

KUED-TV
(A Public Telecommunications Department of the University of Utah)

Financial Statements

June 30, 2017

(With Independent Auditors' Report Thereon)

KUED-TV
(A Public Telecommunications Department of the University of Utah)

Table of Contents

	Page(s)
Independent Auditors' Report	3 - 4
Management's Discussion and Analysis	5 - 11
Statement of Net Position	12
Statement of Revenues, Expenses, and Changes in Net Position	13
Statement of Cash Flows	14 - 15
Notes to Financial Statements	16 - 31
Required Supplementary Information:	
Schedule of the Proportionate Share of the Net Pension Liability	33
Schedule of Employer Contributions	34
Independent Auditors' Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	35 - 36



CERTIFIED PUBLIC
ACCOUNTANTS AND
BUSINESS ADVISORS

INDEPENDENT AUDITORS' REPORT

KUED-TV

**The University of Utah Board of Trustees
and David W. Pershing, Ph.D., President
Salt Lake City, Utah**

We have audited the accompanying financial statements of KUED-TV (a public telecommunications department of the University of Utah) (the Station), which comprise the statement of net position as of June 30, 2017, and the related statements of revenues, expenses, and changes in net position and cash flows for the year then ended, and the related notes to 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 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.

Auditors' 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 auditors' 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 auditors consider 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 the Station as of June 30, 2017, and the respective changes in financial position, and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Report on Summarized Comparative Information

We have previously audited the Station's 2016 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated January 6, 2017. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2016 is consistent, in all material respects, with the audited financial statements from which it has been derived.

Emphasis of Matter

The financial statements of the Station are intended to present the financial position, the changes in financial position and cash flows of only KUED-TV. They do not purport to, and do not, present the financial position of the University of Utah as of June 30, 2017, the changes in its financial position, or its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

Other Matters

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 5 through 11 and schedules of the proportionate share of the net pension liability and employer contributions on pages 33 and 34 be presented to supplement the financial statements. Such information, although not a part of the financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the financial statements, and other knowledge we obtained during our audit of the financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated January 8, 2018, on our consideration of the Station'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 the Station's internal control over financial reporting and compliance.

WSRP, LLC

Salt Lake City, Utah
January 8, 2018

KUED-TV

(A Public Telecommunications Department of the University of Utah)

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)

June 30, 2017

INTRODUCTION

The following discussion and analysis provides an overview of the financial position and activities of KUED-TV (the Station) as of and for the year ended June 30, 2017, with selected comparative information as of and for the year ended June 30, 2016. This discussion has been prepared by management and should be read in conjunction with the financial statements and the notes thereto.

The Station is licensed to the University of Utah and is the only public television station in Utah that broadcasts the full Public Broadcasting Service (PBS) schedule. The Station has a significant commitment to local-interest television productions and community outreach and broadcasts an instructional television block from 9:00 a.m. to 2:00 p.m. every weekday. The Station broadcasts a digital signal to the State of Utah.

FINANCIAL HIGHLIGHTS

The Station's financial position at June 30, 2017 includes assets of \$14,076,126, deferred outflows of resources of \$283,768, total liabilities of \$1,467,718, and deferred inflows of resources of \$179,796. Net position, which represents the difference between (a) assets and deferred outflows of resources and (b) liabilities and deferred inflows of resources increased by \$6,146 to \$12,712,380 at June 30, 2017.

Changes in net position represent the total activity of the Station, which results from all revenues, expenses, gains, and losses, and are summarized for the years ended June 30, 2017 and 2016 as follows:

	<u>2017</u>	<u>2016</u>
Total revenues	\$ 10,180,415	\$ 10,347,040
Total expenses	<u>10,174,269</u>	<u>9,732,809</u>
Increase in net position	<u>\$ 6,146</u>	<u>\$ 614,231</u>

Fiscal year 2017 revenues decreased by 1.6% or \$166,625, while expenses increased by 4.5% or \$441,460.

USING THE FINANCIAL STATEMENTS

The Station's financial report is prepared on the accrual basis of accounting and conforms to principles of *Accounting and Financial Reporting for Public Telecommunication Entities* published by the Corporation for Public Broadcasting (CPB), which conforms to U.S. generally accepted accounting principles and includes three financial statements: the Statement of Net Position; the Statement of Revenues, Expenses, and Changes in Net Position; and the Statement of Cash Flows.

KUED-TV

(A Public Telecommunications Department of the University of Utah)

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)

June 30, 2017

STATEMENT OF NET POSITION

The Statement of Net Position presents the financial position of the Station at the end of the fiscal year and includes all assets, deferred outflows of resources, liabilities, and deferred inflows of resources. The difference between (a) assets and deferred outflows of resources and (b) liabilities and deferred inflows of resources is net position and is one indicator of the current financial condition of the Station, while the change in net position is an indicator of whether the overall financial condition has improved or worsened during the year.

A summarized comparison of the Station's assets, deferred outflows and inflows of resources, liabilities, and net position at June 30, 2017 and 2016 follows:

	<u>2017</u>	<u>2016</u>
Current assets		
Current assets, unrestricted	\$ 8,366,870	\$ 8,266,022
Current assets, restricted	49,856	23,727
Noncurrent assets		
Restricted cash		79,172
Restricted investments	3,358,775	3,145,014
Net pension asset	206	296
Investments in joint venture	572,499	549,563
Capital assets, net	<u>1,727,920</u>	<u>2,065,231</u>
Total assets	14,076,126	14,129,025
Deferred outflows of resources	283,768	280,384
Current liabilities	(734,643)	(778,103)
Noncurrent liabilities	<u>(733,075)</u>	<u>(762,401)</u>
Total liabilities	(1,467,718)	(1,540,504)
Deferred inflows of resources	(179,796)	(162,671)
Net investment in capital assets	1,727,920	2,065,231
Restricted - expendable	49,856	23,727
Restricted - nonexpendable	3,358,775	3,224,186
Unrestricted	<u>7,575,829</u>	<u>7,393,090</u>
Total net position	<u>\$ 12,712,380</u>	<u>\$ 12,706,234</u>

A review of the Station's Statement of Net Position at June 30, 2017 and 2016 shows that the Station still maintains its favorable financial foundation. This financial position results from the efficient management and wise use of its financial resources.

KUED-TV

(A Public Telecommunications Department of the University of Utah)

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)

June 30, 2017

Current assets consist of cash, receivables, costs incurred for programs not yet broadcast, investments, and prepaid expenses. Total current assets increased by \$126,977 during fiscal year 2017. The increase was due primarily to an increase of \$683,149 in unrestricted investments. This increase was offset by decreases of \$301,771 in unrestricted cash with the University of Utah and \$232,687 in costs incurred for programs not yet broadcast. The Station saw decreases in donations from corporations and foundations for local productions and community outreach efforts. The Station had fewer local productions in progress in FY '17 than in FY '16 leading to the decrease in costs incurred for programs not yet broadcast. This is a timing issue, driven by when productions begin in a fiscal year and when they are finalized and ready for broadcast.

Noncurrent assets consist of restricted cash, restricted investments, investments in joint venture, and capital assets. Total noncurrent assets decreased by \$179,876 during fiscal year 2017. The decrease was primarily due to decreases of \$337,311 in capital assets and \$79,172 in restricted cash. These decreases were offset by an increase of \$213,761 in restricted investments.

Deferred outflows of resources related to pensions increased by \$3,384 during fiscal year 2017.

Current liabilities consist of accounts payable and accrued personnel services. Total current liabilities decreased by \$43,460 during fiscal year 2017 primarily due to a decrease of \$54,379 in accounts payable. Accounts payable decreased primarily due to decreased expenses related to the Station transitioning to a Joint Master Control operation located in Syracuse, New York and remodeling a large conference room at the station.

Noncurrent liabilities consist of net pension liability related to pensions. Net pension liability decreased during fiscal year 2017 by \$29,326.

Deferred inflows of resources consist of deferred grant receipts and deferred inflows related to pensions. Total deferred inflows of resources increased by \$17,125 during fiscal year 2017 mainly due to an increase of \$45,625 in deferred inflows related to pensions. This increase was offset by a decrease of \$28,500 in deferred grant receipts.

NET POSITION

Net position is the residual of all other elements presented in a statement of net position. It is the difference between (a) assets and deferred outflows of resources and (b) liabilities and deferred inflows of resources. Net investment in capital assets represents the Station's capital assets net of accumulated depreciation. The restricted - expendable component of net position is subject to externally imposed restrictions governing their use. The restricted - nonexpendable component of net position is subject to the funds received from donors with the stipulation that the principal remain inviolate and be invested in perpetuity to produce income that is to be expended for purposes specified by the donor. Although the unrestricted component of net position is not subject to externally imposed stipulations, most of the Station's unrestricted net position has been designated for various programming, production, outreach, and broadcasting projects to be used during fiscal year 2018.

KUED-TV

(A Public Telecommunications Department of the University of Utah)

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)

June 30, 2017

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION

The Statement of Revenues, Expenses, and Changes in Net Position presents the Station's results of operations. A comparison of the Station's revenues, expenses, and changes in net position for the years ended June 30, 2017 and 2016 follows:

	<u>2017</u>	<u>2016</u>
Operating revenues	\$ 182,553	\$ 152,184
Operating expenses	<u>10,174,269</u>	<u>9,732,809</u>
Operating loss	(9,991,716)	(9,580,625)
Nonoperating revenues	<u>9,972,049</u>	<u>10,115,684</u>
Income (loss) before addition to permanent endowment	(19,667)	535,059
Addition to permanent endowment	<u>25,813</u>	<u>79,172</u>
Increase in net position	6,146	614,231
Net position - beginning of year	<u>12,706,234</u>	<u>12,092,003</u>
Net position - end of year	<u><u>\$ 12,712,380</u></u>	<u><u>\$ 12,706,234</u></u>

The Station's main revenue sources are the State of Utah, the University of Utah, the CPB, individuals, foundation contributions, and corporate donations. The Station has in the past and will continue to aggressively seek funding from all possible sources consistent with its mission.

The Station's revenues were \$166,625 lower in fiscal year 2017 than in fiscal year 2016. This was partially due to a decrease of \$440,217 in Underwriting revenue due to decreased donations from corporations and foundations. Indirect Support from the University of Utah decreased by \$247,266 primarily due to Management and General and Fundraising expenses being eliminated from the total amount of Station expenses when determining the total amount of Indirect Support as directed by CPB. Contributions decreased by \$75,779 primarily due to a decrease in bequest income. These decreases were offset by an increase of \$450,904 in Investment income primarily due to an increase in the market value of investments. Direct Support from the University of Utah increased by \$135,392 primarily due to support for local productions and the purchase of new office furniture related to an internal move of three University entities, including the Station, within the Eccles Broadcast Center.

KUED-TV

(A Public Telecommunications Department of the University of Utah)

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)

June 30, 2017

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION (CONTINUED)

A comparative summary of the Station's operating expenses by functional classification for the years ended June 30, 2017 and 2016 follows:

	<u>2017</u>	<u>2016</u>
Program services		
Programming and production	\$ 4,838,960	\$ 4,294,342
Broadcasting	1,924,287	1,596,113
Program information	1,140,698	1,139,133
Total program services	<u>7,903,945</u>	<u>7,029,588</u>
Support services		
Fundraising and membership development	1,414,649	1,701,666
Management and general	855,675	1,001,555
Total support services	<u>2,270,324</u>	<u>2,703,221</u>
Total expenses	<u>\$ 10,174,269</u>	<u>\$ 9,732,809</u>

The Station's expenses increased by \$441,460 in fiscal year 2017. Programming and production expenses increased by \$544,618 primarily due to increased production expenses related to local documentaries, fundraising and public affairs productions along with their digital components. Broadcasting expenses increased by \$328,174 primarily due to increased expenditures for transitioning to a joint master control operated from Syracuse, New York and for broadcast spectrum repack expenses for DTV Utah. The Station is being required to move to a different frequency on the broadcast spectrum as a result of the recent FCC spectrum auction. The Station did not participate in the spectrum auction, but is required to change frequencies.

These increases were offset by a decrease in Fundraising and membership development expenses of \$287,017 primarily due to a decrease in University Indirect Support, the KUED travel program and individual giving solicitation expenditures. Management and general expenses decreased by \$145,880 primarily due to a decrease in University Indirect Support.

STATEMENT OF CASH FLOWS

The Statement of Cash Flows provides additional information about the Station's financial activity by reporting the major sources and uses of cash.

The Station's cash decreased by \$354,814 in fiscal year 2017 primarily due to a decrease in cash from capital financing activities and a decrease in cash from investing activities. The Station's significant sources of cash provided by noncapital financing activities include state appropriations, funding from the University of Utah, grants from the CPB, and private gifts.

KUED-TV

(A Public Telecommunications Department of the University of Utah)

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)

June 30, 2017

CURRENT FACTORS HAVING PROBABLE FUTURE FINANCIAL SIGNIFICANCE

Utah's economy is strong, but the Station remains vigilant for signs of another economic downturn. Donations from corporations, foundations and the private sector are expected to remain level in fiscal year 2018. Funding from the State of Utah is expected to increase modestly in fiscal year 2018. Federal funding makes up 19% of KUED's operating budget. While it is the goal of management to continue to decrease reliance on federal funding, flat or declining funding will significantly affect the organization.

The Station plans to continue to obtain funding from federal government programs, county governments, and private and local sources to assist with ongoing equipment replacement and preservation of our entire catalogue of film and video productions spanning more than almost sixty years of operation and service to the community. The Station will take advantage of contract service opportunities that have an educational component for University and outside clients as they arise.

With the elimination a few years ago of the NTIA Public Telecommunications Facilities Program at the U.S. Department of Commerce, the Station must bear the burden of depreciated equipment replacement without federal assistance. With the 2005 federally mandated digital conversion, 100 translators statewide were replaced at the same time. There is a concern that the useful life of all of those translators will expire at the same time, causing a significant cost for replacement.

In addition, the Federal Government, through the Federal Communications Commission (FCC), has conducted another bandwidth auction where it has eliminated 14 channels (84 Mhz) from the TV Band. This consolidation will force the Station to change the channel on which it operates, and will force the rechanneling of Utah's entire translator network. The cost to the Station is estimated to be \$2.8 to \$3 million. The FCC is planning to use funds from the auction to reimburse the Station for its main transmitter expenses, however, the amount may not cover the entire estimated cost. The exact amount to be reimbursed hasn't been determined.

The Station's translator network will have to be rechanneled at an estimated cost of \$1.2 million. This expense is not being reimbursed by the FCC. However, through delicate negotiations by PBS, T-Mobile has agreed to fund this at 100%. T-Mobile has acquired bandwidth sold in the auction and considers the expense reimbursement a public relations cost. This agreement is non-binding so we cannot count on the reimbursement funds from T-Mobile. Fortunately, the translator network rechanneling effort does include replacing some of the translators mentioned earlier. The exact number of translators that will need to be replaced due to rechanneling has not been determined.

The Station will continue to produce and broadcast high-quality commercial-free programs that educate, enlighten, and entertain. Community outreach projects will continue to add visibility to the Station and will attract more viewers. The Station will continue to deliver local programs, PBS programs, and unique digital-first content to viewers on desktop, mobile, and OTT devices. The Station will continue to expand our social media presence to engage with its viewers and donors, and to deliver them video, photographic, and other content.

Public television stations across the country are typically struggling with on-air membership drive performance. The Station is working with consultants to increase the retention number of donors; increase the number of donations in its growing Sustaining Member, Major Donor and Planned Giving programs; maximize the recent interest in the Stations Passport member benefit; as well as increasing the amount of average gifts.

KUED-TV

(A Public Telecommunications Department of the University of Utah)

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)

June 30, 2017

The Station will continue to be prudent in its long-term planning. While it is not possible to predict the ultimate results, management will be aggressive in meeting these economic uncertainties to maintain its favorable financial position.

KUED-TV

(A Public Telecommunications Department of the University of Utah)

STATEMENT OF NET POSITION

As of June 30, 2017

	2017	[For Comparison Only] 2016
ASSETS		
Current assets		
Cash	\$ 4,121,910	\$ 4,423,681
Restricted cash	49,856	23,727
Receivables, net (Note 2)	417,544	451,315
Costs incurred for programs not yet broadcast	210,441	443,128
Investments (Note 4)	3,480,996	2,797,847
Prepaid expenses	135,979	150,051
Total current assets	8,416,726	8,289,749
Noncurrent assets		
Restricted cash		79,172
Restricted investments (Note 4)	3,358,775	3,145,014
Net pension asset	206	296
Investments in joint venture (Note 4)	572,499	549,563
Capital assets, net (Note 3)	1,727,920	2,065,231
Total noncurrent assets	5,659,400	5,839,276
Total assets	14,076,126	14,129,025
DEFERRED OUTFLOWS OF RESOURCES		
Deferred outflows related to pensions	283,768	280,384
LIABILITIES		
Current liabilities		
Accounts payable	161,189	215,568
Accrued personnel services	573,454	562,535
Total current liabilities	734,643	778,103
Noncurrent liabilities		
Net pension liability	733,075	762,401
Total liabilities	1,467,718	1,540,504
DEFERRED INFLOWS OF RESOURCES		
Deferred grant receipts	57,000	85,500
Deferred inflows related to pensions	122,796	77,171
Total deferred inflows of resources	179,796	162,671
NET POSITION		
Net investment in capital assets	1,727,920	2,065,231
Restricted – expendable	49,856	23,727
Restricted – nonexpendable	3,358,775	3,224,186
Unrestricted	7,575,829	7,393,090
Total net position	\$ 12,712,380	\$ 12,706,234

See accompanying notes to financial statements.

KUED-TV

(A Public Telecommunications Department of the University of Utah)

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION

Year ended June 30, 2017

	2017	[For Comparison Only] 2016
OPERATING REVENUES		
Sales and services	\$ 182,553	\$ 152,184
Total operating revenues	182,553	152,184
OPERATING EXPENSES		
Broadcasting	1,924,287	1,596,113
Programming and production	4,838,960	4,294,342
Program information	1,140,698	1,139,133
Management and general	855,675	1,001,555
Fundraising and membership development	1,414,649	1,701,666
Total operating expenses	10,174,269	9,732,809
Operating loss	(9,991,716)	(9,580,625)
NONOPERATING REVENUES		
State of Utah appropriations	2,553,699	2,498,701
Direct support from the University of Utah	375,763	240,371
Indirect support from the University of Utah	669,932	917,198
Indirect in-kind support from governmental entities	82,601	79,678
Support from KUEN-TV	40,424	97,812
Federal grants	1,708,915	1,703,508
Contributions	3,120,395	3,196,174
Underwriting	734,840	1,175,057
Investment income (Note 4)	515,523	64,619
Other	169,957	142,566
Total nonoperating revenues	9,972,049	10,115,684
Income before addition to permanent endowment	(19,667)	535,059
Addition to permanent endowment	25,813	79,172
Increase in net position	6,146	614,231
NET POSITION		
Net position – beginning of year	12,706,234	12,092,003
Net position – end of year	\$ 12,712,380	\$ 12,706,234

See accompanying notes to financial statements.

KUED-TV

(A Public Telecommunications Department of the University of Utah)

STATEMENT OF CASH FLOWS

Year ended June 30, 2017

	<u>2017</u>	<u>[For Comparison Only] 2016</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash received from sales and services	\$ 189,796	\$ 144,648
Cash payments for salaries, wages, and benefits	(5,048,224)	(4,848,511)
Cash payments for other operating expenses	(3,466,537)	(3,290,769)
Net cash used by operating activities	(8,324,965)	(7,994,632)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Cash received from the University of Utah	375,763	240,371
Cash received from Corporation for Public Broadcasting	1,708,915	1,703,508
Cash received from State of Utah appropriations	2,553,699	2,498,701
Cash received from contributions	3,015,662	3,161,488
Cash received from underwriting	728,141	1,017,773
Cash received from other income	162,442	138,446
Additions to permanent endowments	25,813	79,172
Net cash provided by noncapital financing activities	8,570,435	8,839,459
CASH FLOWS FROM CAPITAL FINANCING ACTIVITIES		
Purchases of capital assets	(78,778)	(185,973)
Net cash used by capital financing activities	(78,778)	(185,973)
CASH FLOWS FROM INVESTING ACTIVITIES		
Investment in joint venture	(140,119)	(110,370)
Proceeds from sale of investments	475,000	28,500
Purchases of investments	(1,143,654)	(236,497)
Cash received from interest income	287,267	231,536
Net cash provided (used) by investing activities	(521,506)	(86,831)
Net decrease in cash	(354,814)	572,023
Cash, beginning of year	4,526,580	3,954,557
Cash, end of year	<u>\$ 4,171,766</u>	<u>\$ 4,526,580</u>

See accompanying notes to financial statements.

KUED-TV

(A Public Telecommunications Department of the University of Utah)

STATEMENT OF CASH FLOWS (CONTINUED)

Year ended June 30, 2017

	<u>2017</u>	<u>[For Comparison Only] 2016</u>
RECONCILIATION OF OPERATING LOSS TO NET CASH USED BY OPERATING ACTIVITIES		
Operating loss	\$ (9,991,716)	\$ (9,580,625)
Adjustments to reconcile operating loss to net cash used by operating activities:		
Depreciation expense	456,513	464,765
Loss on sale of assets	-	4,093
Loss in joint venture	117,183	113,505
In-kind donations	145,475	186,470
Indirect support from University of Utah	669,932	917,198
Indirect in-kind support from governmental entities	82,601	79,678
Net outflows of resources relating to pensions	13,005	(4,123)
Change in assets and liabilities:		
Prepaid expenses	14,072	(19,212)
Receivables related to operating revenue	7,243	(7,536)
Cost of programs not yet broadcast	232,687	(147,270)
Accounts payable and accruals	(71,960)	(1,575)
Net cash used by operating activities	<u>\$ (8,324,965)</u>	<u>\$ (7,994,632)</u>
NONCASH INVESTING, CAPITAL, AND FINANCING ACTIVITIES		
Increase (decrease) in fair value of investments	<u>\$ 228,256</u>	<u>\$ (166,917)</u>
Fully-depreciated asset transferred to KUED	<u>\$ 21,637</u>	
Capital assets received from KUEN	<u>\$ 40,424</u>	<u>\$ 97,812</u>

See accompanying notes to financial statements.

KUED-TV

(A Public Telecommunications Department of the University of Utah)

NOTES TO FINANCIAL STATEMENTS

June 30, 2017

(1) Summary of Significant Accounting Policies

The accompanying financial statements have been prepared on the accrual basis of accounting and conform to principles of *Accounting and Financial Reporting for Public Telecommunications Entities*, published by the Corporation for Public Broadcasting (CPB), which conform to U.S. generally accepted accounting principles.

(a) Organization

KUED-TV (the Station) is operated by the University of Utah (the University), Salt Lake City, Utah. There are common management and facilities between the Station and an affiliated television station, KUEN-TV, and an affiliated radio station, KUER-FM Radio. Certain Station personnel share their time among the Station, KUEN-TV, and KUER-FM Radio.

(b) Accounting Principles

These financial statements are presented in accordance with accounting principles generally accepted in the United States of America (GAAP). The Station previously adopted Governmental Accounting Standards Board (GASB) Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*, GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*, GASB Statement No. 68, *Accounting and Financial Reporting for Pensions*, and GASB Statement No. 72, *Fair Value Measurement and Application*.

(c) Basis of Accounting

All statements have been prepared using the economic resources measurement focus and the accrual basis of accounting. Operating activities include all revenues and expenses, derived on an exchange basis, used to support the service efforts of the Station. Additionally, donations in-kind that are deemed to support the service efforts of the Station, as defined by its mission, goals, and objectives, are recorded as operating expenses. Such donations in-kind are also reflected as a part of nonoperating revenues as they are considered nonexchange transactions as defined by GASB Statement No. 33, *Accounting and Financial Reporting for Nonexchange Transactions*.

The accounting for revenues of the Station recorded in the accompanying Statement of Revenues, Expenses, and Changes in Net Position is as follows:

- **Sales and services** - Sales and services represent funds received from locally produced programming and facilities rentals. These amounts are recorded as services are rendered.
- **State of Utah appropriations** - State of Utah appropriations represent direct support from the State of Utah as appropriated by the Utah State Legislature. These funds support Station personnel, programming and production, broadcasting, program information, installation and transmission, and educational service and training. These revenues are recognized when legally effective, which is the first day of the State of Utah's fiscal year, July 1.
- **Direct support from the University of Utah** - Direct support from the University represents funds received to support various Station personnel and underwriting support. These amounts are recorded as revenue and associated expense at estimated fair value or actual amounts where known at the time such costs are incurred.

KUED-TV

(A Public Telecommunications Department of the University of Utah)

NOTES TO FINANCIAL STATEMENTS

June 30, 2017

(1) Summary of Significant Accounting Policies (Continued)

(c) Basis of Accounting (continued)

- **Indirect support from the University of Utah** - Indirect support from the University represents costs associated with certain administrative and other services provided by the University. These amounts are recorded as revenue and associated expense at estimated fair value or actual amounts where known at the time such costs are incurred. The Station uses the University's negotiated facilities and administrative rate for other sponsored programs to determine indirect support. The rate is assessed against eligible Station expenses in deriving the amount recognized as indirect University support.
- **Indirect in-kind support from governmental entities** - Indirect in-kind support from governmental entities represents services provided by governmental entities, including certain transmitter expenses. This support is recognized throughout the year as costs are incurred and expended by other governmental entities.
- **Federal grants** - Federal grants represent funds received from federal agencies to assist in the purchase of capital assets and to support programming and operating activities. These revenues are recognized at the time the Station has met the eligibility requirements as defined by the grant.
- **Corporation for Public Broadcasting** - Corporation for Public Broadcasting represents funds received from the CPB to support the operations of the Station, including personnel, programming and production, broadcasting, program information, educational services, training, and purchase of capital assets. These revenues are recognized in federal grants at the time the Station has met the eligibility requirements as defined by the grant.
- **Contributions** - Contributions represent funds received from individuals through on-air, direct mail, and special event fundraisers and are used to purchase national and locally produced programming. Pledges are recognized as revenue when a pledge is made by a donor and the amount is estimable and deemed probable of collection. Pledges for endowments are not recognized as receivable per GASB Statement No. 33.
- **Underwriting** - Underwriting represents funds received from local corporations and foundations to purchase national and locally produced programming. Underwriting revenues are recognized as revenues and expenses upon execution of an underwriting contract.

(d) Program Rights

Program rights purchased by the Station are expensed upon the initial program broadcast, due to the uncertainty of any future program broadcasts. The financial statements at June 30, 2017 do not include any deferred costs related to program rights.

(e) Costs Incurred for Programs Not Yet Broadcast

Costs incurred for programs not yet broadcast relate to programs produced by the Station that will be initially broadcast subsequent to June 30, 2017. Concurrent with initial broadcasting of the programs, their costs will be reported as operating expenses.

KUED-TV

(A Public Telecommunications Department of the University of Utah)

NOTES TO FINANCIAL STATEMENTS

June 30, 2017

(1) Summary of Significant Accounting Policies (Continued)

(f) Cash and Restricted Cash

Cash is pooled for the University as a whole. Amounts reported as cash in the Station's financial statements reflect the Station's proportionate ownership in that pool. Therefore, the Station does not have separate accounts in financial institutions. Thus, disclosures of risk related to deposits apply at the University level. See the financial statements of the University of Utah for those disclosures. Amounts reported as restricted cash reflect funds from a grant to pay for satellite interconnection fees for PBS programming and bequests from donors that have not yet been invested by the University.

(g) Investments

The Station's investments, except for investment in joint venture, are pooled for the University as a whole in the University's endowment pool. Amounts reported as investments in the Station's financial statements reflect the Station's proportionate ownership in that pool. Therefore, the Station does not have separate accounts in financial institutions. Thus, disclosures of fair value and risk related to investments apply at the University level. See the financial statements of the University of Utah for those disclosures.

Investments are recorded at fair value in accordance with GASB Statement No. 72, Fair Value Measurement and Application. Accordingly, the change in fair value of investments is recognized as an increase or decrease to investment assets and investment income. The University distributes earnings from pooled investments based on the average daily investment of each participating account; or for endowments, distributes according to the University's spending policy.

A portion of the Station's endowment portfolio is invested in "alternative investments." These investments, unlike more traditional investments, generally do not have readily obtainable market values and typically take the form of limited partnerships. See Note 4 for more information regarding these investments and the Station's outstanding commitments under the terms of the partnership agreements. The Station values these investments based on the partnerships' audited financial statements. If June 30 statements are available, those values are used preferentially. However, some partnerships have fiscal years ending at other than June 30. If June 30 valuations are not available, the value is progressed from the most recently available valuation taking into account subsequent calls and distributions.

(h) Capital Assets

Capital assets are recorded at cost or, in the case of donated equipment, at estimated fair value at date of donation. Depreciation is computed using the straight-line method over the following estimated useful lives:

Building	40 years
Transmitter	15 years
Broadcast equipment	5 to 10 years

Expenditures for repairs and maintenance are charged to expense as incurred.

KUED-TV

(A Public Telecommunications Department of the University of Utah)

NOTES TO FINANCIAL STATEMENTS

June 30, 2017

(1) Summary of Significant Accounting Policies (Continued)

(i) *Deferred Inflows/Outflows of Resources*

A deferred inflow of resources is an acquisition of net assets by the Station that is applicable to a future reporting period. A deferred outflow of resources is a consumption of net assets by the Station that is applicable to a future reporting period. Net position is the residual of all other elements presented in a statement of financial position. It is the difference between (a) assets and deferred outflows of resources and (b) liabilities and deferred inflows of resources.

(j) *Income Taxes*

The University, as a political subdivision of the State of Utah, has a dual status for federal income tax purposes. The University is both an Internal Revenue Code (IRC) Section 115 organization and an IRC Section 501(c)(3) charitable organization. This status exempts the University from paying federal income tax on revenue generated by activities that are directly related to the University's mission. This exemption does not apply to unrelated business activities. On these activities, the University is required to report and pay federal and state income tax. The Station, as a separate department of the University, shares in these same tax exemptions.

(k) *Use of Estimates*

Management of the Station has made estimates and assumptions relating to the reporting of assets, liabilities, revenues, and expenses to prepare these financial statements in conformity with GAAP. Actual results could differ from those estimates.

(m) *Restricted Resources*

When the Station has both restricted and unrestricted resources available to finance a particular program, it is the Station's practice to use restricted resources before unrestricted resources.

(2) Receivables

Receivables at June 30 consist of the following:

	2017	(For Comparison Only) 2016
Underwriting	\$ 89,366	\$ 224,283
Contributions	707,290	565,272
Other	5,605	11,676
	<u>802,261</u>	<u>801,231</u>
Less allowance for doubtful accounts	(384,717)	(349,916)
Receivables, net	<u>\$ 417,544</u>	<u>\$ 451,315</u>

KUED-TV

(A Public Telecommunications Department of the University of Utah)

NOTES TO FINANCIAL STATEMENTS

June 30, 2017

(3) Capital Assets

Capital assets at June 30, 2017 consist of the following:

	<u>Beginning balance</u>	<u>Additions</u>	<u>Retirements</u>	<u>Ending balance</u>
Land	\$ 204,807			\$ 204,807
Transmitter	625,631			625,631
Broadcast equipment	7,995,561	\$ 140,839	\$ 117,202	8,019,198
Building	4,692,363			4,692,363
Total	13,518,362	140,839	117,202	13,541,999
Less accumulated depreciation				
Transmitter	581,947	43,684		625,631
Broadcast equipment	7,229,898	278,858	117,202	7,391,554
Building	3,641,286	155,608		3,796,894
Total accumulated depreciation	11,453,131	478,150	117,202	11,814,079
Capital assets, net	<u>\$ 2,065,231</u>	<u>\$ (337,311)</u>	<u>\$ -</u>	<u>\$ 1,727,920</u>

(4) Investments

The State of Utah Money Management Council (Council) has the responsibility to advise the State Treasurer about investment policies, promote measures and rules that will assist in strengthening the banking and credit structure of the State, and review the rules adopted under the authority of the State of Utah Money Management Act (Act) that relate to the deposit and investment of public funds.

Except for endowment funds and certain other investments, the University follows the requirements of the Act (*Utah Code*, Section 51, Chapter 7) in handling its depository and investment transactions. The Act requires the depositing of University funds in a qualified depository. The Act defines a qualified depository as any financial institution whose deposits are insured by an agency of the federal government and which has been certified by the State Commissioner of Financial Institutions as meeting the requirements of the Act and adhering to the rules of the Council.

The Act defines the types of securities authorized as appropriate investments for the University's non-endowment funds and the conditions for making investment transactions. Investment transactions may be conducted only through qualified depositories, certified dealers, or directly with issuers of the investment securities.

KUED-TV

(A Public Telecommunications Department of the University of Utah)

NOTES TO FINANCIAL STATEMENTS

June 30, 2017

(4) Investments (Continued)

These statutes authorize the University to invest in negotiable or nonnegotiable deposits of qualified depositories and permitted negotiable agreements; repurchase and reverse repurchase agreements; commercial paper that is classified as “first tier” by two nationally recognized statistical rating organizations; bankers’ acceptances; obligations of the United States Treasury including bills, notes, and bonds; obligations, other than mortgage derivative products, issued by U.S. government sponsored enterprises (U.S. Agencies) such as the Federal Home Loan Bank System, Federal Home Loan Mortgage Corporation (Freddie Mac), or Federal National Mortgage Association (Fannie Mae); bonds, notes, and other evidence of indebtedness of political subdivisions of the State; fixed rate corporate obligations and variable rate securities rated “A” or higher, or the equivalent of “A” or higher, by two nationally recognized statistical rating organizations; shares or certificates in a money market mutual fund as defined in the Act; and the Utah State Public Treasurers’ Investment Fund.

The Utah State Treasurer’s Office operates the Public Treasurers’ Investment Fund (PTIF). The PTIF is available for investment of funds administered by any Utah public treasurer and is not registered with the Securities and Exchange Commission (SEC) as an investment company. The PTIF is authorized and regulated by the Money Management Act (*Utah Code*, Title 51, Chapter 7). The Act established the Council which oversees the activities of the State Treasurer and the PTIF and details the types of authorized investments. Deposits in the PTIF are not insured or otherwise guaranteed by the State, and participants share proportionally in any realized gains or losses on investments.

The Station participates in the University’s endowment pool. The University holds the investments within the pool on behalf of the Station. The Station holds an interest in the University’s investment pool, but not in specific investment instruments within that pool. The Station carries its interest at fair value and had a net unrealized, noncash gain of \$228,256 for the year ended June 30, 2017.

For endowment funds, the University follows the requirements of the Uniform Prudent Management of Institutional Funds Act, UPMIFA, Section 51-8 of the Utah Code; State Board of Regents’ Rule 541, *Management and Reporting of Institutional Investments*; and the University’s investment policy and endowment guidelines.

The UPMIFA, Rule 541, and the University’s endowment guidelines allow the University to invest endowment funds (including gifts, devises, or bequests of property of any kind from any source) in any of the above investments or any of the following subject to satisfying certain criteria: mutual funds registered with the SEC, investments sponsored by the Common fund; any investment made in accordance with the donor’s directions in a written instrument; investments in corporate stock listed on a major exchange (direct ownership); and any alternative investment funds that derive returns primarily from high yield and distressed debt (hedged or non-hedged), private capital (including venture capital and private equity), natural resources, and private real estate assets or absolute return and long/short hedge funds.

KUED-TV

(A Public Telecommunications Department of the University of Utah)

NOTES TO FINANCIAL STATEMENTS

June 30, 2017

(4) Investments (Continued)

Fair Value of Investments

The University measures and records its investments using fair value measurement guidelines established by generally accepted accounting principles. These guidelines recognize a three-tiered fair value hierarchy, as follows:

- Level 1: Quoted prices for identical investments in active markets;
- Level 2: Observable inputs other than quoted market prices; and,
- Level 3: Unobservable inputs.

See the University's investment note in its financial statements for a schedule of investments at fair value categorized by the three-tiered fair value hierarchy. A summary of the University's investments by level is as follows:

	Fair Value Measurements Using			
	Fair Value	Level 1	Level 2	Level 3
Total investments measured at fair value	\$ 3,147,471,665	\$ 13,653,175	\$ 2,727,403,376	\$ 3,285,645
Percentage of total fair value		0.4%	86.7%	0.1%

Debt and equity securities classified in Level 1 are valued using prices quoted in active markets for those securities. Debt and equity securities classified in Level 2 are valued using the following approaches:

- U.S. Treasuries, U.S. Agencies, and Commercial Paper: quoted prices for identical securities in markets that are not active;
- Corporate and Municipal Bonds and Negotiable Certificates of Deposit: quoted prices for similar securities in active markets;
- Repurchase Agreements: valued at purchase price due to very short term to maturity;
- Money Market, Bond, and Equity Mutual Funds: published fair value per share (unit) for each fund; and
- Utah Public Treasurers' Investment Fund: application of the June 30, 2017 fair value factor, as calculated by the Utah State Treasurer, to the University's ending balance in the Fund.

KUED-TV

(A Public Telecommunications Department of the University of Utah)

NOTES TO FINANCIAL STATEMENTS

June 30, 2017

(4) Investments (Continued)

Debt securities, namely collateralized debt obligations, classified as Level 3 are valued manually using various sources such as issuer, investment manager or default price if a price is not provided.

Investments valued using the net asset value (NAV) per share (or its equivalent) are considered “alternative investments” and, unlike more traditional investments, generally do not have readily obtainable market values and take the form of limited partnerships. The University values these investments based on the partnerships’ audited financial statements. If June 30 statements are available, those values are used preferentially. However, some partnerships have fiscal years ending at other than June 30. If June 30 valuations are not available, the value is progressed from the most recently available valuation taking into account subsequent calls and distributions.

Investment income in the Statement of Revenues, Expenses, and Changes in Net Position at June 30, 2017 consists of the following:

	2017	[For Comparison Only] 2016
Unrealized gain (loss) on investments	\$ 228,256	\$ (166,917)
Interest income on endowment pool distributions	<u>287,267</u>	<u>231,536</u>
Investment income	<u><u>\$ 515,523</u></u>	<u><u>\$ 64,619</u></u>

Funds available for investment are pooled to maximize return and minimize administrative cost, except for funds that are authorized by the University administration to be separately invested or which are separately invested to meet legal or donor requirements. Investments received as gifts are recorded at fair value on the date of receipt. Other investments are also recorded at fair value.

University personnel manage certain portfolios, while other portfolios are managed by banks, investment advisors or through trust agreements.

According to the Uniform Prudent Management of Institutional Funds Act (UPMIFA), Section 51-8 of the Utah Code, the institution may appropriate for expenditure or accumulate so much of an endowment fund as the University determines to be prudent for uses, benefits, purposes, and duration for which the endowment was established. The endowment income spending practice at June 30, 2017, was 4% of the twelve quarter moving average of the market value of the endowment pool. The spending practice is reviewed periodically and any necessary changes are made. In general, nearly all of the University’s endowment is subject to spending restrictions imposed by donors.

KUED-TV

(A Public Telecommunications Department of the University of Utah)

NOTES TO FINANCIAL STATEMENTS

June 30, 2017

(4) Investments (Continued)

The amount of net appreciation on investments of donor-restricted endowments available for authorization for expenditure at June 30, 2017, was approximately \$3,358,775. The net appreciation is a component of restricted nonexpendable net position.

Interest Rate Risk: Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. The University's policy for managing its exposure to fair value loss arising from increasing interest rates is to comply with the Act or the UPMIFA and Rule 541, as applicable. For endowment funds Rule 541 requires that investments be made as a prudent investor would, by considering the purposes, terms, distribution requirements, and other circumstances of the endowments and by exercising reasonable care, skill, and caution.

Credit Risk: Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The University's policy for reducing its exposure to credit risk is to comply with the Act, the UPMIFA, and Rule 541, as previously discussed.

Custodial Credit Risk: Custodial credit risk for investments is the risk that, in the event of a failure of the counterparty, the University will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The University's policy for reducing its exposure to custodial credit risk is to comply with applicable provisions of the UPMIFA and Rule 541.

Concentration of Credit Risk: Concentration of credit risk is the risk of loss attributed to the magnitude of a government's investment in a single issuer. The University's policy for reducing this risk of loss is to comply with the UPMIFA and Rule 541. For endowments, the University, under Rule 541, is permitted to establish its own investment policy which adheres to the guidelines established by UPMIFA. Accordingly, the University's Pool Asset Allocation Guidelines allocate endowment funds in the following asset classes:

<u>Asset Category</u>	<u>Target</u>	<u>Range</u>
Global Equity	40 %	30-50 %
Public Equities	25	15-50
Hedged Equity*	5	0-10
Private Equity*	10	0-15
Global Fixed Income/Credit	20	10-40
Interest Rate Sensitive	11	5-40
Credit Sensitive*	9	0-20
Real Assets	20	10-30
Real Estate*	7	0-15
Natural Resources*	8	0-10
Infrastructure*	5	0-10
Diversifying Strategies*	20	0-30

* May include semi-liquid hedge funds or illiquid private capital funds

KUED-TV

(A Public Telecommunications Department of the University of Utah)

NOTES TO FINANCIAL STATEMENTS

June 30, 2017

(4) Investments (Continued)

The University diversifies assets among several investment managers of varying investment strategies. Diversification is an effective means of maximizing return while mitigating risk. At June 30, 2017, the University held more than 5% of its total investments in the Federal Home Loan Bank, the Federal Farm Credit Bank, and the Federal Home Loan Mortgage Corporation. These investments represent 14.2%, 7.8%, 15.8%, respectively, of the University's total investments.

Joint Venture: The Station has an investment in DTV Utah, LC, a joint venture with seven other Wasatch front stations. The Station has a 13% interest in DTV Utah, LC at June 30, 2017. DTV Utah, LC was formed to design, construct, and operate a facility to transmit high-definition television signals of the participating members as mandated by the Federal Communications Commission. The facility was completed during fiscal year 2000. The Station's ongoing financial responsibility is to fund its share of operating and maintenance costs. The loss in the joint venture of \$117,183, which is included in broadcasting expenses in the Statement of Revenues, Expenses, and Changes in Net position, represents the Station's equity interest in the net loss of DTV Utah, LC for the year ended June 30, 2017. The net loss was mainly comprised of depreciation and other operating expenses. Financial statements for the joint venture are the responsibility of and are available from KSL-TV, one of the joint venture participants.

(5) Pension Plans and Retirement Benefits

As required by State law, eligible nonexempt employees (as defined by the U.S. Fair Labor Standards Act) of the Station are covered by defined benefit plans sponsored by the Utah Retirement Systems (Systems) and eligible exempt employees (as defined by the U.S. Fair Labor Standards Act) are covered by defined contribution plans, such as the Teachers Insurance and Annuity Association (TIAA) or Fidelity Investments (Fidelity).

Defined Benefit Plans

Eligible plan participants are provided with pensions through the following Systems:

- Public Employees Noncontributory Retirement System (Noncontributory System) and the Public Employees Contributory Retirement System (Contributory System) both of which are cost-sharing, multiple-employer public employee retirement systems.
- Tier 2 Public Employees Contributory Retirement System (Tier 2 Public Employees System) which is a cost-sharing, multiple-employer public employee retirement system.

The Tier 2 Public Employee System was created July 1, 2011. All eligible employees who have no previous service credit with any of the Utah Retirement Systems prior to that date, are members of the Tier 2 Retirement Systems.

KUED-TV

(A Public Telecommunications Department of the University of Utah)

NOTES TO FINANCIAL STATEMENTS

June 30, 2017

(5) Pension Plans and Retirement Benefits (Continued)

The Systems are established and governed by the respective sections of Title 49 of the *Utah Code Annotated, 1953*, as amended. The Systems' defined benefit plans are amended statutorily by the State Legislature. The Utah State Retirement Office Act provides for the administration of the Utah Retirement Systems and Plans under the direction of the Utah State Retirement Board (Board) whose members are appointed by the Governor. The Systems are fiduciary funds defined as pension (and other employee benefit) trust funds and are a component unit of the State of Utah. Title 49 of the Utah Code grants the authority to establish and amend the benefit terms.

URS issues a publicly available financial report that can be obtained by writing to the Utah Retirement Systems at 560 East 200 South, Salt Lake City, UT 84102 or visiting the website www.urs.org.

The Systems provide retirement, disability, and death benefits. Retirement benefits are as follows:

Summary of Benefits by System:

System	Final Average Salary	Years of Service required and/or age eligible for benefit	Benefit percent per year of service	COLA**
Noncontributory System	Highest 3 years	30 years any age 25 years any age* 20 years age 60* 10 years age 62* 4 years age 65	2.0% per year all years	Up to 4%
Contributory System	Highest 5 years	30 years any age 25 years any age* 20 years age 60* 10 years age 62* 4 years age 65	1.25% per year to June 1975; 2.00% per year July 1975 to present	Up to 4%
Tier 2 Public Employees System	Highest 5 years	35 years any age 20 years age 60* 10 years age 62* 4 years age 65	1.5% per year all years	Up to 2.5%

* with actuarial reductions

** All post-retirement cost of living adjustments are non-compounding and are based on the original benefit. The cost-of-living adjustments are also limited to the actual Consumer Price Index (CPI) increase for the year, although unused CPI increases not met may be carried forward to subsequent years.

KUED-TV

(A Public Telecommunications Department of the University of Utah)

NOTES TO FINANCIAL STATEMENTS

June 30, 2017

(5) Pension Plans and Retirement Benefits (Continued)

As a condition of participation in the Systems, employers and/or employees are required to contribute certain percentages of salary and wages as authorized by statute and specified by the Utah State Retirement Board. Contributions are actuarially determined as an amount that, when combined with employee contributions (where applicable) is expected to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded actuarial accrued liability. Contribution rates are as follows:

	Paid by Employer for Employee	Employer Contribution Rates
Contributory System		
State and School Division Tier 1	6%	17.70%
State and School Division Tier 2*	N/A	18.24%
Noncontributory System		
State and School Division Tier 1	N/A	22.19%

* Tier 2 rates include a statutory required contribution to finance the unfunded actuarial liability of the Tier 1 plans.

At June 30, 2017, the Station's net pension asset and liability were as follows:

	Proportionate Share*	Net Pension Asset	Net Pension Liability
Noncontributory System	0.0257048%		\$ 681,760
Contributory System	0.0011197%		51,315
Tier 2 Public Employees System	0.0250576%	\$ 206	
Total Net Pension Asset/Liability		\$ 206	\$ 733,075

* Represents the proportionate share of the University of Utah assets and liabilities. Refer to the University's fiscal year 2017 audited financial statements for the University's share of assets and liabilities in the Systems.

The net pension asset and liability were measured as of December 31, 2016, and the total pension liability used to calculate the net pension asset and liability was determined by an actuarial valuation as of January 1, 2016 and rolled-forward using generally accepted actuarial procedures. The proportion of the net pension asset and liability is equal to the ratio of the employer's actual contributions to the Systems during the plan year over the total of all employer contributions to the System during the plan year.

For the year ended June 30, 2017 pension expense of \$13,004 was recorded. At June 30, 2017, the Station reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

KUED-TV**(A Public Telecommunications Department of the University of Utah)****NOTES TO FINANCIAL STATEMENTS**

June 30, 2017

(5) Pension Plans and Retirement Benefits (Continued)

	Deferred Outflows of Resources	Deferred Inflows of Resources
	<u> </u>	<u> </u>
Differences between expected and actual experience	\$ 11	\$ 37,748
Changes in assumptions	68,648	8,583
Net difference between projected and actual earnings on pension plan investments	143,289	43,032
Changes in proportion and differences between contributions and proportionate share of contributions	2,967	33,433
Contributions subsequent to the measurement date	<u>68,853</u>	<u> </u>
Total	<u><u>\$ 283,768</u></u>	<u><u>\$ 122,796</u></u>

Contributions made between January 1, 2017 and June 30, 2017 of \$68,853 are reported as deferred outflows of resources related to pensions. These contributions will be recognized as a reduction of the net pension liability in the upcoming fiscal year. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized as pension expense as follows:

Year Ended December 31,	Net Deferred Outflows (Inflows) of Resources
<u> </u>	<u> </u>
2017	\$ 29,009
2018	30,877
2019	41,554
2020	(7,719)
2021	60
Thereafter	\$ 615

The total pension liability in the December 31, 2016 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	2.60 percent
Salary increases	3.35 – 10.35 percent, average, including inflation
Investment rate of return	7.20 percent, net of pension plan investment expense, including inflation

KUED-TV

(A Public Telecommunications Department of the University of Utah)

NOTES TO FINANCIAL STATEMENTS

June 30, 2017

(5) Pension Plans and Retirement Benefits (Continued)

Mortality rates were developed from actual experience and mortality tables, based on gender, occupation, and age, as appropriate, with adjustments for future improvement in mortality based on Scale AA, a model developed by the Society of Actuaries.

The actuarial assumptions used in the January 1, 2016 valuation were based on the results of an actuarial experience study for the five year period ending December 31, 2013.

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class and is applied consistently to each defined benefit pension plan. These ranges are 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 by adding expected inflation.

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

Asset Class	Expected Return Arithmetic Basis		
	Target Asset Allocation	Real Return Arithmetic Basis	Long-term Expected Portfolio Real Rate of Return
Equity securities	40%	7.06%	2.82%
Debt securities	20%	0.80%	0.16%
Real assets	13%	5.10%	0.66%
Private equity	9%	11.30%	1.02%
Absolute return	18%	3.15%	0.57%
Cash and equivalents	0%	0.00%	0.00%
Totals	100%		5.23%
		Inflation	2.60%
		Expected arithmetic nominal return	7.83%

The 7.2% assumed investment rate of return is comprised of an inflation rate of 2.60%, a real return of 4.60% that is net of investment expense.

KUED-TV

(A Public Telecommunications Department of the University of Utah)

NOTES TO FINANCIAL STATEMENTS

June 30, 2017

(5) Pension Plans and Retirement Benefits (Continued)

The discount rate used to measure the total pension liability was 7.2%. The projection of cash flows used to determine the discount rate assumes that employee contributions will be made at the current contribution rate and that contributions from all participating employers will be made at contractually required rates that are actuarially determined and certified by the URS Board. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability. The discount rate was reduced to 7.2 percent from 7.5 percent from the prior measurement period.

The following presents the Station's proportionate share of the net pension liability calculated using the discount rate of 7.2%, as well as, what the proportionate share of the net pension liability would be if calculated using a discount rate that is one percentage point lower or one percentage point higher than the current rate:

System	1% Decrease (6.20%)	Discount Rate (7.20%)	1% Increase (8.20%)
Noncontributory System	\$ 1,527,453	\$ 681,760	\$ 211,093
Contributory System	150,846	51,315	15,889
Tier 2 Public Employees System	19,026	(206)	(64)
Net pension liability	<u>\$ 1,697,325</u>	<u>\$ 732,869</u>	<u>\$ 226,918</u>

Detailed information about the pension plan's fiduciary net position is available in the separately issued URS financial report.

Defined Contribution Plans

TIAA and Fidelity provide individual retirement fund contracts with each participating employee. Employees may allocate contributions by the Station to any or all of the providers and the contributions to the employee's contract(s) become vested at the time the contribution is made. Employees are eligible to participate from the date of employment and are not required to contribute to the fund. Benefits provided to retired employees are based on the value of the individual contracts and the estimated life expectancy of the employee at retirement. For the year ended June 30, 2017, the Station's contribution to these defined contribution pension plans was 14.20% of the employees' annual salaries. The Station has no further liability once contributions are made.

For the years ended June 30, 2017, 2016, and 2015, the Station's contributions to the Systems, TIAA, and Fidelity were equal to the required amounts as follows: \$472,596, \$488,069, and \$478,852, respectively.

KUED-TV

(A Public Telecommunications Department of the University of Utah)

NOTES TO FINANCIAL STATEMENTS

June 30, 2017

(6) Risk Management

The Station participates in the University's insurance coverage program for commercial general liability, automobile, errors and omissions, and property (building and equipment) through policies administered by the Utah State Risk Management Fund. Employees of the Station and authorized volunteers are covered by workers' compensation and employees' liability through the Workers' Compensation Fund of Utah.

In addition, the Station participates in the University-maintained self-insurance funds for health care, dental, and auto/physical damage, which are held in a trust with an independent financial institution in compliance with Medicare reimbursement regulations. The Station's participation in these programs is funded through indirect support provided by the University.

(7) Commitments

The Station entered into a new lease agreement during fiscal year 2012 for land in Washington County, Utah, on which a second transmitter is located. Rent for the year ended June 30, 2017 totaled \$11,533. The rental payments under the lease are approximately \$11,947 in fiscal years 2017 through 2022 and the lease expires in July 2022.

(8) Subsequent Events

Management of the Station has evaluated subsequent events through January 8, 2018, which is also the date the financial statements were available to be issued. No subsequent events were noted during this evaluation that require recognition or disclosure in these financial statements.

REQUIRED SUPPLEMENTARY INFORMATION

KUED-TV

(A Public Telecommunications Department of the University of Utah)

Schedule of the Proportionate Share of the Net Pension Liability

Noncontributory System	2017	2016
Proportion of net pension liability (asset) **	0.0257048%	0.0270908%
Proportionate share of net pension liability (asset)	\$ 681,760	\$ 709,033
Covered employee payroll	535,259	556,978
Proportionate share of the net pension liability (asset) as a percentage of its covered employee payroll	127.37%	127.30%
Plan fiduciary net position as a percentage of total pension liability	84.9%	84.5%

Contributory System	2017	2016
Proportion of net pension liability (asset) **	0.1119746%	0.1066292%
Proportionate share of net pension liability (asset)	\$ 51,315	\$ 53,368
Covered employee payroll	25,104	26,978
Proportionate share of the net pension liability (asset) as a percentage of its covered employee payroll	204.41%	197.82%
Plan fiduciary net position as a percentage of total pension liability	93.4%	92.4%

Tier 2 Public Employees	2017	2016
Proportion of net pension liability (asset) **	0.0250576%	0.0355443%
Proportionate share of net pension liability (asset)	\$ (206)	\$ (296)
Covered employee payroll	(15,147)	986,667
Proportionate share of the net pension liability (asset) as a percentage of its covered employee payroll	1.36%	-0.03%
Plan fiduciary net position as a percentage of total pension liability	95.1%	100.2%

** Represents the proportionate share of the University of Utah assets and liabilities. Refer to the University's fiscal year 2017 audited financial statements for the University's share of assets and liabilities in the Systems.

KUED-TV

(A Public Telecommunications Department of the University of Utah)

Schedule of Employer Contributions

Noncontributory System	2017	2016	2015	2014	2013	2012	2011	2010	2009	2008
Contractually Required Contribution	\$ 141,170	\$ 145,169	\$ 150,132	\$ 145,121	\$ 188,065	\$ 139,700	\$ 134,662	\$ 122,761	\$ 125,553	\$ 121,723
Contributions in Relation to the Contractually Required Contribution	(141,170)	(145,169)	(150,132)	(145,121)	(188,065)	(139,700)	(134,662)	(122,761)	(125,553)	(121,723)
Contribution Deficiency (Excess)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Covered Employee Payroll	\$ 643,075	\$ 658,589	\$ 679,247	\$ 711,226	\$ 806,527	\$ 830,157	\$ 825,164	\$ 863,245	\$ 882,930	\$ 855,996
Contributions as a Percentage of Covered Employee Payroll	22.0%	22.0%	22.1%	20.4%	23.3%	16.8%	16.3%	14.2%	14.2%	14.2%
Contributory System	2017	2016	2015	2014¹	2013¹	2012¹	2011¹	2010²	2009²	2008²
Contractually Required Contribution	\$ 4,867	\$ 5,663	\$ 6,231	\$ 5,866	\$ 3,679	\$ 2,159	\$ 1,447	\$ 7,479	\$ 8,172	\$ 8,321
Contributions in Relation to the Contractually Required Contribution	(4,867)	(5,663)	(6,231)	(5,866)	(3,679)	(2,159)	(1,447)	(7,479)	(8,172)	(8,321)
Contribution Deficiency (Excess)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Covered Employee Payroll	\$ 27,496	\$ 32,022	\$ 35,206	\$ 36,729	\$ 30,478	\$ 16,976	\$ 8,117	\$ 47,543	\$ 51,952	\$ 52,899
Contributions as a Percentage of Covered Employee Payroll	17.7%	17.7%	17.7%	16.0%	12.1%	12.7%	17.8%	15.7%	15.7%	15.7%
Tier 2 Public Employees System	2017	2016	2015	2014¹	2013¹	2012¹	2011¹	2010²	2009²	2008²
Contractually Required Contribution	\$ 33,350	\$ 42,150	\$ 37,429	\$ 25,186	\$ 15,758	\$ 9,248	\$ 6,199	N/A	N/A	N/A
Contributions in Relation to the Contractually Required Contribution	(33,350)	(42,150)	(37,429)	(25,186)	(15,758)	(9,248)	(6,199)			
Contribution Deficiency (Excess)	-	-	-	-	-	-	-			
Covered Employee Payroll	\$ 183,040	\$ 231,145	\$ 205,103	\$ 150,410	\$ 130,544	\$ 72,712	\$ 34,766			
Contributions as a Percentage of Covered-Employee Payroll ³	18.2%	18.2%	18.2%	16.7%	12.1%	12.7%	17.8%			

¹ Contractually Required Contributions, Contributions, and Covered Payroll include information for Tier 2 Employees. Prior to the implementation of GASB Statement No. 08, Tier 2 information was not separately available.

² The Tier 2 Public Employees System was created in 2011.

³ For employees participating in the Public Employees Tier 2 Systems, the University is required to contribute 18.24% of the employees' salaries to the Systems.

The Station makes the required contributions by paying approximately 10% in to the Tier 2 Systems while the remainder is contributed to the Tier 1 Noncontributory System, as required by law. The amounts reported here reflect the contributions to the Tier 2 systems rather than the total required.



CERTIFIED PUBLIC
ACCOUNTANTS AND
BUSINESS ADVISORS

**INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL
REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF
FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT
AUDITING STANDARDS***

KUED-TV

**The University of Utah Board of Trustees
and David W. Pershing, Ph.D., President
Salt Lake City, Utah**

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 financial statements of KUED-TV (the Station), which comprise the statement of net position as of June 30, 2017, and the related statements of revenues, expenses, and changes in net position and cash flows for the year then ended, and the related notes to the financial statements.

Internal Control Over Financial Reporting

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Station'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.

WSRP, LLC

Salt Lake City, Utah
January 8, 2018