



Consolidated Financial Statements
and Supplementary Information

for

**KENTUCKY AUTHORITY FOR
EDUCATIONAL TELEVISION**

Years Ended June 30, 2021 and 2020
with Report of Independent Auditors

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WHERE LEARNING COMES TO LIFE

October 6, 2021

To the Board of Directors
Kentucky Authority for Educational Television

The Annual Financial Report of the Kentucky Authority for Educational Television (Authority or KET) for the fiscal year ended June 30, 2021 is hereby submitted to the Authority and all others interested in the financial position of KET.

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

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

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

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



WHERE LEARNING COMES TO LIFE

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

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

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

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

Respectfully,

Shae Hopkins

Shae Hopkins (Oct 7, 2021 14:24 EDT)

Shae Hopkins
Executive Director & Chief Executive Officer

Elaine Crawford

Elaine Crawford (Oct 7, 2021 14:21 EDT)

Elaine Crawford
Chief of Staff/Senior Director of Policy and Compliance

Report of Independent Auditors

Board of Directors
Kentucky Authority for Educational Television
Lexington, Kentucky

Report on the Consolidated Financial Statements

We have audited the accompanying basic consolidated financial statements of Kentucky Authority for Educational Television, a component unit of the Commonwealth of Kentucky, and its discretely presented component unit, the Commonwealth Fund for KET, Inc., (collectively, KET), which comprise the Consolidated Statement of Net Position as of June 30, 2021, the related Consolidated Statements of Revenues, Expenses, and Changes in Net Position and Cash Flows for the year then ended, and the related notes to the consolidated financial statements (collectively, the financial statements).

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of KET as of June 30, 2021, and the changes in its financial position and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Report on Summarized Comparative Information

We have previously audited KET's 2020 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated October 1, 2020. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2020, is consistent, in all material respects, with the audited financial statements, as restated, from which it has been derived.

Emphasis of Matter

As discussed in Note 3 to the financial statements, the 2020 financial statements and the beginning net position balance have been restated to correct a misstatement related to capital receivables. Our opinion is not modified with respect to this matter.

Other Matter

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis on pages 5 - 10, the Schedule of Proportionate Share of the Net Pension Liability on page 53, the Schedule of Pension Contributions on page 54, the Schedule of Proportionate Share of the Net OPEB Liability on page 55 and the Schedule of OPEB Contributions on page 56 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of the financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated October 6, 2021 on our consideration of KET's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering KET's internal control over financial reporting and compliance.

Dean Dotson Allen Ford, PLLC

Lexington, Kentucky
October 6, 2021

KENTUCKY AUTHORITY FOR EDUCATIONAL TELEVISION

Management's Discussion and Analysis (*Unaudited*)

Our discussion and analysis of Kentucky Authority for Educational Television (the Authority), its blended component unit, Kentucky Educational Television Foundation, Inc. (the Foundation), and its discretely presented component unit, the Commonwealth Fund for KET, Inc. (the Fund), (collectively, KET) provides an overview of KET's financial activity for the fiscal years ended June 30, 2021 and 2020. It is supplementary information required by the Governmental Accounting Standards Board (GASB) and is intended to provide an easily readable explanation of the information in the basic consolidated financial statements (hereafter, the financial statements). It should be read in conjunction with the financial statements, which begin on page 11.

Financial Highlights - The Authority and Foundation

- The assets and deferred outflows are less than its liabilities and deferred inflows of resources by approximately \$57.2 million and \$52.3 million at June 30, 2021 and 2020, respectively.
- General fund appropriations from the Commonwealth of Kentucky decreased by approximately \$0.1 million (or 1%) and increased \$0.2 million (or 1%) for the fiscal years ended June 30, 2021 and 2020, respectively. Additionally, for fiscal year 2019, the General Assembly appropriated \$2.1 million of bond funds for additional equipment costs not reimbursed by the Federal Communications Commission (FCC).
- Programming and production costs, including related depreciation expense totaled approximately \$12.7 million (or 39%) and \$13.0 million (or 41%) of the total operating expenses for fiscal years ended June 30, 2021 and 2020, respectively.
- The Corporation for Public Broadcasting (CPB) provided support of approximately \$4.5 million (or 17%) and \$3.7 million (or 14%) of the operating budgets for each of the fiscal years 2021 and 2020, respectively.
- Unrestricted support received from the Fund totaled approximately \$3.8 million (or 14%) and \$3.7 million (or 10%) of the total support for fiscal years 2021 and 2020, respectively.

Overview of the Financial Statements

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

Consolidated Statements of Net Position:

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

KENTUCKY AUTHORITY FOR EDUCATIONAL TELEVISION

Management's Discussion and Analysis (*Unaudited*), continued

Overview of the Financial Statements, continued

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

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

Consolidated Statements of Cash Flows:

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

Notes to the Financial Statements:

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

Blended Component Unit:

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

Discretely Presented Component Unit:

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

Financial Analysis - the Authority and the Foundation

Net Position:

Net position serves as a useful indicator of a government's financial position. Net position is a negative balance and totaled (\$57.2) million at the end of fiscal 2021, as compared to (\$52.3) million at the end of fiscal 2020.

KENTUCKY AUTHORITY FOR EDUCATIONAL TELEVISION

Management's Discussion and Analysis (Unaudited), continued

Financial Analysis - the Authority and the Foundation, continued

Net Position, continued:

The largest portion of net position is the negative balance for unrestricted net position of (\$77.4) million and (\$74.6) million at June 30, 2021 and 2020, respectively. Long-term liabilities, such as the net pension liability and the net other post employment benefits (OPEB) liability are recognized on the Consolidated Statements of Net Position. The net pension liability totaled \$77.8 million, or 79.6% of total liabilities, at June 30, 2021 and \$71.0 million, or 78.8% of total liabilities, at June 30, 2020. The net OPEB liability totaled \$14.0 million, or 14.3% of total liabilities, at June 30, 2021 and \$11.2 million, or 12.4% of total liabilities, at June 30, 2020.

Condensed Statements of Net Position as of June 30

	<u>2021</u>	<u>% Increase (Decrease)</u>	<u>As restated 2020</u>
Current assets, less investments	\$ 9,776,429	9.7%	\$ 8,912,476
Investments	544,957	(0.5)%	547,897
Noncurrent assets, less investments and capital assets	2,087,159	17.2%	1,781,046
Capital assets, net	<u>17,369,870</u>	(7.3)%	<u>18,742,254</u>
Total assets	<u>\$ 29,778,415</u>	(0.7)%	<u>\$ 29,983,673</u>
Deferred outflows of resources	<u>\$ 14,911,785</u>	13.6%	<u>\$ 13,121,384</u>
Current liabilities	\$ 5,073,632	(23.8)%	\$ 6,660,203
Noncurrent liabilities	<u>92,693,243</u>	11.1%	<u>83,424,586</u>
Total liabilities	<u>\$ 97,766,875</u>	8.5%	<u>\$ 90,084,789</u>
Deferred inflows of resources	<u>\$ 4,148,475</u>	(22.2)%	<u>\$ 5,332,257</u>
Net position:			
Invested in capital assets	\$ 16,730,273	(6.9)%	\$ 17,964,526
Non-expendable	250,000	-%	250,000
Expendable - restricted for capital projects	2,290,471	(27.5)%	3,158,428
Expendable - for specific operating activities	878,968	(2.5)%	901,056
Unrestricted	<u>(77,374,862)</u>	(3.7)%	<u>(74,585,999)</u>
Total net position	<u>\$ (57,225,150)</u>	(9.4)%	<u>\$ (52,311,989)</u>

KENTUCKY AUTHORITY FOR EDUCATIONAL TELEVISION

Management's Discussion and Analysis (Unaudited), continued

Financial Analysis - the Authority and the Foundation, continued

Changes in Net Position:

Net position decreased by approximately \$5.3 million and increased \$3.7 million during the fiscal years ended June 30, 2021 and 2020, respectively. The primary reason for the decrease in fiscal year 2021 was due to less revenue received from the FCC Repacking Project than in fiscal year 2020. Additionally, an adjustment was made to the receivable due from the FCC.

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

	<u>2021</u>	<u>% Increase (Decrease)</u>	<u>As restated 2020</u>
Operating revenues	\$ 7,727,366	12.3%	\$ 6,883,736
Operating expenses	<u>32,414,812</u>	1.1%	<u>32,051,684</u>
Net operating loss	<u>(24,687,446)</u>	<u>(1.9)%</u>	<u>(25,167,948)</u>
Non-operating revenues (expenses):			
State appropriation	15,504,000	(0.3)%	15,551,100
Revenue from FCC Repacking Project	105,035	(98.9)%	9,689,429
Support received from the Fund	3,770,027	2.7%	3,672,355
Interest expense	(23,604)	(15.7)%	(28,003)
Interest and investment income	<u>6,641</u>	<u>(55.5)%</u>	<u>14,921</u>
Change in net position	<u>(5,325,347)</u>		3,731,854
Net position, beginning of year	<u>(52,311,989)</u>		<u>(56,043,843)</u>
Net position, end of year	<u>\$ (57,637,336)</u>		<u>\$ (52,311,989)</u>

Analysis of Capital Asset Activity for the Authority and the Foundation

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

	<u>2021</u>	<u>2020</u>
Capital assets not being depreciated	\$ 76,083	\$ 76,083
Other capital assets, at historical cost	<u>65,223,870</u>	<u>68,449,198</u>
Total, at cost	<u>65,299,953</u>	68,525,281
Accumulated depreciation	<u>(47,930,083)</u>	(49,783,027)
Related debt	<u>(639,597)</u>	<u>(777,728)</u>
Capital assets, net	<u>\$ 16,730,273</u>	<u>\$ 17,964,526</u>

KENTUCKY AUTHORITY FOR EDUCATIONAL TELEVISION

Management's Discussion and Analysis (*Unaudited*), continued

Analysis of Capital Asset Activity for the Authority and Foundation, continued

Net capital assets decreased 6.9% and increased 20.6% for fiscal years 2021 and 2020, respectively. Depreciation totaled \$2.2 million, or 6.8% of operating expenses, and \$2.9 million, or 9.0% of operating expenses, for fiscal years 2021 and 2020, respectively.

Financial Highlights of Discretely Presented Component Unit

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

Key financial highlights of the Fund include:

- The assets of the Fund exceeded its liabilities by approximately \$37.7 million and \$27.8 million at June 30, 2021 and 2020, respectively.
- Net position increased by approximately \$9.9 million and \$1.1 million for the fiscal years ended June 30, 2021 and 2020, respectively.
- The Fund raised approximately \$8.0 million in total revenue for the fiscal year ended June 30, 2021, compared to \$6.2 million for the fiscal year ended June 30, 2020.
- Total support provided to the Foundation was approximately \$3.8 million and \$3.7 million for the fiscal years ended June 30, 2021 and 2020, respectively.

The Fund currently maintains four endowments:

- The W. Paul and Lucille Caudill Little Arts Endowment was established in 1993, to support arts education. The endowment funds are used to educate through the support of quality productions and programs in the fine arts to develop creativity in children 12 years old and under. The account balance at June 30, 2021 and 2020, including related accrued interest, totaled approximately \$3.4 million and \$2.8 million, respectively.
- In October 2003, the Fund established the Endowment for Kentucky Productions. This endowment is used to support KET's production, acquisition, and broadcast of quality programs and events that document or celebrate the people, places, history and legends of Kentucky. The account balance at June 30, 2021 and 2020, including related accrued interest, totaled approximately \$4.3 million and \$3.5 million, respectively.
- In 1999, the Fund established the Endowment for OLP/21st Century Fund. This endowment is used to support KET's public affairs programming and events. The account balance at June 30, 2021 and 2020, including related accrued interest, totaled approximately \$951 thousand and \$758 thousand, respectively.

KENTUCKY AUTHORITY FOR EDUCATIONAL TELEVISION

Management's Discussion and Analysis (*Unaudited*), continued

Financial Highlights of Discretely Presented Component Unit, continued

- In October 2014, the Fund established the John R. Hall Endowment for Education. This endowment is used to support KET's educational resources and services from cradle to career. The account balance at June 30, 2021 and 2020, including related accrued interest, totaled approximately \$2.5 million and \$2.0 million, respectively.

Discussion of Currently Known Facts, Decisions or Conditions

Economic Factors:

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

Repacking Project:

During fiscal 2017, the Authority began the Congressionally mandated Repacking Project (the Project) for its 16 transmitter sites. The Project was required by the FCC, which reimbursed the costs incurred. The Project involved upgrading each transmitter site to meet the new telecommunications industry standard (TIA-222 rev. G) and installing new transmission systems to operate in the FCC re-assigned DTV channels. Each site had its own separate budget as required by the FCC to maintain individual site costs since each site has its own license number. As of June 30, 2020, all 16 transmitter sites have been upgraded and transferred from construction in progress to transmitter equipment. Total cost for the sites amounted to approximately \$15.9 million. As of June 30, 2021, KET is working to receive approximately \$1.1 million to be reimbursed from the FCC. In fiscal 2019, the General Assembly appropriated \$2.1 million of bond funds for KET for additional equipment costs not reimbursed by the FCC. As of June 30, 2021, KET is working to receive approximately \$535 thousand from the appropriated bond funds.

Contacting KET's Financial Management

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

KENTUCKY AUTHORITY FOR EDUCATIONAL TELEVISION

Consolidated Statements of Net Position

June 30, 2021 and 2020

	Kentucky Authority for Educational Television	Commonwealth Fund for KET, Inc.	2021 Reporting Entity	As Restated 2020 Reporting Entity
Assets				
Current assets:				
Cash and cash equivalents	\$ 7,320,423	\$ 2,609,727	\$ 9,930,150	\$ 6,873,541
Investments	-	24,044,469	24,044,469	16,941,989
Receivables:				
Grants receivable	10,609	30,000	40,609	65,000
Receivable from FCC Repacking Project	1,116,874	-	1,116,874	1,125,430
Due from state for costs not reimbursed by FCC Repacking Project	535,466	-	535,466	1,658,334
Underwriting	-	235,524	235,524	117,717
Accrued interest	-	19,796	19,796	27,947
Accounts receivable	198,113	5,802	203,915	200,442
Costs incurred for programs not yet broadcast	15,824	-	15,824	387,173
Public and instructional television program rights, current	118,089	-	118,089	120,704
Promises to give	-	100,000	100,000	50,000
Receivable from the Fund	277,884	-	277,884	430,904
Prepaid expenses	<u>183,147</u>	<u>46,048</u>	<u>229,195</u>	<u>158,726</u>
Total current assets	9,776,429	27,091,366	36,867,795	28,157,907
Noncurrent assets:				
Restricted cash and cash equivalents	1,992,279	1,089,587	3,081,866	2,450,627
Restricted investments	544,957	10,011,275	10,556,232	8,899,570
Public and instructional television program rights, net of current	94,880	-	94,880	53,175
Capital assets, net	<u>17,369,870</u>	<u>180,934</u>	<u>17,550,804</u>	<u>18,888,021</u>
Total noncurrent assets	<u>20,001,986</u>	<u>11,281,796</u>	<u>31,283,782</u>	<u>30,291,393</u>
Total assets	<u>\$ 29,778,415</u>	<u>\$ 38,373,162</u>	<u>\$ 68,151,577</u>	<u>\$ 58,449,300</u>
Deferred Outflows of Resources				
Deferred amount related to pension plan	\$ 10,371,438	\$ -	\$ 10,371,438	\$ 9,955,501
Deferred amount related to OPEB	<u>4,540,347</u>	<u>-</u>	<u>4,540,347</u>	<u>3,165,883</u>
Total deferred outflows of resources	<u>\$ 14,911,785</u>	<u>\$ -</u>	<u>\$ 14,911,785</u>	<u>\$ 13,121,384</u>

	Kentucky Authority for Educational Television	Commonwealth Fund for KET, Inc.	2021 Reporting Entity	As Restated 2020 Reporting Entity
Liabilities				
Current liabilities:				
Accounts payable	\$ 145,350	\$ 16,114	\$ 161,464	\$ 268,529
Payable to state for FCC Repacking Project	41,526	-	41,526	1,062,730
Payable to state for costs not reimbursed for FCC Repacking Project	1,054,175	-	1,054,175	1,068,113
Payable to the Authority and the Foundation	-	277,884	277,884	430,904
Accrued wages	1,184,430	-	1,184,430	1,217,758
Compensated leave, current	830,978	-	830,978	918,184
Current maturities of note payable	142,676	-	142,676	138,131
Current maturities of PPP loan	-	-	-	181,282
Unearned revenue	<u>1,674,497</u>	<u>358,473</u>	<u>2,032,970</u>	<u>1,999,706</u>
Total current liabilities	5,073,632	652,471	5,726,103	7,285,337
Noncurrent liabilities:				
Note payable, net of current maturities	496,921	-	496,921	639,597
PPP loan, net of current maturities	-	-	-	230,904
Compensated leave, net of current	413,426	-	413,426	358,899
Net pension liability	77,832,078	-	77,832,078	71,017,375
Net OPEB liability	<u>13,950,818</u>	<u>-</u>	<u>13,950,818</u>	<u>11,177,811</u>
Total noncurrent liabilities	<u>92,693,243</u>	<u>-</u>	<u>92,693,243</u>	<u>83,424,586</u>
Total liabilities	<u>\$ 97,766,875</u>	<u>\$ 652,471</u>	<u>\$ 98,419,346</u>	<u>\$ 90,709,923</u>
Deferred Inflows of Resources				
Deferred amount related to pension plan	\$ 374,845	\$ -	\$ 374,845	\$ 894,239
Deferred amount related to OPEB	1,640,292	-	1,640,292	2,171,347
Unearned lease incentive payment	<u>2,133,338</u>	<u>-</u>	<u>2,133,338</u>	<u>2,266,671</u>
Total deferred inflows of resources	<u>\$ 4,148,475</u>	<u>\$ -</u>	<u>\$ 4,148,475</u>	<u>\$ 5,332,257</u>
Net Position				
Invested in capital assets, net of related debt	\$ 16,730,273	\$ 180,934	\$ 16,911,207	\$ 18,110,293
Restricted:				
Non-expendable	250,000	2,023,583	2,273,583	2,273,583
Expendable:				
Restricted for capital projects	2,290,471	-	2,290,471	3,158,428
Expendable for specific operating activities	878,968	9,110,164	9,989,132	8,007,111
Unrestricted	<u>(77,374,862)</u>	<u>26,406,010</u>	<u>(50,968,852)</u>	<u>(56,020,911)</u>
Total net position	<u>\$ (57,225,150)</u>	<u>\$ 37,720,691</u>	<u>\$ (19,504,459)</u>	<u>\$ (24,471,496)</u>

See accompanying notes.

KENTUCKY AUTHORITY FOR EDUCATIONAL TELEVISION

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

Years ended June 30, 2021 and 2020

	Kentucky Authority for Educational Television	Commonwealth Fund for KET, Inc.	2021 Reporting Entity	As Restated 2020 Reporting Entity
Operating revenues:				
Charges for services	\$ 1,952,439	\$ -	\$ 1,952,439	\$ 1,879,309
Private gifts and grants	5,204,655	1,959,208	7,163,863	5,113,113
Adult and continuing education	507,157	-	507,157	416,273
Fundraising	-	5,991,501	5,991,501	5,634,865
Fees received from the Fund	26,400	-	26,400	26,400
Miscellaneous	<u>36,715</u>	<u>11,731</u>	<u>48,446</u>	<u>50,599</u>
Total operating revenues	7,727,366	7,962,440	15,689,806	13,120,559
Operating expenses:				
Programming and production	12,664,236	-	12,664,236	12,990,940
Broadcasting	2,671,152	-	2,671,152	3,756,402
Program information	1,149,638	-	1,149,638	1,095,963
Management	3,213,653	1,292,339	4,505,992	4,757,168
Fundraising	-	940,625	940,625	861,146
Pension expense	10,967,013	-	10,967,013	9,957,389
OPEB expense	<u>1,749,120</u>	<u>-</u>	<u>1,749,120</u>	<u>939,249</u>
Total operating expenses	32,414,812	2,232,964	34,647,776	34,358,257
Operating (loss) income	(24,687,446)	5,729,476	(18,957,970)	(21,237,698)
Nonoperating revenue (expense):				
State appropriation	15,504,000	-	15,504,000	15,551,100
Revenue from FCC Repacking Project	105,035	-	105,035	9,689,429
Support received from the Fund	3,770,027	-	3,770,027	3,672,355
Payments to the Foundation	-	(3,770,027)	(3,770,027)	(3,672,355)
Gain on forgiveness of PPP loan	412,186	-	412,186	-
Interest expense	(23,604)	-	(23,604)	(28,003)
Investment return	<u>6,641</u>	<u>7,920,749</u>	<u>7,927,390</u>	<u>887,416</u>
Total nonoperating revenue	19,774,285	4,150,722	23,925,007	26,099,942
Change in net position	(4,913,161)	9,880,198	4,967,037	4,862,244
Net position, beginning of year, as restated (see Note 3)	<u>(52,311,989)</u>	<u>27,840,493</u>	<u>(24,471,496)</u>	<u>(29,333,740)</u>
Net position, end of year	\$ (57,225,150)	\$ 37,720,691	\$ (19,504,459)	\$ (24,471,496)

See accompanying notes.

KENTUCKY AUTHORITY FOR EDUCATIONAL TELEVISION

Consolidated Statements of Cash Flows

Years ended June 30, 2021 and 2020

	Kentucky Authority for Educational Television	Commonwealth Fund for KET, Inc.	2021 Reporting Entity	As Restated 2020 Reporting Entity
Cash flows from operating activities:				
Cash received from customers	\$ 2,352,759	\$ -	\$ 2,352,759	\$ 2,257,468
Cash received from contributions	5,069,807	8,001,840	13,071,647	11,504,687
Cash paid to suppliers for goods and services	(9,560,596)	(2,335,936)	(11,896,532)	(15,550,090)
Cash paid for personnel services	<u>(13,694,019)</u>	<u>-</u>	<u>(13,694,019)</u>	<u>(13,377,369)</u>
Net cash (used in) provided by operating activities	(15,832,049)	5,665,904	(10,166,145)	(15,165,304)
Cash flows from noncapital financing activities:				
State appropriation	16,319,614	-	16,319,614	15,992,766
Contributions from (to) component units	3,770,027	(3,770,027)	-	-
Proceeds from PPP loan	<u>-</u>	<u>-</u>	<u>-</u>	<u>412,186</u>
Net cash provided by (used in) noncapital financing activities	20,089,641	(3,770,027)	16,319,614	16,404,952
Cash flows from capital and related financing activities:				
Payments on long-term debt	(138,131)	-	(138,131)	(133,732)
Interest paid on long-term debt	(23,604)	-	(23,604)	(28,003)
Net reimbursements (to) from state for FCC Repackaging Project	(1,021,204)	-	(1,021,204)	(3,976,548)
Reimbursements from FCC Repackaging Project	406,907	-	406,907	9,119,131
Purchase of capital assets	<u>(787,570)</u>	<u>(78,418)</u>	<u>(865,988)</u>	<u>(5,776,097)</u>
Net cash used in capital and related financing activities	(1,563,602)	(78,418)	(1,642,020)	(795,249)
Cash flows from investing activities:				
Net investment activity in Commonwealth's cash and investment pool	(129,766)	-	(129,766)	(183,061)
Purchase of investments	-	(14,551,398)	(14,551,398)	(9,796,860)
Proceeds from sales of investments	250,000	13,279,054	13,529,054	10,837,810
Investment earnings	<u>(110,653)</u>	<u>439,162</u>	<u>328,509</u>	<u>1,524,736</u>
Net cash provided by (used in) investing activities	<u>9,581</u>	<u>(833,182)</u>	<u>(823,601)</u>	<u>2,382,625</u>
Net change in cash and cash equivalents	2,703,571	984,277	3,687,848	2,827,024
Cash and cash equivalents, beginning of year	<u>6,609,131</u>	<u>2,715,037</u>	<u>9,324,168</u>	<u>6,497,144</u>
Cash and cash equivalents, end of year	<u>\$ 9,312,702</u>	<u>\$ 3,699,314</u>	<u>\$ 13,012,016</u>	<u>\$ 9,324,168</u>

KENTUCKY AUTHORITY FOR EDUCATIONAL TELEVISION

Consolidated Statements of Cash Flows, continued

Years ended June 30, 2021 and 2020

	Kentucky Authority for Educational Television	Commonwealth Fund for KET, Inc.	2021 Reporting Entity	As Restated 2020 Reporting Entity
Reconciliation of operating (loss) income to net cash (used in) provided by operating activities:				
Operating (loss) income	\$ (24,687,446)	\$ 5,729,476	\$ (18,957,970)	\$ (21,237,698)
Adjustments:				
Depreciation and amortization	2,285,923	43,251	2,329,174	3,051,145
Increase (decrease) in cash due to changes in:				
Grants receivable	4,391	(50,000)	(45,609)	(5,600)
Underwriting receivable	-	(117,807)	(117,807)	56,297
Accounts receivable	96	(3,569)	(3,473)	70,041
Costs incurred for programs not yet broadcast	371,349	-	371,349	(36,138)
Public and instructional television program rights	(165,059)	-	(165,059)	(215,709)
Promises to give	-	20,000	20,000	23,750
Receivable from the Fund	153,020	-	153,020	651,638
Prepaid expenses	(87,685)	17,216	(70,469)	51,820
Deferred outflows of resources - pension related	(330,554)	-	(330,554)	1,185,173
Deferred outflows of resources - OPEB related	(1,459,847)	-	(1,459,847)	(604,612)
Accounts payable	(84,915)	(22,150)	(107,065)	(902,317)
Payables to the Authority and the Foundation	-	(153,020)	(153,020)	(651,638)
Accrued wages	(33,328)	-	(33,328)	32,365
Compensated leave	(32,679)	-	(32,679)	54,756
Unearned revenue	(169,243)	202,507	33,264	(17,717)
Net pension liability	6,814,703	-	6,814,703	3,105,969
Net OPEB liability	2,773,007	-	2,773,007	(647,611)
Deferred inflows of resources - pension related	(519,394)	-	(519,394)	(34,750)
Deferred inflows of resources - OPEB related	(531,055)	-	(531,055)	1,038,865
Deferred lease incentive payment	(133,333)	-	(133,333)	(133,333)
Net cash (used in) provided by operating activities	<u>\$ (15,832,049)</u>	<u>\$ 5,665,904</u>	<u>\$ (10,166,145)</u>	<u>\$ (15,165,304)</u>
Supplemental disclosures of cash flow information:				
Noncash investing, capital, and financing activities:				
Forgiveness of PPP loan	\$ 412,186	\$ -	\$ 412,186	\$ -
Change in fair value of investments	-	5,650,070	5,650,070	(67,305)

KENTUCKY AUTHORITY FOR EDUCATIONAL TELEVISION

Consolidated Statements of Cash Flows, continued

Years ended June 30, 2021 and 2020

	<u>Kentucky Authority for Educational Television</u>	<u>Commonwealth Fund for KET, Inc.</u>	<u>2021 Reporting Entity</u>	<u>As Restated 2020 Reporting Entity</u>
Reconciliation of cash and cash equivalents to statement of net position:				
Cash and cash equivalents	\$ 7,320,423	\$ 2,609,727	\$ 9,930,150	\$ 6,873,541
Restricted cash and cash equivalents	<u>1,992,279</u>	<u>1,089,587</u>	<u>3,081,866</u>	<u>2,450,627</u>
Total cash and cash equivalents	<u>\$ 9,312,702</u>	<u>\$ 3,699,314</u>	<u>\$ 13,012,016</u>	<u>\$ 9,324,168</u>

See accompanying notes.

KENTUCKY AUTHORITY FOR EDUCATIONAL TELEVISION

Notes to the Consolidated Financial Statements

1. Description of the Organization

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

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

Blended Component Unit

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

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

Discretely Presented Component Unit

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

KENTUCKY AUTHORITY FOR EDUCATIONAL TELEVISION

Notes to the Consolidated Financial Statements, continued

2. Summary of Significant Accounting Policies

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

Basis of Presentation

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

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

Use of Estimates

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

Description of Net Position Classes

Net position is classified in various components as follows:

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

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

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

Unrestricted - Unrestricted net position is remaining net position that does not meet the definition of invested in capital assets, net of related debt or restricted net position. The Board has designated a portion of the endowment, which is included with the restricted non-expendable endowment funds (see Note 15).

KENTUCKY AUTHORITY FOR EDUCATIONAL TELEVISION

Notes to the Consolidated Financial Statements, continued

2. Summary of Significant Accounting Policies, continued

Cash and Cash Equivalents

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

Investments

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

Accounts Receivables

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

Contributions and Promises to Give

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

Conditional promises to give are recorded only when the conditions on which they depend are substantially met and the promises become unconditional. Promises to give are stated at the net present value of the expected future payments. In addition, management provides for probable uncollectible amounts through provision for bad debt expense and an adjustment to a valuation allowance based on its assessment of the current status of individual pledges. Based on these criteria, the Fund has estimated no allowance for doubtful accounts at June 30, 2021 and 2020 because management expects no material losses.

KENTUCKY AUTHORITY FOR EDUCATIONAL TELEVISION

Notes to the Consolidated Financial Statements, continued

2. Summary of Significant Accounting Policies, continued

Costs Incurred for Programs Not Yet Broadcast

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

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

Public and Instructional Television Program Rights

Program series and other syndicated products are recorded at the lower of unamortized cost or estimated net realizable value. Generally, purchased program rights for KET are amortized on a straight-line basis over the period of expected usage. Amortization expense for each of the years ended June 30, 2021 and 2020 was \$125,969 and \$181,803, respectively.

Capital Assets

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

Federal Communications Commission (FCC) Repacking Project

The Repacking Project (the Project) is required by the FCC, which is reimbursing the costs incurred for upgrading the Authority's 16 transmitter sites. A capital project account was established with the Commonwealth for the Project. The Commonwealth allows KET to make payments as the costs are incurred, causing an amount due to the Commonwealth. Receivables from the FCC and unearned revenues are recorded as KET submits reimbursement requests. Upon approval of the requests by the FCC, non-operating revenue is recognized. KET repays the Commonwealth as the reimbursements are received from the FCC. As of June 30, 2020, all transmitter sites have been upgraded and placed in service.

Forgivable Loan

The Foundation received a Paycheck Protection Program loan (PPP loan) under the Coronavirus Aid, Relief and Economic Security Act (CARES Act) in the amount of \$412,186. Under the terms of the CARES Act, PPP loan recipients can apply for and be granted forgiveness for all or a portion of the PPP loan, subject to limitations, based on the use of loan proceeds for payment of eligible expenses (payroll costs, rent and utilities). The Foundation accounts for the PPP loan as debt.

KENTUCKY AUTHORITY FOR EDUCATIONAL TELEVISION

Notes to the Consolidated Financial Statements, continued

2. Summary of Significant Accounting Policies, continued

Forgivable Loan, continued

The PPP loan amount is included in PPP loan on the 2020 Consolidated Statement of Net Position. Amounts of the PPP loan and accrued interest forgiven are recognized as a gain upon extinguishment of the debt in the Consolidated Statements of Revenues, Expenses, and Changes in Net Position when the Foundation receives notification from the lender that the Small Business Administration (SBA) has approved the PPP loan forgiveness application and remitted the forgiveness amount to the lender.

On November 2, 2020, the Foundation received notification from the lender that the SBA approved the PPP loan forgiveness application and remitted the forgiveness amount of \$412,186 to the lender. As such, the amount forgiven is included in gain from forgiveness of PPP loan on the 2021 Consolidated Statement of Revenues, Expenses, and Changes in Net Position.

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.

State Appropriation

State appropriation represents the funds designated for the Authority in the Commonwealth's budget. Funds are recognized as non-operating revenue in the year budgeted by the Commonwealth. Funds not received in the same year as budgeted are recognized as receivables.

Program and Production Underwriting

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

Pensions and Other Post-Employment Benefits (OPEB)

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

KENTUCKY AUTHORITY FOR EDUCATIONAL TELEVISION

Notes to the Consolidated Financial Statements, continued

2. Summary of Significant Accounting Policies, continued

Pensions and Other Post-Employment Benefits (OPEB), continued

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

Reclassifications

Certain amounts for the Authority and Fund relating to restricted and unrestricted net assets and operating cash flows, as originally reported in the prior year, have been reclassified to conform to the presentation used in the current year. Such reclassifications had no effect on the change in net position as previously reported.

Subsequent Events

Management has evaluated subsequent events for accounting and disclosure requirements through October 6, 2021, the date the financial statements were available to be issued.

3. Restatement

During 2021, the Authority discovered a misstatement of capital receivables for the years ending June 30, 2020 and 2019, resulting from a failure to accurately record reimburseable amounts from the Commonwealth related to the FCC Repacking Project. The impact was an approximate \$913,000 overstatement of revenues, of which, approximately \$629,000 related to activity occurring in 2020 and \$284,000 related to activity occurring in 2019. The 2020 financial statements have been restated to correct this misstatement.

KENTUCKY AUTHORITY FOR EDUCATIONAL TELEVISION

Notes to the Consolidated Financial Statements, continued

3. Restatement, continued

The financial statement line items as of and for the year ended June 30, 2020 that have been adjusted as a result of the restatement are as follows:

	As Previously Reported	As Restated	Restatement (Decrease) Increase
Receivable from FCC Repacking Project	\$ 2,038,454	\$ 1,125,430	\$ (913,024)
Net position restricted for capital projects	4,071,452	3,158,428	(913,024)
Revenue from FCC Repacking Project	10,318,005	9,689,429	(628,576)
Net position, June 30, 2019	(29,049,292)	(29,333,740)	(284,448)

4. Cash Deposits

The Authority and the Foundation

A portion of the Authority's cash is a part of the Commonwealth's cash and investment pool. The carrying amount of the Authority's cash and cash equivalents invested in the Commonwealth's cash and investment pool at June 30, 2021 and 2020 was \$1,253,574 and \$439,005, respectively. See the Commonwealth's Comprehensive Annual Financial Report for the year ended June 30, 2021, for disclosure of the credit risk classification of the Commonwealth's cash and investment pool.

The Authority and Foundation have deposits with financial institutions at June 30, 2021 and 2020. The carrying amount of the Authority's and Foundation's deposits with financial institutions was \$9,006,365 and \$6,173,033 at June 30, 2021 and 2020, respectively. The Authority's and Foundation's cash balances were fully collateralized on June 30, 2021 and 2020 with securities held by the Authority's and Foundation's agent in the Authority's and Foundation's name.

Cash received from donors or grantors and capital appropriations from the Commonwealth are restricted due to requirements on how the money is to be used. The Authority has \$93,174 and \$78,766 at June 30, 2021 and 2020, respectively, of cash restricted for capital projects. The Foundation has \$1,899,105 and \$1,649,105 at June 30, 2021 and 2020, respectively, of cash restricted for grants.

The Fund

The Fund has deposits with financial institutions and investment brokerage firms at June 30, 2021 and 2020. The carrying amount of the Fund's deposits with financial institutions was \$1,806,902 and \$1,259,965 at June 30, 2021 and 2020, respectively. The Fund's cash balances with financial institutions were fully collateralized at June 30, 2021 and 2020. Included in the Fund's deposits with financial institutions at June 30, 2021 and 2020, are depository accounts that invest in overnight repurchase agreements totaling \$4,099,367 and \$4,118,807, respectively.

KENTUCKY AUTHORITY FOR EDUCATIONAL TELEVISION

Notes to the Consolidated Financial Statements, continued

4. Cash Deposits, continued

The Fund, continued

Cash received from donors or grantors is restricted due to requirements on how the money is to be used. The Fund has \$1,089,587 and \$722,756 of restricted cash at June 30, 2021 and 2020, respectively, and included in endowments (see Note 15).

5. Investments

The Authority and the Foundation

A portion of the Authority's investments are held directly in the Commonwealth's cash and investment pool, which has statutory responsibility and authority to safeguard the funds. At June 30, 2021 and 2020, the Authority's share of investments in the Commonwealth's cash and investment pool totaled \$544,957 and \$292,991, respectively. Legally authorized investments generally include obligations of or guaranteed by the United States; obligations of any corporation of the United States Government; asset backed securities; U.S. dollar denominated corporate securities; collateralized certificates of deposit; bankers' acceptances; commercial paper and repurchase agreements. The Commonwealth is also eligible to invest in reverse repurchase agreements. See the Commonwealth's Comprehensive Annual Financial Report for the year ended June 30, 2021 for disclosure of the credit risk classification of the Commonwealth's cash and investment pool.

Custodial credit risk for deposits is the risk that in the event of an institution's failure, the Authority's deposits may not be returned. As of June 30, 2021 and 2020, the Authority's investments are neither insured nor registered, but are held by the Authority's custodial agent in the Authority's name.

All other investments held by the Authority and the Foundation at June 30, 2021, consist entirely of certificates of deposit with its financial institutions and the entire balance was insured by the Federal Deposit Insurance Corporation (FDIC). All certificates of deposit can be withdrawn without penalty, given a 7-day notice. The net investment value, which approximates fair value, of the Authority's and the Foundation's investments was zero at June 30, 2021. The net investment value was \$251,999 at June 30, 2020. The investment income for the Authority and the Foundation totaled \$6,641 and \$14,921 for the years ended June 30, 2021 and 2020, respectively, and consisted of interest earned.

At June 30, 2021 and 2020, the Authority has \$544,957 and \$295,898, respectively, of investments restricted for capital projects. The Foundation has \$250,000 of non-expendable investments at both June 30, 2021 and 2020 related to the Arts endowment.

KENTUCKY AUTHORITY FOR EDUCATIONAL TELEVISION

Notes to the Consolidated Financial Statements, continued

5. Investments, continued

The Fund

The Fund's investment policy permits the following investments:

- Obligations and contracts for future delivery of obligations backed by the full faith and credit of the United States or a United States governmental agency or corporation, including but not limited to:
 - United States Treasury
 - Farmers Home Administration
 - Governmental National Mortgage Association
 - Federal National Mortgage Association
 - Federal Home Loan Bank
 - Federal Farm Credit Banks
- Collateralized certificates of deposit or uncollateralized certificates of deposit issued by banks rated in one of the three highest categories by a nationally recognized agency or other interest bearing accounts in depository institutions chartered by the Commonwealth or the United States to the extent guaranteed by deposit insurance
- Commercial paper rated as investment grade
- Bankers' acceptances for banks rated in one of the three highest categories by a nationally recognized rating agency
- Mutual funds, at least 90% of whose assets are of the type listed above
- Publicly held individual equities or stock mutual funds

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

- No more than 75% of the total funds should be invested in equities or stock funds
- No more than 30% of the total funds should be invested in bonds, other fixed income obligations or cash and cash equivalents
- No more than 15% of the total funds should be invested in cash or cash equivalents
- No more than 10% of total funds should be invested in obligations of one obligor, unless that obligor is in the United States government or agencies thereof
- No more than 25% of the total funds should be in one mutual fund
- Equity investment in any one company shall be limited at purchase to 5% of the total funds
- Equity investment in any one company shall be limited in market value to 10% of the total funds
- The Fund shall not hold unsecured investments in any one industry in an amount exceeding 20% of the market value of the total funds

KENTUCKY AUTHORITY FOR EDUCATIONAL TELEVISION

Notes to the Consolidated Financial Statements, continued

5. Investments, continued

The Fund, continued

Concentration of credit risk is the risk of loss attributed to the magnitude of a government's investment in a single issuer. The Fund's investments are currently invested with approximately 6.2% and 10.6% in domestic corporate bonds and 5.8% and 11.5% in fixed income mutual funds and exchange traded funds (ETFs) at June 30, 2021 and 2020, respectively. ETFs are marketable securities that track an index, a commodity, bonds, or a basket of assets like an index fund. ETFs trade like common stocks on the stock exchange.

The following investment tables outline the weighted average maturities for each category of investments. The Fund has elected to use the weighted average maturity method to outline the potential interest rate risk in the fixed income portfolio. The investment tables also present the credit ratings for each investment type to outline potential credit risk.

Investments in debt and equity securities with readily determinable fair values are carried at fair value. The Fund's investments at June 30, 2021 were comprised of the following:

<u>Investment Type</u>	<u>Fair Value</u>	<u>Weighted Average Maturity (in years)</u>	<u>Rating</u>
U.S. Government Securities	\$ 75,923	0.54	AAA/N/A
Domestic Corporate Bonds	51,451	1.53	AAA
Domestic Corporate Bonds	222,958	2.21	AA
Domestic Corporate Bonds	833,136	3.00	A
Domestic Corporate Bonds	926,647	2.56	BBB
Domestic Corporate Bonds	63,027	2.66	N/A
Domestic Equities	19,329,300	N/A	N/A
Real Estate Investment Trusts	133,726	N/A	N/A
Fixed Income Mutual Funds	1,985,871	N/A	N/A
Equity Mutual Funds	7,580,208	N/A	N/A
Certificates of Deposit	<u>2,853,497</u>	N/A	N/A
Total	<u>\$ 34,055,744</u>		

KENTUCKY AUTHORITY FOR EDUCATIONAL TELEVISION

Notes to the Consolidated Financial Statements, continued

5. Investments, continued

The Fund, continued

The Fund's investment balances were comprised of the following at June 30, 2020:

<u>Investment Type</u>	<u>Fair Value</u>	<u>Weighted Average Maturity</u> (in years)	<u>Rating</u>
U.S. Government Securities	\$ 77,501	2.04	AAA/N/A
Domestic Corporate Bonds	148,391	0.78	AAA
Domestic Corporate Bonds	379,882	2.32	AA
Domestic Corporate Bonds	1,242,217	3.35	A
Domestic Corporate Bonds	36,044	4.62	BAA
Domestic Corporate Bonds	830,802	2.89	BBB
Domestic Corporate Bonds	50,104	1.13	N/A
Domestic Equities	13,020,494	N/A	N/A
Real Estate Investment Trusts	118,136	N/A	N/A
Fixed Income Mutual Funds	2,902,605	N/A	N/A
Equity Mutual Funds	5,786,075	N/A	N/A
Certificates of Deposit	<u>701,411</u>	N/A	N/A
Total	<u>\$ 25,293,662</u>		

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

	<u>2021</u>	<u>2020</u>
Interest and dividend income	\$ 563,089	\$ 586,774
Realized gains	1,839,668	462,108
Unrealized gains (losses)	5,650,070	(67,305)
Investment fees	<u>(132,078)</u>	<u>(109,082)</u>
Total	<u>\$ 7,920,749</u>	<u>\$ 872,495</u>

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

The Fund has non-expendable investments of \$2,023,583 at both June 30, 2021 and 2020 and investments expendable for specific purposes of \$7,987,692 and \$6,330,089 at June 30, 2021 and 2020, respectively. These investments are included in endowments (see Note 15). All other investments are donations to be used as determined by the Fund's Board.

KENTUCKY AUTHORITY FOR EDUCATIONAL TELEVISION

Notes to the Consolidated Financial Statements, continued

6. Fair Value of Measurements

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

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

- Level 1: Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that KET has the ability to access.
- Level 2: Inputs to the valuation methodology include quoted prices for similar assets or liabilities in active markets; quoted prices for identical or similar assets or liabilities in inactive markets; inputs other than quoted prices that are observable for the asset or liability; inputs that are derived principally from or corroborated by observable market data by correlation or other means. If the asset or liability has a specified (contractual) term, the level 2 input must be observable for substantially the full term of the asset or liability.
- Level 3: Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

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

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

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

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

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

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

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

KENTUCKY AUTHORITY FOR EDUCATIONAL TELEVISION

Notes to the Consolidated Financial Statements, continued

6. Fair Value of Measurements, continued

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

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

Assets at Fair Value as of June 30, 2021				
	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Liability to the Commonwealth's cash and investment pool, at fair value	\$ <u>-</u>	\$ <u>544,957</u>	\$ <u>-</u>	\$ <u>544,957</u>
Assets at Fair Value as of June 30, 2020				
	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Investments in the Commonwealth's cash and investment pool, at fair value	\$ <u>-</u>	\$ <u>292,991</u>	\$ <u>-</u>	\$ 292,991
Certificates of deposit				<u>251,999</u>
Total investments				<u>\$ 544,990</u>

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

Assets at Fair Value as of June 30, 2021				
	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Mutual funds	\$ 9,566,079	\$ -	\$ -	\$ 9,566,079
Common stocks	19,329,300	-	-	19,329,300
Corporate bonds	-	2,097,219	-	2,097,219
U.S. government securities	-	75,923	-	75,923
Real estate investment trusts	<u>133,726</u>	<u>-</u>	<u>-</u>	<u>133,726</u>
Total, at fair value	<u>\$29,029,105</u>	<u>\$ 2,173,142</u>	<u>\$ -</u>	31,202,247
Certificates of deposit				<u>2,853,497</u>
Total investments				<u>\$34,055,744</u>

KENTUCKY AUTHORITY FOR EDUCATIONAL TELEVISION

Notes to the Consolidated Financial Statements, continued

6. Fair Value of Measurements, continued

Assets at Fair Value as of June 30, 2020

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Mutual funds	\$ 8,688,680	\$ -	\$ -	\$ 8,688,680
Common stocks	13,020,494	-	-	13,020,494
Corporate bonds	-	2,687,440	-	2,687,440
U.S. government securities	-	77,501	-	77,501
Real estate investment trusts	<u>118,136</u>	<u>-</u>	<u>-</u>	<u>118,136</u>
 Total, at fair value	 <u>\$21,827,310</u>	 <u>\$ 2,764,941</u>	 <u>\$ -</u>	 24,592,251
 Certificates of deposit				 <u>701,411</u>
 Total investments				 <u>\$25,293,662</u>

KET's policy is to recognize transfers between levels as of the actual date of the event or change in circumstances. There were no transfers between levels during the years ended June 30, 2021 and 2020.

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

KENTUCKY AUTHORITY FOR EDUCATIONAL TELEVISION

Notes to the Consolidated Financial Statements, continued

7. Capital Assets

The Authority's and the Foundation's capital assets are comprised of the following at June 30, 2021:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Capital assets not being depreciated:				
Land	\$ 76,083	\$ -	\$ -	\$ 76,083
Other capital assets:				
Buildings	16,501,752	193,606	79,985	16,615,373
Furniture and fixtures	152,596	-	17,515	135,081
Graphics	379,956	-	32,185	347,771
Information services	667,025	28,801	21,190	674,636
Production equipment	5,656,548	45,359	1,331,086	4,370,821
Studio equipment	11,303,160	279,920	1,387,361	10,195,719
Transmitter equipment	32,504,557	239,884	1,117,996	31,626,445
Other equipment	1,273,815	-	25,580	1,248,235
Vehicles	<u>9,789</u>	<u>-</u>	<u>-</u>	<u>9,789</u>
Total, at historical cost	68,525,281	787,570	4,012,898	65,299,953
Less: accumulated depreciation				
Buildings	14,724,793	523,247	79,985	15,168,055
Furniture and fixtures	152,592	4	17,515	135,081
Graphics	379,956	-	32,185	347,771
Information services	506,021	40,681	21,190	525,512
Production equipment	5,097,352	153,871	1,331,086	3,920,137
Studio equipment	10,903,264	161,204	1,387,361	9,677,107
Transmitter equipment	16,760,604	1,271,321	1,117,996	16,913,929
Other equipment	1,248,656	9,626	25,580	1,232,702
Vehicles	<u>9,789</u>	<u>-</u>	<u>-</u>	<u>9,789</u>
Total accumulated depreciation	<u>49,783,027</u>	<u>2,159,954</u>	<u>4,012,898</u>	<u>47,930,083</u>
Capital assets, net	<u>\$18,742,254</u>	<u>\$ (1,372,384)</u>	<u>\$ -</u>	<u>\$17,369,870</u>

KENTUCKY AUTHORITY FOR EDUCATIONAL TELEVISION

Notes to the Consolidated Financial Statements, continued

7. Capital Assets, continued

The Fund's capital assets are comprised of the following at June 30, 2021:

	Beginning Balance	Additions	Retirements	Ending Balance
Buildings	\$ 756,115	\$ 78,418	\$ -	\$ 834,533
Furniture, fixtures, and equipment	<u>56,274</u>	<u>-</u>	<u>9,516</u>	<u>46,758</u>
Total, at historical cost	812,389	78,418	9,516	881,291
Less: accumulated depreciation				
Buildings	611,545	42,064	-	653,609
Furniture, fixtures, and equipment	<u>55,077</u>	<u>1,187</u>	<u>9,516</u>	<u>46,748</u>
Total accumulated depreciation	<u>666,622</u>	<u>43,251</u>	<u>9,516</u>	<u>700,357</u>
Capital assets, net	<u>\$ 145,767</u>	<u>\$ 35,167</u>	<u>\$ -</u>	<u>\$ 180,934</u>

Depreciation expense for the years ended June 30, 2021 and 2020 was expensed as follows:

	Authority	Fund	2021 Reporting Entity	2020 Reporting Entity
Program and production	\$ 323,524	\$ -	\$ 323,524	\$ 580,965
Broadcasting	1,355,042	-	1,355,042	1,665,856
Management	<u>481,388</u>	<u>43,251</u>	<u>524,639</u>	<u>622,521</u>
Total depreciation expense	<u>\$ 2,159,954</u>	<u>\$ 43,251</u>	<u>\$ 2,203,205</u>	<u>\$ 2,869,342</u>

8. FCC Repacking Project

During fiscal 2017, the Authority began the Congressionally mandated the Project for its 16 transmitter sites. The Project was required by the FCC, which reimbursed the costs incurred. The Project involved upgrading each transmitter site to meet the new telecommunications industry standard (TIA-222 rev. G) and installing new transmission systems to operate in the FCC re-assigned DTV channels. Each site had its own separate budget as required by the FCC to maintain individual site costs since each site has its own license number. As of June 30, 2020, all 16 transmitter sites have been upgraded and transferred from construction in progress to transmitter equipment. Total cost for the sites amounted to approximately \$15.9 million. As of June 30, 2021, KET is working to receive approximately \$1.1 million to be reimbursed from the FCC. In fiscal 2019, the General Assembly appropriated \$2.1 million of bond funds for KET for additional equipment costs not reimbursed by the FCC. As of June 30, 2021, KET is working to receive approximately \$535,000 from the appropriated bond funds.

KENTUCKY AUTHORITY FOR EDUCATIONAL TELEVISION

Notes to the Consolidated Financial Statements, continued

8. FCC Repacking Project, continued

As of June 30, 2021 and 2020, the following items related to the Project are recorded in the financial statements:

	<u>2021</u>		<u>2020</u>
Receivable from FCC Repacking Project	\$ 1,116,874	\$	1,125,430
Payable to state for FCC Repacking Project	41,526		1,062,730
Revenue from FCC Repacking Project	105,035		9,689,429

9. Compensated Absences

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

Annual leave is accumulated at amounts ranging from 7.5 to 15.0 hours per month, determined by length of service, with maximum accumulations ranging from 30 to 60 days. The calendar year is the period used for determining accumulated leave. At June 30, 2021 and 2020, the estimated liability for accrued annual leave for KET was \$890,271 and \$917,627, respectively.

Compensatory leave is granted to authorized employees. At June 30, 2021 and 2020, the estimated liability for compensatory leave for KET was \$354,133 and \$359,456, respectively.

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

Changes in compensated absences for the year ended June 30, 2021 are summarized as follows:

<u>Beginning Balance</u>	<u>Additions</u>	<u>Reduction</u>	<u>Ending Balance</u>	<u>Amounts Due Within One Year</u>
\$ <u>1,277,083</u>	\$ <u>818,867</u>	\$ <u>(851,546)</u>	\$ <u>1,244,404</u>	\$ <u>830,978</u>

It is the policy of KET to record the cost of sick leave when paid. Generally, sick leave (earned one day per month with unlimited accumulation) is paid only when an employee is absent due to illness, injury, or related family death. Sick leave accumulated is added to an employee's years of service at the time of retirement. There was no liability recorded for sick leave at June 30, 2021 or 2020. The estimated accumulated amount of unused sick leave for KET was \$2,806,800 and \$2,773,070 at June 30, 2021 and 2020, respectively.

KENTUCKY AUTHORITY FOR EDUCATIONAL TELEVISION

Notes to the Consolidated Financial Statements, continued

10. Pension Plan

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

	<u>Tier 1</u>	<u>Tier 2</u>	<u>Tier 3</u>
Participation:	Prior to 9/1/2008	9/1/2008 through 12/31/2013	1/1/2014 and after
Covered Employees:	Substantially all regular full-time members employed in non-hazardous and hazardous duty positions of any state department, board, or any agency directed by Executive Order to participate in KERS.		
Benefit Formula:	Final Compensation X Benefit Factor X Years of Service		Cash Balance Plan
Final Compensation:	Average of the highest 5 fiscal years (must contain at least 48 months). Includes lump-sum compensation payments (before and at retirement).	5 complete fiscal years immediately preceding retirement; each year must contain 12 months. Lump-sum compensation payments (before and at retirement) are not to be included in creditable compensation.	No Final Compensation
Benefit Factor:	7% - If you do not have 13 months credit for 1/1/1998 - 1/1/1999. 2.00% - If you have 13 months credit for 1/1/1998 - 1/1/1999	10 years or less = 1.10%. Greater than 10 years, but no more than 20 years = 1.30%. Greater than 20 years, but no more than 26 years = 1.50%. Greater than 26 years, but no more than 30 years = 1.75%. Additional years above 30 = 2.00% (2.00% benefit factor only applies to service earned in excess of 30 years).	No benefit factor. A life annuity can be calculated in accordance with actuarial assumptions and a method adopted by the board based on member's accumulated account balance.
Cost of Living Adjustment: (COLA):	No COLA unless authorized by the Legislature with specific criteria. This impacts all retirees regardless of Tier.		
Unreduced Retirement Benefit:	Any age with 27 years of service. Age 65 with 48 months of service. Money Purchase for age 65 with less than 48 months based on contributions and interest.	Rule of 87: Member must be at least age 57 and age plus earned service must equal 87 years at retirement to retire under this provision. Age 65 with 5 years of earned service. No Money Purchase calculations.	
Reduced Retirement Benefit:	Any age with 25 years of service. Age 55 with 5 years of service	Age 60 with 10 years of service. Excludes purchased service (exception: refunds, omitted, free military).	No reduced retirement benefit.

KENTUCKY AUTHORITY FOR EDUCATIONAL TELEVISION

Notes to the Consolidated Financial Statements, continued

10. Pension Plan, continued

The KERS defined benefit plan includes two funds, the pension fund which provides retirement benefits and the insurance fund which provides health insurance benefits (see Note 11 for discussion of OPEB liability related to the insurance fund). KERS issues a publicly available financial report that includes financial statements and required supplementary information for both the pension and insurance funds. That report may be obtained by writing to Kentucky Retirement Systems, Perimeter Park West, 1260 Louisville Road, Frankfort, Kentucky 40501-6124 or by calling (502) 696-8800.

Benefit and contribution rates are established under statute by the Commonwealth. Per KRS 61.565, contribution requirements of the active employees and the participating organizations are established and may be amended by the KERS Board of Trustees. For the fiscal year ended June 30, 2021, KET employees were required to contribute 5% of their annual covered salary for retirement benefits. Employees with a participation date after September 1, 2008 were required to contribute an additional 1% of their salary for retiree healthcare benefits. KET was contractually required to contribute 84.43% (Authority employees) and 49.47% (Foundation employees) of covered payroll to the non-hazardous KERS pension and insurance plans for the year ended June 30, 2021. Actuarially determined as an amount that, when combined with employee contributions, is expected to finance the cost of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. Effective July 1, 2021, KET will be required to contribute 10.10% plus an employer-specific monthly unfunded liability payment of \$158,863 for the next 20 years.

At June 30, 2021 and 2020, KET reported a liability of \$77,832,078 and \$71,017,375, respectively, for its proportionate share of net pension liability. The net pension liability is measured as of June 30 of the preceding year and the total pension liability used to calculate the net pension liability is determined by an actuarial valuation as of that date. KET's proportion of the net pension liability was based on a projection of the plan's long-term share of contributions to the pension plan relative to the projected contributions of all participating entities. At June 30, 2021 and 2020, KET's proportion of the net pension liability was 0.55% and 0.50%, respectively.

For financial reporting the actuarial valuation as of June 30, 2020, was performed by Gabriel Roeder Smith (GRS). The total pension liability, net pension liability, and sensitivity information as of June 30, 2020, were based on an actuarial valuation date of June 30, 2019. The total pension liability was rolled-forward from the valuation date (June 30, 2019) to the plan's fiscal year ending June 30, 2020, using generally accepted actuarial principles.

KENTUCKY AUTHORITY FOR EDUCATIONAL TELEVISION

Notes to the Consolidated Financial Statements, continued

10. Pension Plan, continued

The Board of Trustees of KERS most recently adopted new actuarial assumptions for June 30, 2018. Changes in the assumptions were annual salary increases and annual rates of retirement, disability, withdrawal and mortality were updated based on the 2018 Experience Study and the percent of disabilities assumed to occur in the line of duty was updated from 0% to 2% for KERS non-hazardous members. The actuarial assumptions which were used in performing the actuarial valuation:

Actuarial Valuation Date	June 30, 2019
Actuarial Cost Method	Entry Age
Amortization Method	Level percent of pay
Remaining amortization period	26 years, Closed
Asset valuation method	20% of the difference between the market value of assets and the expected actuarial valuation of assets recognized
Investment rate of return	5.25%
Inflation rate	2.30%
Projected salary increases	3.30% to 15.30%, varies by years of service
Mortality tables:	
Active members	Pub-2010 General Mortality Table, projected with the ultimate rates from the MP-2014 mortality improvement scale using a base year of 2010.
Health retired members	System-specific mortality table based on mortality experience from 2013-2018, projected with the ultimate rates from the MP-2014 mortality improvement scale using a base year of 2019
Disabled members	Pub-2010 Disabled Mortality Table, with a 4-year set-forward for both male and female rates, projected with the ultimate rates from the MP-2014 mortality improvement scale using a base year of 2010
Date of experience study	July 1, 2013 - June 30, 2018

KENTUCKY AUTHORITY FOR EDUCATIONAL TELEVISION

Notes to the Consolidated Financial Statements, continued

10. Pension Plan, continued

For the year ended June 30, 2021, KET recognized pension expense of \$10,967,013 and deferred outflows of resources and deferred inflows of resources related to pension from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Net difference between projected and actual earnings on investments	\$ 287,239	\$ 207,203
Difference between expected and actual experience	442,160	-
Change of assumptions	876,780	-
Changes in proportion and differences between employer contributions and proportionate share of contributions	3,677,611	167,642
Contributions subsequent to the measurement date of June 30, 2020	<u>5,087,648</u>	<u>-</u>
Total	<u>\$ 10,371,438</u>	<u>\$ 374,845</u>

For the year ended June 30, 2020, KET recognized pension expense of \$9,957,389 and deferred outflows of resources and deferred inflows of resources related to pension from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Net difference between projected and actual earnings on investments	\$ 184,033	\$ 328,739
Difference between expected and actual experience	420,030	-
Change of assumptions	2,162,324	-
Changes in proportion and differences between employer contributions and proportionate share of contributions	1,488,112	565,500
Contributions subsequent to the measurement date of June 30, 2019	<u>5,701,002</u>	<u>-</u>
Total	<u>\$ 9,955,501</u>	<u>\$ 894,239</u>

KENTUCKY AUTHORITY FOR EDUCATIONAL TELEVISION

Notes to the Consolidated Financial Statements, continued

10. Pension Plan, continued

The deferred outflows of resources related to KET's contributions to the pension plan subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ending June 30, 2022. The deferred outflows and inflows of resources related to the net difference between projected and actual earnings on pension plan investments are amortized and recognized in pension expense over five years. All other amounts reported as deferred outflows of resources and deferred inflows of resources are amortized over a closed period equal to the average of the expected remaining service lives of all employees that are provided pensions through the pension plan which is determined to be 2.26 years for the KERS non-hazardous employees. The net increase in pension expense related to the amortization of these deferred amounts is as follows:

Year ending June 30:	
2021	\$ 3,966,474
2022	803,324
2023	67,337
2024	<u>71,810</u>
Total	\$ <u>4,908,945</u>

The long-term expected return on plan assets is reviewed as part of the regular experience studies prepared every five years for the KERS. The most recent analysis performed was for the period covering fiscal years 2013 through 2018, and is outlined in a report dated April 18, 2019. Several factors are considered in evaluating the long-term rate of return. Assumptions, including long-term historical data, estimates inherent in current market data, and a log - normal distribution analysis in which best-estimate ranges of expected future real rates of return (expected return, net of investment expense and inflation), were developed by the investment consultant for each major asset class. These ranges were combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and then adding expected inflation. The capital market assumptions developed by the investment consultant are intended for use over a 10-year horizon and may not be useful in setting the long-term rate of return for funding pension plans which covers a longer timeframe. The assumption is intended to be a long-term assumption and is not expected to change absent a significant change in asset allocation, a change in the inflation assumption, or a fundamental change in the market that alters expected returns in future years.

KENTUCKY AUTHORITY FOR EDUCATIONAL TELEVISION

Notes to the Consolidated Financial Statements, continued

10. Pension Plan, continued

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

Kentucky Employees Retirement System		
Asset Class	Target Allocation	Long Term Nominal Rate of Return
Core Bonds	20.50%	(0.25)%
Non-US Equity	15.75%	5.25%
United States Equity	15.75%	4.50%
Specialty Credit/High Yield	15.00%	3.90%
Real Return	15.00%	3.95%
Private Equity	7.00%	5.15%
Real Estate	5.00%	5.30%
Opportunistic/Absolute Return	3.00%	2.25%
Cash Equivalent	3.00%	(0.75)%
Total	100%	

The projection of cash flows used to determine the discount rate assumed that local employers would contribute the actuarially determined contribution rate of projected compensation over the remaining 26-year amortization period of the unfunded actuarial accrued liability. The actuarial determined contribution rate is adjusted to reflect the phase in of anticipated gains on actuarial value of assets over the first four years of the projection period.

June 30, 2020 is the actuarial valuation date upon which the total pension liability is based for the year ended June 30, 2021. No update procedures were used to determine the total pension liability. The discount rate is defined as the single rate of return that, when applied to all projected payments, results in an actuarial value of projected benefit payments for all current plan members being projected through 2117.

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

	1% Decrease (4.25%)	Current Discount Rate (5.25%)	1% Increase (6.25%)
KET's proportionate share	\$ 89,146,308	\$ 77,832,076	\$ 68,533,922

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

KENTUCKY AUTHORITY FOR EDUCATIONAL TELEVISION

Notes to the Consolidated Financial Statements, continued

11. Other Post-Employment Benefits (OPEB)

At June 30, 2021 and 2020, KET reported a liability of \$13,950,818 and \$11,177,811, respectively, for its proportionate share of the net OPEB liability. The net OPEB liability was measured as of June 30 of the preceding year, and the total OPEB liability used to calculate the net OPEB liability is determined by an actuarial valuation as of that date. KET's proportion of the net OPEB liability was based on a projection of the plan's long-term share of contributions to the OPEB plan relative to the projected contributions of all participating organizations. At June 30, 2021 and 2020, KET's proportion of the net OPEB liability was 0.55% and 0.50%, respectively.

For the year ended June 30, 2021, KET recognized OPEB expense of \$1,749,120 and deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between expected and actual experience	\$ 1,154,584	\$ 1,385,427
Net difference between projected and actual earnings on OPEB plan investments	1,021,127	24,242
Change of assumptions	267,610	72,863
Change in proportion and differences between employer contributions and proportionate share of contributions	1,080,651	157,760
Contributions subsequent to the measurement date of June 30, 2020	1,016,375	-
Total	\$ 4,540,347	\$ 1,640,292

For the year ended June 30, 2020, KET recognized OPEB expense of \$939,249 and deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between expected and actual experience	\$ -	\$ 1,782,934
Net difference between projected and actual earnings on OPEB plan investments	1,465,894	33,621
Change of assumptions	47,340	120,650
Change in proportion and differences between employer contributions and proportionate share of contributions	500,042	234,142
Contributions subsequent to the measurement date of June 30, 2019	1,152,607	-
Total	\$ 3,165,883	\$ 2,171,347

KENTUCKY AUTHORITY FOR EDUCATIONAL TELEVISION

Notes to the Consolidated Financial Statements, continued

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

The deferred outflows of resources related to KET's contributions to the OPEB plan subsequent to the measurement date will be recognized as a reduction of the net OPEB liability in the year ending June 30, 2022. The deferred inflows of resources related to the net difference between projected and actual earnings on OPEB plan investments are amortized and recognized in OPEB expense over five years. All other amounts reported as deferred outflows of resources and deferred inflows of resources are amortized over a closed period equal to the average of the expected remaining service lives of all employees that are provided OPEB through the OPEB plan which is determined to be 3.69 years for the KERS non-hazardous employees.

The net increase in OPEB expense for future years related to the amortization of these deferred amounts is as follows:

Year ending June 30:	
2022	\$ 877,222
2023	505,730
2024	443,524
2025	<u>57,204</u>
Total	<u>\$ 1,883,680</u>

For financial reporting, the actuarial valuation as of June 30, 2020 was performed by GRS. The total OPEB liability, net OPEB liability, and sensitivity information as of June 30, 2020, were based on an actuarial valuation date of June 30, 2019. The total OPEB liability was rolled-forward from the valuation date (June 30, 2019) to the plan's fiscal year ending June 30, 2020, using generally accepted actuarial principles. The following updated actuarial assumptions which were used in performing the actuarial valuation:

Inflation	2.30%
Payroll growth rate	0.0%
Salary increase	3.30% to 15.30%, varies by service
Investment rate of return	6.25%
Healthcare trend rates:	
Pre – 65	Initial trend starting at 6.40% at January 1, 2022, and gradually decreasing to an ultimate trend rate of 4.05% over a period of 14 years.
Post-65	Initial trend starting at 2.9% at January 1, 2022, and increasing to 6.30% in 2023, then gradually decreasing to an ultimate trend rate of 4.05% over a period of 14 years.
Mortality tables:	
Pre-retirement	Pub-2010 General Mortality Table, projected with the ultimate rates from the MP-2014 mortality improvement scale using a base year of 2010.

KENTUCKY AUTHORITY FOR EDUCATIONAL TELEVISION

Notes to the Consolidated Financial Statements, continued

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

Post-retirement (non-disabled)	System-specific mortality table based on mortality experience from 2013-2018, projected with the ultimate rates from the MP-2014 mortality improvement scale using a base year of 2019
Post-retirement (disabled)	Pub-2010 Disabled Mortality Table, with a 4-year set-forward for both male and female rates, projected with the ultimate rates from the MP-2014 mortality improvement scale using a base year of 2010

The projection of cash flows used to determine the discount rate of 5.43% for KERS non-hazardous assumed that local employers would contribute the actuarially determined contribution rate of projected compensation over the remaining 26 years (closed) amortization period of the unfunded actuarial accrued liability. The discount rate determination used an expected rate of return of 6.25%, and a municipal bond rate of 3.56%, as reported in Fidelity Index’s “20 –Year Municipal GO AA Index” as of June 30, 2020. However, the cost associated with the implicit employer subsidy was not included in the calculation of Kentucky Retirement System’s actuarial determined contributions, and any cost associated with the implicit subsidy will not be paid out of Kentucky Retirement System’s trusts. Therefore, the municipal bond rate was applied to future expected benefit payments associated with the implicit subsidy. The target asset allocation and best estimates of arithmetic nominal rates of return for each major asset class are summarized in Note 10.

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

	<u>1% Decrease (4.43%)</u>	<u>Current Discount Rate (5.43%)</u>	<u>1% Increase (6.43%)</u>
KET's proportionate share	\$ 16,627,860	\$ 13,950,817	\$ 11,753,515

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

	<u>1% Decrease</u>	<u>Current Trend Rate</u>	<u>1% Increase</u>
KET's proportionate share	\$ 11,741,935	\$ 13,950,817	\$ 16,626,303

KENTUCKY AUTHORITY FOR EDUCATIONAL TELEVISION

Notes to the Consolidated Financial Statements, continued

12. Note Payable

	<u>2021</u>	<u>2020</u>
Unsecured loan agreement with an agency of the Commonwealth to borrow \$1,813,351 from the Green Bank of Kentucky Program. The loan charges a fixed interest based on the prime rate at loan origination (3.25% at June 30, 2021), and payable in 56 consecutive quarterly payments of principal and interest of \$40,434 until April 1, 2025.	\$ 639,597	\$ 777,728
Less: current portion	142,676	138,131
Long term portion	\$ 496,921	\$ 639,597

The remaining maturities on the note payable are as follows:

Year ending June 30,	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2022	\$ 142,676	\$ 19,060	\$ 161,736
2023	147,370	14,366	161,736
2024	152,218	9,518	161,736
2025	197,333	4,836	202,169
	\$ 639,597	\$ 47,780	\$ 687,377

13. Operating Leases

The Authority currently receives lease income from multiple agencies for the annual rental of tower space. The tower leases have varying expiration dates and terms which allow for cancellation policies varying from two to six months. Lease income for the year ended June 30, 2021 and 2020, totaled approximately \$470,000 and \$461,000, respectively. Annual operating lease payments to be received by the Authority are estimated at \$562,000 through 2022.

The Authority leases office space in Louisville, Kentucky under an operating lease agreement which expired April 30, 2018. Rent was \$7,638 per month plus applicable share of operating expenses. On May 1, 2018, the Authority extended the lease term for this office space through April 30, 2024. Rent expense increases by 1% each year beginning on May 1, 2019. Rent expense for the years ended June 30, 2021 and 2020 totaled \$92,441 and \$92,893, respectively.

KENTUCKY AUTHORITY FOR EDUCATIONAL TELEVISION

Notes to the Consolidated Financial Statements, continued

13. Operating Leases, continued

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

2022	\$	91,654
2023		92,571
2024		<u>77,914</u>
Total	\$	<u>262,139</u>

14. Restricted Net Position

Restricted non-expendable net position at June 30, 2021 for the Foundation represents a \$250,000 challenge grant received from the National Endowment for the Arts requiring that the principal be maintained intact by the Foundation. The Foundation may borrow from the principal, provided that such borrowing is used to support the production and presentation of regional performing arts and is repaid within two years. As of June 30, 2021, no amounts have been borrowed. Investment earnings on the principal are unrestricted.

Restricted non-expendable net position at June 30, 2021 for the Fund consists of the W. Paul and Lucille Caudill Little Arts Endowment in the amount of \$2,023,583 held by the Fund for the benefit of the Authority. The funds held by the Fund represent donations requiring that the principal be maintained intact by the Fund. The interest and investment earnings are to be used for specific purposes specified by the donors and are classified as unrestricted when used for these specific purposes.

Restricted expendable net position at June 30, 2021, includes \$878,968 in grants and contributions received restricted for education projects by the Authority, \$9,110,164 in contributions and income designated for specific operating programs held by the Fund, and \$2,290,471 in funds restricted for capital projects within the Authority.

15. Endowments

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

KENTUCKY AUTHORITY FOR EDUCATIONAL TELEVISION

Notes to the Consolidated Financial Statements, continued

15. Endowments, continued

Interpretation of Relevant Law

The Board of Directors of the Fund has interpreted the Uniform Prudent Management of Institutional Funds Act (UPMIFA) as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, the Fund classifies as restricted - nonexpendable net position (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the Fund.

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

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

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

Return Objectives and Risk Parameters

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

Strategies Employed for Achieving Objectives

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

KENTUCKY AUTHORITY FOR EDUCATIONAL TELEVISION

Notes to the Consolidated Financial Statements, continued

15. Endowments, continued

Spending Policy and How the Investment Objectives Relate to Spending Policy

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

As of June 30, 2021 and 2020, the Fund's endowment net position was comprised of \$11,133,747 and \$9,129,638, respectively, of restricted funds.

Changes in endowment net position for the year ended June 30, 2021 are as follows:

	<u>Expendable</u>	Non- <u>Expendable</u>	<u>Total</u>
Endowment Net Position,			
Beginning of Year	\$ 7,106,055	\$ 2,023,583	\$ 9,129,638
Contributions	23,750	-	23,750
Interest and dividends	208,171	-	208,171
Realized gain	642,150	-	642,150
Unrealized gain	1,634,337	-	1,634,337
Fees	(38,299)	-	(38,299)
Amounts appropriated for expenditure	<u>(466,000)</u>	<u>-</u>	<u>(466,000)</u>
Endowment Net Position, End of Year	<u>\$ 9,110,164</u>	<u>\$ 2,023,583</u>	<u>\$ 11,133,747</u>

KENTUCKY AUTHORITY FOR EDUCATIONAL TELEVISION

Notes to the Consolidated Financial Statements, continued

15. Endowments, continued

Changes in endowment net position for the year ended June 30, 2020 are as follows:

	<u>Expendable</u>	Non- <u>Expendable</u>	<u>Total</u>
Endowment Net Position, Beginning of Year	\$ 7,331,555	\$ 2,023,583	\$ 9,355,138
Contributions	100,000	-	100,000
Interest and dividends	204,303	-	204,303
Realized gain	172,853	-	172,853
Unrealized loss	(57,903)	-	(57,903)
Fees	(35,003)	-	(35,003)
Amounts appropriated for expenditure	<u>(609,750)</u>	<u>-</u>	<u>(609,750)</u>
 Endowment Net Position, End of Year	 <u>\$ 7,106,055</u>	 <u>\$ 2,023,583</u>	 <u>\$ 9,129,638</u>

16. Transactions with Affiliates

The Authority received the following payments from the Fund during the years ended June 30, 2021 and 2020:

	<u>2021</u>	<u>2020</u>
Unrestricted contributions	\$ 3,165,000	\$ 3,165,000
Restricted contributions	605,027	507,355
Fund function employee fees	1,110,390	1,227,749
Administrative services employee fees	26,400	26,400
Administrative expenses	<u>277,884</u>	<u>57,200</u>
	<u>\$ 5,184,701</u>	<u>\$ 4,983,704</u>

17. Major Sources of Support

The Authority receives a substantial portion of its annual support from the Corporation for Public Broadcasting (CPB). During the years ended June 30, 2021 and 2020, this support totaled \$4,511,319 and \$3,701,393, respectively, which is included in private gifts and grants on the accompanying Consolidated Statements of Revenues, Expenses, and Changes in Net Position, and represented approximately 17% and 14% of the Authority's total revenues for each of the years then ended. Future funding from CPB is contingent upon CPB's continued receipt of federal appropriations.

Additionally, the Authority receives appropriations from the Commonwealth. During the years ended June 30, 2021 and 2020, this support totaled \$15,504,000 and \$15,551,100, respectively, which represented approximately 57% and 60% of the Authority's total revenues for the years then ended.

KENTUCKY AUTHORITY FOR EDUCATIONAL TELEVISION

Notes to the Consolidated Financial Statements, continued

18. Risk Management

KET is exposed to various risks of loss related to torts; errors and omissions; injuring to employees; theft of, damage to, and destruction of assets; and natural disasters. The Foundation and Fund purchase commercial insurance to cover exposure to these potential losses, including a commercial package policy, directors and officers insurance, and employee dishonesty insurance. The Authority does not purchase commercial insurance for these risks, but instead manages these risks as follows:

Torts and Errors and Omissions

KET manages risks of loss related to torts and errors and omissions internally. Claims expenditures and liabilities are reported when it is probable that a loss has occurred and the amount of the loss can be reasonably estimated. These losses include an estimate of claims that have been incurred but not reported. At June 30, 2021 and 2020, management has determined that no liability for such losses should be recorded. The cost of errors and omissions and directors and officer's insurance is paid for by the Foundation.

Injuries to Employees

KET is a member of the Statewide Workers' Compensation Insurance Program (the Program), a self-insurance program for the benefit of the Commonwealth's employees. Losses payable by the Program include claims and loss of wages as a result of an employment related injury. Premiums are established based upon estimated claims and administrative costs for the coming fiscal year. KET is also a member of the Statewide Worker's Compensation Special Fund, a risk sharing pool which covers pre-existing conditions to protect employers from having to pay for injuries not sustained in their employ, or more than once for disabilities resulting from the same accident. The premiums paid for both programs during the years ended June 30, 2021 and 2020 totaled approximately \$18,706 and \$24,378, respectively. The Commonwealth's Comprehensive Annual Financial Report for the year ended June 30, 2021 should be referred to for additional disclosures related to both programs.

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

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

Multi Media Insurance Coverage (Broadcasters Errors and Omissions)

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

KENTUCKY AUTHORITY FOR EDUCATIONAL TELEVISION

Notes to the Consolidated Financial Statements, continued

19. Contracts

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

Changes in the unearned lease incentive payment liability for the year ended June 30, 2021 are summarized as follows:

<u>Beginning Balance</u>	<u>Additions</u>	<u>Reduction</u>	<u>Ending Balance</u>	<u>Amounts Due within One Year</u>
\$ 2,266,671	\$ -	\$ 133,333	\$ 2,133,338	\$ 133,333

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

Years Ending June 30,	<u>Amortization</u>	<u>Annual Fees</u>	<u>Total</u>
2022	\$ 133,333	\$ 370,000	\$ 503,333
2023	133,333	450,000	583,333
2024	133,333	450,000	583,333
2025	133,333	450,000	583,333
2026	133,333	450,000	583,333
2027-2031	666,665	3,810,000	4,476,665
2032-2036	666,665	4,830,000	5,496,665
2037	<u>133,343</u>	<u>660,000</u>	<u>793,343</u>
	\$ 2,133,338	\$ 11,470,000	\$ 13,603,338

20. Income Tax Status

The Foundation and the Fund are exempt from federal income tax under Section 501(c)(3) of the Internal Revenue Code. In addition, the Foundation and the Fund qualify for the charitable contribution deduction under Section 170(b)(1)(A) and have been classified as organizations other than a private foundation under Section 509(a)(1). The Foundation and the Fund are subject to income tax on any unrelated business income. Both had no unrelated business income in fiscal years 2021 and 2020.

KENTUCKY AUTHORITY FOR EDUCATIONAL TELEVISION

Notes to the Consolidated Financial Statements, continued

21. Recent GASB Pronouncements

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

GASB Statement No. 87, *Leases*, issued June 2017, will be effective for the year ending June 30, 2022 for KET. This will increase the usefulness of governments' financial statements by requiring reporting of certain lease liabilities that currently are not reported. It will enhance comparability of financial statements among governments by requiring leases and lessors to report leases under a single model. This Statement will also enhance the decision-usefulness of the information provided to financial statement users by requiring notes to financial statements related to the timing, significance, and purpose of a government's leasing arrangements.

22. Blended Component Unit

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

	<u>2021</u>	<u>2020</u>
Assets		
Current assets:		
Cash and cash equivalents	\$ 7,107,265	\$ 4,523,928
Investments	-	1,999
Receivables:		
Grants receivable	10,609	15,000
Accounts receivable	92,367	105,968
Costs incurred for programs not yet broadcast	15,824	387,173
Public and instructional television program rights, current, net of amortization	118,089	120,704
Receivable from the Fund	219,653	373,551
Prepaid expenses	<u>55,107</u>	<u>45,683</u>
Total current assets	7,618,914	5,574,006
Noncurrent assets:		
Restricted cash and cash equivalents	1,899,105	1,649,105
Restricted investments	-	250,000
Public and instructional television program rights, net of current, net of amortization	85,180	38,630
Capital assets, net	<u>50,418</u>	<u>72,426</u>
Total noncurrent assets	<u>2,034,703</u>	<u>2,010,161</u>
Total assets	<u>\$ 9,653,617</u>	<u>\$ 7,584,167</u>

KENTUCKY AUTHORITY FOR EDUCATIONAL TELEVISION

Notes to the Consolidated Financial Statements, continued

22. Blended Component Unit, continued

	<u>2021</u>	<u>2020</u>
Deferred Outflows of Resources		
Deferred amount related to pension plan	\$ 1,294,347	\$ 2,080,400
Deferred amount related to OPEB	<u>882,906</u>	<u>719,884</u>
Total deferred outflows of resources	<u>\$ 2,177,253</u>	<u>\$ 2,800,284</u>
Liabilities		
Current liabilities:		
Accounts payable	\$ 114,043	\$ 199,569
PPP loan, current	-	181,282
Payable to the Authority	504,380	211,185
Accrued wages	72,596	113,601
Compensated leave, current	61,459	142,488
Unearned revenue	<u>1,671,597</u>	<u>1,835,049</u>
Total current liabilities	<u>2,424,075</u>	2,683,174
Noncurrent liabilities:		
PPP loan, net of current	-	230,904
Compensated leave, net of current	120,068	99,789
Net pension liability	18,150,588	17,494,586
Net OPEB liability	<u>3,253,356</u>	<u>2,753,568</u>
Total noncurrent liabilities	<u>21,524,012</u>	<u>20,578,847</u>
Total liabilities	<u>\$ 23,948,087</u>	<u>\$ 23,262,021</u>
Deferred Inflows of Resources		
Deferred amount related to pension plan	\$ 48,320	\$ 194,701
Deferred amount related to OPEB	<u>388,576</u>	<u>544,729</u>
Total deferred inflows of resources	<u>\$ 436,896</u>	<u>\$ 739,430</u>
Net Position	<u>\$ (12,554,113)</u>	<u>\$ (13,617,000)</u>

KENTUCKY AUTHORITY FOR EDUCATIONAL TELEVISION

Notes to the Consolidated Financial Statements, continued

22. Blended Component Unit, continued

	<u>2021</u>	<u>2020</u>
Operating revenues	\$ 6,787,397	\$ 5,206,915
Non-operating revenues	<u>3,776,671</u>	<u>3,687,276</u>
Total revenues	10,564,068	8,894,191
Programming and production	6,021,011	6,033,677
Broadcasting	34,282	49,131
Program information	443,246	478,957
Management	770,790	796,916
Pension expense	1,909,749	2,594,925
OPEB expense	<u>322,103</u>	<u>223,087</u>
Total expenses	<u>9,501,181</u>	<u>10,176,693</u>
Change in net position	1,062,887	(1,282,502)
Net position, beginning of year	<u>(13,617,000)</u>	<u>(12,334,498)</u>
Net position, end of year	<u>\$ (12,554,113)</u>	<u>\$ (13,617,000)</u>
Cash flows from activities:		
Operating	\$ (1,802,154)	\$ (4,319,009)
Noncapital financing	4,376,851	7,315,615
Capital and related financing	-	(29,761)
Investing	<u>258,640</u>	<u>505,240</u>
	<u>\$ 2,833,337</u>	<u>\$ 3,472,085</u>

REQUIRED SUPPLEMENTARY INFORMATION

KENTUCKY AUTHORITY FOR EDUCATIONAL TELEVISION

Schedule of the Proportionate Share of the Net Pension Liability

For the Years Ended June 30

	<u>2021</u>	<u>2020</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>
Proportionate percentage of the net pension liability	0.55%	0.50%	0.50%	0.48%	0.46%
Proportionate share of the net pension liability	\$77,832,076	\$71,017,375	\$67,911,406	\$63,700,233	\$52,915,518
Covered employee payroll *	\$ 8,796,218	\$ 7,447,292	\$ 7,808,902	\$ 7,531,888	\$ 7,789,315
Proportionate share of the net pension liability as a percentage of its covered employee payroll	884.84%	953.60%	869.67%	845.74%	679.33%
Plan fiduciary net position as a percentage of the total pension liability	17.92%	15.74%	17.41%	13.30%	14.80%
	<u>2016</u>	<u>2015</u>			
Proportionate percentage of the net pension liability	0.46%	0.45%			
Proportionate share of the net pension liability	\$45,788,271	\$40,752,155			
Covered employee payroll *	\$ 7,660,090	\$ 7,820,667			
Proportionate share of the net pension liability as a percentage of its covered employee payroll	597.75%	521.08%			
Plan fiduciary net position as a percentage of the total pension liability	18.83%	22.32%			

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

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

See report of independent auditors.

KENTUCKY AUTHORITY FOR EDUCATIONAL TELEVISION

Schedule of Pension Contributions

For the Years Ended June 30

	<u>2021</u>	<u>2020</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>
Contractually required contribution	\$ 5,087,648	\$ 5,701,002	\$ 4,747,375	\$ 3,206,335	\$ 3,030,832
Contributions in relation to the contractually required contribution	<u>(5,087,648)</u>	<u>(5,701,002)</u>	<u>(4,747,375)</u>	<u>(3,206,335)</u>	<u>(3,030,832)</u>
Contribution deficiency (excess)	\$ <u>-</u>				
Covered employee payroll	\$ 7,599,588	\$ 8,796,218	\$ 7,447,292	\$ 7,808,902	\$ 7,531,888
Contributions as a percentage of covered employee payroll	66.9%	64.8%	63.7%	41.1%	40.2%
	<u>2016</u>	<u>2015</u>			
Contractually required contribution	\$ 2,402,226	\$ 2,359,308			
Contributions in relation to the contractually required contribution	<u>(2,402,226)</u>	<u>(2,359,308)</u>			
Contribution deficiency (excess)	\$ <u>-</u>	\$ <u>-</u>			
Covered employee payroll	\$ 7,789,315	\$ 7,660,090			
Contributions as a percentage of covered employee payroll	30.8%	30.8%			

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

See report of independent auditors.

KENTUCKY AUTHORITY FOR EDUCATIONAL TELEVISION

Schedule of Proportionate Share of the Net OPEB Liability

For the Years Ended June 30

	<u>2021</u>	<u>2020</u>	<u>2019</u>	<u>2018</u>
Proportion of the net OPEB liability	0.55%	0.50%	0.50%	0.48%
Proportionate share of the net OPEB liability	\$ 13,950,818	\$ 11,177,811	\$ 11,825,422	\$ 12,065,829
Covered-employee payroll *	\$ 8,796,218	\$ 7,447,292	\$ 7,808,902	\$ 7,531,888
Proportionate share of the net OPEB liability as a percentage of its covered-employee payroll	158.60%	150.09%	151.44%	160.20%
Plan fiduciary net position as a percentage of the total OPEB liability	29.47%	30.92%	27.32%	24.40%

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

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

See report of independent auditors.

KENTUCKY AUTHORITY FOR EDUCATIONAL TELEVISION

Schedule of OPEB Contributions

For the Years Ended June 30

	<u>2021</u>	<u>2020</u>	<u>2019</u>	<u>2018</u>
Contractually required contribution	\$ 1,016,375	\$ 1,152,607	\$ 862,912	\$ 750,685
Contributions in relation to the contractually required contribution	<u>(1,016,375)</u>	<u>(1,152,607)</u>	<u>(862,912)</u>	<u>(750,685)</u>
Contribution deficiency	\$ <u>-</u>	\$ <u>-</u>	\$ <u>-</u>	\$ <u>-</u>
Covered employee payroll	\$ 7,599,588	\$ 8,796,218	\$ 7,447,292	\$ 7,808,902
Contributions as a percentage of covered employee payroll	13.37%	13.10%	11.59%	9.61%

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

See report of independent auditors.

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

Board of Directors
Kentucky Authority for Educational Television
Lexington, Kentucky

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the consolidated financial statements of Kentucky Authority for Educational Television, a component unit of the Commonwealth of Kentucky, and its discretely presented component unit, the Commonwealth Fund for KET, Inc., (collectively, KET), as of and for the year ended June 30, 2021, and the related notes to the consolidated financial statements, which collectively comprise KET's basic consolidated financial statements (hereafter, the financial statements), and have issued our report thereon dated October 6, 2021.

Internal Control Over Financial Reporting

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

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that have not been identified. We did identify a deficiency in internal control, described in the accompanying schedule of findings and responses as item 2021-001 that we consider to be a material weakness.

Compliance and Other Matters

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

Management's Response to Finding

Management's response to the finding identified in our audit is described in the accompanying Schedule of Findings and Responses. Management's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of this Report

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

Dean Dotson Allen Ford, PLLC

Lexington, Kentucky
October 6, 2021

KENTUCKY AUTHORITY FOR EDUCATIONAL TELEVISION

Schedule of Findings and Responses

Year ended June 30, 2021

Section I - Summary of Auditors' Results

- a. The type of report issued on the consolidated financial statements: **Unmodified opinion**
- b. Material weaknesses identified in the internal control over financial reporting: **Yes**
- c. Significant deficiencies identified in the internal control over financial reporting: **None reported**
- d. Non-compliance which is material to the consolidated financial statements: **No**

Section II - Financial Statement Findings and Responses

Finding 2021-001:

Criteria, Condition, and Effect:

During fiscal year 2021, management identified that it had overstated revenue and accounts receivable related to reimbursement from the FCC Repacking Project in both 2019 and 2020. The error was discovered as management reviewed accounts receivable and reconciled amounts to be reimbursed by FCC. Management determined that year-end accruals were improperly included in amounts expended during the following year, thus resulting in the revenues and receivables being overstated in the previous years.

Recommendation:

We recommend that management refine its review process related to the tracking of reimbursable amounts on projects to ensure proper recording and prevent duplicative entries.

Management Response:

In fiscal year 2021, as part of continuous improvement activities, KET put into place processes to ensure errors like this do not happen. Implementing those new procedures identified this error and allowed KET to report the finding to the auditors.