Kentucky Economic Development Finance Authority

Financial Statements

Years Ended June 30, 2018 and 2017

Kentucky Economic Development Finance Authority
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Years Ended June 30, 2018 and 2017

Independent Auditor's Report

To the Committee Members
Kentucky Economic Development
Finance Authority
Frankfort, Kentucky

Report on the Financial Statements

We have audited the accompanying financial statements of the Kentucky Economic Development Finance Authority (Authority), a component unit of the Commonwealth of Kentucky, as of and for the years ended June 30, 2018 and 2017, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America 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 of 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 the Kentucky Economic Development Finance Authority as of June 30, 2018 and 2017, and the changes in its financial position and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

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Independent Auditor's Report (Continued)

Emphasis of Matter - Restatements of Net Position

The Authority adopted Governmental Accounting Standards Board (GASB) Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, as of and for the year ended June 30, 2018. Accordingly, the Authority's net position per the accompanying statement of revenues, expenses, and changes in net position for the year ended June 30, 2017 has been restated for the impact of the change in the accounting principle. See Notes M and R to the financial statements. Our opinion is not modified with respect to this matter.

Additionally, as described in Note R to the financial statements, during 2018, management identified misstatements in prior year's financial statements related to deferred outflows of resources, the pension liability, and net position. Accordingly, net position as of July 1, 2016 has been restated. Our opinion is not modified with respect to this matter.

Other Matter - Required Supplemental Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis on pages 3 through 9 and the required supplemental information on pages 41 through 46 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 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 the 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 Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated October 15, 2018, on our consideration of the Authority'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 the 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 Authority's internal control over financial reporting and compliance.

MCM CPAs & Advisors LLP

MCM CPAs & Advisors LLP
Louisville, Kentucky
October 15, 2018

KENTUCKY ECONOMIC DEVELOPMENT FINANCE AUTHORITY

MANAGEMENT'S DISCUSSION AND ANALYSIS

As management of the Kentucky Economic Development Finance Authority (Authority), a component unit of the Commonwealth of Kentucky, we offer the readers of the Authority's financial statements this narrative overview and analysis of the financial performance of the Authority for the fiscal years ended June 30, 2018 and 2017. We encourage readers to read it in conjunction with the Authority's financial statements and the accompanying notes thereto.

FINANCIAL HIGHLIGHTS

- Cash and cash equivalents decreased $30,762 (0.2%)
- Intergovernment receivables decreased $1,318,859 (31.8%)
- Net loans receivable decreased $1,168,087 (5.5%)
- Pension liability increased $1,484,000 (20.0%)
- Other postemployment benefits liability increased $259,000 (18.1%)
- Net position decreased $3,733,819 (9.7%)
- Operating revenues decreased $194,811 (19.7%)
- Operating expenses decreased $11,480,462 (63.2%)
- Loss from operations decreased $11,285,651 (65.7%)
- Net non-operating revenues decreased $14,453,162 (87.0%)

OVERVIEW OF THE FINANCIAL STATEMENTS

This financial report consists of three parts: Management's Discussion and Analysis (this section), the financial statements, and the accompanying notes to the financial statements. The Kentucky Economic Development Finance Authority is a self-supporting entity and follows enterprise fund reporting. Accordingly, the financial statements are presented using the economic resources measurement focus and the accrual basis of accounting. The enterprise fund statements offer short and long-term financial information about the activities and operations of the Authority. Such statements are presented in a manner similar to those of a private business.

The statement of net position presents information on all of the Authority's assets and liabilities, with the difference between the two reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the Authority is improving or deteriorating.

The statement of revenues, expenses, and changes in net position presents information showing how the Authority's net position changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of the related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods.

The statement of cash flows provides relevant information about the cash receipts and cash payments of the Authority during the fiscal year. The statement of cash flows should help users assess the Authority's ability to generate future net cash flows, meet future obligations/commitments as they become due, the Authority's need for future external financing, the reasons for differences in operating and related cash receipts and cash payments, and the effects on financial position of cash and non-cash investing, capital, non-capital, and financing activities.

The notes to the financial statements provide additional information that is essential to a full understanding of the data provided in the financial statements. The notes to the financial statements can be found on pages 14-40.

FINANCIAL ANALYSIS OF THE AUTHORITY

Condensed Financial Information (in thousands)
Statement of Net Position
June 30

	2018	Percentage Increase (Decrease)	(Restated) 2017	Percentage Increase (Decrease)	(Restated) 2016
Current assets	$ 27,475	-6.3%	$ 29,329	7.8%	$ 27,199
Non-current assets	16,234	-4.1%	16,920	-9.4%	18,667
Total assets	43,709	-5.5%	46,249	0.8%	45,866
Deferred outflows of resources	2,054	59.6%	1,287	87.6%	686
Current liabilities	250	-7.1%	269	4.3%	258
Non-current liabilities	10,646	19.1%	8,936	47.4%	6,061
Total liabilities	10,896	18.4%	9,205	45.7%	6,319
Deferred inflows of resources	270	100.0%	-	0.0%	-
Restricted	3,382	-22.9%	4,384	-0.3%	4,399
Unrestricted	31,215	-8.0%	33,947	-5.3%	35,834
Total net position	$ 34,597	-9.7%	$ 38,331	-4.7%	$ 40,233

Total assets consist primarily of cash/cash equivalents, intergovernment receivables, and net loans receivable.

During 2018, the Authority's cash/cash equivalents decreased $30,762. Net cash provided by 2018 non-capital financing ($3,300,231) and investing activities ($216,119) essentially funded the amount of net cash used in 2018 operating activities ($3,547,112). During 2017, the Authority's cash/cash equivalents decreased $509,820. Net cash used in 2017 operating activities totals $18,479,616 (largely the impact of the $15,721,844 of cash payments for grants during 2017 and $3,100,000 of program loans issued during 2017). During 2016, the Authority's cash/cash equivalents decreased $901,603. Net cash used in 2016 operating activities totals $555,242 (largely the impact of the $747,067 of cash payments for grants during 2016).

As of June 30, 2018, 2017, and 2016, the Authority had approved program loans, grants, and High-Tech Construction and Investment Pool projects, funding for which had not yet been received as of year-end from prior authorizations made available by the Kentucky legislature. Accordingly, the accompanying statements of net position reflect intergovernment receivables as of year-end. See Notes I and J to the financial statements for additional information.

FINANCIAL ANALYSIS OF THE AUTHORITY (CONTINUED)

During 2018, 2017, and 2016, repayments of program loans totaled $1,168,087, $563,069, and $1,020,344, respectively. No additional program loans were issued during 2018. Two program loans issued during 2017 totaled $3,100,000. No such program loans were issued during 2016.

Total liabilities generally consist of accounts payable attributable to general operating expenses, accrued payroll expenses, compensated absences (classified between the current and non-current portions), the pension liability (a non-current liability), and the other postemployment benefits liability (a non-current liability).

The $38,753 decrease between 2018 and 2017 in compensated absences is principally attributable to the compensated absences balances of two specific employees at June 30, 2017 (two employees that were not on the Authority's payroll at June 30, 2018). The decrease between 2017 and 2016 in accrued payroll expenses ($3,707) and compensated absences ($26,359) is attributable to the Authority's payroll consisting of one less employee at June 30, 2017 (the employee retired during 2017). The decrease between 2016 and 2015 in accrued payroll expenses ($8,934) and compensated absences ($2,350) is attributable to the Authority's payroll consisting of two less employees at June 30, 2016.

At June 30, 2017 and 2016, **total liabilities** also include an intergovernment payable due to the Office of Entrepreneurship in the amount of $20,294 and $3,070, respectively (see Note K to the financial statements for additional information).

The Authority adopted Governmental Accounting Standards Board (GASB) Statement No. 68, *Accounting and Financial Reporting for Pensions - An Amendment of GASB Statement No. 27*, as of and for the year ended June 30, 2015. At June 30, 2018, 2017, and 2016 the Authority's liability with respect to its estimated proportionate share of the collective net pension liability totals $8,914,000, $7,430,000, and $5,959,000, respectively. The $1,484,000 increase in the pension liability from 2017 to 2018 largely represents the impact of the decrease in the discount rate used to measure the total pension liability per the June 30, 2017 actuarial valuation (5.25% versus 6.75% with respect to the total pension liability per the June 30, 2016 actuarial valuation). The $1,471,000 increase in the pension liability from 2016 to 2017 largely represents the impact of the decrease in the discount rate used to measure the total pension liability per the June 30, 2016 actuarial valuation (6.75% versus 7.50% with respect to the total pension liability per the June 30, 2015 actuarial valuation). See Note L to the financial statements for additional information.

The Authority adopted GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions* (Statement No. 75), as of and for the year ended June 30, 2018. At June 30, 2018 and 2017, the Authority's liability with respect to its estimated proportionate share of the collective net other postemployment benefits (OPEB) liability totals $1,688,000 and $1,429,000, respectively. The $259,000 increase in the OPEB liability from 2017 to 2018 largely represents the impact of the decrease in the discount rate used to measure the total OPEB liability per the June 30, 2017 actuarial valuation (5.83% versus 6.90% with respect to the total OPEB liability per the June 30, 2016 actuarial valuation). See Note M to the financial statements for additional information.

Deferred outflows and/or inflows of resources at June 30, 2018, 2017, and 2016 relate to the pension and OPEB liabilities.

FINANCIAL ANALYSIS OF THE AUTHORITY (CONTINUED)

The 2018 change in **net position** is primarily attributable to the fact that grants expense decreased $11,738,175, while total net non-operating revenues decreased $14,453,162. The 2017 change in **net position** is primarily attributable to the $13,465,752 increase in operating expenses between years (largely the impact of the additional 2017 expense attributable to the $14,921,267 increase in grant expenditures) which is largely offset by the $12,826,073 of additional 2017 net payments from the Commonwealth. The 2016 change in **net position** is primarily attributable to the $1,104,802 increase in operating expenses between years (largely the impact of the additional 2016 expense attributable to the $2,969,000 increase in the pension liability as indicated above which is partially offset by the $1,529,865 decrease in 2016 grant expenditures).

See Note I to the financial statements for additional information with respect to **restricted net position** (net position of the Authority restricted to the Office of Entrepreneurship High-Tech Construction and Investment Pools).

Condensed Financial Information (in thousands)
Statement of Revenues, Expenses, and Changes in Net Position
Years Ended June 30

	2018	Percentage Increase (Decrease)	(Restated) 2017	Percentage Increase (Decrease)	(Restated) 2016
Operating revenues					
Application and issuance fees	$ 510	-30.8%	$ 737	37.0%	$ 538
Interest on loans	281	12.9%	249	14.7%	217
Other	4	0.0%	4	33.3%	3
Total operating revenues	795	-19.7%	990	30.6%	758
Operating expenses					
Compensation and related benefits	2,985	9.5%	2,726	-34.7%	4,172
Grants	3,578	-76.6%	15,316	3777.5%	395
Contracted services	131	0.0%	131	-7.7%	142
Other	4	-20.0%	5	66.7%	3
Total operating expenses	6,698	-63.2%	18,178	285.8%	4,712
Loss from operations	(5,903)	-65.7%	(17,188)	334.7%	(3,954)
Non-operating revenues (expenses)	2,169	-87.0%	16,622	329.6%	3,869
Change in net position	(3,734)	559.7%	(566)	565.9%	(85)
Net position, beginning of year	38,331	-4.7%	40,233	-0.2%	40,318
Restatement for change in accounting principle	-	100.0%	(1,336)	-100.0%	-
Net position, end of year	$ 34,597	-9.7%	$ 38,331	-4.7%	$ 40,233

FINANCIAL ANALYSIS OF THE AUTHORITY (CONTINUED)

Application and issuance fees represent the fees earned on program loans and the various tax incentive projects "closed" throughout the fiscal year.

Application and issuance fees decreased $227,611 between 2018 and 2017. This decrease is principally the result of the additional 2017 revenues attributable to the additional administrative fees generated under the Kentucky Business Investment Program (25 additional projects "closed" during 2017).

Application and issuance fees increased $199,050 between 2017 and 2016. This increase is principally the result of the additional 2017 revenues attributable to the additional administrative fees generated under the Tax Increment Financing Program (no such projects "closed" during 2016) and the Kentucky Business Investment Program (17 additional projects "closed" during 2017).

Application and issuance fees decreased $212,123 between 2016 and 2015. This decrease is principally the result of the additional 2015 revenues attributable to the additional administrative fees generated under the Tax Increment Financing Program (no such projects "closed" during 2016) and the Kentucky Business Investment Program (16 fewer projects "closed" during 2016).

Interest on program loans represents the interest earned on program loans during the fiscal year. The decrease between years is a function of the scheduled principal payments being made throughout the fiscal year.

Compensation and related benefits consist primarily of regular salaries and wages, employer payroll taxes, and employee benefits such as retirement and insurance. **Compensation and related benefits** increased $259,525 between 2018 and 2017. The additional 2018 **compensation and related benefits** expense is largely attributable to the $259,000 increase in the OPEB liability from 2017 to 2018 as referred to above. **Compensation and related benefits** decreased $1,446,039 between 2017 and 2016. The additional 2016 **compensation and related benefits** expense is largely attributable to the $2,969,000 increase in the pension liability from 2015 to 2016 (as compared to the pension liability increasing $1,471,000 from 2016 to 2017). **Compensation and related benefits** increased $2,641,060 between 2016 and 2015 largely due to the additional pension liability at June 30, 2016 as referred to above.

Grants are primarily representative of the disbursements made relative to the projects funded from the High-Tech Construction and Investment Pools. **Grants** decreased $11,738,175 from 2017. The additional 2017 **grants** expense is largely attributable to one specific 2017 grant ($15,000,000). **Grants** increased $14,921,267 from 2016. The additional 2017 **grants** expense is also largely attributable to the one specific 2017 grant ($15,000,000) as referred to above. **Grants** decreased $1,529,865 between 2016 and 2015. The additional 2015 **grants** expense is largely attributable to one specific 2015 grant ($1,496,538).

Contracted services generally consist of the monthly fees paid for banking services, amounts paid to external legal counsel for services pertaining to the development, preparation, and review of financing agreements, bond issues, trust indentures, and other documents necessary to facilitate the administration of Economic Development incentives, and all other professional fees. **Contracted services** remained relatively consistent between 2018 and 2017 (decreased $277). **Contracted services** also remained relatively consistent between 2017 and 2016 (decreased $10,938) and between 2016 and 2015 (decreased $5,327).

FINANCIAL ANALYSIS OF THE AUTHORITY (CONTINUED)

Other operating expenses, which are generally relatively insignificant, represent all other operating expenses of the Authority such as travel, supplies, and any other miscellaneous expenses.

Net **non-operating revenues** consist primarily of net payments to/from the Commonwealth and intergovernment revenue or expense. See Notes J and K to the financial statements for a summary of the non-capital financing activities comprising the 2018 and 2017 balances with respect to net payments to/from the Commonwealth and intergovernment revenue and expense.

As discussed above, the Authority adopted Statement No. 75 as of and for the year ended June 30, 2018. Accordingly, the Authority's net position per the statement of revenues, expenses, and changes in net position for the year ended June 30, 2017 has been restated for the $1,336,000 impact of the related change in the accounting principle. Such amount represents the Authority's estimated proportionate share of the collective net OPEB liability as of June 30, 2017 ($1,429,000 post-employment benefits liability per the statement of net position as of June 30, 2017), as well as the impact of certain related deferred outflows of resources ($93,000) as of June 30, 2017. See Note R to the financial statements for additional information.

Condensed Financial Information (in thousands)
Statement of Cash Flows
Years Ended June 30

	2018	Percentage Increase (Decrease)	2017	Percentage Increase (Decrease)	2016
Net cash provided by (used in)					
Operating activities	$ (3,547)	-80.8%	$ (18,480)	3229.7%	$ (555)
Non-capital financing activities	3,300	-81.8%	18,090	4668.2%	(396)
Investing activities	216	280.0%	(120)	-344.9%	49
Net change in cash and cash equivalents	(31)	-93.9%	(510)	-43.5%	(902)
Cash and cash equivalents, beginning of year	20,568	-2.4%	21,078	-4.1%	21,980
Cash and cash equivalents, end of year	$ 20,537	-0.2%	$ 20,568	-2.4%	$ 21,078

The **net change in cash and cash equivalents** totals ($30,762) for the year ended June 30, 2018. Net cash provided by 2018 non-capital financing ($3,300,231; principally payments from the Commonwealth) and investing activities ($216,119; principally income from investments) essentially funded the amount of net cash used in 2018 operating activities ($3,547,112; principally cash payments for grants).

FINANCIAL ANALYSIS OF THE AUTHORITY (CONTINUED)

The **net change in cash and cash equivalents** totals ($509,820) for the year ended June 30, 2017. Net cash used in 2017 operating activities totals $18,479,616, which largely represents the impact of cash payments for grants and cash disbursements relative to the issuance of program loans totaling $15,721,844 and $3,100,000, respectively. Net cash provided by 2017 non-capital financing activities totals $18,090,403, which largely represents the $18,557,761 of cash payments received from the Commonwealth, principally offsets the amount of net cash used in 2017 operating activities.

The **net change in cash and cash equivalents** totals ($901,603) for the year ended June 30, 2016. Net cash used in 2016 operating activities totals $555,242, which largely represents the net impact of principal collected on program loans ($1,020,344) and cash payments for personnel expenses ($1,653,261). Net cash used in 2016 non-capital financing activities totals $395,480, which largely represents the $418,255 of cash outflows attributable to intergovernment expense.

CURRENTLY KNOWN FACTS, DECISIONS, OR CONDITIONS

House Bill 200, enacted during the 2018 Regular Session of the Kentucky legislature, provides for potential non-reciprocal payments to Bluegrass State Skills Corporation, a separate component unit of the Commonwealth of Kentucky, in amounts not to exceed $3,542,600 in total. No such non-reciprocal payments have been made by the Authority through June 30, 2018.

CONTACTING THE AUTHORITY'S FINANCIAL MANAGEMENT

This financial report is designed to provide a general overview of the Authority's finances for all of those with an interest. If you have any questions concerning the information provided in this report or need additional financial information, contact the Kentucky Cabinet for Economic Development, Old Capitol Annex, 300 West Broadway, Frankfort, Kentucky, 40601.

Kentucky Economic Development Finance Authority
Statements of Net Position
June 30, 2018 and 2017

	2018	(restated) 2017
Assets		
Current assets		
Cash and cash equivalents	$ 20,537,412	$ 20,568,174
Accounts receivable	46,238	35
Intergovernment receivables	2,829,823	4,148,682
Accrued interest receivable, investments	21,511	7,171
Loans receivable, net	4,003,510	4,548,210
Accrued interest receivable, loans	36,792	37,192
Other receivables	-	19,917
Total current assets	27,475,286	29,329,381
Non-current assets		
Investments	312,040	375,109
Loans receivable, net	15,921,355	16,544,742
Total non-current assets	16,233,395	16,919,851
Total assets	43,708,681	46,249,232
Deferred Outflows of Resources	2,054,000	1,287,000
Liabilities		
Current liabilities		
Accounts payable	-	595
Intergovernment payable	-	20,294
Accrued payroll expenses	145,088	138,178
Compensated absences	105,100	110,400
Total current liabilities	250,188	269,467
Non-current liabilities		
Compensated absences	43,422	76,875
Pension liability	8,914,000	7,430,000
Other postemployment benefits liability	1,688,000	1,429,000
Total non-current liabilities	10,645,422	8,935,875
Total liabilities	10,895,610	9,205,342
Deferred Inflows of Resources	270,000	-
Net Position		
Restricted	3,382,281	4,384,415
Unrestricted	31,214,790	33,946,475
Total net position	$ 34,597,071	$ 38,330,890

See accompanying notes

Kentucky Economic Development Finance Authority
Statements of Revenues, Expenses, and Changes in Net Position
Years ended June 30, 2018 and 2017

	2018	(restated) 2017
Operating revenues		
Application and issuance fees	$ 509,727	$ 737,338
Interest on program loans	281,138	249,028
Other operating revenues	4,055	3,365
Total operating revenues	794,920	989,731
Operating expenses		
Compensation and related benefits	2,985,463	2,725,938
Grants	3,577,946	15,316,121
Contracted services	130,561	130,788
Travel	2,655	3,102
Other operating expenses	1,170	2,308
Total operating expenses	6,697,795	18,178,257
Loss from operations	(5,902,875)	(17,188,526)
Non-operating revenues (expenses)		
Income from investments	167,390	30,727
Net payments from the Commonwealth	726,756	17,076,073
Intergovernment revenue	1,330,000	-
Intergovernment expense	(55,090)	(484,582)
Total non-operating revenues (expenses)	2,169,056	16,622,218
Change in net position	(3,733,819)	(566,308)
Net position, beginning of year	38,330,890	40,233,198
Restatement for change in accounting principle	-	(1,336,000)
Net position, end of year	$ 34,597,071	$ 38,330,890

See accompanying notes

Kentucky Economic Development Finance Authority
Statements of Cash Flows
Years ended June 30, 2018 and 2017

	2018	2017
Cash flows from operating activities		
Principal collected on program loans	$ 1,168,087	$ 563,069
Interest collected on program loans	281,538	240,643
Application and issuance fees collected	463,524	760,201
Other receipts collected	269,539	708,218
Program loans issued	-	(3,100,000)
Cash payments for grants	(3,823,513)	(15,721,844)
Cash payments for personnel expenses	(1,771,306)	(1,794,004)
Cash payments for goods and services	(134,981)	(135,899)
Net cash used in operating activities	(3,547,112)	(18,479,616)
Cash flows from non-capital financing activities		
Payments from the Commonwealth	3,375,615	18,557,761
Intergovernment expense	(75,384)	(467,358)
Net cash provided by non-capital financing activities	3,300,231	18,090,403
Cash flows from investing activities		
Income from investments	153,050	23,734
Net maturities (purchases) of investments	63,069	(144,341)
Net cash provided by (used in) investing activities	216,119	(120,607)
Net change in cash and cash equivalents	(30,762)	(509,820)
Cash and cash equivalents, beginning of year	20,568,174	21,077,994
Cash and cash equivalents, end of year	$ 20,537,412	$ 20,568,174

Kentucky Economic Development Finance Authority
Statements of Cash Flows (Continued)
Years ended June 30, 2018 and 2017

	2018	(restated) 2017
Reconciliation of loss from operations to net cash flows from operating activities		
Loss from operations	$ (5,902,875)	$ (17,188,526)
Non-cash pension and other postemployment benefits liabilities adjustments	2,271,541	2,218,341
(Increase) decrease in assets		
Accounts receivable	(46,203)	22,863
Intergovernment receivables	-	221,354
Loans receivable	1,168,087	(2,536,931)
Accrued interest receivable, loans	400	(8,385)
Other receivables	19,917	77,776
Increase in deferred outflows	(767,000)	(751,000)
Increase (decrease) in liabilities		
Accounts payable	(595)	299
Accrued payroll expenses	6,910	(3,707)
Compensated absences	(38,753)	(26,359)
Pension and other postemployment benefits liabilities	(528,541)	(505,341)
Increase in deferred inflows	270,000	-
Net cash used in operating activities	$ (3,547,112)	$ (18,479,616)

Note A--Nature of Operations

The Kentucky Development Finance Authority was established in 1958 as an independent agency of State government, in close cooperation with the Secretary of the Kentucky Cabinet for Economic Development (Cabinet), to promote economic development in Kentucky. Effective July 14, 1992, the Kentucky Economic Development Finance Authority (Authority), a component unit of the Commonwealth of Kentucky (Commonwealth), was established, having all the powers, duties, and responsibilities delegated to it by the Kentucky Economic Development Partnership or as otherwise provided by law, including all programs, powers, duties, rights, and obligations of the Kentucky Development Finance Authority and the Kentucky Rural Economic Development Authority. The legislation enacted provides that the Authority consist of a Committee of six persons appointed by the Kentucky Economic Development Partnership plus the Secretary of the Kentucky Finance and Administration Cabinet.

Pursuant to Kentucky Revised Statutes (KRS) 154.20-033, the Authority is granted the powers necessary to carry out and effectuate the purposes and provisions of KRS 154.20 through 28, 30 through 32, 34, 48, and 60 including the administration of various tax incentive programs consisting of the Kentucky Angel Investment Act Program, the Kentucky Business Investment Program, the Kentucky Economic Opportunity Zone Act Program, the Kentucky Enterprise Initiative Act Program, the Kentucky Environmental Stewardship Act Program, the Kentucky Industrial Development Act Program, the Kentucky Industrial Revitalization Act Program, the Kentucky Investment Fund Act Program, the Kentucky Jobs Development Act Program, the Kentucky Jobs Retention Act Program, the Kentucky Reinvestment Act Program, the Kentucky Rural Economic Development Act Program, the Kentucky Small Business Tax Credit Program, the Incentives for Energy Independence Act Program, and the Tax Increment Financing Program. Certain of these tax incentive programs abate tax revenues of the Commonwealth. The abated tax revenues do not otherwise directly impact the Authority's financial position and/or results of operations. The Commonwealth's Comprehensive Annual Financial Report (CAFR) should be referred to for additional disclosures related to the tax incentive programs the Authority administers, including the disclosures required by Governmental Accounting Standards Board (GASB) Statement No. 77, *Tax Abatement Disclosures*.

The Authority is also responsible for administering two loan programs, the Direct Loan Program and the Small Business Loan Program, and three credit enhancement programs under the Kentucky Small Business Credit Initiative. The main objective of the Direct Loan Program is to provide, in conjunction with other financial institutions and agencies, the long-term financing needed to encourage the growth of new or expanding businesses throughout Kentucky, helping to promote and support the economic development efforts of Kentucky in cooperation with other State agencies. The purpose of the Small Business Loan Program, while similar in its objectives to the Direct Loan Program, is centered around helping Kentucky small businesses acquire the funding necessary to start or grow such businesses. The three credit enhancement programs, the Kentucky Capital Access Program, the Kentucky Collateral Support Program, and the Kentucky Loan Participation Program, are designed to generate jobs and increase the availability of credit to small businesses by reducing the risk participating lenders, credit unions, or community development financial institutions assume.

The Authority is also responsible for administering a grant program, the Cabinet's Economic Development Bond Program, and the High-Tech Construction and Investment Pools of the Office of Entrepreneurship.

The Authority also acts as the issuing agent for Kentucky Economic Development Finance Authority Revenue Bonds in accordance with the statutes regarding the issuance of Industrial Revenue Bonds and Taxable Economic Development Revenue Bonds. Such bonds do not constitute a general debt, liability, or moral obligation of the Authority. Accordingly, the accompanying financial statements do not include any assets or liabilities related to the issuance of these bonds. See Note O.

Note B--Summary of Significant Accounting Policies

1. Basis of Presentation

The Authority is a component unit of the Commonwealth of Kentucky. The Authority's financial statements are included in the Commonwealth's CAFR as a discretely presented component unit.

The accompanying financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America. The activities of the Authority are accounted for as an enterprise fund on the accrual basis of accounting. Accordingly, revenues are recognized when they are earned and expenses are recognized when the liability is incurred, regardless of the timing of related cash flows.

In accordance with GASB Statement No. 34, *Basic Financial Statements-and Management's Discussion and Analysis-for State and Local Governments*, the financial statements include a Management's Discussion and Analysis (MD&A) section providing an analysis of the Authority's overall financial position and results of operations.

2. Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

3. Cash and Cash Equivalents

For purposes of the statements of cash flows, the Authority considers all highly liquid investments with a maturity of three months or less when purchased to be cash equivalents.

4. Investments

Investments are reported at fair market value. The equity position of the Authority in the State cash and investment pool of the Commonwealth of Kentucky is reported as assets of the Authority. Unrealized gains and losses (income/loss from investments) are included in the statements of revenues, expenses, and changes in net position.

5. Allowances for Losses on Loans and Other Receivables

As applicable, loans and other receivables per the accompanying statements of net position are presented net of allowances for uncollectible receivable amounts. The Authority provides valuation allowances for estimated losses on loans and other receivables when any significant impairment in the realization of the respective assets has occurred. Additions to the allowance are charged to operations in the period in which the asset becomes impaired.

Note B--Summary of Significant Accounting Policies (Continued)

6. Accrued Interest Receivable, Loans

Interest income is accrued on the respective outstanding loan receivable balances. Each of the respective loans are reviewed by the Authority on a regular basis and placed on non-accrual status when the loan is 90 days or more past due and/or the collection of principal or interest is unlikely. When a loan is placed on non-accrual status, any uncollected interest accrued in the current year is charged against current income. Subsequent interest on non-accrual loans is recognized as income only when collected.

7. Deferred Outflows of Resources

Deferred outflows of resources represent a consumption of net assets by the Authority that is applicable to a future reporting period. At June 30, 2018 and 2017, deferred outflows of resources relate to the following:

	2018	(Restated) 2017
Pension liability (see Note L)	$ 1,730,000	$ 1,194,000
Other postemployment benefits liability (see Note M)	324,000	93,000
Total deferred outflows of resources	$ 2,054,000	$ 1,287,000

8. Compensated Absences

All annual and compensatory leave pay is accrued when incurred (see Note H). The current portion is estimated based on an allocation of the annual and compensatory leave hours used during the fiscal year to the total hours remaining as of year-end. No liability is recorded for non-vesting accumulating rights to receive sick pay benefits.

9. Pension Liability

For purposes of measuring the Authority's estimated proportionate share of the collective net pension liability, deferred outflows and inflows of resources related to pensions, and pension expense under GASB Statement No. 68, *Accounting and Financial Reporting for Pensions - An Amendment of GASB Statement No. 27*, information regarding the Authority's participation in the Kentucky Employees Retirement System (KERS) has been determined on the same basis as reported by the KERS. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms.

Note B--Summary of Significant Accounting Policies (Continued)

10. Other Postemployment Benefits (OPEB) Liability

For purposes of measuring the Authority's estimated proportionate share of the collective net OPEB liability, deferred outflows and inflows of resources related to OPEB, and OPEB expense under GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, information regarding the Authority's participation in the KERS (the Insurance Fund) has been determined on the same basis as reported by the KERS. For this purpose, benefit payments are recognized when due and payable in accordance with the benefit terms.

11. Deferred Inflows of Resources

Deferred inflows of resources represent an acquisition of net assets by the Authority that is applicable to a future reporting period. At June 30, 2018 and 2017, deferred inflows of resources relate to the following:

	2018	2017
Pension liability (see Note L)	$ 234,000	$ -
Other postemployment benefits liability (see Note M)	36,000	-
Total deferred inflows of resources	$ 270,000	$ -

12. Net Position

Net position is displayed in three components (if and when applicable):

a. Net investment in capital assets - Consists of capital assets including restricted capital assets, net of accumulated depreciation, reduced by the outstanding balances of any bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets. At June 30, 2018 and 2017, there is no such net investment in capital assets.

b. Restricted net position - Consists of net position with constraints placed on the use thereof either by (1) external groups such as creditors, grantors, contributors, or laws or regulations of other governments; or (2) law through constitutional provisions or enabling legislation.

c. Unrestricted net position - All other net position that does not meet the definition of net investment in capital assets or restricted.

Note B--Summary of Significant Accounting Policies (Continued)

13. 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.

14. Intergovernment Revenue and Expense

During the course of operations, transactions occur with other State agencies (including the Commonwealth of Kentucky in general) that may result in non-operating revenues from/expenditures to. See Notes J and K for the details of such transactions.

Note C--Cash and Cash Equivalents

The Kentucky Revised Statutes authorize the Authority to invest money subject to its control, at its discretion, in the permitted types of investments indicated in Note D. In addition, the Authority is allowed to participate in a cash and investment pool maintained by the Commonwealth of Kentucky.

As of June 30, 2018 and 2017, cash and cash equivalents consist of the following:

	2018	2017
Money market funds	$ 20,481,247	$ 20,533,852
State cash and investment pool	56,165	34,322
Total cash and cash equivalents	$ 20,537,412	$ 20,568,174

As of June 30, 2018 and 2017, the Authority's funds on deposit with the trustee are invested in the Fidelity Institutional Money Market Government Portfolio (Class III) money market mutual fund. Such funds are uninsured. However, this particular money market mutual fund is comprised of investments in securities of the United States government and its agencies (obligations backed by the full faith and credit of the United States government) and repurchase agreements for such securities.

Note D--Investments

As of June 30, 2018 and 2017, investments consist entirely of the Authority's equity position in the State cash and investment pool (the portion that has not been classified as cash/cash equivalents). Such investments are valued at the net asset value of the Authority's equity position at year-end, a Level 2 fair value measurement (see below).

Note D--Investments (Continued)

The fair value measurements framework 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 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy are as described below:

- Level 1 - Quoted prices in active markets for identical assets or liabilities.
- Level 2 - Observable inputs such as quoted prices in active markets for similar assets or liabilities or quoted prices for identical or similar assets or liabilities in markets that are not active or unobservable inputs that are derived principally from or corroborated by observable market data.
- Level 3 - Unobservable inputs that are based on the Authority's own assumptions as to how knowledgeable parties would price assets or liabilities that are not corroborated by market data.

There have been no changes in the methodologies used to determine fair value at June 30, 2018 and 2017.

Valuation methodologies may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. While the Authority believes its valuation methodologies are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

Credit Risk

Under State statutes, the Authority is permitted to invest in the following:

- obligations backed by the full faith and credit of the United States
- obligations of any corporation of the United States Government
- collateralized or uncollateralized certificates of deposit issued by banks or other interest-bearing accounts in depository institutions chartered by Kentucky or by the United States
- bankers acceptances
- commercial paper
- securities issued by a State or local government, or any instrumentality or agency thereof in the United States
- United States denominated corporate, Yankee, and Eurodollar securities, excluding corporate stocks, issued by foreign and domestic issuers
- asset-backed securities
- shares of mutual funds, not to exceed 10% of the total funds available for investment
- State and local delinquent property tax claims

Concentration of Credit Risk

The Authority places no limit on the amount the Authority may invest in any one issuer, with the exception of investments in mutual funds as indicated above (see *Credit Risk*). The Authority's trustee consults with the Office of Financial Management (within the Kentucky Finance and Administration Cabinet) to determine suitable investments.

Note D--Investments (Continued)

Custodial Credit Risk

For an investment, custodial credit risk is the risk that in the event of the failure of the counterparty, the Authority will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. As indicated above, as of June 30, 2018 and 2017, the Authority's investments do not consist of any investments held outside of the State cash and investment pool.

Interest Rate Risk

The Authority does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates. As previously indicated (see *Concentration of Credit Risk*), the Authority's trustee consults with the Office of Financial Management (within the Kentucky Finance and Administration Cabinet) to determine suitable investments.

Foreign Currency Risk

As indicated above, as of June 30, 2018 and 2017, the Authority's investments do not consist of any investments held outside of the State cash and investment pool. Accordingly, the Authority's investments are not otherwise believed to be subject to foreign currency risk.

Note E--Loans Receivable

As of June 30, 2018 and 2017, business and industrial park loans receivable consist of the following:

	2018	2017
Loans on real estate and equipment secured by:		
Letters of credit	$ 4,449,360	$ 4,590,867
First mortgages/liens	16,541,806	17,068,981
Other security/collateral	618,421	671,053
Total loans receivable	21,609,587	22,330,901
Allowance for loan losses	(1,684,722)	(1,237,949)
Loans receivable, net	19,924,865	21,092,952
Current maturities	(4,003,510)	(4,548,210)
Long-term portion	$ 15,921,355	$ 16,544,742

Note E--Loans Receivable (Continued)

In 2002, the Authority's Committee Members approved a loan for an amount up to $10,950,000 to Hardin County, Kentucky to help finance the purchase of an approximately 1,600-acre tract of land for future industrial development. Hardin County and the Elizabethtown-Hardin County Industrial Foundation, Inc., along with the Cabinet, intend to market this property in order to attract a major manufacturing facility. The Cabinet and the Authority along with legislative approval of the Kentucky General Assembly shall have the right to approve the sale or transfer of the property to any such major manufacturing facility. The non-interest bearing loan was approved for a term of 10 years (subsequently extended for an additional 10 years through 2022). Collateral for the loan is a first mortgage on the property. No payments are due on the loan unless Hardin County sells the property. There exists the possibility that the loan may be forgiven if a suitable major manufacturer that could create a significant number of jobs decides to locate its facility in Hardin County. As of June 30, 2018 and 2017, the balance of the loan receivable from Hardin County is $10,639,585.

In previous years, the terms of certain industrial park loans were restructured. Under the restructuring agreements, interest rates were adjusted and/or maturity dates were extended. In addition, in lieu of the required periodic payments of principal and interest, the restructured agreements stated that amounts were due to the Authority upon the sale of the industrial park land with the Authority receiving a defined percentage of the sales price with any outstanding balance due at maturity. During fiscal year 2018, the terms of industrial park loans with outstanding balances totaling approximately $3,926,000 as of June 30, 2018 were restructured. No such industrial park loans were restructured during fiscal year 2017. Additionally, during fiscal years 2018 and 2017, the terms of loans with outstanding balances totaling approximately $696,000 and $708,000 as of June 30, 2018 and 2017, respectively, were restructured. Under the restructuring agreements, loan payments were adjusted, interest rates were adjusted, and/or maturity dates were extended.

Note F--Allowance for Loan Losses

The changes in the allowance for loan losses for the years ended June 30, 2018 and 2017 are as follows:

	2018	2017
Balance, beginning of the year	$ 1,237,949	$ 1,159,164
Recoveries	446,773	78,785
Provision for loan losses	-	-
Balance, end of the year	$ 1,684,722	$ 1,237,949

Note G--Other Receivables

Other receivables as of June 30, 2017 in the amount of $19,917 (reflected as a current asset per the accompanying statement of net position as of June 30, 2017) consist of funds due to the Authority under the respective High-Tech Construction/Investment Pool project agreements. Such other receivables were collected in full during fiscal year 2018.

Note H--Compensated Absences

Employees may accumulate earned but unused annual leave, compensatory leave, and sick pay benefits. The Commonwealth's policy is to only record the cost of annual and compensatory leave.

Annual and Compensatory Leave

Annual leave is accumulated at amounts ranging from 7.50 to 15.00 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 Authority's estimated liability for accrued annual leave totals $117,618 and $146,767, respectively.

Compensatory leave is granted to authorized employees. At June 30, 2018 and 2017, the Authority's estimated liability for compensatory leave totals $30,904 and $40,508, respectively.

The activity relative to the liability for compensated absences for the years ended June 30, 2018 and 2017 is as follows:

	2018	2017
Balance, beginning of the year	$ 187,275	$ 213,634
Additions	67,247	87,341
Reductions	(106,000)	(113,700)
Balance, end of the year	$ 148,522	$ 187,275

At June 30, 2018 and 2017, the estimated amount of annual and compensatory leave due within one year totals $105,100 and $110,400, respectively.

Sick Leave

The Authority records 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. No liability is recorded for non-vesting accumulating rights to receive sick pay benefits as of year-end. At June 30, 2018, the estimated accumulated amount of unused sick leave totals approximately $322,000.

Note I--Restricted Net Position

During the 2000 Regular Session, the General Assembly passed House Bill 572 creating the Office of the Commissioner for the New Economy (now referred to as the Office of Entrepreneurship) within the Cabinet. House Bill 572 also created a High-Tech Construction Pool and a High-Tech Investment Pool (Pools). The duties of the Office of Entrepreneurship include the recommendation of projects to the Authority for approval and funding through the Pools which are maintained by the Authority.

The below table provides a history of the funding of the Pools.

Legislation	Fiscal Year(s)	Funding Source	Amount
2000 Regular Session House Bill 502	2001	Authority	$ 40,000,000
2003 Regular Session House Bill 269	2003	Authority	10,000,000
2003 Regular Session House Bill 269	2003	Local Gov. Econ. Develop. Fund	1,035,000
2003 Regular Session House Bill 269	2004	bond proceeds (bonds issued by the State Prop. and Build. Comm.)	15,000,000
2003 Regular Session House Bill 269	2004	Commonwealth's General Fund	5,000,000
2003 Regular Session House Bill 269	2004	Local Gov. Econ. Develop. Fund	1,250,000
2005 Regular Session House Bill 267	2005	Authority	7,950,000
2005 Regular Session House Bill 267	2005	bond proceeds (bonds issued by the State Prop. and Build. Comm.)	2,750,000
2005 Regular Session House Bill 267	2005	Local Gov. Econ. Develop. Fund	3,625,000
2005 Regular Session House Bill 267	2006	Authority	7,485,000
2005 Regular Session House Bill 267	2006	Local Gov. Econ. Develop. Fund	3,500,000
2006 Regular Session House Bill 380	2007	Cabinet	5,000,000
2006 Regular Session House Bill 380	2008	Cabinet	5,000,000
2006 Regular Session House Bill 380/ 2010 Special Session House Bill 1	2007-2018	bond proceeds (bonds issued by the State Prop. and Build. Comm.)	19,852,808

Through June 30, 2018, in total, the Authority has funded the High-Tech Construction and Investment Pools in the amount of $65,435,000. Additionally, during fiscal years 2003 through 2018, the Pools have been funded through intergovernment revenues (including payments from the Commonwealth) totaling $62,012,808.

Note I--Restricted Net Position (Continued)

As of June 30, 2018 and 2017, the net position of the Authority restricted to the Office of Entrepreneurship High-Tech Construction and Investment Pools consists of the following:

	2018	2017
Cash and cash equivalents	$ 3,029,973	$ 2,898,075
Investments	102,308	125,974
Intergovernment receivables	250,000	1,340,449
Other receivables	-	19,917
Total restricted net position	$ 3,382,281	$ 4,384,415

Note J--Net Payments To/From the Commonwealth

The below table provides a history of the funding made available for certain loans, grants, and High-Tech Construction and Investment Pool projects, as well as the Cabinet's Economic Development Bond Program (no impact to the Authority's financial statements of funds made available with respect to the Cabinet's Economic Development Bond Program). Such funding, which is accessed from the oldest available authorization/appropriation, is provided for the loans, grants, and/or projects approved by the Authority. The sources of such funds are proceeds from bonds issued by the State Property and Buildings Commission.

Legislation	Amount
2005 Regular Session House Bill 267	$ 10,000,000
2006 Regular Session House Bill 380	37,500,000
2010 Special Session House Bill 1	37,500,000
2014 Regular Session House Bill 235	2,250,000
2016 Regular Session House Bill 303	21,000,000
2017 Regular Session House Bill 482	15,000,000

Net payments from the Commonwealth total $726,576 and $17,076,073 for the years ended June 30, 2018 and 2017, respectively, the net impact of certain loans, grants, and/or projects for which the funding is to be provided by the legislation as described above.

The accompanying statements of net position as of June 30, 2018 and 2017 reflect $2,829,823 (see Note K with respect to $1,330,000 of the $2,829,823 total amount of intergovernment receivables as of June 30, 2018) and $4,148,682 of intergovernment receivables, respectively. Such intergovernment receivables principally consist of the funding due to the Authority with respect to the loans, grants, and High-Tech Construction and Investment Pool projects approved during the respective fiscal years, funding for which had not yet been received as of year-end (from the previously authorized/appropriated funding as summarized above).

Note K--Intergovernment Revenue and Expense

For the year ended June 30, 2018, intergovernment revenue consists of a $1,330,000 non-reciprocal receipt from the Cabinet associated with repayments received from the Kentucky Small Business Credit Initiative program. Such amount is included in intergovernment receivables as of June 30, 2018.

For the year ended June 30, 2018, intergovernment expense consists of $55,090 of non-reciprocal payments to the Office of Entrepreneurship pursuant to 2016 Regular Session House Bill 303.

For the year ended June 30, 2017, intergovernment expense consists of $484,682 of non-reciprocal payments to the Office of Entrepreneurship pursuant to 2016 Regular Session House Bill 303, $20,294 of which is reflected as an intergovernment payable as of June 30, 2017.

Note L--Retirement Plans

General Information

Plan Description

All employees averaging 100 or more hours per month over a calendar or fiscal year participate in the Kentucky Employees Retirement System (KERS) of the Commonwealth of Kentucky, which is a cost-sharing multiple employer defined benefit pension plan. Under the provisions of KRS 61.645, the Kentucky Retirement Systems Board of Trustees administers the KERS.

Ten-year historical trend information showing the KERS' progress in accumulating sufficient assets to pay benefits when due (as well as financial statements and other required supplementary information) is presented in the Kentucky Employees Retirement System's Annual Financial Report (which is a matter of public record). The most recent actuarial valuation is as of June 30, 2017. Such report may be obtained by writing to the Kentucky Retirement System, 1260 Louisville Road, Perimeter Park West, Frankfort, Kentucky 40601. The Commonwealth's CAFR should also be referred to for additional disclosures related to the KERS.

In addition to the KERS, the Authority's employees are also eligible to participate in two deferred compensation plans sponsored by the Commonwealth. These plans are organized as a Section 457 plan and as a Section 401(k) plan under the Internal Revenue Code. Both plans permit employees to defer a portion of their salary until future years. Deferred compensation is not available to employees until termination, retirement, death, or financial hardship. The Kentucky Public Employees Deferred Compensation Authority issues a publicly available report that includes financial statements and other required supplementary information relative to the deferred compensation plans. Such report may be obtained by writing to the Kentucky Public Employees Deferred Compensation Authority, 101 Sea Hero Road, Suite 110, Frankfort, Kentucky 40601. The Commonwealth's CAFR should also be referred to for additional disclosures related to the two deferred compensation plans.

Note L--Retirement Plans (Continued)

General Information (Continued)

Benefits Provided

The KERS provides retirement, as well as health care, disability, and death benefits to plan members. The KERS provides for cost-of-living adjustments at the discretion of the Kentucky legislature. Benefits are established by State statute.

Covered employees hired before September 1, 2008, who retire at or after age 65 with a minimum of 48 months of credited service, are entitled to a retirement benefit equal to 1.97% to 2.20% of their final-average salary multiplied by their years of service. Final-average salary is the employee's average of the 5 fiscal years during which the employee had the highest average monthly salary. Benefits fully vest upon reaching 5 years of service. Vested employees may retire after 27 years of service and receive full retirement benefits or after age 55 or 25 years of service and receive reduced retirement benefits.

Covered employees hired between September 1, 2008 and December 31, 2013, who retire at or after age 65 with a minimum of 60 months of credited service or when the employee’s age (must be at least 57 years of age) plus their years of credited service equals at least 87 years, are entitled to a retirement benefit equal to 1.10% to 2.00% of their final-average salary multiplied by their years of service. Final-average salary is the employee's average of the last five full fiscal years. Employees may be eligible to receive reduced retirement benefits at age 60 with a minimum of 120 months of credited service.

Contributions

Covered employees are required by State statute to contribute 5.00% of their salary to the KERS (covered employees hired between September 1, 2008 and December 31, 2013 are required by State statute to contribute an additional 1.00% of their salary to fund the Kentucky Retirement Systems Insurance Fund; see Note M). The Authority, for the year ended June 30, 2018, is required by the same statute to contribute 49.47% of the covered employees' salaries, 41.06% of which is attributable to the pension portion, while the remaining 8.41% is attributable to the insurance (see Note M) portion. For the year ended June 30, 2017, the Authority was required to contribute 48.59% of the covered employees' salaries, 40.24% of which was attributable to the pension portion, while the remaining 8.35% was attributable to the insurance (see Note M) portion. The actuarially determined employer contribution represents the amount, that when combined with employee contributions, is expected to finance the costs of benefits earned by employees during the year, the costs of administration, and an amortized portion of any unfunded liability.

Covered employees hired on or after January 1, 2014 are eligible to participate in a Cash Balance Plan which requires employees to contribute, on a pre-tax basis, 5.00% of creditable compensation. Employee accounts are also credited with a 4.00% employer pay credit. In addition to the 5.00% employee contribution, covered employees are required by State statute to contribute an additional 1.00% of their salary to fund the Kentucky Retirement Systems Insurance Fund (see Note M). At the end of each fiscal year, interest is paid into each employee’s account. The account is guaranteed the 4.00% interest credit on the employee’s account balance as of June 30 of the previous fiscal year-end. The employee’s account may be credited with additional interest if the five-year average investment return exceeds 4.00%. If an employee terminates his/her employment, the employee, if fully vested (fully vested upon reaching 5 years of service), is eligible to either take a refund of his/her accumulated account balance or, if the employee is eligible for retirement benefits, he/she may annuitize the account balance. If an employee terminates his/her employment prior to being fully vested and requests a refund, the employee is only eligible to receive his/her contributions plus the interest thereon, forfeiting the employer pay credit and the associated interest.

Note L--Retirement Plans (Continued)

General Information (Continued)

Contributions (Continued)

Retired employees receive certain health care benefits depending on length of service. In accordance with State statutes, such benefits are provided and advanced-funded on an actuarially determined basis through the KERS. As indicated above, covered employees hired on or after September 1, 2008 are required by State statute to contribute an additional 1.00% of their salary to fund the Kentucky Retirement Systems Insurance Fund (see Note M). The related employer contribution is included in the required employer contribution rates reflected above.

The Authority's contributions (specific to the pension portion) for the years ended June 30, 2018, June 30, 2017, and June 30, 2016 total approximately $439,000, $418,000, and $333,000, respectively.

Net Pension Liability, Pension Expense, and Deferred Outflows and Inflows of Resources

At June 30, 2018, the Authority's liability with respect to its estimated proportionate share of the collective net pension liability is $8,914,000 ($7,430,000 as of June 30, 2017). The June 30, 2018 net pension liability has been measured as of June 30, 2017 (the June 30, 2017 net pension liability has been measured as of June 30, 2016), and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The Authority's estimated proportionate share of the collective net pension liability was based on a projection of the Authority's long-term share of contributions to the pension plan relative to the projected contributions of all employer participants, as actuarially determined. At June 30, 2018, the Authority's estimated proportionate share (as rounded) is .07% (.07% at June 30, 2017 as rounded).

The Authority's estimate of pension expense with respect to the year ended June 30, 2018 totals $1,360,000 ($935,000 with respect to the year ended June 30, 2017).

At June 30, 2018, deferred outflows and inflows of resources related to pensions consist of the following:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience in the measurement of the total pension liability	$ 2,000	$ 58,000
Changes of assumptions and/or other inputs	1,131,000	-
Net difference between projected and actual earnings on pension plan investments	111,000	68,000
Changes in the proportionate share and differences between the Authority's contributions and its proportionate share of the contributions	49,000	108,000
Subsequent to measurement date contributions	437,000	-
	$ 1,730,000	$ 234,000

Note L--Retirement Plans (Continued)

Net Pension Liability, Pension Expense, and Deferred Outflows and Inflows of Resources (Continued)

The $437,000 of deferred outflows of resources as of June 30, 2018 (per the above table) attributable to the subsequent to measurement date contributions will be recognized as a reduction of the net pension liability in the year ending June 30, 2019.

The other amounts reflected as net deferred outflows and inflows of resources related to pensions as of June 30, 2018 will be recognized within pension expense as follows:

Year Ending June 30,	
2019	$ 684,000
2020	375,000
2021	12,000
2022	(12,000)
	$ 1,059,000

At June 30, 2017, deferred outflows and inflows of resources related to pensions consist of the following:

	Deferred Outflows of Resources (Restated)	Deferred Inflows of Resources
Differences between expected and actual experience in the measurement of the total pension liability	$ 8,000	$ -
Changes of assumptions and/or other inputs	563,000	-
Net difference between projected and actual earnings on pension plan investments	114,000	-
Changes in the proportionate share and differences between the Authority's contributions and its proportionate share of the contributions	95,000	-
Subsequent to measurement date contributions	414,000	-
	$ 1,194,000	$ -

Note L--Retirement Plans (Continued)

Net Pension Liability, Pension Expense, and Deferred Outflows and Inflows of Resources (Continued)

Actuarial Assumptions

The total pension liability per the June 30, 2017 actuarial valuation was determined using the following actuarial assumptions, as applied to all periods included in the measurement:

- Inflation - 2.30%
- Projected salary increases - 3.05%, average, including inflation
- Investment rate of return - 5.25%, net of investment expense, including inflation
- Mortality rates -
  - Active members - RP-2000 Combined Mortality Table projected with Scale BB to 2013 multiplied by 50% for males and 30% for females
  - Healthy retired members and beneficiaries - RP-2000 Combined Mortality Table projected with Scale BB to 2013 setback 1 year for females
  - Disabled members with respect to the period after disability retirement - RP-2000 Combined Disabled Mortality Table projected with Scale BB to 2013 setback 4 years for males

The actuarial assumptions used in the June 30, 2017 (and June 30, 2016) actuarial valuation were based on the results of an actuarial experience study performed with respect to the period from July 1, 2008 through June 30, 2013.

The long-term expected rate of return on plan assets is reviewed as part of the regular experience studies prepared every 5 years. The most recent analysis, performed with respect to the period from July 1, 2007 through June 30, 2013, is outlined in a report dated December 3, 2015. Several factors are considered in evaluating the long-term rate of return assumption including long-term historical data, estimates inherent in current market data, and a log-normal distribution analysis in which best-estimate ranges of expected future real rates of return (expected return, net of investment expense and inflation) were developed by the investment consultant for each major asset class (see below). 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 assumptions are intended to be long-term assumptions and are not expected to change absent a significant change in the asset allocation, a change in the inflation assumption, or a fundamental change in the market that alters expected returns in future years.

Note L--Retirement Plans (Continued)

Net Pension Liability, Pension Expense, and Deferred Outflows and Inflows of Resources (Continued)

Actuarial Assumptions (Continued)

The target asset allocations and best estimates of the arithmetic long-term expected real rate of return for each major asset class are as follows (with respect to the June 30, 2017 actuarial valuation):

Asset Class	Target Allocation	Long-term Expected Real Rate of Return
International equities	17.50%	7.38%
U.S. equities	17.50%	5.75%
Global credit	17.00%	3.63%
Absolute return	10.00%	5.63%
Global bonds	10.00%	2.63%
Private equity	10.00%	8.25%
Real return	10.00%	5.13%
Real estate	5.00%	6.63%
Cash equivalents	3.00%	1.88%
Emerging markets debt	0.00%	5.50%
High yield	0.00%	5.75%
Private credit	0.00%	8.75%
	100.00%	

The long-term expected rate of return on pension plan assets is 5.25% with respect to the June 30, 2017 actuarial valuation, which was established by the Board of Trustees of the Kentucky Retirement Systems based on a blending of the factors described above.

Discount Rate

The discount rate used to measure the total pension liability per the June 30, 2017 actuarial valuation was 5.25% (6.75% with respect to the total pension liability per the June 30, 2016 actuarial valuation). The projection of cash flows used to determine the discount rate assumed the 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 discount rate determination does not use a municipal bond rate.

Note L--Retirement Plans (Continued)

Net Pension Liability, Pension Expense, and Deferred Outflows and Inflows of Resources (Continued)

Sensitivity of the Authority's Estimated Proportionate Share of the Collective Net Pension Liability to Changes in the Discount Rate

The following table presents the Authority's estimated proportionate share of the collective net pension liability as of June 30, 2018 calculated using the discount rate of 5.25%, as well as what the Authority's estimated proportionate share of the collective net pension 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%) than the current discount rate.

	1.00% Decrease (4.25%)	Current Discount Rate (5.25%)	1.00% Increase (6.25%)
Authority's estimated proportionate share of the collective net pension liability	$ 10,177,000	$ 8,914,000	$ 7,863,000

Liability to KERS

At June 30, 2018 and 2017, the liability to KERS, which represents the amount of employer contributions required to be funded as of year-end, totals approximately $42,000 and $40,000, respectively, approximately $35,000 and $33,000, respectively, of which relates to pensions. Such amounts are included within accrued payroll expenses per the accompanying statements of net position.

Note M--Other Postemployment Benefits

General Information

Plan Description

All eligible employees receiving benefits under the KERS are provided hospital and medical insurance through the KERS Insurance Fund, a cost-sharing multiple employer defined benefit other postemployment benefits (OPEB) plan. Under the provisions of KRS 61.645, the Kentucky Retirement Systems Board of Trustees administers the KERS, including the Insurance Fund.

Ten-year historical trend information showing the KERS' progress in accumulating sufficient assets to pay benefits when due (as well as financial statements and other required supplementary information) is presented in the Kentucky Employees Retirement System's Annual Financial Report (which is a matter of public record). The most recent actuarial valuation is as of June 30, 2017. Such report may be obtained by writing to the Kentucky Retirement System, 1260 Louisville Road, Perimeter Park West, Frankfort, Kentucky 40601. The Commonwealth's CAFR should also be referred to for additional disclosures related to the KERS and the Insurance Fund.

Note M--Other Postemployment Benefits (Continued)

General Information (Continued)

Benefits Provided

The Insurance Fund pays a prescribed contribution for whole or partial payment of required premiums to purchase hospital and medical insurance. The Insurance Fund pays the same proportion of hospital and medical insurance premiums for the spouse and dependents of retired hazardous members killed in the line of duty. As a result of 2004 Regular Session House Bill 290, medical insurance benefits are calculated differently for members who began participating on, or after, July 1, 2003. Once members reach a minimum vesting period of 10 years, non-hazardous employees whose participation began on, or after, July 1, 2003 earn $10 per month for insurance benefits at retirement for every year of earned service without regard to a maximum dollar amount. Hazardous employees whose participation began on, or after, July 1, 2003 earn $15 per month for insurance benefits at retirement for every year of earned service without regard to a maximum dollar amount. Upon the death of a hazardous employee, the employee's spouse receives $10 per month for insurance benefits for each year of the deceased employee's earned hazardous service. This dollar amount is subject to adjustment annually, which is currently 1.50%, based upon State statutes. The Kentucky General Assembly reserves the right to suspend or reduce this benefit if, in its judgment, the welfare of the Commonwealth so demands.

Contributions

Contribution requirements of the participating employers are established and may be amended by the Kentucky Retirement Systems Board of Trustees. The Authority is (for the year ended June 30, 2018) required by the same statute to contribute 8.41% of the covered employees' salaries (8.35% of the covered employees' salaries with respect to the year ended June 30, 2017). Covered employees hired prior to September 1, 2008 are not required to contribute to the Insurance Fund. Covered employees hired between September 1, 2008 and December 31, 2013 are required by State statute to contribute an additional 1.00% of their salary to fund the Insurance Fund. Such contributions are deposited to an account created for the payment of health insurance benefits under 26 USC Section 401(h) in the Pension Fund (Kentucky Administrative Regulation 105 KAR 1:420E). The Authority's contributions to the Insurance Fund for the years ended June 30, 2018, June 30, 2017, and June 30, 2016 total approximately $90,000, $87,000, and $85,000, respectively.

Net OPEB Liability, OPEB Expense, and Deferred Outflows and Inflows of Resources

At June 30, 2018, the Authority's liability with respect to its estimated proportionate share of the collective net OPEB liability is $1,688,000 ($1,429,000 as of June 30, 2017). The June 30, 2018 net OPEB liability has been measured as of June 30, 2017 (the June 30, 2017 net OPEB liability has been measured as of June 30, 2016), and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation as of that date. The Authority's estimated proportionate share of the collective net OPEB liability was based on a projection of the Authority's long-term share of contributions to the OPEB plan relative to the projected contributions of all employer participants, as actuarially determined. At June 30, 2018, the Authority's estimated proportionate share (as rounded) is .07% (.07% at June 30, 2017 as rounded).

The Authority's estimate of OPEB expense with respect to the year ended June 30, 2018 totals $168,000.

Note M--Other Postemployment Benefits (Continued)

Net OPEB Liability, OPEB Expense, and Deferred Outflows and Inflows of Resources (Continued)

At June 30, 2018, deferred outflows and inflows of resources related to OPEB consist of the following:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience in the measurement of the total OPEB liability	$ -	$ 2,000
Changes of assumptions and/or other inputs	221,000	-
Net difference between projected and actual earnings on OPEB investments	-	22,000
Changes in the proportionate share and differences between the Authority's contributions and its proportionate share of the contributions	-	12,000
Subsequent to measurement date contributions	103,000	-
	$ 324,000	$ 36,000

The $103,000 of deferred outflows of resources as of June 30, 2018 (per the above table) attributable to the subsequent to measurement date contributions will be recognized as a reduction of the collective net OPEB liability in the year ending June 30, 2019.

The other amounts reflected as net deferred outflows and inflows of resources related to OPEB as of June 30, 2018 will be recognized within OPEB expense as follows:

Year Ending June 30,	
2019	$ 46,000
2020	46,000
2021	46,000
2022	46,000
2023	1,000
	$ 185,000

Note M--Other Postemployment Benefits (Continued)

Net OPEB Liability, OPEB Expense, and Deferred Outflows and Inflows of Resources (Continued)

At June 30, 2017, deferred outflows and inflows of resources related to OPEB consist of the following:

	Deferred Outflows of Resources (Restated)	Deferred Inflows of Resources
Differences between expected and actual experience in the measurement of the total OPEB liability	$ -	$ -
Changes of assumptions and/or other inputs	-	-
Net difference between projected and actual earnings on OPEB investments	-	-
Changes in the proportionate share and differences between the Authority's contributions and its proportionate share of the contributions	-	-
Subsequent to measurement date contributions	93,000	-
	$ 93,000	$ -

Actuarial Assumptions

The total OPEB liability per the June 30, 2017 actuarial valuation was determined using the following actuarial assumptions, as applied to all periods included in the measurement:

- Inflation - 2.30%
- Projected salary increases - 3.05%, average, including inflation
- Investment rate of return - 6.25%, net of investment expense, including inflation
- Healthcare cost trend rates -
  - Pre-65 - Initial trend starting at 7.25% 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% and gradually decreasing to an ultimate trend rate of 4.05% over a period of 11 years
- Mortality rates -
  - Active members - RP-2000 Combined Mortality Table projected with Scale BB to 2013 multiplied by 50% for males and 30% for females
  - Healthy retired members and beneficiaries - RP-2000 Combined Mortality Table projected with Scale BB to 2013 setback 1 year for females
  - Disabled members with respect to the period after disability retirement - RP-2000 Combined Disabled Mortality Table projected with Scale BB to 2013 setback 4 years for males

The actuarial assumptions used in the June 30, 2017 (and June 30, 2016) actuarial valuation were based on the results of an actuarial experience study performed with respect to the period from July 1, 2008 through June 30, 2013.

Note M--Other Postemployment Benefits (Continued)

Net OPEB Liability, OPEB Expense, and Deferred Outflows and Inflows of Resources (Continued)

Actuarial Assumptions (Continued)

The long-term expected rate of return on plan assets is reviewed as part of the regular experience studies prepared every 5 years. The most recent analysis, performed with respect to the period from July 1, 2007 through June 30, 2013, is outlined in a report dated April 30, 2014. Several factors are considered in evaluating the long-term rate of return assumption including long-term historical data, estimates inherent in current market data, and a log-normal distribution analysis in which best-estimate ranges of expected future real rates of return (expected return, net of investment expense and inflation) were developed by the investment consultant for each major asset class (see below). 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 assumptions are intended to be long-term assumptions and are not expected to change absent a significant change in the asset allocation, a change in the inflation assumption, or a fundamental change in the market that alters expected returns in future years.

The target asset allocations and best estimates of the arithmetic long-term expected real rate of return for each major asset class are as follows (with respect to the June 30, 2017 actuarial valuation):

Asset Class	Target Allocation	Long-term Expected Real Rate of Return
International equities	17.50%	7.85%
U.S. equities	17.50%	5.97%
Absolute return	10.00%	5.63%
Private credit	10.00%	8.75%
Private equity	10.00%	8.25%
Real return	10.00%	6.13%
High yield	7.00%	5.75%
Emerging markets debt	5.00%	5.50%
Real estate	5.00%	7.63%
Global bonds	4.00%	2.63%
Cash equivalents	2.00%	1.88%
Global credit	2.00%	3.63%
	100.00%	

The long-term expected rate of return on OPEB plan assets is 6.25% with respect to the June 30, 2017 actuarial valuation, which was established by the Board of Trustees of the Kentucky Retirement Systems based on a blending of the factors described above.

Note M--Other Postemployment Benefits (Continued)

Net OPEB Liability, OPEB Expense, and Deferred Outflows and Inflows of Resources (Continued)

Discount Rate

The discount rate used to measure the total OPEB liability per the June 30, 2017 actuarial valuation was 5.83% (6.90% with respect to the total OPEB liability per the June 30, 2016 actuarial valuation). The discount rate is based on the expected rate of return on OPEB plan investments of 6.25% and a municipal bond rate of 3.56% (fixed-income municipal bonds with 20 years to maturity that include only federally tax-exempt municipal bonds as reported in Fidelity Index's "20-Year Municipal GO AA Index" as of June 30, 2017 and 2016). The projection of cash flows used to determine the discount rate assumed the employers would contribute the actuarially determined contribution rate of projected compensation over the remaining 26-year amortization period of the unfunded actuarial accrued liability.

Sensitivity of the Authority's Estimated Proportionate Share of the Collective Net OPEB Liability to Changes in the Discount Rate

The following table presents the Authority's estimated proportionate share of the collective net OPEB liability as of June 30, 2018 calculated using the discount rate of 5.83%, as well as what the Authority's estimated proportionate share of the collective net OPEB liability would be if it were calculated using a discount rate that is one percentage point lower (4.83%) or one percentage point higher (6.83%) than the current discount rate.

	1.00% Decrease (4.83%)	Current Discount Rate (5.83%)	1.00% Increase (6.83%)
Authority's estimated proportionate share of the collective net OPEB liability	$ 1,974,000	$ 1,688,000	$ 1,451,000

Sensitivity of the Authority's Estimated Proportionate Share of the Collective Net OPEB Liability to Changes in the Healthcare Cost Trend Rates

The following table presents the Authority's estimated proportionate share of the collective net OPEB liability as of June 30, 2018 calculated using the discount rate of 5.83%, as well as what the Authority's estimated proportionate share of the collective net OPEB liability would be if it were calculated using a healthcare cost trend rate that is one percentage point lower or one percentage point higher than the current healthcare cost trend rate.

	1.00% Decrease	Current (5.83%)	1.00% Increase
Authority's estimated proportionate share of the collective net OPEB liability	$ 1,435,000	$ 1,688,000	$ 2,007,000

Note M--Other Postemployment Benefits (Continued)

Liability to KERS

At June 30, 2018 and 2017, the liability to KERS, which represents the amount of employer contributions required to be funded as of year-end, totals approximately $42,000 and $40,000, respectively, approximately $7,000 of which relates to OPEB. Such amounts are included within accrued payroll expenses per the accompanying statements of net position.

Note N--Commitments

As of June 30, 2018, the Authority's Committee Members had approved loans and grants totaling approximately $2,960,000 for which funds had yet to be disbursed.

Note O--Conduit Debt

As indicated in Note A, the Authority has acted as the issuing agent for Kentucky Economic Development Finance Authority Revenue Bonds in accordance with the statutes regarding the issuance of Industrial Revenue Bonds and Taxable Economic Development Revenue Bonds. Such bonds do not constitute a general debt, liability, or moral obligation of the Authority. Accordingly, the accompanying financial statements do not include any assets or liabilities related to the issuance of these bonds. Through June 30, 2018, the Authority has acted as the issuing agent for approximately $5,200,000,000 of Kentucky Economic Development Finance Authority Revenue Bonds (those bonds with outstanding balances as of year-end). As of June 30, 2018, the balances outstanding on these bonds total approximately $3,700,000,000.

Note P--Related Party Transactions

Grants expense for the year ended June 30, 2017 includes a $15,000,000 grant from High-Tech Construction and Investment Pools to the Kentucky Economic Development Partnership, the sole member of Commonwealth Seed Capital, LLC (CSC). CSC makes debt and/or equity investments in Kentucky-based companies (including "fund-of-fund" investments which invest in such Kentucky-based companies). The source of the grant funding is proceeds from bonds issued by the State Property and Buildings Commission (see Note J with respect to the net payments to/from the Commonwealth, a non-operating revenue (expense) per the accompanying statements of revenues, expenses, and changes in net position).

The Authority received the benefit of accounting and administrative services, utilities, and office space from the Cabinet during fiscal years 2018 and 2017 for which no fees were assessed.

Note Q--Risk Management

The Authority is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; and errors and omissions. The Authority utilizes the Commonwealth of Kentucky's Risk Management Fund to cover the exposure to these potential losses. The Commonwealth's CAFR should be referred to for additional disclosures related to the Risk Management Fund.

Note R--Restatements of Net Position

In June 2015, GASB issued Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions* (Statement No. 75). Statement No. 75 established accounting and financial reporting requirements for governments whose employees are provided postemployment benefits other than pensions (OPEB). Statement No. 75 established standards for measuring and recognizing liabilities, deferred outflows and inflows of resources, and expenses/expenditures. For defined benefit OPEB, Statement No. 75 identified the methods and assumptions that should be used to project benefit payments, discount projected benefit payments to their actuarial present value, and attribute that present value to periods of employee service. In addition, Statement No. 75 also addressed the related disclosure and required supplementary information requirements.

The Authority adopted Statement No. 75 as of and for the year ended June 30, 2018 (see Note M). Accordingly, the Authority's net position per the accompanying statement of revenues, expenses, and changes in net position for the year ended June 30, 2017 has been restated for the $1,336,000 impact of the related change in the accounting principle. Such amount represents the Authority's estimated proportionate share of the collective net OPEB liability as of June 30, 2017 ($1,429,000 post-employment benefits liability per the accompanying statement of net position as of June 30, 2017), as well as the impact of certain deferred outflows of resources ($93,000) as of June 30, 2017. Net position as of July 1, 2016 was not restated as the Authority's estimated proportionate share of the collective net OPEB liability as of June 30, 2016 was not measurable (the relevant information was not available). Additionally, it was not practical to determine the amounts of all deferred outflows and inflows of resources related to OPEB as of June 30, 2017. Thus, the accompanying statement of revenues, expenses, and changes in net position for the year ended June 30, 2017 has not otherwise been restated related to OPEB other than with respect to restating net position as of June 30, 2017 in the amount of $1,336,000 as referenced above (see below).

Net position as of June 30, 2017 (and June 30, 2016) has also been restated for the fact that the Authority's liability with respect to its estimated proportionate share of the collective net pension liability was overstated as of June 30, 2017. Additionally, related deferred outflows of resources as of June 30, 2017 were understated. The accompanying statement of net position as of June 30, 2017 and the statement of revenues, expenses, and changes in net position for the year ended June 30, 2017 have been restated to correct the impact of the prior period adjustment (see below).

The financial statement line items on the statement of net position and the statement of revenues, expenses, and changes in net position as of and for the year ended June 30, 2017 were impacted as follows:

Statement of Net Position

Deferred outflows of resources, June 30, 2017, as previously stated	$ 980,000
Change in accounting principle - OPEB liability related deferred outflows of resources	93,000
Prior period adjustment - pension liability related deferred outflows of resources	214,000
Deferred outflows of resources, June 30, 2017, as restated	$ 1,287,000

Note R--Restatements of Net Position (Continued)

The financial statement line items on the statement of net position and the statement of revenues, expenses, and changes in net position as of and for the year ended June 30, 2017 were impacted as follows (continued):

Statement of Net Position (Continued)

Pension liability, June 30, 2017, as previously stated	$ 9,341,000
Prior period adjustment - pension liability	(1,911,000)
Pension liability, June 30, 2017, as restated	$ 7,430,000
OPEB liability, June 30, 2017, as previously stated	$ -
Change in accounting principle - OPEB liability	1,429,000
OPEB liability, June 30, 2017, as restated	$ 1,429,000

Statement of Revenues, Expenses, and Changes in Net Position

Compensation and related benefits, 2017, as previously stated	$ 3,075,938
Prior period adjustment - pension liability and related deferred outflows of resources	(350,000)
Compensation and related benefits, 2017, as restated	$ 2,725,938
Change in net position, 2017, as previously stated	$ (916,308)
Prior period adjustment - pension liability and related deferred outflows of resources	350,000
Change in net position, 2017, as restated	$ (566,308)
Net position, July 1, 2016, as previously stated	$ 38,458,198
Prior period adjustment - pension liability and related deferred outflows of resources	1,775,000
Net position, July 1, 2016, as restated	$ 40,233,198

Note R--Restatements of Net Position (Continued)

The financial statement line items on the statement of net position and the statement of revenues, expenses, and changes in net position as of and for the year ended June 30, 2017 were impacted as follows (continued):

Statement of Revenues, Expenses, and Changes in Net Position (Continued)

Net position, June 30, 2017, as previously stated	$ 37,541,890
Change in accounting principle - OPEB liability and related deferred outflows of resources	(1,336,000)
Prior period adjustment - pension liability and related deferred outflows of resources	2,125,000
Net position, June 30, 2017, as restated	$ 38,330,890

Kentucky Economic Development Finance Authority
Schedules of the Authority's Estimated Proportionate Share of the Collective Net Pension Liability and Related Ratios Based on the Authority's Participation in the KERS
Years ended June 30, 2018, 2017, 2016, and 2015

	2018	(restated) 2017	(restated) 2016	(restated) 2015
Total collective net pension liability for the Kentucky Employees Retirement System (KERS) non-hazardous employees	$ 13,388,337,000	$ 11,399,489,000	$ 10,031,890,000	$ 8,971,820,000
Authority's estimated portion (percentage) of the total collective net pension liability	0.07%	0.07%	0.06%	0.03%
Authority's estimated portion (amount) of the total collective net pension liability	$ 8,914,000	$ 7,430,000	$ 5,959,000	$ 2,990,000
Authority's estimated portion of the covered employees payroll	$ 1,066,000	$ 1,063,000	$ 917,000	$ 526,000
Authority's estimated proportionate share of the total collective net pension liability as a percentage of the Authority's estimated portion of the covered employees payroll	836%	699%	650%	569%
KERS' non-hazardous employees total fiduciary net position	$ 2,056,870,000	$ 1,980,292,000	$ 2,327,782,000	$ 2,578,290,000
KERS' non-hazardous employees total pension liability	$ 15,445,207,000	$ 13,379,781,000	$ 12,359,672,000	$ 11,550,110,000
KERS' non-hazardous employees total fiduciary net position as a percentage of the total pension liability	13%	15%	19%	22%

Note - This schedule is intended to present 10 years of information. Additional years of information will be presented as such information becomes available for subsequent years.

Kentucky Economic Development Finance Authority
Schedules of the Authority's Pension Contributions Based on the Authority's Participation in the KERS
Years ended June 30, 2018, 2017, 2016, and 2015

	2018	(restated) 2017	(restated) 2016	(restated) 2015
Actuarially determined contribution amount	$ 415,000	$ 334,000	$ 309,000	$ 174,000
Contribution amount in relation to the actuarially determined contribution amount	504,000	334,000	309,000	99,000
Excess (deficiency)	$ 89,000	$ -	$ -	$ (75,000)
Authority's estimated portion of the covered employees payroll	$ 1,066,000	$ 1,063,000	$ 917,000	$ 526,000
Contribution amount as a percentage of the Authority's estimated portion of the covered employees payroll	47%	31%	34%	19%

Note - This schedule is intended to present 10 years of information. Additional years of information will be presented as such information becomes available for subsequent years.

Kentucky Economic Development Finance Authority
Note to the Required Supplemental Information
Year ended June 30, 2018

The actuarial methods and assumptions used to calculate the actuarially determined pension contribution rate are as follows:

Actuarial valuation date	June 30, 2015
Actuarial cost method	Entry age normal
Amortization method	Level of percentage of pay
Amortization period	28 years, closed
Asset valuation method	20% of the difference between the market value of assets and the expected actuarial value of assets is recognized
Inflation	3.25%
Projected salary increases	4.00%, average, including inflation
Investment rate of return	7.50%, net of investment expense, including inflation

Kentucky Economic Development Finance Authority
Schedules of the Authority's Estimated Proportionate Share of the Collective Net Other Postemployment Benefits Liability and Related Ratios Based on the Authority's Participation in the KERS
Year ended June 30, 2018

Total collective net other postemployment benefits (OPEB) liability for the Kentucky Employees Retirement System (KERS) non-hazardous employees	$ 2,535,962,000
Authority's estimated portion (percentage) of the total collective net OPEB liability	0.07%
Authority's estimated portion (amount) of the total collective net OPEB liability	$ 1,688,000
Authority's estimated portion of the covered employees payroll	$ 1,061,000
Authority's estimated proportionate share of the total collective net OPEB liability as a percentage of the Authority's estimated portion of the covered employees payroll	159%
KERS' non-hazardous employees total fiduciary net position	$ 817,370,000
KERS' non-hazardous employees total OPEB liability	$ 3,353,332,000
KERS' non-hazardous employees total fiduciary net position as a percentage of the total OPEB liability	24%

Note - This schedule is intended to present 10 years of information. Additional years of information will be presented as such information becomes available for subsequent years.

See accompanying independent auditor's report and note to the required supplemental information

Kentucky Economic Development Finance Authority
Schedules of the Authority's Other Postemployment Benefits Contributions
Based on the Authority's Participation in the KERS
Year ended June 30, 2018

Actuarially determined contribution amount	$	89,000
Contribution amount in relation to the actuarially determined contribution amount		108,000
Excess (deficiency)	$	19,000
Authority's estimated portion of the covered employees payroll	$	1,061,000
Contribution amount as a percentage of the Authority's estimated portion of the covered employees payroll		10%

Note - This schedule is intended to present 10 years of information. Additional years of information will be presented as such information becomes available for subsequent years.

Kentucky Economic Development Finance Authority
Note to the Required Supplemental Information
Year ended June 30, 2018

The actuarial methods and assumptions used to calculate the actuarially determined other postemployment benefits contribution rate are as follows:

Actuarial valuation date	June 30, 2015
Actuarial cost method	Entry age normal
Amortization method	Level of percentage of pay
Amortization period	28 years, closed
Asset valuation method	20% of the difference between the market value of assets and the expected actuarial value of assets is recognized
Inflation	3.25%
Projected salary increases	4.00%, average, including inflation
Investment rate of return	7.50%, net of investment expense, including inflation
Healthcare cost trend rates (pre-65)	Initial trend starting at 7.50% and gradually decreasing to an ultimate trend rate of 5.00% over a period of 5 years
Healthcare cost trend rates (post-65)	Initial trend starting at 5.50% and gradually decreasing to an ultimate trend rate of 5.00% over a period of 2 years

CPAs & ADVISORS

Independent Auditor's 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*

To the Committee Members
Kentucky Economic Development
Finance Authority
Frankfort, Kentucky

We have audited, 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, the financial statements of the Kentucky Economic Development Finance Authority as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the Kentucky Economic Development Finance Authority's basic financial statements, and have issued our report thereon dated October 15, 2018.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Kentucky Economic Development Finance Authority'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 opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Kentucky Economic Development Finance Authority's internal control. Accordingly, we do not express an opinion of the effectiveness of the Kentucky Economic Development Finance Authority'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 Kentucky Economic Development Finance Authority's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, non-compliance 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 non-compliance or other matters that are required to be reported under *Government Auditing Standards.*

Kentucky
Indiana
Ohio

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Independent Auditor's 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* (Continued)

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 result 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.

MCM CPAs & Advisors LLP

MCM CPAs & Advisors LLP
Louisville, Kentucky
October 15, 2018

Kentucky Economic Development Finance Authority
Schedule of Findings
Year Ended June 30, 2018

Schedule of Auditor's Results

We have issued an unmodified opinion, dated October 15, 2018, on the financial statements of the Kentucky Economic Development Finance Authority as of and for the year ended June 30, 2018.

Our audit disclosed no instances of non-compliance which are material to the Kentucky Economic Development Finance Authority's financial statements.

Findings Relating to the Financial Statements

Our audit disclosed no findings which are required to be reported in accordance with *Government Auditing Standards*.

Kentucky Economic Development Finance Authority
Schedule of Prior Audit Findings and Their Resolution
Year Ended June 30, 2018

The audit as of and for the year ended June 30, 2017 disclosed no findings which were required to be reported in accordance with *Government Auditing Standards*.