fees	**(113,634)**	(102,334)
Total	**$ 1,802,736**	$ 2,256,021

The calculation of realized gains and losses is independent of the calculation of the net increase of the fair value of investments. Realized gains and losses on investments that had been held in more than one fiscal year and sold in the current year may have been recognized as an increase or decrease in the fair value of investments reported in the prior year.

5. Fair Value of Measurements

The framework for measuring fair value provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (level 1) and the lowest priority to unobservable inputs (level 3).

5. Fair Value of Measurements, continued

The three levels of the fair value hierarchy are described as follows:

- Level 1: Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that KET has the ability to access.

- Level 2: Inputs to the valuation methodology include quoted prices for similar assets or liabilities in active markets; quoted prices for identical or similar assets or liabilities in inactive markets; inputs other than quoted prices that are observable for the asset or liability; inputs that are derived principally from or corroborated by observable market data by correlation or other means. If the asset or liability has a specified (contractual) term, the level 2 input must be observable for substantially the full term of the asset or liability.

- Level 3: Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

The asset or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques maximize the use of relevant observable inputs and minimize the use of unobservable inputs.

Following is a description of the valuation methodologies used for assets measured at fair value:

Common stocks: Valued at the closing price reported on the active market on which the individual securities are traded.

Corporate bonds: Valued using pricing models maximizing the use of observable inputs for similar securities. This included basing value on yields currently available on comparable securities of issuers with similar credit ratings.

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

U.S. government securities: Valued using pricing models maximizing the use of observable inputs for similar securities.

Real estate investment trusts: Valued at the closing price reported on the active market on which the individual securities are traded.

Investments in the Commonwealth's cash and investment pool: Valued by the Commonwealth based on the value of underlying securities using quoted prices in active markets for similar securities and interest rates and allocated to the investee according to its share of the pool.

5. Fair Value of Measurements, continued

The following table sets forth by level, within the hierarchy, the Authority's assets and liabilities measured at fair value on a recurring basis as of June 30:

Assets at Fair Value as of June 30, 2018

	Level 1	Level 2	Level 3	Total
Investments in the Commonwealth's cash and investment pool, at fair value	**$ -**	**$ 490,175**	**$ -**	**$ 490,175**
Certificates of deposit				**734,465**
Total investments				**$ 1,224,640**

Assets at Fair Value as of June 30, 2017

	Level 1	Level 2	Level 3	Total
Investments in the Commonwealth's cash and investment pool, at fair value	$ -	$ 655,783	$ -	$ 655,783
Certificates of deposit				726,321
Total investments				$ 1,382,104

5. Fair Value of Measurements, continued

The following table sets for by level, within the hierarchy, the Fund's assets and liabilities measured at fair value on a recurring basis as of June 30:

Assets at Fair Value as of June 30, 2018

	Level 1	Level 2	Level 3	Total
Mutual funds	**$ 9,080,615**	**$ -**	**$ -**	**$ 9,080,615**
Common stocks	**10,230,228**	**-**	**-**	**10,230,228**
Corporate bonds	**-**	**2,237,905**	**-**	**2,237,905**
U.S. government securities	**-**	**752,092**	**-**	**752,092**
Real estate investment trusts	**266,585**	**-**	**-**	**266,585**
Total, at fair value	**$ 19,577,428**	**$ 2,989,997**	**$ -**	**22,567,425**
Certificates of deposit				**598,400**
Total investments				**$ 23,165,825**

Assets at Fair Value as of June 30, 2017

	Level 1	Level 2	Level 3	Total
Mutual funds	$ 6,040,997	$ -	$ -	$ 6,040,997
Common stocks	11,348,290	-	-	11,348,290
Corporate bonds	-	2,148,508	-	2,148,508
U.S. government securities	-	780,513	-	780,513
Real estate investment trusts	341,130	-	-	341,130
Total, at fair value	$ 17,730,417	$ 2,929,021	$ -	20,659,438
Certificates of deposit				509,256
Total investments				$ 21,168,694

KET's policy is to recognize transfers between levels as of the actual date of the event or change in circumstances. There were no transfers between levels during the years ended June 30, 2018 and 2017.

KET holds investments which are exposed to various risks such as interest rate, market, and credit. Due to the level of risk associated with these securities and the level of uncertainty related to changes in the value, it is at least reasonably possible that changes in the various risk factors will occur in the near term that could materially affect the amounts reported in accompanying financial statements.

6. Promises to Give

Promises to give, including unconditional promises to give, are comprised of the following at June 30:

	2018	2017
O. Leonard Press 21st Century Fund	**$ 29,750**	$ 69,750
John R. Hall Endowment for Education Fund	**105,000**	375,000
Total promises to give	**$ 134,750**	$ 444,750

Promises to give are classified as follows:

	2018	2017
Receivable in less than one year	**$ 71,750**	$ 156,750
Receivable in one to five years	**63,000**	288,000
Total promises to give	**$ 134,750**	$ 444,750

7. Capital Assets

The Authority's and the Foundation's capital assets are comprised of the following at June 30, 2018:

	Beginning Balance	Increases	Decreases	Ending Balance
Capital assets not being depreciated:				
Construction in progress	$ 417,141	$ 426,938	$ -	$ 844,079
Land	76,084	-	-	76,084
Other capital assets:				
Buildings	16,149,432	36,114	38,303	16,147,243
Furniture and fixtures	152,596	-	-	152,596
Graphics	379,956	-	-	379,956
Information services	487,923	12,306	-	500,229
Production equipment	4,965,618	40,977	-	5,006,595
Studio equipment	11,270,890	7,499	276,847	11,001,542
Transmitter equipment	16,464,782	10,200	46,925	16,428,057
Other equipment	1,249,203	-	-	1,249,203
Vehicles	9,789	-	-	9,789
Total, at historical cost	51,623,414	534,034	362,075	51,795,373
Less: accumulated depreciation				
Buildings	12,912,206	618,737	38,303	13,492,640
Furniture and fixtures	152,592	-	-	152,592
Graphics	379,956	-	-	379,956
Information services	350,086	46,005	-	396,091
Production equipment	4,275,582	234,656	-	4,510,238
Studio equipment	10,327,400	281,245	276,847	10,331,798
Transmitter equipment	14,596,588	411,341	46,925	14,961,004
Other equipment	1,241,616	2,161	-	1,243,777
Vehicles	9,789	-	-	9,789
Total accumulated depreciation	44,245,815	1,594,145	362,075	45,477,885
Capital assets, net	$ 7,377,599	$ (1,060,111)	$ -	$ 6,317,488

7. Capital Assets, continued

The Fund's capital assets are comprised of the following at June 30, 2018:

	Beginning Balance	Additions	Retirements	Ending Balance
Buildings	$ **731,114**	$ **-**	$ **-**	$ **731,114**
Furniture, fixtures, and equipment	**52,179**	**4,095**	**-**	**56,274**
Total, at historical cost	**783,293**	**4,095**	**-**	**787,388**
Less: accumulated depreciation				
Buildings	**528,808**	**26,592**	**-**	**555,400**
Furniture, fixtures, and equipment	**40,315**	**5,192**	**-**	**45,507**
Total accumulated depreciation	**569,123**	**31,784**	**-**	**600,907**
Capital assets, net	$ **214,170**	$ **(27,689)**	$ **-**	$ **186,481**

Depreciation expense for the years ended June 30, 2018 and 2017 was expensed as follows:

	Authority	Fund	2018 Reporting Entity	2017 Reporting Entity
Program and production	$ **518,060**	$ **-**	$ **518,060**	$ 527,386
Broadcasting	**510,339**	**-**	**510,339**	469,153
Management	**565,746**	**31,784**	**597,530**	658,416
Total depreciation expense	$ **1,594,145**	$ **31,784**	$ **1,625,929**	$ 1,654,955

8. Compensated Absences

KET follows the policy of the Commonwealth which is to record the cost of annual and compensatory leave.

Annual leave is accumulated at amounts ranging from 7.5 to 15.0 hours per month, determined by length of service, with maximum accumulations ranging from 30 to 60 days. The calendar year is the period used for determining accumulated leave. At June 30, 2018 and 2017, the estimated liability for accrued annual leave for KET was $877,317 and $904,942, respectively.

Compensatory leave is granted to authorized employees. At June 30, 2018 and 2017, the estimated liability for compensatory leave for KET was $324,593 and $360,355, respectively.

The Fund leases employees from the Authority; therefore, any liability for compensated absences is recorded by the Authority, and not the Fund.

Changes in compensated absences for the year ended June 30, 2018 are summarized as follows:

Beginning Balance	Additions	Reduction	Ending Balance	Amounts Due Within One Year
$ 1,265,297	$ 690,799	$ (754,186)	$ 1,201,910	$ 758,499

It is the policy of KET to record the cost of sick leave when paid. Generally, sick leave (earned one day per month with unlimited accumulation) is paid only when an employee is absent due to illness, injury, or related family death. Sick leave accumulated is added to an employee's years of service at the time of retirement. There was no liability recorded for sick leave at June 30, 2018 or 2017. The estimated accumulated amount of unused sick leave for KET was $2,893,058 and $3,004,668 at June 30, 2018 and 2017, respectively.

9. Pension Plan

All Authority and Foundation employees who work more than one hundred hours per month participate in a defined benefit plan administered by KERS, a cost-sharing multi-employer public employee retirement system.

	Tier 1	Tier 2	Tier 3
Participation:	Prior to 9/1/2008	9/1/2008 through 12/31/2013	1/1/2014 and after
Covered Employees:	Substantially all regular full-time members employed in non-hazardous and hazardous duty positions of any state department, board, or any agency directed by Executive Order to participate in KERS.		
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% - If you do not have 13 months credit for 1/1/1998 - 1/1/1999. 2.00% - If you have 13 months credit for 1/1/1998 - 1/1/1999	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 a method adopted by the board based on member's accumulated account balance.
Cost of Living Adjustment: (COLA):	No COLA unless authorized by the Legislature with specific criteria. 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 Money Purchase calculations.	
Reduced Retirement Benefit:	Any age with 25 years of service. Age 55 with 5 years of service	Age 60 with 10 years of service. Excludes purchased service (exception: refunds, omitted, free military).	No reduced retirement benefit.

9. Pension Plan, continued

The KERS defined benefit plan includes two funds, the pension fund which provides retirement benefits and the insurance fund which provides health insurance benefits (see Note 10 for discussion of OPEB liability related to the insurance fund). KERS issues a publicly available financial report that includes financial statements and required supplementary information for both the pension and insurance funds. That report may be obtained by writing to Kentucky Retirement Systems, Perimeter Park West, 1260 Louisville Road, Frankfort, Kentucky 40501-6124 or by calling (502) 696-8800.

Benefit and contribution rates are established under statute by the Commonwealth. Per KRS 61.565, contribution requirements of the active employees and the participating organizations are established and may be amended by the KERS board of trustees. For the fiscal year ended June 30, 2018, KET employees were required to contribute 5% of their annual covered salary for retirement benefits. Employees with a participation date after September 1, 2008 were required to contribute an additional 1% of their salary for retiree healthcare benefits. KET was contractually required to contribute 49.4% of covered payroll to the non-hazardous KERS pension and insurance plans for the year ended June 30, 2018. 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.

KET's total required contributions to the KERS non-hazardous pension plan were $3,206,335 and $3,030,832 for the years ended June 30, 2018 and 2017, respectively. At June 30, 2018 and 2017, KET reported a liability of $63,700,233 and $52,915,518, respectively, for its proportionate share of net pension liability. The net pension liability is measured as of June 30 of the preceding year and the total pension liability used to calculate the net pension liability is determined by an actuarial valuation as of that date. KET's proportion of the net pension liability was based on a projection of the plan's long-term share of contributions to the pension plan relative to the projected contributions of all participating entities. At June 30, 2018 and 2017, KET's proportion of the net pension liability was 0.48% and 0.46%, respectively.

Actuarial Valuation Date	June 30, 2017
Actuarial Cost Method	Entry Age
Amortization Method	Level percent closed
Remaining amortization period	26 years
Asset valuation method	Five-year smoothed market
Investment rate of return	5.25%
Inflation rate	2.30%
Projected salary increases	3.05%, average
Mortality tables:	
Active members	RP-2000 Combined Mortality Table projected with Scale BB to 2013 (multiplied by 50% for males and 30% for females)
Health retired members	RP-2000 Combined Mortality Table projected with Scale BB to 2013 (set back 1 year for females)
Disabled members	RP-2000 Combined Mortality Tables projected with Scale BB to 2013 (set back 4 years for males)
Date of experience study	The period July 1, 2008 - June 30, 2013

9. Pension Plan, continued

For the year ended June 30, 2018, KET recognized pension expense of $10,442,702 and deferred outflows of resources and deferred inflows of resources related to pension from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Net difference between projected and actual earnings on investments	**$ 796,087**	**$ 488,050**
Difference between expected and actual experience	**11,330**	**410,200**
Change of assumptions	**8,081,913**	**-**
Changes in proportion and differences between employer contributions and proportionate share of contributions	**913,339**	**57,179**
Contributions subsequent to the measurement date of June 30, 2017	**3,206,335**	**-**
Total	**$ 13,009,004**	**$ 955,429**

For the year ended June 30, 2017, KET recognized pension expense of $6,616,761 and deferred outflows of resources and deferred inflows of resources related to pension from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Net difference between projected and actual earnings on investments	$ 55,270	$ -
Difference between expected and actual experience	812,468	-
Change of assumptions	4,008,253	-
Changes in proportion and differences between employer contributions and proportionate share of contributions	646,386	47,982
Contributions subsequent to the measurement date of June 30, 2016	3,030,832	-
Total	$ 8,553,209	$ 47,982

9. Pension Plan, continued

The deferred outflows of resources related to KET's contributions to the pension plan subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ending June 30, 2019. The deferred outflows of resources related to the net difference between projected and actual earnings on pension plan investments are amortized and recognized in pension expense over five years. All other amounts reported as deferred outflows of resources and deferred inflows of resources are amortized over a closed period equal to the average of the expected remaining service lives of all employees that are provided pensions through the pension plan which is determined to be approximately 2.79 years for the KERS non-hazardous employees. The net increase (decrease) in pension expense related to the amortization of these deferred amounts is as follows:

Year ending June 30:		
2019	$	5,590,718
2020		3,257,842
2021		86,405
2022		(87,725)
Total	$	8,847,240

The long-term expected return on plan assets is reviewed as part of the regular experience studies prepared every five years for the KERS. The most recent analysis performed was for the period covering fiscal years 2008 through 2013, and is outlined in a report dated April 30, 2014. Several factors are considered in evaluating the long-term rate of return. Assumption including long-term historical data, estimates inherent in current market data, and a log - normal distribution analysis in which best-estimate ranges of expected future real rates of return (expected return, net of investment expense and inflation) were developed by the investment consultant for each major asset class. These ranges were combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and then adding expected inflation. The capital market assumptions developed by the investment consultant are intended for use over a 10-year horizon and may not be useful in setting the long-term rate of return for funding pension plans which covers a longer timeframe. The assumption is intended to be a long-term assumption and is not expected to change absent a significant change in asset allocation, a change in the inflation assumption, or a fundamental change in the market that alters expected returns in future years.

9. Pension Plan, continued

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

Kentucky Employees Retirement System

Asset Class	Target Allocation	Long Term Nominal Rate of Return
Combined Equity	50%	5.3%
Intermediate Duration Fixed Income	11%	1.0%
Custom KRS Fixed Income	11%	3.3%
Core Real Estate	5%	4.3%
Diversified Hedge Funds	10%	4.0%
Private Equity	2%	8.0%
Diversified Inflation Strategies	8%	3.2%
Cash Equivalent	3%	-0.25%
Total	100%	

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 26-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.

June 30, 2017 is the actuarial valuation date upon which the total pension liability is based for the year ended June 30, 2018. No update procedures were used to determine the total pension liability. The discount rate is defined as the single rate of return that when applied to all projected payments results in an actuarial value of projected benefit payments for all current plan members were projected through 2117.

The following presents the net pension liability of KET, calculated using the discount rate of 5.25%, as well as what the plan's net position liability would be if it were calculated using a discount rate that is one percentage point lower (4.25%) or one percentage point higher (6.25%) as of the year ended June 30, 2018:

	1% Decrease (4.25%)	Current Discount Rate (5.25%)	1% Increase (6.25%)
KET's proportionate share	$ 72,731,223	$ 63,700,233	$ 56,191,410

9. Pension Plan, continued

Detailed information about KERS's fiduciary net position is available in the separately issued KERS Annual Financial Report (which is a matter of public record). The Commonwealth's Comprehensive Annual Financial Report should be referred to for additional disclosures related to KERS.

10. Other Post-Employment Benefits (OPEB)

At June 30, 2018, KET reported a liability of $12,065,829 for its proportionate share of the net OPEB liability. The net OPEB liability was measured as of June 30, 2017, for the year ended June 30, 2018, and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation as of that date. KET's proportion of the net OPEB liability was based on a projection of the plan's long-term share of contributions to the OPEB plan relative to the projected contributions of all participating organizations. At June 30, 2017, KET's proportion of the net OPEB liability was 0.48%.

For the year ended June 30, 2018, KET recognized OPEB expense of $1,196,941 and deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between expected and actual experience	$ -	$ 14,931
Net difference between projected and actual earnings on pension plan investments	-	156,169
Change of assumptions	1,579,782	-
Change in proportion and differences between employer contributions and proportionate share of contributions	-	88,547
Contributions subsequent to the measurement date of June 30, 2017	750,685	-
Total	$ 2,330,467	$ 259,647

The deferred outflows of resources related to KET's contributions to the OPEB plan subsequent to the measurement date will be recognized as a reduction of the net OPEB liability in the year ending June 30, 2019. The deferred inflows of resources related to the net difference between projected and actual earnings on OPEB plan investments are amortized and recognized in OPEB expense over five years. All other amounts reported as deferred outflows of resources and deferred inflows of resources are amortized over a closed period equal to the average of the expected remaining service lives of all employees that are provided OPEB through the OPEB plan which is determined to be approximately 5.01 years for the KERS non-hazardous employees. The net increase (decrease) in OPEB expense for future years related to the amortization of these deferred amounts is as follows:

10. Other Post-Employment Benefits (OPEB), continued

Year ending June 30:		
2019	$	329,113
2020		329,113
2021		329,113
2022		329,113
2023		3,683
Total	$	1,320,135

For financial reporting the actuarial valuation as of June 30, 2017, was performed by Gabriel Roeder Smith (GRS). The total OPEB liability, net OPEB liability, and sensitivity information as of June 30, 2017, were based on an actuarial valuation date of June 30, 2016. The total OPEB liability was rolled-forward from the valuation date (June 30, 2016) to the plan's fiscal year ending June 30, 2017, using generally accepted actuarial principles. GRS did not perform the actuarial valuation as of June 30, 2016, but did replicate the prior actuary's valuations results on the same assumption, methods, and data, as of that date. The roll-forward is based on the results of GRS' replication. Subsequent to the actuarial valuation date (June 30, 2016), but prior to the measurement date, and before the required 2019 experience study, the Kentucky Retirement Systems Board of Trustees reviewed investment trends, inflation, and payroll growth historical trends. Based on this review, the Board of Trustees adopted the following updated actuarial assumptions which were used in performing the actuarial valuation as of June 30, 2017:

Inflation	2.30%
Payroll growth rate	0.0% for KERS nonhazardous
Salary increase	3.05%, average
Investment rate of return	6.25%
Healthcare trend rates:	
Pre – 65	Initial trend starting at 7.25% at January 1, 2019, and gradually decreasing to an ultimate trend rate of 4.05% over a period of 13 years.
Post-65	Initial trend starting at 5.10% at January 1, 2019, and gradually decreasing to an ultimate trend rate of 4.05% over a period of 11 years.

The mortality table used for active members is RP-2000 Combined Mortality Table projected with Scale BB to 2013 (multiplied by 50% for males and 30% for females). For healthy retired members and beneficiaries, the mortality table used is the RP-2000 Combined Mortality Table projected with Scale BB to 2013 (set-back for one year for females). For disabled members, the RP-2000 Combined Disabled Mortality Table projected with Scale BB to 2013 (set back four years for males) is used for the period after disability retirement.

10. Other Post-Employment Benefits (OPEB), continued

The projection of cash flows used to determine the discount rate of 5.83% for KERS Non-hazardous assumed that local employers would contribute the actuarially determined contribution rate of projected compensation over the remaining 26 years (closed) amortization period of the unfunded actuarial accrued liability. The discount rate determination used an expected rate of return of 6.25%, and a municipal bond rate of 3.56%, as reported in Fidelity Index's "20 –Year Municipal GO AA Index" as of June 30, 2017. However, the cost associated with the implicit employer subsidy was not included in the calculation of Kentucky Retirement System's actuarial determined contributions, and any cost associated with the implicit subsidy will not be paid out of Kentucky Retirement System's trusts. Therefore, the municipal bond rate was applied to future expected benefit payments associated with the implicit subsidy. The target asset allocation and best estimates of arithmetic nominal rates of return for each major asset class are summarized in Note 9.

The following presents KET's proportionate share of the net OPEB liability, as well as what KET's proportionate share of the net OPEB liability would be if it were calculated using a discount rate that is 1-percentage-point lower or 1-percentage-point higher than the current discount rate:

	1% Decrease (4.83%)	Current Discount Rate (5.83%)	1% Increase (6.83%)
KET's proportionate share	$ 14,106,412	$ 12,065,829	$ 10,369,978

The following presents KET's proportionate share of the net OPEB liability, as well as what KET's proportionate share of the net OPEB liability would be if it were calculated using healthcare cost trend rates that are 1-percentage-point lower or 1-percentage-point higher than the current healthcare cost trend rates:

	1% Decrease	Current Trend Rate	1% Increase
KET's proportionate share	$ 10,252,048	$ 12,065,829	$ 14,343,355

11. Note Payable

		2018		2017
Unsecured loan agreement with an agency of the Commonwealth to borrow $1,813,351 from the Green Bank of Kentucky Program. The loan charges interest at the prime rate (3.25% at June 30, 2018), and payable in 56 consecutive quarterly payments of principal and interest of $40,434 until April 1, 2025.	**$**	**1,040,932**	$	1,166,281
Less: current portion		**129,472**		125,349
Long term portion	**$**	**911,460**	$	1,040,932

The remaining maturities on the note payable are as follows:

Year ending June 30,		Principal		Interest		Total
2019	$	129,472	$	32,263	$	161,735
2020		133,732		28,005		161,737
2021		138,131		23,604		161,735
2022		142,676		19,059		161,735
2023		147,370		14,366		161,736
Thereafter		349,551		14,354		363,905
	$	1,040,932	$	131,651	$	1,172,583

12. Operating Leases

The Authority currently receives lease income from multiple agencies for the annual rental of tower space. The tower leases have varying expiration dates and terms which allow for cancellation policies varying from two to six months. Lease income for the year ended June 30, 2018, totaled approximately $488,700. Annual operating lease payments to be received by the Authority are estimated at $400,000 through 2019.

The Authority leases office space in Louisville, Kentucky under an operating lease agreement which expired April 30, 2018. Rent was $7,360 per month plus applicable share of operating expenses. On May 1, 2018, the Authority extended the lease term for this office space through April 30, 2024. Rent expense will increase by 1% each year beginning on May 1, 2019. Rent expense for the year ended June 30, 2018 and 2017 totaled $91,207 and $89,172, respectively.

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

2019	$ 88,164
2020	89,046
2021	89,936
2022	90,835
2023	91,744
Thereafter	77,218
Total	$ 526,943

13. Restricted Net Position

Restricted non-expendable net position at June 30, 2018 for the Authority represents a $250,000 challenge grant received from the National Endowment for the Arts requiring that the principal be maintained intact by the Authority. The Authority may borrow from the principal, provided that such borrowing is used to support the production and presentation of regional performing arts and is repaid within two years. As of June 30, 2018, no amounts have been borrowed. Investment earnings on the principal are unrestricted.

Restricted non-expendable net position at June 30, 2018 for the Fund consists of the W. Paul and Lucille Caudill Little Arts Endowment in the amount of $2,023,583 held by the Fund for the benefit of the Authority. The funds held by the Fund represent donations requiring that the principal be maintained intact by the Fund. The interest and investment earnings are to be used for specific purposes specified by the donors and are classified as unrestricted when used for these specific purposes.

Restricted expendable net position at June 30, 2018, includes $669,057 in grants and contributions received restricted for education projects by the Authority, $6,052,728 in contributions and income designated for specific operating programs held by the Fund, and $1,417,984 in funds restricted for capital projects within the Authority.

14. Endowments

The Fund's endowment consists of four individual funds established for a variety of purposes. Its endowments includes both donor-restricted funds and funds designated by the Board of Directors to function as endowments.

Interpretation of Relevant Law

The Board of Directors of the Fund has interpreted the Uniform Prudent Management of Institutional Funds Act (UPMIFA) as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary.

UPMIFA became effective in Kentucky as of July 15, 2010. As a result of this interpretation, the Fund classifies as restricted - nonexpendable net position (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the Fund.

The remaining portion of the donor-restricted endowment fund that is not classified in restricted - nonexpendable net position is classified as expendable for specific operating activities net position until those amounts are appropriated for expenditure by the Fund in a manner consistent with the standard of prudence prescribed by UPMIFA.

In accordance with UPMIFA, the Fund considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

1) The duration and preservation of the Fund
2) The purposes of the Fund and the donor-restricted endowment fund
3) General economic conditions
4) The possible effect of inflation and deflation
5) The expected total return from income and the appreciation of investments
6) Other resources of the Fund
7) The investment policies of the Fund

Endowment net position composition by type of fund as of June 30, 2018 are as follows:

	Unrestricted	Expendable	Non-Expendable	Total
Donor Restricted Endowment Funds	**$ -**	**$ 6,052,728**	**$ 2,023,583**	**$ 8,076,311**
Board Designated Endowment Funds	**478,812**	**-**	**-**	**478,812**
	$ 478,812	**$ 6,052,728**	**$ 2,023,583**	**$ 8,555,123**

KENTUCKY AUTHORITY FOR EDUCATIONAL TELEVISION

Notes to the Consolidated Financial Statements, continued

14. Endowments, continued

Interpretation of Relevant Law, continued

Endowment net position composition by type of fund as of June 30, 2017 are as follows:

	Unrestricted	Expendable	Non-Expendable	Total
Donor Restricted Endowment Funds	$ -	$ 5,518,216	$ 2,023,583	$ 7,541,799
Board Designated Endowment Funds	439,076	-	-	439,076
	$ 439,076	$ 5,518,216	$ 2,023,583	$ 7,980,875

Changes in endowment net position for the year ended June 30, 2018 are as follows:

	Unrestricted	Expendable	Non-Expendable	Total
Endowment Net Position, Beginning of Year	**$ 439,076**	**$ 5,518,216**	**$ 2,023,583**	**$ 7,980,875**
Contributions	**-**	**62,500**	**-**	**62,500**
Interest and dividends	**8,758**	**165,889**	**-**	**174,647**
Realized gain	**-**	**254,233**	**-**	**254,233**
Unrealized gain	**30,978**	**140,842**	**-**	**171,820**
Fees	**-**	**(33,952)**	**-**	**(33,952)**
Amounts appropriated for expenditure	**-**	**(55,000)**	**-**	**(55,000)**
Endowment Net Position, End of Year	**$ 478,812**	**$ 6,052,728**	**$ 2,023,583**	**$ 8,555,123**

Changes in endowment net position for the year ended June 30, 2017 are as follows:

	Unrestricted	Expendable	Non-Expendable	Total
Endowment Net Position, Beginning of Year	**$ 391,586**	**$ 4,719,497**	**$ 2,023,583**	**$ 7,134,666**
Contributions	**-**	**188,514**	**-**	**188,514**
Interest and dividends	**6,843**	**151,511**	**-**	**158,354**
Realized gain	**247**	**119,662**	**-**	**119,909**
Unrealized gain	**40,400**	**514,616**	**-**	**555,016**
Fees	**-**	**(30,584)**	**-**	**(30,584)**
Amounts appropriated for expenditure	**-**	**(145,000)**	**-**	**(145,000)**
Endowment Net Position, End of Year	**$ 439,076**	**$ 5,518,216**	**$ 2,023,583**	**$ 7,980,875**

14. Endowments, continued

Interpretation of Relevant Law, continued

The Fund has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowment while seeking to maintain the purchasing power of the endowment assets. Endowment assets include those assets of donor restricted funds that the Fund must hold in perpetuity or for donor-specified periods as well as board-designated funds. The investment policy establishes an achievable return objective through diversification of asset classes. Actual returns in any given year may vary from this amount.

Strategies Employed for Achieving Objectives

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

Spending Policy and How the Investment Objectives Relate to Spending Policy

The spending policy calculates the amount of money annually distributed from the Fund's various endowed funds. The current spending policy related to the John R. Hall Endowment Fund for Education, Kentucky Productions Endowment and the O. Leonard Press 21st Century Fund is to distribute an amount at least equal to 5% of a moving three-year average of the fair value of the endowment funds. This is consistent with the Fund's objective to maintain the purchasing power of endowment assets, as well as to provide additional real growth through investment return. The current spending policy of the Lucille Caudill Little Arts Endowment Fund is to distribute an amount up to the current year investment return, including unrealized investment gains and losses.

15. Transactions with Affiliates

The Authority received the following payments from the Fund during the year ended June 30, 2018 and 2017:

	2018	2017
Unrestricted contributions	**$ 2,725,000**	$ 2,615,000
Restricted contributions	**133,000**	288,048
Fund function employee fees	**921,581**	1,019,683
Administrative services employee fees	**26,400**	26,400
Administrative expenses	**60,553**	67,504
Production costs	**-**	55,000
	$ 3,866,534	$ 4,071,635

16. Interest Expense

The Authority incurred interest expense on all outstanding debt of $36,386 and $29,917 for the years ended June 30, 2018 and 2017, respectively.

17. Major Sources of Support

The Authority receives a substantial portion of its annual support from the Corporation for Public Broadcasting (CPB). During the years ended June 30, 2018 and 2017, this support totaled $3,386,212 and $3,443,600, respectively, which represented approximately 15% of the Authority's total revenues for each of the years then ended. Future funding from CPB is contingent upon CPB's continued receipt of federal appropriations.

Additionally, the Authority receives appropriations from the Commonwealth. During the years ended June 30, 2018 and 2017, this support totaled $13,504,400 and $14,064,300, respectively, which represented approximately 58% and 51% of the Authority's total revenues for the years then ended.

18. Risk Management

KET is exposed to various risks of loss related to torts; errors and omissions; injuring to employees; theft of, damage to, and destruction of assets; and natural disasters. KET does not purchase commercial insurance for these risks, but instead manages these risks as follows:

Torts and Errors and Omissions

KET manages risks of loss related to torts and errors and omissions internally. Claims expenditures and liabilities are reported when it is probable that a loss has occurred and the amount of the loss can be reasonably estimated. These losses include an estimate of claims that have been incurred but not reported. At June 30, 2018 and 2017, management has determined that no liability for such losses should be recorded. The cost of errors and omissions and directors and officer's insurance is paid for by the Foundation.

Injuries to Employees

KET is a member of the Statewide Workers' Compensation Insurance Program (the Program), a self-insurance program for the benefit of the Commonwealth's employees. Losses payable by the Program include claims and loss of wages as a result of an employment related injury. Premiums are established based upon estimated claims and administrative costs for the coming fiscal year. KET is also a member of the Statewide Worker's Compensation Special Fund, a risk sharing pool which covers pre-existing conditions to protect employers from having to pay for injuries not sustained in their employ, or more than once for disabilities resulting from the same accident. The premiums paid for both programs during the years ended June 30, 2018 and 2017 totaled approximately $57,800 and $30,000, respectively. The Commonwealth's Comprehensive Annual Financial Report for the year ended June 30, 2018 should be referred to for additional disclosures related to both programs.

18. Risk Management, continued

Theft of, Damage to, and Destruction of Assets and Natural Disasters

KET utilizes the Commonwealth's Risk Management Fund to cover the exposure to loss arising from the theft of, damage to, or destruction of KET's buildings and personal property. The Commonwealth's Comprehensive Annual Financial Report should be referred to for additional disclosures related to the Risk Management Fund.

Multi Media Insurance Coverage (Broadcasters Errors and Omissions)

KET carries $5,000,000 in multi-media insurance coverage through a commercial carrier, premiums for which are paid for by the Authority. This coverage is for "mass distributed or accessible data for information in any form including magazines, books, brochures, catalogs, or other types of publications, electronically transmitted information or data bases, audio or video cassette; programming aired over KET transmitter and translator stations."

19. Contracts

The Authority entered into a long term agreement for the use of its Educational Broadband Service spectrum excess capacity. The agreement commenced on March 5, 2008 and was for a period of 10 years, which can be renewed for two additional terms of 10 years each. In March 2018, the agreement was renewed through April 2028. Under the terms of the agreement, the Authority received an initial fee of $4,000,000, and received monthly fees ranging from $17,500 to $82,500 over the full 30-year term of the agreement. The $4,000,000 initial payment has been deferred and is being recognized as revenue on a straight-line basis over the 30-year term of the agreement. If the agreement is terminated prior to the extended terms, the remaining balance will be recognized as income at that time.

Changes in the unearned lease incentive payment liability for the year ended June 30, 2018 as summarized as follows:

Beginning Balance	Additions	Reduction	Ending Balance	Amounts Due within One Year
$ 2,666,670	$ -	$ 133,333	$ 2,533,337	$ 133,333

Recognition of the unearned lease incentive payment as revenue is estimated to be $133,333 annually through 2037.

19. Contracts, continued

Minimum annual payments for the term of the agreement are expected to be as follows:

Years Ending June 30,		
2019	$	330,000
2020		330,000
2021		330,000
2022		330,000
2023		330,000
2024-2028		2,250,000
2029-2033		4,050,000
2034-2037		4,620,000
	$	12,570,000

20. Income Tax Status

The Foundation and the Fund are exempt from federal income tax under Section 501(c)(3) of the Internal Revenue Code. In addition, the Foundation and the Fund qualify for the charitable contribution deduction under Section 170(b)(1)(A) and have been classified as organizations other than a private foundation under Section 509(a)(1). The Foundation and the Fund are subject to income tax on any unrelated business income. Both had no unrelated business income in fiscal 2018 and 2017.

21. Commitments and Contingencies

The Authority is involved in a personnel action lawsuit in which they are represented by the Commonwealth's Office of the Attorney General. The Authority has vigorously contested the allegations in the ongoing litigation and the chance of material losses as a result of potential settlements or rulings is considered reasonably possible by the Authority management and legal counsel. Estimated losses range from $160,000 to $300,000.

During fiscal 2017, the Authority began the Congressionally mandated Repacking Project (the Project) for its 16 stations. The Project is required by the Federal Communications Commission (FCC), which will be reimbursing the costs incurred. The Project involves upgrading each transmitter site to meet the new telecommunications industry standard (TIA-222 rev. G.) and installing new transmission systems to operate in the FCC re-assigned DTV channels. The Project is anticipated to take three years to complete with an estimated total cost of $21 million. As each transmitter site is upgraded, each will be capitalized and transferred from the construction in progress account. Each site has its own separate budget as required by the FCC to maintain individual site costs since each site has its own license number. As of June 30, 2018, total costs incurred for the Project amounted to approximately $840,000. In fiscal 2019, the Commonwealth budgeted approximately $2.1 million of bond funds for KET for additional equipment costs not reimbursed by the FCC.

22. Recent GASB Pronouncements

Management has not currently determined what, if any, effects of implementation of the following statement may have on the financial statements:

GASB Statement No. 87, *Leases*, issued June 2017, will be effective for periods beginning after December 15, 2019. This will increase the usefulness of governments' financial statements by requiring reporting of certain lease liabilities that currently are not reported. It will enhance comparability of financial statements among governments by requiring leases and lessors to report leases under a single model. This Statement will also enhance the decision-usefulness of the information provided to financial statement users by requiring notes to financial statements related to the timing, significance, and purpose of a government's leasing arrangements.

23. Blended Component Unit

The Authority's financial statements include accounts of its blended component unit, the Foundation. Below, is condensed financial information related to the Foundation as of and for the years ended June 30:

	2018	2017
Assets		
Current assets:		
Cash and cash equivalents	$ 1,553,089	$ 1,727,092
Investments	484,465	476,321
Receivables:		
Grants receivable	142,988	-
Accounts receivable	127,873	38,801
Costs incurred for programs not yet broadcast	127,360	172,387
Public and instructional television program rights, current	115,988	130,428
Receivable from the Fund	2,039,584	2,246,412
Prepaid expenses	99,385	67,049
Total current assets	4,690,732	4,858,490
Noncurrent assets:		
Restricted cash and cash equivalents	602,490	251,034
Restricted investments	250,000	250,000
Public and instructional television program rights, net of current	55,610	34,733
Capital assets, net	65,915	75,043
Total noncurrent assets	974,015	610,810
Total assets	$ 5,664,747	$ 5,469,300
Deferred Outflows of Resources		
Deferred amount related to pension plan	$ 3,512,236	$ 1,937,322
Deferred amount related to OPEB	552,307	-
Total deferred outflows of resources	$ 4,064,543	$ 1,937,322

23. Blended Component Unit, continued

	2018	2017
Liabilities		
Current liabilities:		
Accounts payable	$ 80,878	$ 64,606
Payable to the Authority	263,655	162,358
Accrued wages	99,093	114,937
Compensated leave	118,283	117,582
Unearned revenue	1,162,030	1,109,948
Total current liabilities	1,723,939	1,569,431
Noncurrent liabilities:		
Compensated leave	135,925	127,357
Net pension liability	15,532,613	12,125,709
Net OPEB liability	2,942,122	-
Total noncurrent liabilities	18,610,660	12,253,066
Total liabilities	$ 20,334,599	$ 13,822,497
Deferred Inflows of Resources		
Deferred amount related to pension plan	$ 228,625	$ 47,982
Deferred amount related to OPEB	63,313	-
Total deferred inflows of resources	$ 291,938	$ 47,982
Net Position	$ (10,897,277)	$ (6,463,857)

23. Blended Component Unit, continued

	2018	2017
Operating revenues	$ 5,217,033	$ 4,668,961
Non-operating revenues	2,866,797	2,966,517
Total revenues	8,083,830	7,635,478
Programming and production	6,043,066	6,037,927
Broadcasting	7,721	25,391
Program information	400,183	408,996
Management	713,976	672,552
Fundraising	15,503	14,330
Pension expense	2,716,579	1,446,418
OPEB expense	291,861	-
Total expenses	10,188,889	8,605,614
Change in net position	(2,105,059)	(970,136)
Net position, beginning of year, as previously reported	(6,463,857)	(5,493,721)
Adjustment applicable to prior years resulting from the retroactive change in accounting for OPEB upon adoption of a new accounting standard (Note 2)	(2,328,361)	-
Net position, beginning of year, as adjusted	(8,792,218)	(5,493,721)
Net position, end of year	$ (10,897,277)	$ (6,463,857)
Cash flows from activities:		
Operating	$ (2,989,325)	$ (2,639,343)
Noncapital financing	3,166,125	2,695,600
Capital and related financing	-	(149,092)
Investing	653	11,331
	$ 177,453	$ (81,504)

REQUIRED SUPPLEMENTARY INFORMATION

Schedule of the Proportionate Share of the Net Pension Liability
Kentucky Employees Retirement System
For the Years Ended June 30

	2018	2017	2016	2015
Proportionate percentage of the net pension liability	0.48 %	0.46 %	0.46 %	0.45 %
Proportionate share of the net pension liability	$ 63,700,233	$ 52,915,518	$ 45,788,271	$ 40,752,155
Covered employee payroll *	$ 7,531,888	$ 7,789,315	$ 7,660,090	$ 8,165,698
Proportionate share of the net pension liability as a percentage of its covered employee payroll	845.74%	679.33 %	597.75 %	499.07 %
Plan fiduciary net position as a percentage of the total pension liability	13.30 %	14.80 %	18.83 %	22.32 %

* The amounts presented for each fiscal year were determined as of the measurement date of the net pension liability, which is as of the prior fiscal year end.

Schedule is intended to show information for ten years. Additional years will be displayed as they become available.

Schedule of Contributions - Pension
Kentucky Employees Retirement System
For the Years Ended June 30

	2018	2017	2016	2015	2014
Contractually required contribution	$ 3,206,335	$ 3,030,832	$ 2,402,226	$ 2,359,308	$ 1,352,193
Contributions in relation to the contractually required contribution	(3,206,335)	(3,030,832)	(2,402,226)	(2,359,308)	(1,352,193)
Contribution deficiency (excess)	$ -	$ -	$ -	$ -	$ -
Covered employee payroll	$ 7,808,902	$ 7,531,888	$ 7,789,315	$ 7,660,090	$ 7,820,667
Contributions as a percentage of covered employee payroll	41.0 %	40.2 %	30.8 %	30.8%	17.3 %

Schedule is intended to show information for ten years. Additional years will be displayed as they become available.

Schedule of Proportionate Share of the Net OPEB Liability
Kentucky Employees Retirement System
For the Years Ended June 30

		2018
Proportion of the net OPEB liability		0.48 %
Proportionate share of the net OPEB liability	$	12,065,829
Covered-employee payroll *	$	7,531,888
Proportionate share of the net OPEB liability as a percentage of its covered-employee payroll		160.20 %
Plan fiduciary net position as a percentage of the total OPEB liability		24.40 %

* The amounts presented for each fiscal year were determined as of the measurement date of the net OPEB liability, which is as of the prior fiscal year end.

Schedule is intended to show information for ten years. Additional years will be displayed as they become available.

Schedule of Contributions - OPEB
Kentucky Employees Retirement System
For the Years Ended June 30

	2018
Contractually required contribution	$ 844,641
Contributions in relation to the contractually required contribution	(844,641)
Contribution deficiency (excess)	$ -
Covered employee payroll	$ 7,808,902
Contributions as a percentage of covered employee payroll	10.82 %

Schedule is intended to show information for ten years. Additional years will be displayed as they become available.

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DEAN DORTON ALLEN FORD, PLLC

Report of Independent Auditors on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Consolidated Financial Statements Performed in Accordance with *Government Auditing Standards*

Board of Directors
Kentucky Authority for Educational Television
Lexington, Kentucky

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the consolidated financial statements of Kentucky Authority for Educational Television, a component unit of the Commonwealth of Kentucky, and its discretely presented component unit, the Commonwealth Fund for KET, Inc., (collectively, KET), as of and for the year ended June 30, 2018, and the related notes to the consolidated financial statements, which collectively comprise KET's basic consolidated financial statements (hereafter, the financial statements), and have issued our report thereon dated November 2, 2018.

Internal Control Over Financial Reporting

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

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

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

106 W. Vine Street, Suite 600 ▪ Lexington, KY 40507 ▪ 859-255-2341 **phone** ▪ 859-255-0125 **fax**
500 W. Jefferson Street, Suite 1400 ▪ Louisville, KY 40202 ▪ 502-589-6050 **phone** ▪ 502-581-9016 **fax** deandorton.com

Board of Directors
Kentucky Authority for Educational Television
Lexington, Kentucky
Report of Independent Auditors on Internal Control and on Compliance
and Other Matters, continued

Compliance and Other Matters

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

Purpose of this Report

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

Dean Dorton Allen Ford, PLLC

November 2, 2018
Lexington, Kentucky

KENTUCKY AUTHORITY FOR EDUCATIONAL TELEVISION

Schedule of Findings and Responses

Year ended June 30, 2018

Section I - Summary of Auditors' Results

a. The type of report issued on the consolidated financial statements: **Unmodified opinion**

b. Material weaknesses identified in the internal control over financial reporting: **No**

c. Significant deficiencies identified in the internal control over financial reporting: **None noted**

d. Non-compliance which is material to the consolidated financial statements: **No**

Section II - Summary of Findings and Responses

None