

KENTUCKY STATE UNIVERSITY
(A Component Unit of the Commonwealth of Kentucky)
Franklin County, Kentucky

SINGLE AUDIT AND
FINANCIAL STATEMENTS
June 30, 2021

KENTUCKY STATE UNIVERSITY

FINANCIAL STATEMENTS

June 30, 2021

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KENTUCKY STATE UNIVERSITY

FINANCIAL STATEMENTS

June 30, 2021

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INDEPENDENT AUDITOR'S REPORT

Members of the Board of Regents
Kentucky State University
Frankfort, Kentucky

Secretary of Finance and
Administration Cabinet of the
Commonwealth of Kentucky

Report on the Financial Statements

We have audited the accompanying financial statements of the business-type activities and discretely presented component unit of Kentucky State University (the University), a component unit of the Commonwealth of Kentucky, as of and for the year ended June 30, 2021, and the related notes to the financial statements which collectively comprise the University's basic financial statements as listed on the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of the Kentucky State University Foundation, Inc. (Foundation) which represents the entire discretely presented component unit of the University. Those financial statements were audited by other auditors whose reports thereon have been furnished to us, and our opinion, insofar as it relates to the amounts included for the Foundation is based solely on the reports of the other auditors. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audit 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.

The financial statements of the Foundation were not audited in accordance with *Government Auditing Standards*.

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 opinions.

Opinions

In our opinion, based on our audit and the report of other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities and discretely presented component unit of the University as of June 30, 2021, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Error Correction of Beginning Net Position

As part of our audit of the 2021 financial statements, we also audited adjustments described in Note 14 that were applied to restate the opening balances of the 2021 financial statements. In our opinion, such adjustments are appropriate and have been properly applied. We were not engaged to audit, review, or apply any procedures to the 2020 financial statements of the University other than with respect to the adjustments and, accordingly, we do not express an opinion or any other form of assurance on the 2020 financial statements as a whole.

Other Matter

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis on pages 4 through 15 and required supplementary information on pages 69 through 77 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the University's basic financial statements. The accompanying schedule of expenditures of federal awards, as required by Title 2 U.S. Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditures of federal awards, which insofar as it relates to the Foundation, is based on the report of other auditors is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated October 27, 2023, on our consideration of the University's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the University's internal control over financial reporting and compliance.

Blue & Co., LLC

Lexington, Kentucky
October 27, 2023

KENTUCKY STATE UNIVERSITY
MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2021

Introduction

Management's Discussion and Analysis of Kentucky State University's (the University) financial statements provide an overview of the financial position and activities of the University for the year ended June 30, 2021, with comparative information for the year ended June 30, 2020. This discussion has been prepared by management and should be read in conjunction with the financial statements and the notes thereto, which follow this section. The financial statements and related notes and this discussion and analysis are the responsibility of management.

Kentucky State University is a Commonwealth of Kentucky coeducational institution for higher education. The University's mission is to build on its legacy of achievement as a historically black, liberal arts, and 1890 land-grant university, afford access to and prepare a diverse student population of traditional and non-traditional students to compete in a multifaceted, ever-changing global society by providing student-centered learning while integrating teaching, research, and service through high-quality undergraduate and select graduate programs. Kentucky State University is committed to keeping relevant its legacy of service by proactively engaging the community in partnerships on civic projects driven by the objective of positively impacting the quality of life of the citizens of the Commonwealth.

Basis of Presentation

The annual financial report and statements include the University and Kentucky State University Foundation, a component unit of the University. Kentucky State University Foundation, Inc. (the Foundation) is a not-for-profit Kentucky corporation which was established to receive, invest and expend funds to promote and implement educational and developmental activities at Kentucky State University (the University). The Foundation is managed by a Board of Trustees independent from that of the University. The Foundation is supported primarily through contributions from alumni.

Financial Highlights

The University's financial position at June 30, 2021, reflected total assets and deferred outflows of \$138.7 million and total liabilities and deferred inflows of \$135.5 million. Total net position was \$3.2 million.

Total assets and deferred outflows increased by \$2.7 million or 1.9%, primarily due to an increase in investments and receivables. Total liabilities and deferred inflows decreased by \$2.1 million or 1.6% primarily due decreases in the deferred inflows related to pension and other postemployment benefits.

Unrestricted deficit, which the University reserves for spending in programs and other capital-related contingencies, increased by \$0.1 million.

The University classifies amounts earned on endowments as spendable or non-spendable in accordance with the endowment's donor stipulations. Nonexpendable restricted net assets represent amounts, which must be maintained in perpetuity. Expendable restricted net assets include private grants and contributions restricted for specific purposes and accumulated earnings on endowment assets.

Operating revenues were nearly \$48.7 million and operating expenditures were \$79.8 million, resulting in a loss from operations of \$31.2 million. Net nonoperating revenues were \$36 million, including \$25.9 million in state appropriations, which, when combined with the loss from operations and capital appropriations, resulted in an overall increase in net position of \$4.8 million.

KENTUCKY STATE UNIVERSITY
MANAGEMENT'S DISCUSSION AND ANALYSIS
(Continued)
June 30, 2021

Using the Financial Statements

The University's Financial Statements consist of three financial statements: a Statement of Net Position (Balance Sheet); a Statement of Revenues, Expenses and Changes in Net Position (Income Statement); and a Statement of Cash Flows, along with the accompanying Notes to the Financial Statements. These financial statements are prepared in accordance with Governmental Accounting Standards Board (GASB) Statement No. 35, Basic Financial Statements – and Management's Discussion and Analysis – for Public Colleges and Universities.

Statement of Net Position

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

Condensed Statement of Net Position

	<u>2021</u>	<u>2020</u>
ASSETS		
Current	\$ 5,305,589	\$ 6,148,240
Noncurrent	<u>117,282,543</u>	<u>111,324,681</u>
Total assets	122,588,132	117,472,921
 DEFERRED OUTFLOWS OF RESOURCES	 <u>16,141,444</u>	 <u>18,594,112</u>
 Total assets and deferrals	 <u>\$ 138,729,576</u>	 <u>\$ 136,067,033</u>
 LIABILITIES		
Current	19,560,907	18,278,047
Noncurrent	<u>101,659,808</u>	<u>92,294,267</u>
Total liabilities	121,220,715	110,572,314
 DEFERRED INFLOWS OF RESOURCES	 14,272,865	 27,065,849
 NET POSITION (DEFECIT)		
Net investment in capital assets	\$ 77,450,985	\$ 77,317,900
Restricted	21,945,544	17,172,803
Unrestricted deficit	<u>(96,160,533)</u>	<u>(96,061,833)</u>
Total net position (deficit)	<u>\$ 3,235,996</u>	<u>\$ (1,571,130)</u>

KENTUCKY STATE UNIVERSITY
MANAGEMENT'S DISCUSSION AND ANALYSIS
(Continued)
June 30, 2021

Assets and Deferred Outflows: As of June 30, 2021, total assets and deferred outflows amounted to \$138.7 million. Of this amount, investment in capital assets (net of depreciation) of \$95.1 million, or 77.6% of total assets, represented the largest asset class. Investments amounted to \$21.4 million or 17.5% of total assets. During the year, total assets and deferred outflows increased by \$2.7 million, primarily due to increases in investments and receivables.

Liabilities and Deferred Inflows: As of June 30, 2021, total liabilities and deferred inflows amounted to \$135.5 million. Net pension and other postemployment benefits (OPEB) liabilities amounted to \$82.9 million. The University's proportion of the net pension liability and net OPEB liability of the Kentucky Employees Retirement System and the Kentucky Teachers' Retirement System was based on a projection of the University's long-term share of contributions to the pension and OPEB plans relative to the projected contributions of all participating universities, actuarially determined. Long-term debt includes bonds payable for the housing and dining system and energy-related equipment and technology equipment purchased under a Master Lease Agreement. During the year, total liabilities and deferred inflows decreased by \$2.1 million, primarily due to decreases in the deferred inflows related to pension and other postemployment benefits.

Net Position: Net position of the University was \$3.2 million at June 30, 2021 and was reported in three net position categories: net investment in capital assets of \$77.5 million, restricted nonexpendable of \$8.7 million, restricted expendable of \$13.2 million, and an unrestricted deficit of \$96.2 million. During 2021, management discovered reclassifications to beginning net position as previously reported as of June 30, 2020. Restricted nonexpendable – endowment and restricted expendable net position were previously understated. The reclassifications are summarized in Note 14 effective July 1, 2020.

Statement of Revenues, Expenses and Changes in Net Position

The Statement of Revenues, Expenses and Changes in Net Position is prepared on the accrual basis of accounting, whereby revenues and assets are recognized when the service is provided and expenses and liabilities are recognized when others provide the service, regardless of when cash is exchanged. All items that increase or decrease net position must appear on the Statement of Revenues, Expenses and Changes in Net Position as revenues, expenses, gains or losses.

Financial activities are reported as either operating or nonoperating. GASB Statement No. 35 requires state appropriations, gifts, investment income and endowment income to be classified as nonoperating revenues. Accordingly, the University reports an operating loss prior to the addition of nonoperating revenues. The utilization of long-lived capital assets is reflected in the financial statements as depreciation, which amortizes the cost of an asset over its expected useful life. Tuition revenue is reduced by gift scholarships and institutional aid and is reported net of scholarship allowances in the financial statements. A summarized comparison of the University's revenues, expenses and changes in net position for the years ended June 30, 2021 and 2020 is as follows.

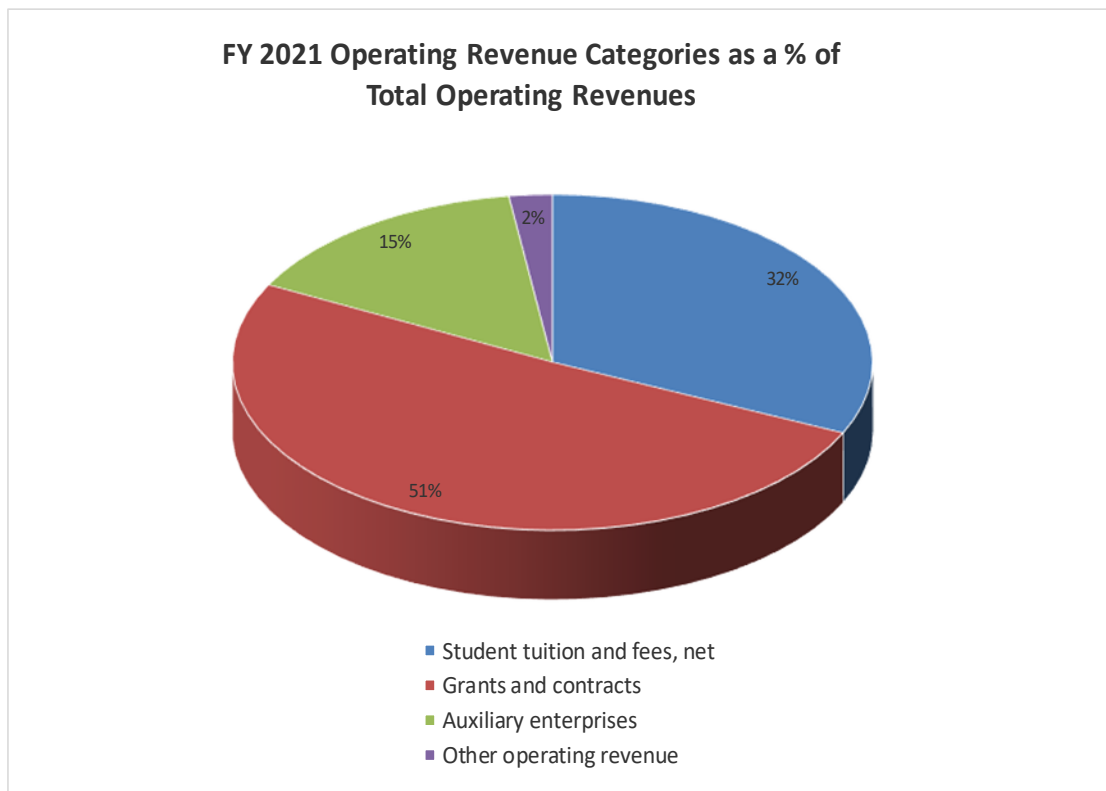
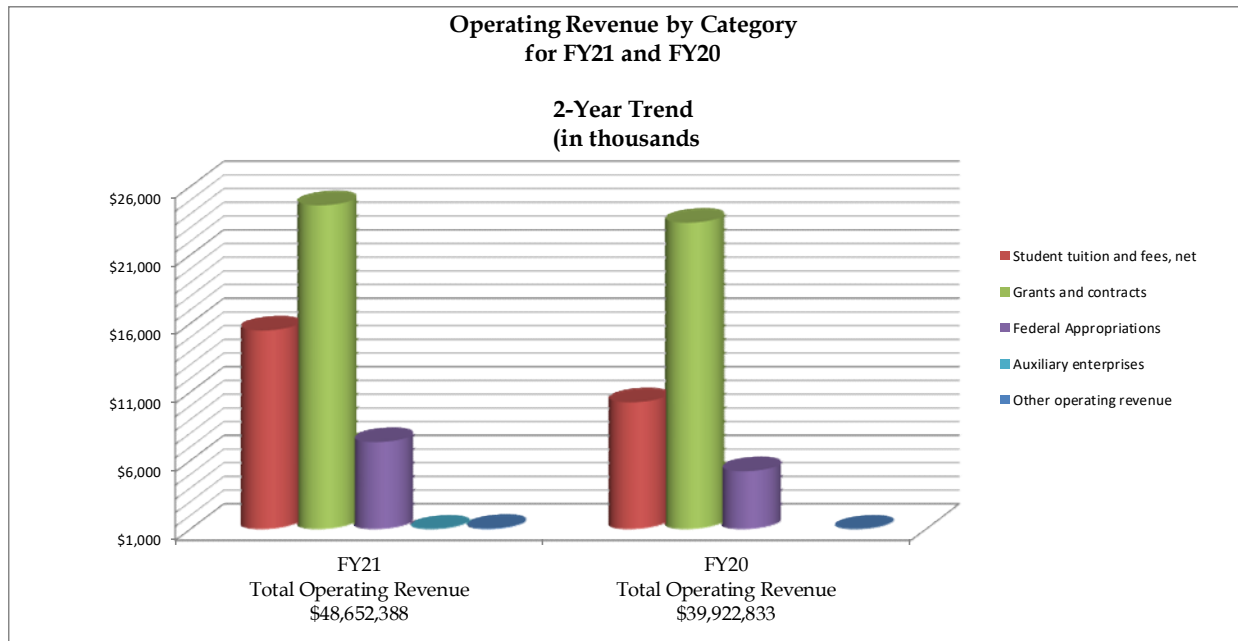
KENTUCKY STATE UNIVERSITY
MANAGEMENT'S DISCUSSION AND ANALYSIS
(Continued)
June 30, 2021

Condensed Statement of Revenues, Expenses and Changes in Net Position

	<u>2021</u>	<u>2020</u>
REVENUES		
Student tuition and fees, net	\$ 15,535,191	\$ 10,290,970
Grants and contracts	24,664,742	23,396,504
Auxiliary enterprises	7,390,889	5,263,411
Other operating revenue	<u>1,061,566</u>	<u>971,948</u>
Total operating revenues	<u>48,652,388</u>	<u>39,922,833</u>
EXPENSES		
Educational and general	73,625,974	63,057,725
Auxiliary enterprises	<u>6,189,422</u>	<u>5,466,801</u>
Total operating expenses	<u>79,815,396</u>	<u>68,524,526</u>
OPERATING LOSS	(31,163,008)	(28,601,693)
NONOPERATING REVENUES (EXPENSES)		
State appropriations	25,895,069	25,766,500
Federal grants and contracts	5,440,604	4,703,308
Investment income, net	4,754,598	590,615
Other non-operating revenue	86,869	-
Interest on capital assets - related debt	<u>(207,006)</u>	<u>(118,215)</u>
Total non-operating revenues	<u>35,970,134</u>	<u>30,942,208</u>
Change in net position	4,807,126	2,340,515
NET POSITION		
Net position, beginning of year	<u>(1,571,130)</u>	<u>(3,911,645)</u>
Net position, end of year	<u>\$ 3,235,996</u>	<u>\$ (1,571,130)</u>

KENTUCKY STATE UNIVERSITY
MANAGEMENT'S DISCUSSION AND ANALYSIS
(Continued)
June 30, 2021

Figure1



KENTUCKY STATE UNIVERSITY
MANAGEMENT'S DISCUSSION AND ANALYSIS
(Continued)
June 30, 2021

Operating Revenue

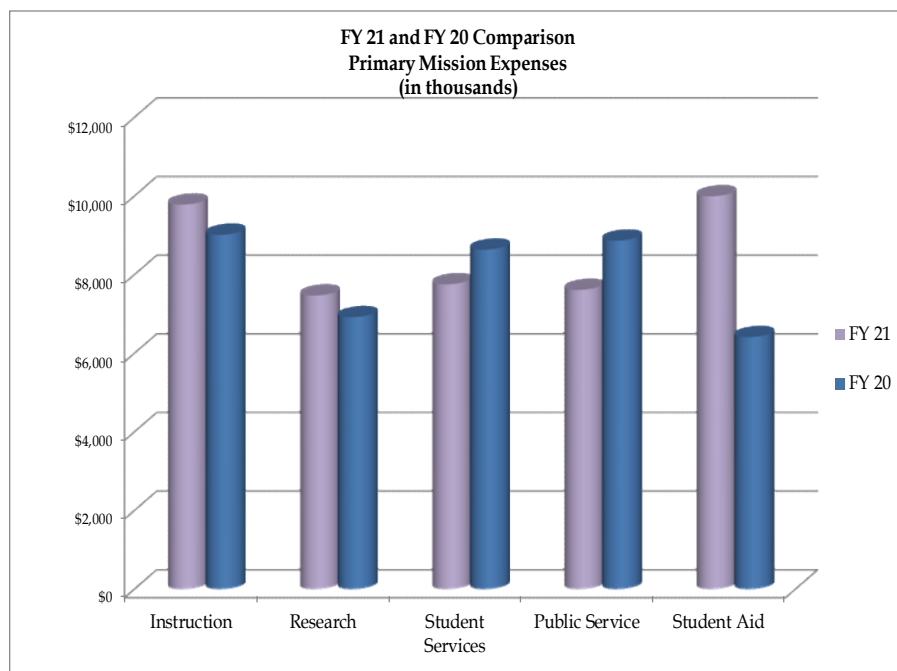
Total operating revenues were \$48.7 million for the year ended June 30, 2021, as compared with \$39.9 million in FY20. The primary components of operating revenue were federal, state and local grants and contracts of \$24.7 million (50.7%), student tuition and fees (net of scholarships) of \$15.5 million (32%) and auxiliary services and other revenues of \$7.4 million (15%). FY21 net student tuition and fees revenue increased by \$5.2 million compared to FY20. FY21 grants and contracts revenue increased \$1.3 million compared to FY20 due to increased awards and spending. FY21 auxiliary services and other revenue increased \$2.2 million compared to FY20. Refer to *Figure 1* for the two-year trend of the operating revenues as a percent to total operating revenues and revenue by category.

Operating Expenses

Operating expenses totaled \$79.8 million, an increase of \$11.3 million from last year. Of this amount, \$42.7 million (53.4%) was expended directly for the primary mission of the University – instruction (12.3%), research (9.4%), student services (9.7%), student aid (12.5%), and public service (9.6%). Instruction is the main component of Primary Mission expenses amounting to \$9.8 million in fiscal year 2021 or 12.3%. Refer to *Figure 2* for the operating expenses categorized into the Primary Mission of the University.

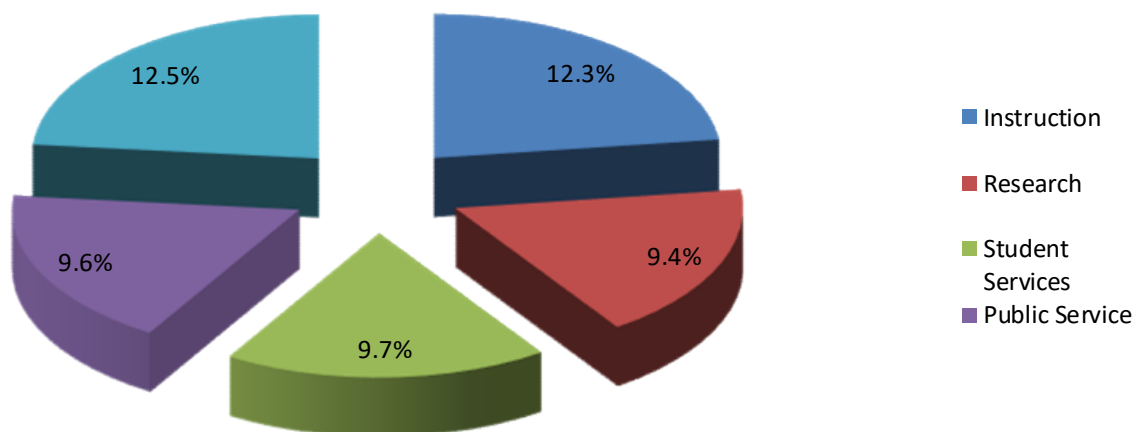
(Percentages below do not include depreciation or operations/maintenance allocations.)

Figure 2



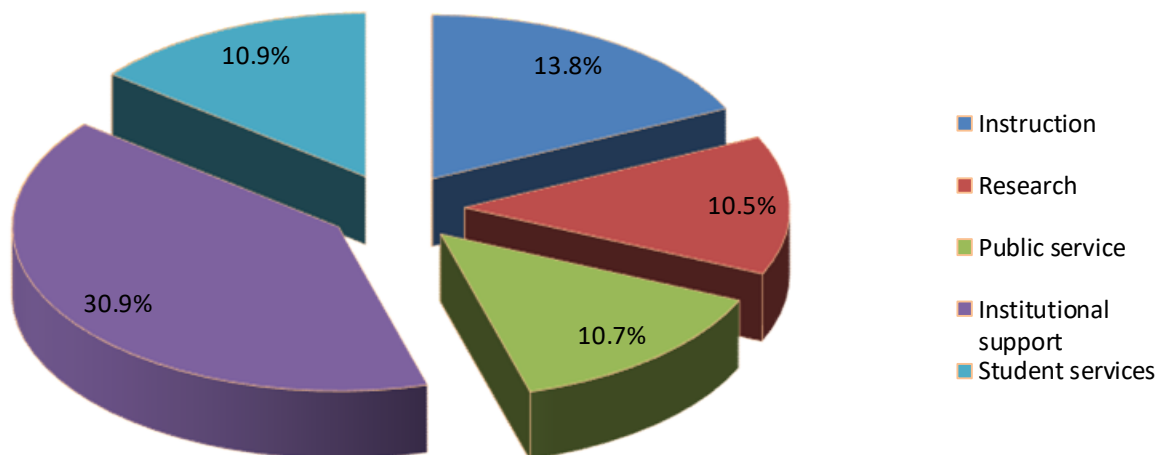
KENTUCKY STATE UNIVERSITY
MANAGEMENT'S DISCUSSION AND ANALYSIS
(Continued)
June 30, 2021

Fiscal Year 2021
Primary Mission Expenses as a % of Total Operating Expenses



In addition to the Primary Mission expenses of the University, there are expenses from depreciation and operations & maintenance that are allocated to the various functional classifications (See Note 13 – Schedule of Expenses by Program). See below for the operating expenses categorized into the Functional Expenses of the University.

Fiscal Year 2021
Functional Expenses as a % of Total Operating Expenses



The University continued to invest in student aid and support services to provide students with opportunities to be successful in fiscal year 2021. For the year ended June 30, 2021, student aid expenses totaled \$10 million and scholarship allowances totaled \$2.7 million. The University had an overall increase in institutional support of \$7.4 million and an increase in student aid of \$3.6 million.

KENTUCKY STATE UNIVERSITY
MANAGEMENT'S DISCUSSION AND ANALYSIS
(Continued)
June 30, 2021

These increases were largely due to additional federal funds supported expenditures related to COVID-19. The large expenditures in the primary areas of instruction, research, and student services, in conjunction with minimal increases to fixed cost areas, confirms the University resource allocations are clearly aligned with the University's strategic priorities to support academic and student excellence.

The net loss from operations for the year amounted to (\$31.2) million. Nonoperating revenues, net of expenses, amounted to \$36 million, resulting in an increase of net position of \$4.8 million for the year. Nonoperating revenues include state appropriations of \$25.9 million and nonoperating federal grants and contracts of \$5.4 million.

Kentucky State University is a component unit of the Commonwealth of Kentucky.

Statement of Cash Flows

The Statement of Cash Flows presents information related to the University's cash inflows and outflows summarized by operating activities, noncapital financing activities, capital financing activities and investing activities. The primary purpose of the Statement of Cash Flows is to provide information about the cash receipts and cash payments made by the University during the year, to allow financial statement readers to assess the University's ability to generate future net cash flows, its ability to meet obligations as they become due and its possible need for external financing.

Condensed Statement of Cash Flows

	<u>2021</u>	<u>2020</u>
Cash (used) provided by:		
Operating activities	\$ (31,847,180)	\$ (22,787,888)
Non-capital financing activities	33,441,957	31,301,874
Capital and related financing activities	(3,656,280)	(9,309,928)
Investing activities	671,159	1,032,291
Cash and cash equivalents, beginning year	<u>3,145,854</u>	<u>2,909,505</u>
Cash and cash equivalents, end of year	<u>\$ 1,755,510</u>	<u>\$ 3,145,854</u>

Cash and Investments

Major sources of cash received from operating activities are student tuition and fees of \$14.8 million and grants and contracts of \$23 million. Major uses of cash for operating activities were payments to employees for salaries and benefits of \$44.9 million and to vendors and contractors of \$23.2 million.

Noncapital financing activities included state appropriations from the Commonwealth of Kentucky of \$25.9 million.

Capital and related financing activities include purchases and payments of \$3.7 million expended for construction and acquisition of capital assets and for principal and interest payments on the retirement of the University's bonds and other capital related debt.

State Appropriations

State appropriations represent approximately 30.6% of all operating and nonoperating revenues. The level of state support is a key factor influencing the University's overall financial condition. State appropriation is unrestricted revenue and is included as nonoperating revenue. State appropriations are used to support payroll and benefits for University employees.

KENTUCKY STATE UNIVERSITY
MANAGEMENT'S DISCUSSION AND ANALYSIS
(Continued)
June 30, 2021

The following details the net Commonwealth appropriations received by the University for fiscal years ending June 30, 2021 and 2020.

	<u>2021</u>		<u>2020</u>
Commonwealth appropriations	\$ 25,895,069	\$	25,766,500

Grant and Contract Revenue

The following table details the University's grant and contract revenue for fiscal years ended June 30, 2021 and 2020.

	<u>2021</u>		<u>2020</u>
Federal grants and contracts, operating	\$ 22,796,016	\$	21,403,764
Federal grants and contracts, non-operating	5,440,604		4,703,308
State grants and contracts	<u>1,868,726</u>		<u>1,992,740</u>
Total grants and contracts	<u>\$ 30,105,346</u>	\$	<u>28,099,812</u>

Capital Plan

The University continues to face financial challenges to maintain and upgrade its capital assets including its infrastructure, buildings, and grounds. A combination of revenue sources fund the University's investment in capital improvements. Those include appropriations provided by the Commonwealth of Kentucky. In fiscal year 2016 through fiscal year 2017, the Commonwealth funded one capital project, appropriating state bond funds toward repairing boilers and aging distribution lines. During the year-ended June 30, 2021, this project was placed in service with a total cost of \$10 million. Construction in progress consists primarily of projects to renovate Hunter Hall, install a fountain at the Carl M. Hill Student Center, replace exterior stairs at the Bell Gymnasium, and signage for the pedway. The projects are projected to be completed in fiscal year 2023. The estimated costs to complete the projects is \$2.26 million for Hunter Hall renovations, \$83,000 for the fountain at the Carl M. Hill Student Center, \$132,000 for the replacement of exterior stairs at the Bell Gymnasium, and \$121,000 for the signage for the pedway. State capital appropriations for deferred maintenance were not appropriated. Federal funds are the primary source for the University's College of Agriculture and Land Grant departments.

KENTUCKY STATE UNIVERSITY
MANAGEMENT'S DISCUSSION AND ANALYSIS
(Continued)
June 30, 2021

Capital Asset and Debt Administration

Capital Assets

Capital assets, net of accumulated depreciation, totaled \$95.1 million at June 30, 2021, an increase of \$1.7 million. Capital assets as of June 30, 2021 and significant changes in capital assets during the year are as follows:

	<u>June 30, 2021</u>	<u>Net Additions (Reductions) FY20-21</u>	<u>June 30, 2020</u>
Land and land improvement	\$ 6,533,787	\$ 258,755	\$ 6,275,032
Buildings, fixed equipment and infrastructure	172,788,042	16,941,173	155,846,869
Equipment, vehicles and capitalized software	52,617,435	20,065,189	32,552,246
Library materials and art	10,679,911	16,293	10,663,618
Construction in progress	369,806	(31,442,574)	31,812,380
Accumulated depreciation	(147,859,427)	(4,168,764)	(143,690,663)
Total	<u>\$ 95,129,554</u>	<u>\$ 1,670,072</u>	<u>\$ 93,459,482</u>

Long-Term Debt

At June 30, 2021, bonds and lease payable amounted to \$17.7 million, as summarized below:

	<u>2021</u>	<u>2020</u>
Lease obligations	\$ 15,926,461	\$ 14,133,959
General receipts bonds	1,775,000	2,035,000
Bond discount	(22,893)	(27,377)
Total	<u>\$ 17,678,568</u>	<u>\$ 16,141,582</u>

The University also has a revenue anticipation note outstanding at June 30, 2021 totaling \$5,000,000 and repayment of this note is due on June 30, 2022. This note was retired prior to the due date in May of 2022.

Kentucky State University Foundation

Kentucky State University Foundation, Inc. (the Foundation) is a Kentucky not-for-profit corporation formed to receive, invest, and expend funds to promote and implement educational and developmental activities at the University. The Foundation is managed by a Board of Trustees independent from that of the University. The Foundation is supported primarily through contributions from alumni.

Key financial highlights of the Foundation are:

- The assets of the Foundation exceed its liabilities by \$14.6 million and \$10.9 million at June 30, 2021 and 2020, respectively.
- Net assets increased by \$3.8 million and decreased by \$0.59 million for the fiscal years ended June 30, 2021, and 2020, respectively.
- The Foundation raised \$5.4 million in total revenue for the fiscal year ended June 30, 2021, compared to \$0.83 million for the fiscal year ended June 30, 2020.
- Total support provided by the Foundation to the University was \$0.55 million and \$0.43 million for the fiscal years ended June 30, 2021, and 2020, respectively.

KENTUCKY STATE UNIVERSITY
MANAGEMENT'S DISCUSSION AND ANALYSIS
(Continued)
June 30, 2021

The four largest Endowments at the Foundation constitute 46% of the Endowment balance. These endowments are the Diego Stu Scholarship, College Endowment Fund, Pearl Dale Endowment Fund, and the Permanent Alumni Scholarship Fund. There are over fifty other permanently restricted endowment funds as well that represent less than 54% of the total Endowment Balance. The following table demonstrates these balances:

	<u>2021</u>	<u>2020</u>
Diego Stu Scholarship Fund	\$ 1,000,000	\$ -
College Endowment Fund	500,000	500,000
Pearl Dale Endowment Fund	375,984	375,984
Permanent Alumni's Scholarship Fund	520,589	478,804
All Other Endowment Funds	2,818,287	2,651,737
	<u>\$ 5,214,860</u>	<u>\$ 4,006,525</u>

Economic Factors Impacting Future Periods

University management continues its strategic mission to uniquely position Kentucky State University as Kentucky's small public liberal arts institution of excellence for the citizens of the Commonwealth and for advancing higher education in Kentucky by inspiring innovation, growing leaders and advancing Kentucky. Executive management continues to work with the Council on Postsecondary Education to address the needs of the Commonwealth and believes it is positioning the University to become a strong, financially viable and efficient institution of higher learning.

Future economic factors impacting Kentucky State University include the following known facts:

- Tuition and costs of attendance – Kentucky State University continues to weigh its costs of attendance with the funding provided by the General Assembly to successfully deliver its programs and remain one of the most affordable public institutions in the Commonwealth. Funding levels and methodologies used for institutions of higher education in the Commonwealth are developed and approved by the Council on Postsecondary Education.
- Enrollment growth and student retention – Kentucky State University recruits a diverse student body of traditional, nontraditional and transfer students seeking baccalaureate and advanced degrees. Enrollment stabilization is a priority of University management and specifically, an increased strategy for recruiting in-state students.
- Program expansion – the University is well positioned to meet the needs of Kentuckians through its programs and educational activities. The University offers the following programs: Bachelors in Mass Communications and Journalism, a Masters of Arts in Special Education, and a Masters in Business Administration, a Masters in Public Administration, a Masters in Computer Science, a Masters in Environmental Studies, a Masters of Science in Interdisciplinary Behavioral Studies and a Doctorate in Nursing Practice.
- Regional Stewardship – Kentucky State University continues to meet the economic and community needs of its area of geographic responsibility through collaborative initiatives with businesses, community-based organizations, schools and other educational agencies, citizens and local and state officials.
- Land Grant – Kentucky State University continues to fulfill its mission as a land grant institution providing innovative research opportunities on its research vessel, the Kentucky River Thorobred and community based extension through the Rosenwald Center for Families and Children

The overall financial position of the University was stable during fiscal year 2021. Revenue streams were stressed. As the University adapts to present economic environments, new opportunities for funding will be explored to complement state support. Executive management's goal is to deliver exceptional programs and services to students and constituents while maintaining financial stability. Management

KENTUCKY STATE UNIVERSITY
MANAGEMENT'S DISCUSSION AND ANALYSIS
(Continued)
June 30, 2021

believes Kentucky State University is able to sustain its financial position and solidify its standing as a regional university of excellence.

Contacting the University's Financial Management

This report is designed to provide our stakeholders with information needed to understand Kentucky State University's financial condition and results of operations for the fiscal year ended June 30, 2021. For questions about this report or for additional financial information, contact Kentucky State University, Controller, Tonya Walker, at 400 East Main Street, ASB Suite 433A, Frankfort, KY 40601.

KENTUCKY STATE UNIVERSITY
STATEMENT OF NET POSITION
June 30, 2021

ASSETS

Current assets:

Cash and cash equivalents	\$ 1,755,510
Accounts, grants, and loans receivable, net	<u>3,550,079</u>
Total current assets	<u>5,305,589</u>

Noncurrent assets:

Accounts, grants, and loans receivable, net	760,784
Investments	21,392,206
Capital assets, net	<u>95,129,553</u>
Total noncurrent assets	<u>117,282,543</u>

DEFERRED OUTFLOWS OF RESOURCES

Deferred outflows - pension	12,101,203
Deferred outflows - OPEB	<u>4,040,241</u>
Total deferred outflows of resources	<u>16,141,444</u>

Total assets and deferred outflows of resources	<u>138,729,576</u>
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LIABILITIES

Current liabilities:

Accounts payable and accrued liabilities	6,786,838
Due to state investment pool	4,168,253
Accrued compensated absences	1,381,427
Unearned revenue	977,986
Line of credit	5,000,000
Deposits and other current liabilities	74,734
Accrued interest payable	901,669
Long-term debt, current portion	<u>270,000</u>
Total current liabilities	<u>19,560,907</u>

Noncurrent liabilities:

Net pension liability	70,310,517
Net OPEB liability	12,621,927
Long-term debt, noncurrent portion	17,408,568
Federal grants refundable	603,461
Other noncurrent liabilities	<u>715,335</u>
Total noncurrent liabilities	<u>101,659,808</u>

DEFERRED INFLOWS OF RESOURCES

Deferred inflows - pension	11,262,154
Deferred inflows - OPEB	<u>3,010,711</u>
Total deferred inflows of resources	<u>14,272,865</u>

Total liabilities and deferred inflows of resources	<u>135,493,580</u>
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NET POSITION (DEFICIT)

Net investment in capital assets	77,450,985
Restricted:	
Nonexpendable - endowment	8,696,091
Expendable	13,249,453
Unrestricted deficit	<u>(96,160,533)</u>
Total net position (deficit)	<u>\$ 3,235,996</u>

See accompanying notes to financial statements.

KENTUCKY STATE UNIVERSITY FOUNDATION, INC.
STATEMENT OF FINANCIAL POSITION
June 30, 2021

ASSETS

Current assets:

Cash and cash equivalents	\$ 1,787,920
Total current assets	<u>1,787,920</u>

Investments at fair value	12,817,702
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Property and equipment

Equipment	140,400
Buildings and improvements	<u>65,526</u>

Accumulated depreciation	<u>(192,509)</u>
Property and equipment, net	13,417

Other assets	33,971
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Total assets	<u>\$ 14,653,010</u>
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LIABILITIES AND NET ASSETS

Current liabilities:

Accounts payable	\$ 250
Accrued liabilities	<u>4,692</u>
Total liabilities	4,942

Net assets

Without donor restrictions:

Undesignated	19,889
Board designated for endowment	<u>2,472,680</u>
Total without donor restrictions	<u>2,492,569</u>

With donor restrictions:

Purpose restriction	6,858,637
Time-restricted for future periods	82,000
Perpetual in nature	<u>5,214,862</u>
Total with donor restrictions	<u>12,155,499</u>
Total net assets	<u>14,648,068</u>
Total liabilities and net assets	<u>\$ 14,653,010</u>

See accompanying notes to financial statements.

KENTUCKY STATE UNIVERSITY
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
Year ended June 30, 2021

REVENUES

Operating revenues	
Student tuition and fees, net	\$ 15,535,191
Federal grants and contracts	22,796,016
State and local grants and contracts	1,868,726
Other operating revenue	1,061,566
Auxiliary enterprises:	
Residence halls	3,683,000
Dining	3,707,889
Total operating revenues	<u>48,652,388</u>

EXPENSES

Operating expenses	
Educational and general	
Instruction	9,790,553
Research	7,478,743
Public service	7,622,391
Academic support	502,378
Student services	7,763,231
Institutional support	21,943,175
Operation and maintenance of plant	4,658,785
Student aid	10,003,426
Depreciation	3,863,292
Auxiliary enterprises	
Residence halls	563,040
Dining	3,068,312
Bookstore	1,315,422
Other auxiliaries	937,179
Depreciation	305,469
Total operating expenses	<u>79,815,396</u>

OPERATING LOSS (31,163,008)

NONOPERATING REVENUES (EXPENSES)

State appropriations	25,895,069
Federal grants and contracts	5,440,604
Investment income, net	4,754,598
Other nonoperating revenue	86,869
Interest on capital assets - related debt	(207,006)
Total nonoperating revenues	<u>35,970,134</u>

Change in net position 4,807,126

NET POSITION

Net position, beginning of year	(1,571,130)
Net position, end of year	<u>\$ 3,235,996</u>

See accompanying notes to financial statements.

KENTUCKY STATE UNIVERSITY FOUNDATION, INC.
STATEMENT OF ACTIVITIES
Year ended June 30, 2021

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
REVENUES, GAINS AND OTHER SUPPORT			
Contributions	\$ 4,275	\$ 2,593,872	\$ 2,598,147
Investment income:			
Interest and dividends	85,281	129,785	215,066
Realized and unrealized gains	1,001,000	1,627,158	2,628,158
Other, net of investment and management expense	(59,485)	-	(59,485)
Total investment income, net	1,026,796	1,756,943	2,783,739
Releases from restrictions	1,124,503	(1,124,503)	-
Total revenues, gain and other support	2,155,574	3,226,312	5,381,886
EXPENSES			
Program services expenses:			
Student support	804,337	-	804,337
University support	547,615	-	547,615
Total program services expenses	1,351,952	-	1,351,952
Management and general	277,655	-	277,655
Total expenses	1,629,607	-	1,629,607
CHANGES IN NET ASSETS	525,967	3,226,312	3,752,279
Net assets, beginning of year	1,970,042	8,925,747	10,895,789
Reclassifications	(3,440)	3,440	-
Net assets, end of year	\$ 2,492,569	\$ 12,155,499	\$ 14,648,068

See accompanying notes to financial statements.

KENTUCKY STATE UNIVERSITY
STATEMENT OF CASH FLOWS
Year ended June 30, 2021

CASH FLOWS FROM OPERATING ACTIVITIES

Tuition and fees	\$ 14,781,288
Grants, contracts, and gifts	22,961,624
Payments to suppliers	(23,181,805)
Payments to employees	(44,870,820)
Payments to students	(9,882,365)
Collection of loans to students and employees	9,315
Auxiliary enterprises charges:	
Residence halls and dining:	7,286,771
Other receipts	1,048,812
Net cash used for operating activities	<u>(31,847,180)</u>

CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES

State appropriations	25,895,069
Grants and contracts	5,440,604
Draws on line of credit	2,106,284
Net cash provided by non-capital financing activities	<u>33,441,957</u>

CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES

Purchases of capital assets	(2,392,302)
Principal paid on bonds payable and capital leases	(1,146,872)
Interest paid on bonds payable and capital leases	(117,106)
Net cash used for capital and related financing activities	<u>(3,656,280)</u>

CASH FLOWS FROM INVESTING ACTIVITIES

Proceeds from sales and maturities of investments	4,914,117
Interest on investments	431,311
Purchase of investments	(4,674,269)
Net cash provided by investing activities	<u>671,159</u>

Net change in cash and cash equivalents (1,390,344)

Cash and cash equivalents at beginning of year 3,145,854

CASH AND CASH EQUIVALENTS AT END OF YEAR \$ 1,755,510

NON-CASH FINANCING ACTIVITIES

Construction in progress financed by capital lease and placed into service in 2021	\$ 3,446,534
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KENTUCKY STATE UNIVERSITY
STATEMENT OF CASH FLOWS
Year ended June 30, 2021

**RECONCILIATION OF NET OPERATING LOSS TO NET CASH
USED FOR OPERATING ACTIVITIES:**

Operating Loss	\$	(31,163,008)
Adjustments to reconcile operating loss to net cash used for operating activities:		
Depreciation expense		4,168,764
Bad debt expense		2,850,993
Changes in assets and liabilities:		
Receivables, net		(3,467,075)
Accounts payable and accrued liabilities		(3,911,240)
Other noncurrent liabilities		229,456
Due to State investment pool		4,168,253
Compensated absences		(957,088)
Unearned revenue		(31,477)
Federal grants refundable		77,703
Deposits		(121,153)
Deferred outflows - pension		3,083,114
Deferred outflows - OPEB		(630,446)
Deferred inflows - pension		(13,028,480)
Deferred inflows - OPEB		235,496
Net pension liability		5,683,254
Net OPEB liability		965,754
Net cash used for operating activities	<u>\$</u>	<u>(31,847,180)</u>

See accompanying notes to financial statements.

NOTE 1 – ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity: Kentucky State University (the University) is a component unit of the Commonwealth of Kentucky (the Commonwealth) and is included in the general-purpose financial statements of the Commonwealth. The Kentucky State University Foundation, Inc. (the Foundation) is a legally separate, tax-exempt organization supporting the University. The Foundation acts primarily as a fund-raising organization to supplement the resources that are available to the University in support of its programs. The Foundation's Board of Directors is self-perpetuating and consists of graduates and friends of the University. Although the University does not control the timing or amount of receipts from the Foundation, the majority of resources or income thereon that the Foundation holds and invests is restricted by the donors to the activities of the University. Because these restricted resources held by the Foundation can only be used by, or for the benefit of, the University, the Foundation is considered a component unit of the University and is discretely presented in the University's 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 as prescribed by the Governmental Accounting Standards Board (GASB), including Statement No. 34, Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments, and Statement No. 35, Basic Financial Statements and Management's Discussion and Analysis of Public College and Universities, issued in June and November, 1999, respectively. The University reports as a Business Type Activity (BTA), as defined by GASB Statement No. 35. BTA's are those activities that are financed in whole or in part by fees charged to external parties for goods and services.

Basis of Accounting: The financial statements have been prepared on the accrual basis of accounting. Under the accrual basis of accounting, revenues are recognized when earned and expenses are recorded when an obligation has been incurred.

GASB Statement No. 35 establishes standards for external financial reporting for public colleges and universities and requires that resources be classified for accounting and reporting purposes into the following net asset categories:

- **Net investment in capital assets:** Capital assets, net of accumulated depreciation and outstanding principal balances of debt attributable to the acquisition, construction or improvement of those assets.
- **Restricted:**
 - Nonexpendable* – Net position subject to externally imposed stipulations that they be maintained permanently by the University. Such positions include the University's permanent endowment funds.
 - Expendable* – Net position whose use by the University is subject to externally imposed stipulations that can be fulfilled by actions of the University pursuant to those stipulations or that expire by the passage of time.
- **Unrestricted:** Net position whose use by the University is not subject to externally imposed stipulations. Unrestricted net position may be designated for specific purposes by action of management or the Board of Regents or may otherwise be limited by contractual agreements with outside parties.

KENTUCKY STATE UNIVERSITY
NOTES TO FINANCIAL STATEMENTS
(Continued)
June 30, 2021

**NOTE 1 – ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
(CONTINUED)**

The financial statement presentation required by GASB Statement No. 35 is intended to provide a comprehensive, entity-wide perspective of the University's assets, liabilities, net position, revenues, expenses, changes in net position and cash flows.

Cash Equivalents: For the Statement of Cash Flows, the University considers all highly liquid investments with an original maturity of three months or less to be cash equivalents.

Accounts, Grants, and Loans Receivable, Net: Accounts receivables consist of tuition and fee charges, loans to students and amounts due from federal and state governments, nongovernmental sources, in connection with reimbursements of allowable expenses made pursuant to grants and contracts. Accounts receivables are recorded net of allowance for doubtful accounts.

Allowance for Doubtful Accounts: The allowance for doubtful accounts is established through a provision for doubtful accounts charged to expense. The allowance represents an amount, which, in management's judgment, will be adequate to absorb probable losses on existing accounts that may become uncollectible.

Inventories: Inventories are stated at the lower of cost (first-in, first-out method) or market and consist of physical plant items. Inventories consist of physical plant, postage and printing supplies.

Endowment Funds: Kentucky State University recognizes its fiduciary duty not only to invest the University's endowment holdings in formal compliance with the Uniform Prudent Management of Institutional Funds Act (UPMIFA) but also to manage those funds in continued recognition of the basic long-term nature of the University. The University interprets this to mean, in addition to the adopted spending guidelines and restrictions described below, that the assets of the University shall be actively managed, that is, investment decisions regarding the particular securities to be purchased or sold shall be the result of the conscious exercise of discretion. The University recognizes that, commensurate with its overall objective of maximizing long-term return while maintaining a high standard of portfolio quality and consistency of return, it is necessary that proper diversification of assets be maintained both among and within the classes of securities held. Within this context of active management and the necessity of adherence to proper diversification, the University relies upon appropriate professional advice.

The University recognizes that long-term objectives are most important, but it is also necessary that shorter-term benchmarks be used to assess the periodic performance of the investment program. The University anticipates annual spending of 4.8% of the market value as of June 30, 2021.

The University believes that it is prudent to diversify endowment investments so as to minimize the risks of large losses and has established asset allocation ranges based upon the University's participation demographics, anticipated cash flow requirements and the expected returns of the capital markets.

Investments: Investments are valued at fair value based on quoted market prices.

Capital Assets: Capital assets are stated at cost at date of acquisition or, in the case of gifts, at acquisition value at date of gift. Equipment with a unit cost of \$5,000 or more and having an estimated useful life of greater than one year is capitalized. Renovations to buildings and infrastructure and land improvements that significantly increase the value or extend the useful life of the structure are capitalized. Routine repairs and maintenance are charged to operating expense in the year in which the expense is incurred.

KENTUCKY STATE UNIVERSITY
NOTES TO FINANCIAL STATEMENTS
(Continued)
June 30, 2021

**NOTE 1 – ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
(CONTINUED)**

Depreciation of capital assets is computed on a straight-line basis over the estimated useful lives of the respective assets. Estimated lives used for depreciation purposes are as follows:

<u>Classification</u>	<u>Estimated Life</u>
Improvements	20 years
Buildings	40 years
Transportation equipment	5-15 years
Equipment	5-20 years
Enterprise Resource Planning Software	7 years
Library holdings	10 years

Compensated Absences: The liability and expense incurred for employee vacation and sick pay are recorded as accrued compensated absences in the statement of net position and as a component of compensation and benefit expense in the statement of revenues, expenses and changes in net position.

Unearned Revenue: Unearned revenue includes amounts received for tuition and fees prior to the end of the fiscal year but related to the subsequent reporting period. Unearned revenues also include amounts received from grant and contract sponsors and state deferred maintenance funds that have not yet been earned.

Pensions and Other Postemployment Benefits (OPEB): For purposes of measuring the net pension liability, net OPEB liability, deferred outflows of resources and deferred inflows of resources, and related expense, information about the fiduciary net position of the Kentucky Employees Retirement System (KERS) and Kentucky Teachers' Retirement System (KTRS) and additions to/deductions from KERS's and KTRS's fiduciary net position have been determined on the same basis as they are reported by KERS and KTRS. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

Income Taxes: The University is an agency and instrumentality of the Commonwealth of Kentucky, pursuant to Kentucky Revised Statutes sections 164.290 through 164.475. Accordingly, the University is generally exempt from federal income taxes as an organization described in Section 115 of the Internal Revenue Code of 1986, as amended. The Foundation has received a determination from the Internal Revenue Service granting exemption from federal income taxation pursuant to the provisions of the Internal Revenue Code section 501(c)(3).

Restricted Asset Spending Policy: The University's policy is that restrictions on assets cannot be fulfilled by the expenditure of unrestricted funds for similar purposes. The determination on whether restricted or unrestricted funds are expended for a particular purpose is made on a case-by-case basis. Restricted funds remain restricted until spent for the intended purpose.

Operating Activities: The University defines operating activities, as reported on the statement of revenues, expenses and changes in net position, as those that generally result from exchange transactions, such as payments received for providing goods and services and payments made for services and goods received. Nearly all of the University's expenses are from exchange transactions. Certain significant revenues relied upon for operations, such as state and certain federal appropriations, gifts and investment income, are recorded as nonoperating revenues, in accordance with GASB Statement No. 35.

KENTUCKY STATE UNIVERSITY
NOTES TO FINANCIAL STATEMENTS
(Continued)
June 30, 2021

**NOTE 1 – ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
(CONTINUED)**

Scholarship Discounts and Allowances: Financial aid to students is reported in the financial statements under the alternative method as prescribed by the National Association of College and University Business Officers (NACUBO). Certain aid, such as loans and funds provided to students awarded by third parties, is accounted for as third party payments (credited to the student's account as if the student made the payment). All other aid is reflected in the financial statements as operating expenses, or scholarship allowances, which reduce revenues. The amount reported as operating expenses represents the portion of aid that was provided to the student in the form of cash. Scholarship allowances represent the portion of aid provided to the student in the form of reduced tuition. Under the alternative method, these amounts are computed by allocating the cash payments to students, excluding payments for services, on the ratio of total aid to the aid not considered to be third party aid.

Federal Grants and Contracts: Per GASB Statement No. 24, pass-through grants should be reported as revenues and expenses in the financial statements if that entity has any administrative or direct financial involvement in the program. An entity has administrative involvement if it determines eligible secondary recipients or projects, even if using grantor-established criteria. Therefore, Pell Grants are considered non-exchange transactions and are recorded as nonoperating revenues in the accompanying financial statements.

Use of Estimates: The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures 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.

Component Unit Disclosure: The accompanying financial statements of the Foundation have been prepared in accordance with accounting principles generally accepted in the United States of America as prescribed by the FASB. As such, certain revenue recognition criteria and presentation features are different from GASB revenue recognition criteria and presentation features.

During the year ended June 30, 2021, the Foundation made distributions of approximately \$547,615 on behalf of the University for both net assets and unrestricted purposes. Complete financial statements for the Foundation can be obtained from the Kentucky State University Foundation, Inc. at P.O. Box 4210, Frankfort, KY 40604.

Recent Accounting Pronouncements Implemented: During fiscal year 2021, the University adopted the following accounting pronouncements:

- GASB Statement No. 84, *Fiduciary Activities*, This statement establishes criteria for identifying and reporting fiduciary activities of all state and local governments including public universities. In general, if the University controls the assets of the fiduciary activity and the beneficiaries with whom a fiduciary relationship exists, then the activity should be presented in a statement of fiduciary net position and a statement of changes in fiduciary net position. An exception to this requirement is provided for a business-type activity that expects to hold assets in a custodial fund for three months or less. The implementation had no material impact on the University's financial statements.

KENTUCKY STATE UNIVERSITY
NOTES TO FINANCIAL STATEMENTS
(Continued)
June 30, 2021

**NOTE 1 – ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
(CONTINUED)**

- GASB Statement No. 90, *Majority Equity Interests, an amendment of GASB Statements No. 14 and No. 61*, effective for periods beginning after December 15, 2019. This statement requires majority equity interests in legally separate organizations, which meet the definition of an investment, to be measured at fair value using the equity method of accounting. The University has determined that it does not have any such investments.

Recent Accounting Pronouncements Not Yet Implemented: As of June 30, 2021, the GASB has issued the following statements not yet implemented by the University:

- GASB Statement No. 92, *Omnibus 2020*, effective for periods beginning after June 15, 2021.
- GASB Statement No. 93, *Replacement of Interbank Offered Rates, effective for periods beginning after June 15, 2021*.
- GASB Statement No. 87, *Leases, effective for periods beginning after June 15, 2021*.
- GASB Statement No. 89, *Accounting for Interest Cost Incurred before the End of a Construction Period, effective for periods beginning after December 15, 2020*.
- GASB Statement No. 91, *Conduit Debt Obligations, effective for periods beginning after December 15, 2021*.
- GASB Statement No. 94, *Public-Private and Public-Private Partnerships and Availability Payment Arrangements, effective for periods beginning after June 15, 2022*.
- GASB Statement No. 96, *Subscription-Based Information Technology Arrangements, effective for periods beginning after June 15, 2022*.
- GASB Statement No. 97, *Certain Component Units Criteria, and Accounting and Financial Reporting for Internal Revenue Code (IRC) Section 457 Deferred Compensation Plans —an amendment of GASB Statements No. 14 and No. 84, and a supersession of GASB Statement No. 32, effective for periods beginning after June 15, 2021*.
- GASB Statement No. 98, *The Annual Comprehensive Financial Report —this Statement establishes the term annual comprehensive financial report and its acronym ACFR. That new term and acronym replace instances of comprehensive annual financial report and its acronym in generally accepted accounting principles for state and local governments. effective for fiscal years ending after December 15, 2021*

KENTUCKY STATE UNIVERSITY
NOTES TO FINANCIAL STATEMENTS
(Continued)
June 30, 2021

**NOTE 1 – ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
(CONTINUED)**

- GASB Statement No. 99, *Omnibus 2022.*, Issued 04/22. *The requirements related to extension of the use of LIBOR, accounting for SNAP distributions, disclosures of nonmonetary transactions, pledges of future revenues by pledging governments, clarification of certain provisions in Statement 34, as amended, and terminology updates related to Statement 53 and Statement 63 are effective upon issuance. The requirements related to leases, PPPs, and SBITAs are effective for fiscal years beginning after June 15, 2022, and all reporting periods thereafter. The requirements related to financial guarantees and the classification and reporting of derivative instruments within the scope of Statement 53 are effective for fiscal years beginning after June 15, 2023, and all reporting periods thereafter.*
- GASB Statement No. 100, *Accounting Changes and Error Corrections-An Amendment of GASB Statement No. 62*, the primary objective of this Statement is to enhance accounting and financial reporting requirements for accounting changes and error corrections to provide more understandable, reliable, relevant, consistent, and comparable information for making decisions or assessing accountability. effective for accounting changes and error corrections made in fiscal years beginning after June 15, 2023, and all reporting periods thereafter.
- GASB Statement No. 101, *Compensated Absences (Issued 06/22)* — The objective of this Statement is to better meet the information needs of financial statement users by updating the recognition and measurement guidance for compensated absences. That objective is achieved by aligning the recognition and measurement guidance under a unified model and by amending certain previously required disclosures, effective for fiscal years beginning after December 15, 2023, and all reporting periods thereafter.

The University's management has not yet determined the effect these statements will have on the University's financial statements.

Business Disruption: In March 2020, the World Health Organization declared the coronavirus (COVID-19) outbreak to be a global pandemic. COVID-19 has impacted economic activity and financial markets globally and has resulted in a decrease in various auxiliary revenues that the University is dependent upon due to closing the campus in March 2020. The continued spread of the disease represents a risk that operations could be disrupted in the near future. The extent to which COVID-19 impacts the University will depend on future developments, which are still highly uncertain and cannot be predicted. As a result of the COVID-19 pandemic, the University received an allocation of Higher Education Emergency Relief Funding (HEERF II) under the Coronavirus Response and Relief Supplemental Appropriations (CRRSA) Act totaling \$2,817,902, of which \$1,825,971 was expended and recognized as revenue during the year ended June 30, 2021. The remaining \$991,931 is reimbursable and expected to be expended and recognized as revenue when allowable expenses are incurred during fiscal year 2022. The University also received an allocation of Higher Education Emergency Relief Funding (HEERF III) under the American Rescue Plan (ARP) totaling \$4,015,204, none of which has been expended and recognized as revenue during the year ended June 30, 2021. Additionally, the University was awarded Higher Education Emergency Relief Funding (HEERF I) through the Coronavirus Aid, Relief, and Economic Securities (CARES) Act totaling \$19,814,253. \$5,835,476 of this award was expended and recognized as revenue during the year ended June 30, 2021. As of June 30, 2020, the University also deferred employer Social Security taxes in the amount of \$1,430,451 as allowed under the CARES Act to provide more liquidity to the University during the pandemic. The University is expected to make payment of half of the deferred taxes by December 31, 2021 and deposit the remaining liability by December 31, 2022.

KENTUCKY STATE UNIVERSITY
NOTES TO FINANCIAL STATEMENTS
(Continued)
June 30, 2021

NOTE 2 - CASH, CASH EQUIVALENTS, AND INVESTMENTS

The statement of net position classification "cash and cash equivalents" includes all readily available sources of cash such as petty cash and demand deposits.

At June 30, 2021, the University had petty cash funds totaling zero, and deposits as reflected by bank balances as follows:

	<u>2021</u>
Insured, commercial banks	\$ 432,334
Uninsured and uncollateralized, commercial banks	1,162,837
Maintained by Commonwealth of Kentucky, collateral held by the Commonwealth in the Commonwealth's name	105,477
Cash balance held at ARGI Investment Services	533,338
	<u>\$ 2,233,986</u>

The difference in the cash carrying amount per the statement of net position and the above balances represented items in transit. At June 30, 2021, the University had no cash and cash equivalents that are restricted for capital expenditures.

As of June 30, 2021, the University had the following investments and maturities:

Investment Maturities (in years)

<u>Investment Type</u>	<u>Fair Value</u>	<u><1</u>	<u>1-5</u>	<u>6-10</u>	<u>11-20</u>
Exchange traded funds	\$ 16,073,551	\$ 16,073,551	\$ -	\$ -	\$ -
Corporate bonds	4,350,788	555,806	2,055,741	1,739,242	
Government bonds	967,867	450,339	380,177	137,351	
	<u>\$ 21,392,206</u>	<u>\$ 17,079,696</u>	<u>\$ 2,435,918</u>	<u>\$ 1,876,593</u>	<u>\$ -</u>

KENTUCKY STATE UNIVERSITY
NOTES TO FINANCIAL STATEMENTS
(Continued)
June 30, 2021

NOTE 2 - CASH, CASH EQUIVALENTS, AND INVESTMENTS (CONTINUED)

The University has an investment management agreement with ARGI Investment Services, LLC (ARGI). ARGI serves individual and institutional clients.

The University has the following recurring fair value measurements as of June 30, 2021:

	<u>Total</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Exchange traded funds	\$ 16,073,551	\$ 16,073,551	\$ -	\$ -
Corporate bonds	4,350,788	4,350,788	-	-
Government bonds	967,867	967,867	-	-
	<u>\$ 21,392,206</u>	<u>\$ 21,392,206</u>	<u>\$ -</u>	<u>\$ -</u>

All securities classified in level 1 of the fair value hierarchy are valued using prices quoted in active markets for those securities.

Credit Risk: The University's average credit quality rating according to Moody's is A1.

Interest Rate Risk: Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. The University does not have a formal policy to specifically limit investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

Concentration of Credit Risk: Concentration of credit risk is the risk of loss attributed to the magnitude of a government's investment in a single issuer. The University does not have a formal policy for concentration of credit risk.

Custodial Credit Risk: For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the University will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The University does not have a formal policy for custodial credit risk.

NOTE 3 - ACCOUNTS, GRANTS AND LOAN RECEIVABLE

Accounts, grants and loans receivable consist of the following as of June 30, 2021:

Student tuition and fees	\$ 2,708,234
Student loans	1,066,083
Grants and contracts	2,366,929
Other	776,600
	<u>6,917,846</u>
Less: allowance for doubtful accounts	<u>(2,606,983)</u>
	4,310,863
Less: non-current portion	<u>(760,784)</u>
Current portion	<u>\$ 3,550,079</u>

KENTUCKY STATE UNIVERSITY
NOTES TO FINANCIAL STATEMENTS
(Continued)
June 30, 2021

NOTE 4 - CAPITAL ASSETS, NET

Capital assets as of June 30, 2021, are summarized as follows:

	Beginning Balance	Additions	Reductions/ Transfers	Ending Balance
<u>Cost</u>				
Land and improvements	\$ 6,275,032	\$ 258,755	\$ -	\$ 6,533,787
Buildings	155,846,869	16,941,173	-	172,788,042
Equipment	26,314,630	19,659,154	-	45,973,784
Computer software	1,840,120	185,063	-	2,025,183
Library holdings	10,663,618	16,293	-	10,679,911
Transportation equipment	4,397,496	220,972	-	4,618,468
Construction in progress	31,812,380	1,355,330	(32,797,904)	369,806
	<u>237,150,145</u>	<u>38,636,740</u>	<u>(32,797,904)</u>	<u>242,988,981</u>
<u>Accumulated depreciation</u>				
Land and improvements	626,344	44,420	-	670,764
Buildings	105,627,180	2,343,379	-	107,970,559
Equipment	21,132,962	1,565,368	-	22,698,330
Computer software	1,580,171	69,421	-	1,649,592
Library holdings	10,472,943	45,154	-	10,518,097
Transportation equipment	4,251,063	101,022	-	4,352,085
	<u>143,690,663</u>	<u>4,168,764</u>	<u>-</u>	<u>147,859,427</u>
Capital assets, net	<u>\$ 93,459,482</u>	<u>\$ 34,467,976</u>	<u>\$ (32,797,904)</u>	<u>\$ 95,129,554</u>

Construction in progress consists primarily of projects to renovate Hunter Hall, install a fountain at the Carl M. Hill Student Center, replace exterior stairs at the Bell Gymnasium, and signage for the pedway. The projects are projected to be completed in fiscal year 2023. The estimated costs to complete the projects is \$2.26 million for Hunter Hall renovations, \$83,000 for the fountain at the Carl M. Hill Student Center, \$132,000 for the replacement of exterior stairs at the Bell Gymnasium, and \$121,000 for the signage for the pedway.

NOTE 5 - UNEARNED REVENUE

Unearned revenue consists of the following as of June 30, 2021:

Unearned summer school tuition and fees	\$ 104,880
Unearned grants and contracts	<u>873,106</u>
	<u>\$ 977,986</u>

KENTUCKY STATE UNIVERSITY
NOTES TO FINANCIAL STATEMENTS
(Continued)
June 30, 2021

NOTE 6 – LINE OF CREDIT (REVENUE ANTICIPATION NOTE)

During fiscal year 2021, the University entered into a line of credit agreement with Fifth Third Bank for a maximum borrowing amount of \$5,000,000, maturing on June 30, 2021. At June 30, 2021, borrowings on the line of credit totaled \$5,000,000. The line bears interest at the Adjusted LIBOR rate and the interest rate at June 30, 2021 was 2.05%. The agreement was renewed as of July 1, 2021, and was paid off in full in May 2022. This line of credit is collateralized by the general revenues of the University.

NOTE 7 – LONG-TERM LIABILITIES

Long-term liabilities as of June 30, 2021, are summarized as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Current Portion	Non-current Portion
<u>Debt</u>						
General receipts bonds	\$ 2,035,000	\$ -	\$ 260,000	\$ 1,775,000	\$ 270,000	\$ 1,505,000
Bond discount	(27,377)	-	(4,484)	(22,893)	-	(22,893)
Total bonds	2,007,623	-	255,516	1,752,107	270,000	1,482,107
<u>Other long-term liabilities</u>						
Capital lease obligations- energy savings	14,133,958	2,679,374	886,872	15,926,461	-	15,926,461
Total long-term liabilities	<u>\$ 16,141,581</u>	<u>\$ 2,679,374</u>	<u>\$ 1,142,388</u>	<u>\$ 17,678,568</u>	<u>\$ 270,000</u>	<u>\$ 17,408,568</u>

The outstanding General Receipts Bonds Series A Bonds have interest rates from 3.625% - 3.875%. The bonds mature through 2027. The reserve requirements for these issues have been fully funded as of June 30, 2021.

All bonds are collateralized by University property and the pledge of certain revenues, tuition and fees.

The capitalized costs of assets acquired through the capital leases included in the above schedule was \$16,693,621 with accumulated amortization of \$269,940 as of June 30, 2021. Principal payments on the related asset will begin in the year ended June 30, 2022.

The principal and interest repayment requirements relating to the outstanding bonds payable at June 30, 2021 are as follows:

2022	\$ 270,000	\$ 68,781	\$ 338,781
2023	280,000	58,319	338,319
2024	290,000	47,469	337,469
2025	300,000	36,231	336,231
2026	310,000	24,606	334,606
2027	<u>325,000</u>	<u>12,594</u>	<u>337,594</u>
Total	<u>\$ 1,775,000</u>	<u>\$ 248,000</u>	<u>\$ 2,023,000</u>

During 2005, the University entered into a capital lease for an energy management project. The lease obligation had an interest rate of 4.29% and required annual payments of principal and interest through 2021.

KENTUCKY STATE UNIVERSITY
NOTES TO FINANCIAL STATEMENTS
(Continued)
June 30, 2021

NOTE 7 – LONG-TERM LIABILITIES (CONTINUED)

During 2020, the University entered into a capital lease for an additional energy management project. The lease obligation has an interest rate of 2.7095% and requires annual payments of principal and interest beginning in fiscal 2022 through 2036. The lease obligation will be paid with guaranteed energy savings. The following is a schedule of future minimum payments required for the capital lease obligations at June 30, 2021:

2022	\$ 1,353,014
2023	1,353,014
2024	1,353,014
2025	1,353,014
2026	1,353,014
2027-2036	<u>13,530,147</u>
Total minimum lease payments	20,295,217
Less: amounts representing interest	<u>(4,368,756)</u>
 Present value of minimum lease payment	 <u><u>\$ 15,926,461</u></u>

NOTE 8 - OPERATING LEASES

The University leases certain assets under operating lease agreements. The operating leases expire in various years through 2025. These leases do not transfer assets at the end of the lease term. Periods on these leases range from one to five years and requires the University to pay all executor costs (maintenance, insurance, taxes).

Future minimum lease payments at June 30, 2021, are as follows:

Year ending June 30

2022	\$ 305,692
2023	228,493
2024	198,329
2025	<u>34,954</u>
	 <u><u>\$ 767,468</u></u>

Lease expense was \$545,959 for the year ended June 30, 2021.

KENTUCKY STATE UNIVERSITY
NOTES TO FINANCIAL STATEMENTS
(Continued)
June 30, 2021

NOTE 9 – DEFINED BENEFIT PENSION PLANS

Kentucky Employees' Retirement System - Defined Benefit Plan

Plan Description – The University contributes to the Kentucky Employees' Retirement System (KERS), a cost sharing - multiple employer public employee retirement system. KERS is a defined benefit plan providing for retirement, disability, death benefits and health insurance. Participants have a fully vested interest after the completion of 60 months of service, 12 of which are current service. KERS issues a publicly available financial report that includes financial statements, required supplementary information, and detailed information about the pension plan's fiduciary net position. That report may be obtained by writing to Kentucky Retirement Systems, Perimeter Park West, 1260 Louisville Road, Frankfort, Kentucky, 40601-6124 or by calling (502) 696-8800.

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KENTUCKY STATE UNIVERSITY
NOTES TO FINANCIAL STATEMENTS
(Continued)
June 30, 2021

NOTE 9 – DEFINED BENEFIT PENSION PLANS (CONTINUED)

	Tier 1 Participation prior to <u>September 1, 2008</u>	Tier 2 Participation September 1, 2008 Through <u>December 31, 2013</u>	Tier 3 Participation <u>January 1, 2014</u>
<u>Non-Hazardous</u>			
Benefit Formula	Final Compensation x Benefit Factor x Years of Service		Cash Balance Plan
Final Compensation	Average of the highest 5 fiscal years (must contain at least 48 months). Includes lump-sum compensation payments (before and at retirement).	5 complete fiscal years immediately preceding retirement; each year must contain 12 months. Lump-sum compensation payments (before and at retirement) are not to be included in creditable compensation.	No Final Compensation
Benefit Factor	1.97% or 2.0% for those retiring with service for all months between 1/1998 and 1/1999.	10 years or less = 1.10%. Greater than 10 years, but no more than 20 years = 1.30%. Greater than 20 years, but no more than 26 years = 1.50%. Greater than 26 years, but no more than 30 years = 1.75%. Additional years above 30 – 2.00% (2.00% benefit factor only applies to service earned in excess of 30 years).	No benefit factor. A life annuity can be calculated in accordance with actuarial assumptions and methods adopted by the board based on member's accumulated account balance.
Cost of Living Adjustment (COLA)	No COLA unless authorized by the Legislature. If authorized, the COLA is limited to 1.5%. 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 month purchased calculations.	

KENTUCKY STATE UNIVERSITY
NOTES TO FINANCIAL STATEMENTS
(Continued)
June 30, 2021

NOTE 9 – DEFINED BENEFIT PENSION PLANS (CONTINUED)

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.
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Hazardous

Benefit Formula	Final Compensation x Benefit Factor x Years of Service		Cash Balance Plan
Final Compensation	Highest 3 fiscal years (must contain at least 24 months). Includes lumpsum compensation payments (before and at retirement).	3 highest salaries; each year must contain 12 months. Lumpsum compensation payments (before and at retirement) are not to be included in creditable compensation.	No Final Compensation
Benefit Factor	2.49%	10 years or less = 1.30%. Greater than 10 years, but no more than 20 years = 1.50%. Greater than 20 years, but no more than 26 years = 2.25%. Greater than 25 years = 2.50%.	No benefit factor. A life annuity can be calculated in accordance with actuarial assumptions and methods adopted by the board based on member's accumulated account balance.
Cost of Living Adjustment (COLA)	No COLA unless authorized by the Legislature. If authorized, the COLA is limited to 1.5%. This impacts all retirees regardless of Tier.		
Unreduced Retirement Benefit	Any age with 20 years of service. Age 55 with 60 months of service.	Any age with 25 years of service. Age 60 with 60 months of service.	Any age with 25 years of service. Age 60 with 60 months of service.
Reduced Retirement Benefit	Age 50 with 15 years of service.	Age 50 with 15 years of service.	No reduced retirement benefit.

Contributions - Benefit and contribution rates are established by state statute. Per Kentucky Revised Statute 61.565(3) contribution requirements of the active employees and the participating organizations are established and may be amended by the Kentucky Retirement System (KRS) Board. For the fiscal year ended June 30, 2021, University non-hazardous and hazardous employees were required to contribute 5 percent of their annual covered salary for retirement benefits for the year ended June 30, 2021. Non-hazardous and hazardous employees with a participation date after September 1, 2008 were required to contribute an additional 1 percent of their covered salary for retiree healthcare benefits.

KENTUCKY STATE UNIVERSITY
NOTES TO FINANCIAL STATEMENTS
(Continued)
June 30, 2021

NOTE 9 – DEFINED BENEFIT PENSION PLANS (CONTINUED)

The University was contractually required to contribute 49.47 percent (41.06 percent allocated to pension and 8.41 percent allocated to OPEB) of annual covered payroll for non-hazardous pay and 36.85 percent (34.39 percent allocated to pension and 2.46 percent allocated to OPEB) for hazardous pay to the pension plan for the year ended June 30, 2021. These amounts were actuarially determined as an amount that, when combined with employee contributions, is expected to finance the cost of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. The University's total contributions to KERS for the year ended June 30, 2021 was \$1,712,108, equal to the required contributions for the year.

Pension liabilities, pension expense, and deferred outflows of resources and deferred inflows of resources related to pensions - At June 30, 2021, the University reported a liability of \$45,184,676 for its proportionate share of the non-hazardous net pension liability and \$339,765 for hazardous. The net pension liability was measured as of June 30, 2020 and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of June 30, 2019, rolled-forward for June 30, 2020. The University's proportion of the net pension liability was based on actual contributions to the pension plan during the measurement period. At June 30, 2021, the University's proportion was 0.32 percent for non-hazardous and 0.06 percent for hazardous, respectively.

For the year ended June 30, 2021, the University's actuarially calculated pension expense was \$7,254,680 for non-hazardous and \$28,995 for hazardous. At June 30, 2021, the University reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
<u>2021</u>		
Non-hazardous:		
Difference between expected and actual experience	\$ 256,692	\$ -
Net difference between projected and actual earnings on investments	46,464	-
Changes of assumptions	509,006	-
Changes in proportion and differences between employer contributions and proportionate share of contributions	2,775,326	-
University contributions subsequent to measurement date	1,647,478	-
	<u>\$ 5,234,966</u>	<u>\$ -</u>
Hazardous:		
Difference between expected and actual experience	\$ 603	\$ 366
Net difference between projected and actual earnings on investments	11,623	-
Changes of assumptions	9,744	-
Changes in proportion and differences between employer contributions and proportionate share of contributions	12,102	190,561
University contributions subsequent to measurement date	64,630	-
	<u>\$ 98,702</u>	<u>\$ 190,927</u>

KENTUCKY STATE UNIVERSITY
NOTES TO FINANCIAL STATEMENTS
(Continued)
June 30, 2021

NOTE 9 – DEFINED BENEFIT PENSION PLANS (CONTINUED)

At June 30, 2021, the University reported \$1,712,108 as deferred outflows of resources related to pensions resulting from University contributions subsequent to the measurement date that will be recognized as a reduction of the net pension liability in the following fiscal year. Deferred outflows and deferred inflows of resources at June 30, 2021, related to pensions will be recognized in pension expense as follows:

	<u>Non-Hazardous</u>		<u>Hazardous</u>
2022	\$ 3,254,662	\$	(163,213)
2023	252,046		(2,822)
2024	39,092		4,828
2025	41,688		4,352
	<u>\$ 3,587,488</u>	\$	<u>(156,855)</u>

Actuarial assumptions - The total pension liability for KERS was determined by applying procedures to the actuarial valuation as of June 30, 2020, using the following actuarial assumptions, applied to all periods included in the measurement.

<u>2020</u>	
Actuarial cost method	Entry age normal
Amortization method	Level percent of pay
Remaining amortization period	30 years, closed
Asset valuation method	20% of the difference between market value of assets and the expected actuarial value of assets is recognized.
Inflation	2.30%
Payroll growth rate	0
Salary increases, varies by service, non-hazardous	3.55 to 15.55
Salary increases, varies by service, hazardous	3.55 to 19.55
Investment rate of return, non-hazardous	5.25
Investment rate of return, hazardous	6.25

The mortality table used for active members was a Pub-2010 General Mortality table for the non-hazardous system and the Pub-2010 Public Safety Mortality table for the hazardous system, projected with the ultimate rates from the MP-2014 mortality improvement scale using a base year of 2010. The mortality table used for healthy retired members was a system-specific mortality table based on mortality experience from 2013-2018, projected with the ultimate rates from MP-2014 mortality improvement scale using a base year of 2019. The mortality table used for the disabled members was 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.

KENTUCKY STATE UNIVERSITY
NOTES TO FINANCIAL STATEMENTS
(Continued)
June 30, 2021

NOTE 9 – DEFINED BENEFIT PENSION PLANS (CONTINUED)

The long-term expected rate of return was determined using a building-block method in which best-estimate ranges of expected future real rates of returns are developed for each asset class. The ranges are combined by weighting the expected future real rate of return by the target asset allocation percentage.

The net pension liability as of June 30, 2020, is based on the June 30, 2019, actuarial valuation rolled-forward. Deferred outflows and inflows related to differences between projected and actual earnings on plan investments are netted and amortized over a closed five-year period.

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

Changes in Assumptions and Benefit Terms Since Prior Measurement Date – The Board of Trustees of KERS adopted new actuarial assumptions since June 30, 2018. These assumptions are documented in the report titled “Kentucky Retirement Systems 2018 Actuarial Experience Study for the Period Ending June 30, 2018”. The Total Pension liability as of June 30, 2020, was determined using these updated assumptions.

<u>Asset Class</u>	Non-hazardous	
	Target	Long-Term Nominal
	<u>Allocation</u>	<u>Rate of Return</u>
<u>2021</u>		
U.S. Equity	15.75 %	4.50 %
International Equity	15.75	5.25
Core Bonds	20.50	(0.25)
Specialty Credit/High Yield	15.00	3.90
Real Estate	5.00	5.30
Opportunistic	3.00	2.25
Real Return	15.00	3.95
Private Equity	7.00	5.15
Cash Equivalents	3.00	(0.75)
Total	<u>100 %</u>	

<u>Asset Class</u>	Hazardous	
	Target	Long-Term Nominal
	<u>Allocation</u>	<u>Rate of Return</u>
<u>2021</u>		
U.S. Equity	18.75 %	4.50 %
International Equity	18.75	5.25
Core Bonds	13.50	(0.25)
Specialty Credit/High Yield	15.00	3.90
Real Estate	5.00	5.30
Opportunistic	3.00	2.25
Real Return	15.00	3.95
Private Equity	10.00	5.15
Cash Equivalents	1.00	(0.75)
Total	<u>100 %</u>	

KENTUCKY STATE UNIVERSITY
NOTES TO FINANCIAL STATEMENTS
(Continued)
June 30, 2021

NOTE 9 – DEFINED BENEFIT PENSION PLANS (CONTINUED)

Changes Since Measurement Date - There were no changes between the measurement date of the collective net pension liability and the employer's reporting date.

Discount rate - The discount rate used to measure the total pension liability was 5.25% (Non-hazardous) and 6.25% (Hazardous). The projection of cash flows used to determine the discount rate assumed that contributions from plan members and employers will be made at the actuarially determined contribution rate. Based on those assumptions, the pension plan's fiduciary net position and future contributions were projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability. The projection of cash flows used to determine the single discount rate assumes that the Commonwealth of Kentucky contributes the actuarially determined contribution in all future years.

Sensitivity of the University's proportionate share of the net pension liability to changes in the discount rate - The University's proportionate share of the net pension liability has been calculated using a discount rate of 5.25% (Non-hazardous) and a discount rate of 6.25% (Hazardous) for the June 30, 2020 actuarial valuation. The following presents the University's proportionate share of the net pension liability calculated using a discount rate 1% higher and 1% lower than the current rate as of June 30, 2021:

	1% Decrease (4.25 %)	Current Discount Rate (5.25 %)	1% Increase (6.25 %)
<u>Non-Hazardous</u>			
Proportionate share of the			
Collective Net Pension Liability	\$ 51,753,047	\$ 45,184,676	\$ 39,786,720
<u>Hazardous</u>			
Proportionate share of the	1% Decrease (5.25 %)	Current Discount Rate (6.25 %)	1% Increase (7.25 %)
Collective Net Pension Liability	\$ 434,767	\$ 339,765	\$ 262,428

Kentucky Teachers' Retirement System - Defined Benefit Plan

Plan Description –The Kentucky Teachers' Retirement System (KTRS), a cost sharing - multiple employer public employee retirement system. KTRS is a defined benefit plan providing for retirement, disability, death benefits and health insurance. Participants have a fully vested interest after the completion of 60 months of service, 12 of which are current service. KTRS issues a publicly available financial report that includes financial statements, required supplementary information, and detailed information about the pension plan's fiduciary net position. That report may be obtained by writing to Kentucky Teachers' Retirement System, 479 Versailles Road, Frankfort, Kentucky, 40601 or by calling (502) 573-3266.

KENTUCKY STATE UNIVERSITY
NOTES TO FINANCIAL STATEMENTS
(Continued)
June 30, 2021

NOTE 9 – DEFINED BENEFIT PENSION PLANS (CONTINUED)

Benefits Provided

	Tier 1 Participation prior to July 1, 2008	Tier 2 Participation on or After July 1, 2008
Covered Employees:	University faculty and professional staff that do not choose the Optional Retirement Plan (Deferred Contribution)	University faculty and professional staff that do not choose the Optional Retirement Plan (Deferred Contribution)
Benefit Formula:	Final Compensation X Benefit Factor X Years of Service	
Final Compensation:	Average of the highest 5 annual salaries reduced 5% per year from the earlier of age 60 or the date 27 years of service would have been completed. Average of the highest 3 annual salaries if age 55 with 27 or more years of service. The minimum annual service allowance for all members is \$440 multiplied by credited service.	Average of the highest 5 annual salaries reduced 6% per year from the earlier of age 60 or the date 27 years of service would have been completed. Average of the highest 3 annual salaries if age 55 with 27 or more years of service. The minimum annual service allowance for all members is \$440 multiplied by credited service.
Benefit Factor:	Non-University members: 2.00% for service prior to 7/1/1983; 2.50% for service after 7/1/1983; 2.00% if participation after 7/1/2002 and less than 10 years; 2.50% if participation after 7/1/2002 and more than 10 years; 3.00% if retire after 7/1/2004 with more than 30 years. University members: 2.0% for each year of service.	Non-University members: 1.70% if less than 10 years; 2.00% if greater than 10 years, but no more than 20 years; 2.30% if greater than 20 years, but no more than 26 years; 2.50% if greater than 26 years, but no more than 30 years; 3.00% for service greater than 30 years. University members: 1.50% if less than 10 years; 1.70% if greater than 10 years, but less than 20 years; 1.85% if greater than 20 years, but less than 27 years; 2.00% if greater than 27 years.
Cost of Living Adjustment (COLA)	No COLA unless authorized by the Legislature. If authorized, the COLA is limited to 1.5%. This impacts all retirees regardless of Tier.	

KENTUCKY STATE UNIVERSITY
NOTES TO FINANCIAL STATEMENTS
(Continued)
June 30, 2021

NOTE 9 – DEFINED BENEFIT PENSION PLANS (CONTINUED)

	Tier 1 Participation prior to <u>July 1, 2008</u>	Tier 2 Participation on or After <u>July 1, 2008</u>
Unreduced Retirement Benefit:	Any age with 27 years of Kentucky service. Age 55 with 5 years of Kentucky service.	Any age with 27 years of Kentucky service. Age 60 with 5 years of Kentucky service. Age 55 with 10 years of Kentucky service.
Reduced Retirement Benefit:	Must be retired for service or disability to be eligible. Retired members are given a supplement based upon a contribution supplement table approved by the KTRS Board of Trustees. The retired member pays premiums in excess of the monthly supplement.	

Contributions - Benefit and contribution rates are established by state statute. Per Kentucky Revised Statutes 161.340, 161.550 and 161.565, contribution requirements of the active employees and the participating organizations are established and may be amended by the KTRS Board. For the fiscal year ended June 30, 2021, University employees were required to contribute 8.185% of their annual covered salary for retirement benefits. The University was contractually required to contribute 15.87% (14.06% allocated to pension, 1.78% allocated to medical insurance, and 0.03% allocated to life insurance) of covered payroll for the year ended June 30, 2021. The actuarially determined amount, when combined with employee contributions, is expected to finance the cost of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. The University's total contributions to KTRS for the year ending June 30, 2021 was \$2,073,823 and were equal to the required contributions for the year. In addition, the Commonwealth of Kentucky contributes ad hoc annual cost of living adjustments provided by the General Assembly for KTRS retirees. This contribution totaled \$2,037,956 for the year ending June 30, 2021.

Pension liabilities, pension expense, and deferred outflows of resources and deferred inflows of resources related to pensions - At June 30, 2021, the University reported a liability for its proportionate share of the net pension liability that reflected a reduction for pension support provided to the University by the Commonwealth of Kentucky. The amount recognized by the University as its proportionate share of the net pension liability, the related State support, and the total portion of the net pension liability that was associated with the University were as follows:

	<u>2021</u>
University's proportionate share of the net pension liability	\$ 24,786,076
Commonwealth of Kentucky's proportionate share of the net pension liability associated with the University	<u>26,067,110</u>
	<u>\$ 50,853,186</u>

KENTUCKY STATE UNIVERSITY
NOTES TO FINANCIAL STATEMENTS
(Continued)
June 30, 2021

NOTE 9 – DEFINED BENEFIT PENSION PLANS (CONTINUED)

The net pension liability was measured as of June 30, 2020 and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of June 30, 2019. The University's proportion of the net pension liability was based on actual contributions to the pension plan during the measurement period of July 1, 2019 through June 30, 2020. At June 30, 2021, the University's proportion was 0.17 percent and the Commonwealth's proportion was 0.18 percent.

For the year ended June 30, 2021, the University was allocated pension expense of \$(10,828,206). The University also recognized revenue of \$3,014,664 for support provided by the Commonwealth. At June 30, 2021, the University reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of <u>Resources</u>	Deferred Inflows of <u>Resources</u>
<u>2021</u>		
Net difference between projected and actual earnings on investments	\$ 228,911	\$ -
Change in assumptions	646,051	7,134,434
Differences between expected and actual experience	(295,442)	811,812
Changes in proportion and differences between employer contributions and proportionate share of contributions	4,114,192	3,124,981
Contributions subsequent to the measurement date	<u>2,073,823</u>	<u>-</u>
	<u>\$ 6,767,535</u>	<u>\$ 11,071,227</u>

At June 30, 2021, the University reported \$2,073,823 as deferred outflows of resources related to pensions resulting from University contributions subsequent to the measurement date that will be recognized as a reduction of the net pension liability in the following fiscal year. Net deferred outflow (inflows) of resources at June 30, 2021, related to pensions will be recognized in pension expense as follows:

KENTUCKY STATE UNIVERSITY
NOTES TO FINANCIAL STATEMENTS
(Continued)
June 30, 2021

NOTE 9 – DEFINED BENEFIT PENSION PLANS (CONTINUED)

2022	\$	(10,053,139)
2023		(2,325,320)
2024		1,419,871
2025		<u>4,581,073</u>
	\$	<u>(6,377,515)</u>

Actuarial assumptions - The total pension liability was determined by actuarial valuation as of June 30, 2020, using the following actuarial assumptions, applied to all periods included in the measurement:

Valuation date	June 30, 2019
Inflation	3.00%
Salary increases	3.50% - 7.30%, average, including inflation
Investment Rate of Return	7.50%, net of pension plan investment expense, including inflation
Municipal bond index rate	3.50%
Single equivalent interest rate	7.50%
Post-Retirement Benefit Increases	1.50% annually

Mortality rates were based on the RP-2000 Combined Mortality Table for Males or Females, as appropriate, with adjustments for mortality improvements based on a projection of Scale BB to 2025, set forward two years for males and one year for females.

The actuarial assumptions used in the June 30, 2020 valuation were based on the results of an actuarial experience study for the period July 1, 2010 - June 30, 2015 adopted by the Board on November 19, 2016.

The long-term expected return on pension plan investments was determined using a log-normal distribution analysis in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighing the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The target allocation and best estimates of arithmetic real rates of return for each major asset class for the June 30, 2020 actuarial valuation, are summarized in the following table:

KENTUCKY STATE UNIVERSITY
NOTES TO FINANCIAL STATEMENTS
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June 30, 2021

NOTE 9 – DEFINED BENEFIT PENSION PLANS (CONTINUED)

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Nominal Rate of Return</u>
U.S. Equity	40.00 %	4.60 %
International Equity	22.00	5.60
Fixed Income	15.00	0.00
Additional Categories (Inc. Hedge Funds, High Yield, Non-U.S. Developed Bonds, and Private Credit Strategies)	7.00	2.50
Real Estate	7.00	4.30
Private Equity	7.00	7.70
Cash	2.00	(0.50)
Total		
	100.0 %	

Changes in Assumptions and Benefit Terms Since Prior Measurement Date – There were no changes in assumptions or benefit terms as of June 30, 2020 from the June 30, 2019 measurement date.

Changes Since Measurement Date - There were no changes between the measurement date of the collective net pension liability and the University reporting date that are expected to have a significant effect on the University's proportionate share of the collective net pension liability.

Discount rate - The discount rate used to measure the total pension liability at June 30, 2020 was 7.50%. The projection of cash flows used to determine the discount rate assumed that plan member contributions will be made at the current contribution rates and the Employer contributions will be made at actuarially determined contribution rates, adjusted by 95% for all fiscal years in the future. Based on those assumptions, at the June 30, 2020 measurement date, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

KENTUCKY STATE UNIVERSITY
NOTES TO FINANCIAL STATEMENTS
(Continued)
June 30, 2021

NOTE 9 – DEFINED BENEFIT PENSION PLANS (CONTINUED)

Sensitivity of the University's proportionate share of the net pension liability to changes in the discount rate - The following table presents the net pension liability of the University as of June 30, 2021, calculated using the discount rate of 7.50%, as well as what the University's net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (6.50%) or 1-percentage-point higher (8.50%) than the current rate:

	1% Decrease (6.50%)	Current Discount Discount (7.50%)	1% Increase (8.50%)
Proportionate share of the Collective Net Pension Liability	\$ 31,570,074	\$ 24,786,076	\$ 19,139,538

Summary Pension Plan Information:

<u>June 30, 2021</u>	KERS Hazardous/ Non-hazardous	KTRS	Total
Net pension liability	\$ 45,524,441	\$ 24,786,076	\$ 70,310,517
Deferred outflows of resources	5,333,668	6,767,535	12,101,203
Deferred inflows of resources	190,927	11,071,227	11,262,154
Pension expense (income)	7,283,675	(10,828,206)	(3,544,531)

NOTE 10 - OTHER POSTEMPLOYMENT BENEFITS PLANS (OPEB)

In addition to the pension plans disclosed in Note 9, the University's employees participate in either the Kentucky Teachers Retirement System (KTRS) OPEB Plan or the Kentucky Employees Retirement System (KERS) OPEB Plan (the System) depending on the retirement plan in which they participate. Each OPEB plan is described in detail below.

Kentucky Employees Retirement System (KERS) OPEB Plan

Plan Description: The KERS OPEB Plan is a cost-sharing multiple-employer defined benefit OPEB plan, which was available to University employees hired prior to January 1, 2014. This plan provides medical insurance for eligible retirees and is administered by Kentucky Retirement System (KRS) who publishes a financial report located at <https://kyret.ky.gov>.

OPEB Benefits Provided: The information below summarizes the major other postemployment retirement benefit provisions of KERS Non-Hazardous and Hazardous plans. It is not intended to be, nor should it be interpreted as, a complete statement of all benefit provisions:

Insurance Tier 1: Participation began before 7/1/2003

Benefit Eligibility: Recipient of a retirement allowance

Benefit: The percentage of member premiums paid by the retirement system are dependent on the number of years of service. Benefits also include duty disability retirements, duty death in service, non-duty death in service and surviving spouse of a retiree.

NOTE 10 - OTHER POSTEMPLOYMENT BENEFITS PLANS (OPEB) (CONTINUED)

Insurance Tier 2: Participation began on or after 7/1/2003, but before 9/1/2008

Benefit Eligibility: Recipient of a retirement allowance with at least 120 months of service at retirement

Benefit: The system provides a monthly contribution subsidy of \$10 (Non-hazardous) and \$15 (Hazardous) for each year of earned service. The monthly contribution is increased by 1.5% each July 1. Benefits also include duty disability retirements, duty death in service and non-duty death in service.

Insurance Tier 3: Participation began on or after 9/1/2008

Benefit Eligibility: Recipient of a retirement allowance with at least 180 months of service at retirement

Benefit: Tier 3 insurance benefits are identical to Tier 2, except Tier 3 members are required to have at least 180 months of service in order to be eligible.

Contributions: The University was required to contribute at an actuarially determined rate determined by Statute. Per Kentucky Revised Statute Section 78.545(33) normal contribution and past service contribution rates shall be determined by the KRS Board on the basis of an annual valuation last preceding July 1 of a new biennium. The KRS Board may amend contribution rates as of the first day of July of the second year of a biennium, if it is determined on the basis of a subsequent actuarial valuation that amended contribution rates are necessary to satisfy requirements determined in accordance with actuarial bases adopted by the KRS Board.

For the fiscal year ended June 30, 2021, participating employers in the Non-Hazardous plan contributed 49.47% (41.06% allocated to pension and 8.41% allocated to OPEB) as set by KRS of each non-hazardous employee's creditable compensation. For the fiscal year ended June 30, 2021, participating employers in the Hazardous plan contributed 36% (36% allocated to pension and 0% allocated to OPEB) as set by KRS of each Hazardous employee's creditable compensation. These percentages are inclusive of both pension and insurance payments for employers. Administrative costs of KRS are financed through employer contributions and investment earnings.

The University has met 100% of the contribution funding requirement for the fiscal years ended June 30, 2021. Total current year contributions recognized by the Plan were \$1,984,918, \$1,647,478 related to pension and \$337,440 related to OPEB for the year ended June 30, 2021. The OPEB contributions amount does not include the implicit subsidy reported in the amount of \$107,213.

Members whose participation began before 9/1/2008:

Nonhazardous contributions equal 5% and Hazardous contributions equal 8% of all creditable compensation. Interest paid on the members' accounts is currently 2.5%; and per statute shall not be less than 2.0%. Member entitled to a full refund of contributions with interest.

Members whose participation began on or after 9/1/2008:

Nonhazardous contributions equal to 6% and Hazardous contributions equal 9% of all creditable compensation, with 5% (Non-hazardous) and 8% (Hazardous) being credited to the member's account and 1% deposited to the KRS 401(h) Account. Interest paid on the members' accounts will be set at

KENTUCKY STATE UNIVERSITY
NOTES TO FINANCIAL STATEMENTS
(Continued)
June 30, 2021

NOTE 10 - OTHER POSTEMPLOYMENT BENEFITS PLANS (OPEB) (CONTINUED)

2.5%. Member is entitled to a full refund of contributions and interest in their individual account, however, the 1% contributed to the insurance fund is non-refundable.

Nonhazardous contributions equal to 6% and Hazardous contributions equal 9% of all creditable compensation, with 5% (Non-hazardous) and 8% (Hazardous) being credited to the member's account and 1% deposited to the KRS 401(h) Account. Interest paid on the members' accounts will be set at 2.5%. Member is entitled to a full refund of contributions and interest in their individual account, however, the 1% contributed to the insurance fund is non-refundable.

Nonhazardous contributions equal 5% and Hazardous contributions equal 8% of all creditable compensation. Interest paid on the members' accounts is currently 2.5%; and per statute shall not be less than 2.0%. Member entitled to a full refund of contributions with interest.

Members whose participation on or after 1/1/2014:

Nonhazardous contributions equal to 6% and Hazardous contributions equal 9% of all creditable compensation, with 5% (Non-hazardous) and 8% (Hazardous) being credited to the member's account and 1% deposited to the KRS 401(h) Account. Interest paid on the members' accounts will be set at 2.5%. Member is entitled to a full refund of contributions and interest in their individual account, however, the 1% contributed to the insurance fund is non-refundable.

Nonhazardous contributions equal 5% and Hazardous contributions equal 8% of all creditable compensation. Interest paid on the members' accounts is currently 2.5%; and per statute shall not be less than 2.0%. Member entitled to a full refund of contributions with interest.

Total OPEB Liability: The total other postemployment benefits ("OPEB") liability was determined by an actuarial valuation as of June 30, 2020. The financial reporting actuarial valuation as of June 30, 2020, used the following actuarial methods and assumptions, applied to all periods included in the measurement:

Valuation Date	June 30, 2019
Measurement Date	June 30, 2020
Inflation	2.30%
Payroll growth rate	0.00% for KERS non-hazardous and hazardous
Salary increases	3.30 to 15.30%, varies by service for Non-Hazardous, and 3.55% to 20.05%, varies by service for Hazardous
Investment rate of return	6.25%
Healthcare trend rates	
Pre-65	Initial trend starting at 6.40% at January 1, 2022, decreasing to an ultimate trend rate of 4.05% over 14 years.

The mortality table used for active members is RP-2000 Combined Mortality Table projected with Scale BB to 2013 (multiplied by 50% for males and 30% for females). For healthy retired members and beneficiaries, the mortality table used is the RP-2000 Combined Mortality Table projected with Scale BB to 2013 (set back 1 year for females). For disabled members, the RP-2000 Combined Disabled.

KENTUCKY STATE UNIVERSITY
NOTES TO FINANCIAL STATEMENTS
(Continued)
June 30, 2021

NOTE 10 - OTHER POSTEMPLOYMENT BENEFITS PLANS (OPEB) (CONTINUED)

Mortality Table projected with Scale BB to 2013 (set back 4 years for males) is used for the period after disability retirement. There is some margin in the current mortality tables for possible future improvement in mortality rates and that margin will be reviewed again when the next experience investigation is conducted.

Discount rate assumptions:

- (a) **Discount Rate:** The discount rate used to measure the total Non-hazardous OPEB liability was 5.43%, which was reduced from the 5.73% discount rate used in the prior year. The discount rate used to measure the total Hazardous OPEB liability was 5.28%, which was decreased from the 5.66% discount rate used in the prior year.
- (b) **Projected Cash Flows:** The projection of cash flows used to determine the discount rate assumed the local employers and plan members would contribute the actuarially determined contribution rate of projected compensation over the remaining 24-year closed amortization period of the unfunded actuarial accrued liability.
- (c) **Long-Term Rate of Return:** The long-term expected return on plan assets is reviewed as part of the regular experience studies prepared every five years for the System. The most recent analysis, performed for the period covering fiscal years 2008 through 2013 is outlined in a report dated April 30, 2014. However, the Board of KRS has the authority to review the assumptions on a more frequent basis and adopt new assumptions prior to the next scheduled experience study. The long-term expected rate of return was determined by using a building-block method in which best-estimate ranges of expected future real rate of returns are developed for each asset class.
- (d) The ranges are combined by weighting the expected future real rate of return by the target asset allocation percentage.
- (e) **Municipal Bond Rate:** The discount rate determination used a municipal bond rate of 2.45% as reported in Fidelity Index's "20 – Year Municipal GO AA Index" as of June 30, 2020.
- (f) **Period of Projected Benefit Payments:** Current assets, future contributions, and investment earnings are projected to be sufficient to pay the projected benefit payments from the retirement system. However, the cost associated with the implicit employer subsidy is not currently being included in the calculation of the system's actuarial determined contributions, and it is the actuary's understanding that any cost associated with the implicit subsidy will not be paid out of the system's trust. Therefore, the municipal bond rate was applied to future expected benefit payments associated with the implicit subsidy.
- (g) **Assumed Asset Allocations:** The target asset allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

KENTUCKY STATE UNIVERSITY
NOTES TO FINANCIAL STATEMENTS
(Continued)
June 30, 2021

NOTE 10 - OTHER POSTEMPLOYMENT BENEFITS PLANS (OPEB) (CONTINUED)

<u>Asset Class</u>	<u>June 30, 2021</u>	
	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
US Equity	18.75 %	4.50 %
International Equity	18.75	5.25
Private Equity	10.00	6.65
Special Credit/High Yield	15.00	3.90
Core Bonds	13.50	(0.25)
Real Estate	5.00	5.30
Opportunistic	3.00	2.25
Real Return	15.00	3.95
Cash	1.00	(0.75)
	<u>100.00 %</u>	

The long-term expected rate of return on pension plan assets was established by the KRS Board of Trustees at 6.25% based on a blending of the factors described above.

Sensitivity Analysis: This paragraph requires disclosure of the sensitivity of the net OPEB liability to changes in the discount rate and changes in the healthcare cost trend rate.

Non-hazardous

The following presents the University's allocated portion of the Non-hazardous net OPEB liability of the System, calculated using the discount rate of 5.43%, as well as what the University's allocated portion of the System's net OPEB liability would be if it were calculated using a discount rate that is 1-percentage-point lower (4.43%) or 1-percentage-point higher (6.43%) than the current rate for Non-hazardous:

	<u>1% Decrease (4.43 %)</u>	<u>Current Discount Rate Rate (5.43 %)</u>	<u>1% Increase (6.43%)</u>
The University's Net OPEB liability - Non-hazardous	\$ 9,653,147	\$ 8,099,015	\$ 6,823,392

The following presents the University's allocated portion of the Non-hazardous net OPEB liability of the System, calculated using the healthcare cost trend rate of percent, as well as what the University's allocated portion of the System's net OPEB liability would be if it were calculated using a healthcare cost trend rate that is 1-percentage-point lower or 1-percentage-point higher than the current rate for Non-hazardous:

KENTUCKY STATE UNIVERSITY
NOTES TO FINANCIAL STATEMENTS
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NOTE 10 - OTHER POSTEMPLOYMENT BENEFITS PLANS (OPEB) (CONTINUED)

	<u>1% Decrease</u>	<u>Current Healthcare Cost Trend Rate</u>	<u>1% Increase</u>
The University's Net OPEB liability - Non-hazardous	\$ 6,816,670	\$ 8,099,015	\$ 9,652,243

Hazardous

The following presents The University's allocated portion of the Hazardous net OPEB liability of the System, calculated using the discount rate of 5.28%, as well as what the University's allocated portion of the System's net OPEB liability would be if it were calculated using a discount rate that is 1-percentage-point lower (4.28%) or 1-percentage-point higher (6.28%) than the current rate for Hazardous:

	<u>1% Decrease (4.28%)</u>	<u>Current Discount Rate Rate (5.28 %)</u>	<u>1% Increase (6.28%)</u>
The University's Net OPEB liability - Non-hazardous	\$ 76,438	\$ 25,912	\$ (14,740)

The following presents the University's allocated portion of the Hazardous net OPEB liability of the System, calculated using the healthcare cost trend rate of percent, as well as what the University's allocated portion of the System's net OPEB liability would be if it were calculated using a healthcare cost trend rate that is 1-percentage-point lower or 1-percentage-point higher than the current rate for Hazardous:

	<u>1% Decrease</u>	<u>Current Healthcare Cost Trend Rate</u>	<u>1% Increase</u>
The University's Net OPEB liability - Non-hazardous	\$ (12,143)	\$ 25,912	\$ 72,506

KENTUCKY STATE UNIVERSITY
NOTES TO FINANCIAL STATEMENTS
(Continued)
June 30, 2021

NOTE 10 - OTHER POSTEMPLOYMENT BENEFITS PLANS (OPEB) (CONTINUED)

Employer's Portion of the Collective OPEB Liability: The University's proportionate share of the Non-hazardous net OPEB liability, as indicated in the prior table, is \$8,099,015, or approximately 0.32%. The University's proportionate share of the Hazardous net OPEB liability (asset), as indicated in the prior table, is \$25,912, or approximately 0.06%. The net pension liabilities were distributed based on 2020 actual employer contributions to the plan.

Measurement Date: June 30, 2020 is the actuarial valuation date and measurement date upon which the total pension liability is based.

Changes in Assumptions and Benefit Terms: Since the prior measurement date, there have been no changes in actuarial assumptions or benefit terms.

Changes Since Measurement Date: There were no changes between the measurement date of the collective net OPEB liability and the employer's reporting date.

OPEB Expense: The University was allocated pension expense of \$1,147,485 related to the KERS Non-Hazardous and \$10,891 related to the KERS Hazardous for the year ending June 30, 2021.

Deferred Outflows and Deferred Inflows: Since certain expense items are amortized over closed periods each year, the deferred portions of these items must be tracked annually. If the amounts serve to reduce OPEB expense they are labeled as deferred inflows. If they will increase OPEB expense they are labeled deferred outflows. The amortization of these amounts is accomplished on a level dollar basis, with no interest included in the deferred amounts. Experience gains/losses and the impact of changes in actuarial assumptions, if any, are amortized over the average remaining service life of the active and inactive System members at the beginning of the fiscal year. Investment gains and losses are amortized over a fixed five-year period. Deferred inflows and outflows as of the Measurement Date include:

KENTUCKY STATE UNIVERSITY
NOTES TO FINANCIAL STATEMENTS
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June 30, 2021

NOTE 10 - OTHER POSTEMPLOYMENT BENEFITS PLANS (OPEB) (CONTINUED)

	Deferred Outflows of Resources	Deferred Inflows of Resources
Non-hazardous:		
Difference between expected and actual experience	\$ 670,283	\$ 804,297
Changes of assumptions	592,805	14,074
Changes in proportion and differences between employer contributions and proportionate share of contributions	1,079,879	42,300
Difference between expected and actual investment earnings on plan investments	155,358	158,831
Contributions subsequent to the measurement date	<u>337,440</u>	<u>-</u>
Total	<u>\$ 2,835,765</u>	<u>\$ 1,019,502</u>
Hazardous:		
Difference between expected and actual experience	\$ 13,094	\$ 22,967
Changes of assumptions	38,203	185
Changes in proportion and differences between employer contributions and proportionate share of contributions	33,212	35,685
Difference between expected and actual investment earnings on plan investments	16,967	6,372
Contributions subsequent to the measurement date	<u>-</u>	<u>-</u>
Total	<u>\$ 101,476</u>	<u>\$ 65,209</u>

KENTUCKY STATE UNIVERSITY
NOTES TO FINANCIAL STATEMENTS
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June 30, 2021

NOTE 10 - OTHER POSTEMPLOYMENT BENEFITS PLANS (OPEB) (CONTINUED)

Deferred outflows of resources resulting from employer contributions subsequent to the measurement date of \$337,440, which include the implicit subsidy reported of \$107,213, will be recognized as a reduction of net OPEB liability in the year ending June 30, 2021. The remainder of the deferred outflows and deferred inflows of resources are amortized over three to five years with remaining amortization as follows:

Year ending June 30:

2022	\$	611,808
2023		405,830
2024		452,401
2025		43,089
2026		1,963
		<hr/>
	\$	1,515,091

OPEB Plan Fiduciary Net Position: Detailed information about the KERS OPEB plans' fiduciary net position is available in the separately issued OPEB plan financial reports.

Kentucky Teachers' Retirement System

Medical Insurance Plan

Plan Description - In addition to the pension benefits previously described, Kentucky Revised Statute 161.675 requires KTRS to provide postemployment healthcare benefits to eligible members and dependents. The KTRS Medical Insurance benefit is a cost-sharing multiple employer defined benefit plan. Changes made to the medical plan may be made by the KTRS Board of Trustees, the Kentucky Department of Employee Insurance and the General Assembly.

Benefits Provided - To be eligible for medical benefits, the member must have retired either for service or disability. The KTRS Medical Insurance Fund offers coverage to members under the age of 65 through the Kentucky Employees Health Plan administered by the Kentucky Department of Employee Insurance. KTRS retired members are given a supplement to be used for payment of their health insurance premium. The amount of the member's supplement is based on a contribution supplement table approved by the KTRS Board of Trustees. The retired member pays premiums in excess of the monthly supplement. Once retired members and eligible spouses attain age 65 and are Medicare eligible, coverage is obtained through the KTRS Medicare Eligible Health Plan.

Contributions - In order to fund the post-retirement healthcare benefit, seven and one-half percent (7.50%) of the gross annual payroll of members is contributed. Three percent (3.75%) is paid by member contributions and three quarters percent (0.75%) from state appropriation and three percent (3.00%) from the employer. The state contributes the net cost of health insurance premiums for members who retired on or after July 1, 2010 who are in the non-Medicare eligible group. Also, the premiums collected from retirees as described in the plan description and investment interest help meet the medical expenses of the plan. For the year ended June 30, 2021, the University contributed \$299,000 to the KTRS medical insurance plan.

KENTUCKY STATE UNIVERSITY
NOTES TO FINANCIAL STATEMENTS
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NOTE 10 - OTHER POSTEMPLOYMENT BENEFITS PLANS (OPEB) (CONTINUED)

OPEB Liabilities, OPEB Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEBs - At June 30, 2021, the University reported a liability of \$4,350,000 for its proportionate share of the collective net OPEB liability that reflected a reduction for state OPEB support provided to the University. The collective net OPEB liability was measured as of June 30, 2020, and the total OPEB liability used to calculate the collective net OPEB liability was based on a projection of the University's long-term share of contributions to the OPEB plan relative to the projected contributions of all participating employers, actuarially determined. At June 30, 2021, the University's proportion was 0.17% and the Commonwealth of Kentucky's proportionate share was 0.08%.

The amount recognized by the University as its proportionate share of the OPEB liability, the related State support, and the total portion of the net OPEB liability that was associated with the University were as follows:

University's proportionate share of the net OPEB liability	\$	4,350,000
State's proportionate share of the net OPEB liability associated with the University		1,918,000
	\$	<u>6,268,000</u>

For the year ended June 30, 2021, the University recognized OPEB expense of \$307,834 and revenue of \$134,630 for support provided by the State. At June 30, 2021, the University reported deferred outflows of resources and deferred inflows of resources related to OPEBs from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Net difference between projected and actual earnings on OPEB plan investments	\$ 142,000	\$ -
Change in assumptions	264,000	-
Differences between expected and actual experience	-	1,855,000
Changes in proportion and differences between employer contributions and proportionate share of contributions	360,000	71,000
University's contributions subsequent to the measurement date	<u>299,000</u>	<u>-</u>
	<u>\$ 1,065,000</u>	<u>\$ 1,926,000</u>

Of the total amount reported as deferred outflows of resources related to OPEB, \$299,000 resulting from University contributions subsequent to the measurement date and before the end of the fiscal year will be included as a reduction of the collective net OPEB liability in the year ended June 30, 2022. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized in the University's OPEB expense as follows:

KENTUCKY STATE UNIVERSITY
NOTES TO FINANCIAL STATEMENTS
(Continued)
June 30, 2021

NOTE 10 - OTHER POSTEMPLOYMENT BENEFITS PLANS (OPEB) (CONTINUED)

Year ending June 30:		
2022	\$	(239,000)
2023		(229,000)
2024		(231,000)
2025		(207,000)
2026		(182,000)
Thereafter		(72,000)
	\$	<u>(1,160,000)</u>

Actuarial Assumptions - The total OPEB liability in the June 30, 2020 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Valuation Date	June 30, 2019
Measurement Date	June 30, 2020
Investment rate of return	8.00%, net of OPEB plan investment expense, including inflation
Projected salary increases	3.50-7.20%, including inflation
Inflation rate	3.00%
Real Wage Growth	0.50%
Wage Inflation	3.50%
Healthcare cost trend rates	
Under 65	7.25% for 2020 decreasing to an ultimate rate of 5.00% by FY 2029
Ages 65 and Older	5.50% for FY 2019 decreasing to an ultimate rate of 5.00% by FY 2022
Medicare Part B Premiums	2.63% for FY 2019 with an ultimate rate of 5.00% by 2031
Municipal Bond Index Rate	3.50%
Discount Rate	8.00%
Single Equivalent Interest Rate	8.00%, net of OPEB plan investment expense, including price inflation

Mortality rates were based on the RP-2000 Combined Mortality Table projected to 2026 with projection scale BB and set forward two years for males and one year for females for the period after service retirement and for dependent beneficiaries. The RP-2000 Disabled Mortality Table set forward two years for males and seven years for females is used for the period after disability retirement.

The demographic actuarial assumptions for retirement, disability incidence, withdrawal, rates of plan participation, and rates of plan election used in the June 30, 2019 valuation were based on the results of the most recent actuarial experience studies for the System, which covered the five-year period ending June 30, 2015. The remaining actuarial assumptions used in the June 30, 2019 valuation of the Medical Insurance Fund (MIF) were based on a review of recent plan experience done concurrently with the June 30, 2019 valuation. The health care cost trend rate assumption was updated for the June 30, 2019 valuation and was shown as an assumption change in the Total OPEB Liability (TOL) roll forward while the change in initial per capita claims costs were included with experience in the TOL roll forward.

The long-term expected rate of return on OPEB plan investments was determined using a log-normal distribution analysis in which best-estimate ranges of expected future real rates of return (expected returns, net of OPEB plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation.

KENTUCKY STATE UNIVERSITY
NOTES TO FINANCIAL STATEMENTS
(Continued)
June 30, 2021

NOTE 10 - OTHER POSTEMPLOYMENT BENEFITS PLANS (OPEB) (CONTINUED)

The target allocation and best estimates of arithmetic real rates of return for each major asset class, as provided by KTRS's investment consultant, are summarized in the following table:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>30 Year Expected Geometric Rate of Return</u>
Global Equity	58.00 %	5.40 %
Fixed Income	9.00	0.00
Real Estate	6.50	4.30
Private Equity	8.50	7.70
Other Additional Categories	17.00	2.50
Cash (LIBOR)	<u>1.00</u>	<u>(0.50)</u>

Discount Rate - The discount rate used to measure the total OPEB liability was 8.00%. The projection of cash flows used to determine the discount rate assumed that plan member contributions will be made at the current contribution rates and the employer contributions will be made at statutorily required rates. Based on those assumptions, the OPEB plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on OPEB plan investments was applied to all periods of projected benefit payments to determine the total OPEB liability.

Sensitivity of the University's proportionate share of the net OPEB liability to changes in the discount rate The following table presents the University's proportionate share of the collective net OPEB liability of the System, calculated using the discount rate of 8.00%, as well as what the University's proportionate share of the collective net OPEB liability would be if it were calculated using a discount rate that is 1-percentage-point lower (7.00%) or 1-percentage-point higher (9.00%) than the current rate:

	<u>1% Decrease (7.00 %)</u>	<u>Current Discount Rate Rate (8.00 %)</u>	<u>1% Increase (9.00%)</u>
University's net OPEB liability (Medical Insurance)	\$ 5,258,000	\$ 4,350,000	\$ 3,593,000

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

KENTUCKY STATE UNIVERSITY
NOTES TO FINANCIAL STATEMENTS
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June 30, 2021

NOTE 10 - OTHER POSTEMPLOYMENT BENEFITS PLANS (OPEB) (CONTINUED)

	1% Decrease	Current Trend Rate	1% Increase
University's net OPEB liability (Medical Insurance)	\$ 3,448,000	\$ 4,350,000	\$ 5,462,000

OPEB Plan Fiduciary Net Position – Detailed information about the OPEB plan's fiduciary net position is available in the separately issued KTRS financial report.

Life Insurance Plan

Plan Description – Life Insurance Plan – KTRS administers the life insurance plan as provided by Kentucky Revised Statute 161.655 to eligible active and retired members. The KTRS Life Insurance benefit is a cost-sharing multiple employer defined benefit plan. Changes made to the life insurance plan may be made by the KTRS Board of Trustees and the General Assembly.

Benefits Provided – KTRS provides a life insurance benefit of five thousand dollars payable for members who retire based on service or disability. KTRS provides a life insurance benefit of two thousand dollars payable for its active contributing members. The life insurance benefit is payable upon the death of the member to the member's estate or to a party designated by the member.

Contributions – In order to fund the post-retirement life insurance benefit, three hundredths of one percent (0.03%) of the gross annual payroll of members is contributed by the state. For the year ended June 30, 2021, the University contributed \$8,000 to the KTRS life insurance plan.

OPEB Liabilities, OPEB Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEBs: At June 30, 2021, the University reported a liability of \$147,000 for its proportionate share of the collective net OPEB liability that reflected a reduction for state OPEB support provided to the University. The collective net OPEB liability was measured as of June 30, 2020, and the total OPEB liability used to calculate the collective net OPEB liability was based on a projection of the University's long-term share of contributions to the OPEB plan relative to the projected contributions of all participating employers, actuarially determined. At June 30, 2020, the University's proportion was 0.42%.

For the year ended June 30, 2021, the University recognized actuarially determined OPEB expense of \$24,000 and revenue of \$(2,000) for support provided by the State. At June 30, 2021, the University reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

KENTUCKY STATE UNIVERSITY
NOTES TO FINANCIAL STATEMENTS
(Continued)
June 30, 2021

NOTE 10 - OTHER POSTEMPLOYMENT BENEFITS PLANS (OPEB) (CONTINUED)

	Deferred Outflows of Resources	Deferred Inflows of Resources
Net difference between projected and actual earnings on OPEB plan investments	\$ 1,000	\$ -
Net changes in proportion and differences between employer contributions and proportionate share of contributions	8,000	-
Differences between expected and actual earnings on investments	21,000	-
University's contributions subsequent to the measurement date	8,000	-
	<u>\$ 38,000</u>	<u>\$ -</u>

Of the total amount reported as deferred outflows of resources related to OPEB, \$8,000 resulting from University contributions subsequent to the measurement date and before the end of the fiscal year will be included as a reduction of the collective net OPEB liability in the year ended June 30, 2021. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized in the University's OPEB expense as follows:

Year ending June 30:	
2022	\$ 13,000
2023	7,000
2024	3,000
2025	2,000
2026	3,000
Thereafter	<u>2,000</u>
	<u>\$ 30,000</u>

Actuarial Assumptions – The total OPEB liability in the June 30, 2020 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Investment rate of return	7.50%, net of OPEB plan investment expense, including inflation
Projected salary increases	3.50-7.20%, including inflation
Inflation rate	3.00%
Real Wage Growth	0.50%
Wage Inflation	3.50%
Municipal Bond Index Rate	3.50%
Discount Rate	7.50%
Single Equivalent Interest Rate	7.50%, net of OPEB plan investment expense, including price inflation

KENTUCKY STATE UNIVERSITY
NOTES TO FINANCIAL STATEMENTS
(Continued)
June 30, 2021

NOTE 10 - OTHER POSTEMPLOYMENT BENEFITS PLANS (OPEB) (CONTINUED)

Mortality rates were based on the RP-2000 Combined Mortality Table projected to 2026 with projection scale BB, and set forward two years for males and one year for females is used for the period after service retirement and for dependent beneficiaries. The RP-2000 Disabled Mortality Table set forward two years for males and seven years for females is used for the period after disability retirement. The demographic actuarial assumptions for retirement, disability incidence, withdrawal, rates of plan participation, and rates of plan election used in the June 30, 2018 valuation were based on the results of the most recent actuarial experience studies for the System, which covered the five-year period ending June 30, 2015.

The long-term expected rate of return on OPEB plan investments was determined using a log-normal distribution analysis in which best-estimate ranges of expected future real rates of return (expected returns, net of OPEB plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation.

The target allocation and best estimates of arithmetic real rates of return for each major asset class, as provided by KTRS's investment consultant, are summarized in the following table:

<u>Asset Class*</u>	June 30, 2020	
	Target Allocation	Long-Term Expected Real Rate of Return
US Equity	40.0 %	4.6
International Equity	23.0	5.6
Fixed Income	18.0	0
Real Estate	6.0	4.3
Private Equity	5.0	7.7
Additional Categories	6.0	2.5
Cash	2.0	-0.5
	100 %	

* As the life insurance fund investment policy is to change, the above reflects the pension allocation and returns that achieve the target 7.5% long-term rate of return.

Discount rate - The discount rate used to measure the total OPEB liability for life insurance was 7.50%. The projection of cash flows used to determine the discount rate assumed that the employer contributions will be made at statutorily required rates. Based on those assumptions, the OPEB plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on OPEB plan investments was applied to all periods of projected benefit payments to determine the total OPEB liability.

KENTUCKY STATE UNIVERSITY
NOTES TO FINANCIAL STATEMENTS
(Continued)
June 30, 2021

NOTE 10 - OTHER POSTEMPLOYMENT BENEFITS PLANS (OPEB) (CONTINUED)

Sensitivity of the University's proportionate share of the net OPEB liability to changes in the discount rate - The following table presents the University's proportionate share of the collective net OPEB liability of the System, calculated using the discount rate of 7.50%, as well as what the University's proportionate share of the collective net OPEB liability would be if it were calculated using a discount rate that is 1-percentage-point lower (6.50%) or 1-percentage-point higher (8.50%) than the current rate:

	1% Decrease (6.50 %)	Current Discount Rate Rate (7.50 %)	1% Increase (8.50%)
University's net OPEB (LI) liability	\$ 213,000	\$ 147,000	\$ 93,000

OPEB plan fiduciary net position – Detailed information about the KTRS OPEB plans' fiduciary net position is available in the separately issued KTRS financial report.

Summary OPEB Information:

<u>June 30, 2021</u>	<u>KERS</u>	<u>KTRS</u>	<u>Total</u>
Net OPEB liability	\$ 8,124,927	\$ 4,497,000	\$ 12,621,927
Deferred outflows of resources	2,937,241	1,103,000	4,040,241
Deferred inflows of resources	1,084,711	1,926,000	3,010,711
Actuarially determined OPEB expense	1,158,376	332,000	1,490,376

NOTE 11 - COMMITMENTS AND CONTINGENCIES

The University is a party to various lawsuits and other claims in the ordinary course of business. University officials are of the opinion, based upon the advice of legal counsel, that the ultimate resolution of these matters will not have a material effect on the financial statements of the University.

The University receives financial assistance from federal and state agencies in the form of grants and awards. The expenditure of funds received from these programs generally requires compliance with terms and conditions specified in the grant agreements and are subject to audit by the grantor agencies. Any disallowed claims resulting from such audit could become a liability of the applicable fund.

NOTE 12 - RISK MANAGEMENT

The University is exposed to various risks of loss from torts; theft of, damage to, destruction of assets; business interruption; employee injuries and illnesses; natural disasters; and employee health and accident benefits. Commercial insurance coverage is purchased for claims arising from these risks. Settled claims have not exceeded this commercial coverage in any of the three preceding years. As a sovereign entity of the Commonwealth of Kentucky, the Kentucky Board of Claims handles tort claims on behalf of the University.

KENTUCKY STATE UNIVERSITY
NOTES TO FINANCIAL STATEMENTS
(Continued)
June 30, 2021

NOTE 12 - RISK MANAGEMENT (CONTINUED)

During fiscal year 2021, the University started a self-insurance program for employee's health insurance. Under this plan, the University pays premiums based on estimated claims. The University pays approximately 62% of the expenses of the plan for permanent full-time employees and their families. Expenses incurred to cover claims paid by the University under the plan for year ended June 30, 2021 totaled \$2,885,664. Administrative fees incurred for the year ended June 30, 2021 was \$158,382. Stop loss premium paid for the year ended June 30, 2021, was \$339,409.

Changes in the liability for self-insurance at June 30, 2021 are as follows:

Liability – beginning of year	\$ 127,213
Accruals for current year claims and changes in estimate	2,885,664
Claims paid	<u>(2,796,042)</u>
Liability – end of year	<u><u>\$ 216,835</u></u>

NOTE 13 - SCHEDULE OF EXPENSES BY PROGRAM

In the Statement of Revenues, Expenses and Changes in Net Position, operating expenses are presented by functional expense purpose. Depreciation is allocated below based on functional classification as required by Integrated Postsecondary Education Data System (IPEDS) for Fiscal Year 2021. Functional expense purpose is classified by natural classification as follows:

	Compensation and Benefits	Supplies and Services	Scholarships and Fellowships	Depreciation	Operations and Maintenance	Total
Instruction	\$ 9,224,338	566,215	\$ -	\$ 542,178	\$ 678,300	\$ 11,011,031
Research	5,366,578	2,112,165	-	414,155	518,135	8,411,033
Public service	5,950,909	1,671,482	-	422,110	528,087	8,572,588
Academic support	444,687	57,691	-	27,821	34,805	565,004
Student services	6,307,365	1,455,866	-	429,909	537,845	8,730,985
Institutional support	6,419,456	15,523,719	-	1,215,161	1,520,247	24,678,583
Operation & maintenance of plant	1,861,519	2,797,266	-	257,992	(4,916,777)	-
Auxiliary enterprises	4,946,774	937,179	-	305,469	406,309	6,595,731
Student financial aid	121,024	37	9,882,365	553,966	693,049	11,250,441
Total operating expenses	<u>\$ 40,642,650</u>	<u>\$ 25,121,620</u>	<u>\$ 9,882,365</u>	<u>\$ 4,168,761</u>	<u>\$ -</u>	<u>\$ 79,815,396</u>

NOTE 14 – CORRECTION TO BEGINNING NET POSITION

During 2021, management discovered reclassifications to beginning net position as previously reported as of June 30, 2020. Restricted nonexpendable – endowment and restricted expendable net position were previously understated. The reclassifications are summarized as follows effective July 1, 2020:

KENTUCKY STATE UNIVERSITY
NOTES TO FINANCIAL STATEMENTS
(Continued)
June 30, 2021

NOTE 14 – CORRECTION TO THE BEGINNING NET POSITION (CONTINUED)

	Originally Reported June 30, 2020	Reclassification July 1, 2020	As Restated July 1, 2020
Net investment in capital assets	\$ 77,317,900	\$ -	\$ 77,317,900
Restricted Nonexpendable - endowment	3,562,238	5,133,853	8,696,091
Restricted Expendable	4,220,806	4,255,906	8,476,712
Unrestricted deficit	(86,672,074)	(9,389,759)	(96,061,833)
	<hr/>	<hr/>	<hr/>
Total net position (deficit)	<u>\$ (1,571,130)</u>	<u>\$ -</u>	<u>\$ (1,571,130)</u>

NOTE 15 – KENTUCKY STATE UNIVERSITY FOUNDATION, INC.

Description of the Organization

Kentucky State University Foundation, Inc. (the Foundation) is a Kentucky not-for-profit corporation formed to receive, invest and expend funds to promote and implement educational and developmental activities at Kentucky State University (the University). The Foundation is managed by a Board of Trustees independent from that of the University. The Foundation is supported primarily through contributions from alumni.

Summary of Significant Accounting Policies

The financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) which require management to make estimates and assumptions that affect the reported amounts and disclosures in the financial statements. Actual results could differ from those estimates. The following is a summary of the significant accounting policies consistently followed by the Foundation in the preparation of its financial statements.

Basis of Presentation: Net assets and revenues, expenses, gains, and losses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, net assets of the Foundation are classified and reported as follows:

Net assets without donor restrictions – net assets available for use in general operations and not subject to donor restrictions. The governing body has designated, from net assets without donor restrictions, net assets for an operating reserve and board-designated endowment.

Net assets with donor restrictions – net assets subject to donor-imposed restrictions. Some donor restrictions are temporary in nature, such as those that will be met by the passage of time or other events specified by the donor. Other donor-imposed restrictions are perpetual in nature, where the donor stipulates that resources be maintained in perpetuity. Donor-imposed restrictions are released when a restriction expires, that is, when the stipulated time has elapsed, when the stipulated purpose for which the

KENTUCKY STATE UNIVERSITY
NOTES TO FINANCIAL STATEMENTS
(Continued)
June 30, 2021

NOTE 15 – KENTUCKY STATE UNIVERSITY FOUNDATION, INC. (CONTINUED)

restriction has been fulfilled, or both. The investment return on net assets with donor restrictions may be restricted or unrestricted according to the donor's wishes.

When a donor restriction expires, net assets with donor restrictions are classified to net assets without donor restrictions and reported on the statements of activities as net assets released from restrictions. The Foundation treats donor-restricted contributions whose restrictions are met in the same reporting period as unrestricted support.

Cash and Cash Equivalents: The Foundation considers all highly liquid investments purchased with a maturity of three months or less to be cash equivalents. The Foundation has a concentration of credit risk in that it periodically maintains bank accounts which, at times, may exceed the coverage provided by the Federal Deposit Insurance Corporation (FDIC). The Foundation has not experienced any losses on such amounts. The Foundation believes it is not exposed to any significant credit risk on cash.

Investments: Investments are stated at fair value based on closing market quotations for such securities or similar securities.

Property and Equipment: Property and equipment is recorded at cost if purchased or fair market value at date of contribution if contributed. If the donors stipulate how long the assets must be used, the contributions of property and equipment are recorded as restricted support. In the absence of such stipulations, these contributions are recorded as unrestricted support. Depreciation is computed on a straight-line basis over the estimated useful lives of the respective assets.

Revenue Recognition: Contributions are generally recognized when received. However, pledges are recognized when the donor makes a promise to give to the Foundation that is, in substance, unconditional. Amounts received that are designated for future periods or restricted by donor for specific purposes are reported as additions to net assets with donor restrictions. When a donor restriction expires, net assets without donor restrictions are reclassified to net assets without donor restrictions.

Income Taxes: The Foundation, a not-for-profit organization operating under Section 501(c)(3) of the Internal Revenue Code, is generally exempt from federal, state and local income taxes. The Foundation's management does not believe the Foundation has any unrelated business income. Accordingly, no provision for income taxes is recorded in the financial statements.

Functional Allocation of Expenses: The costs of providing the program and other activities have been summarized on a functional basis in the statement of activities. Accordingly, certain costs have been allocated between the program and supporting services benefited.

Recent Accounting Pronouncements:

For the year ended June 30, 2021, Accounting Standards Update (ASU) 2014-09, Revenue from Contracts with Customers (Topic 606), became effective and was adopted by the Foundation. This standard requires an entity to recognize the amount of revenue to which it expects to be entitled for the transfer of promised goods or services to customers. The standard replaced most existing revenue recognition guidance in GAAP and permits the use of either a full retrospective or modified retrospective transition method.

KENTUCKY STATE UNIVERSITY
NOTES TO FINANCIAL STATEMENTS
(Continued)
June 30, 2021

NOTE 15 – KENTUCKY STATE UNIVERSITY FOUNDATION, INC. (CONTINUED)

Liquidity and Availability

As of June 30, 2021, the following financial assets held by the Foundation could readily be made available within one year of the balance sheet date to meet general expenditures:

Cash and cash equivalents	\$ 51,956
Operating investments	234,044
Endowment appropriations	<u>258,339</u>
 Total financial assets	 <u><u>\$ 544,339</u></u>

The Foundation regularly monitors liquidity required to meet its operating needs and other contractual commitments, while also striving to maximize the investment of its available funds. The Foundation has various sources of liquidity at its disposal, including cash and cash equivalents, as well as marketable debt and equity securities. The Foundation strives to maintain financial assets available to meet general expenditures at a level that represents 100% of annual expenses. The Finance Committee meetings semi-annually to review cash needs and funds availability for the following six-month period.

For purposes of analyzing resources available to meet general expenditures over a 12-month period, the Foundation considers all expenditures related to its ongoing activities of providing scholarships and other reimbursements to the University, restricted expenditures on behalf of the University, as well as its own operating needs to be general expenditures. The Foundation operates with a balanced budget and anticipates collecting sufficient revenue to cover general expenditures not covered by donor restriction.

Investments

Investments as of June 30, 2021 are summarized as follows:

Equity securities	\$ 9,630,014
Debt securities	<u>3,187,688</u>
 Total investments	 <u><u>\$ 12,817,702</u></u>

Fair Value Measurements

The Foundation classifies its investments based on a hierarchy consisting of: Level 1 (valued using quoted prices from active markets for identical assets), Level 2 (not traded on an active market but for which observable market inputs are readily available), and Level 3 (valued based on significant unobservable inputs). The investment'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 used need to maximize the use of observable inputs and minimize the use of unobservable inputs.

KENTUCKY STATE UNIVERSITY
NOTES TO FINANCIAL STATEMENTS
(Continued)
June 30, 2021

NOTE 15 – KENTUCKY STATE UNIVERSITY FOUNDATION, INC. (CONTINUED)

The following is a description of the valuation methodologies used for assets measured at fair value. There have been no changes in the methodologies used as of June 30, 2021.

Common stocks, municipal bonds, corporate bonds, U.S. government securities, and equity exchange traded funds: Valued at the closing price reported on the active market on which the individual securities are traded. Some level 2 inputs are used for pricing of municipal and corporate bonds; therefore, they are all classified as level 2.

Mutual funds: Valued at the daily closing price as reported by the fund. Mutual funds held by the Foundation 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 (NAV) and to transact at that price. The mutual funds held by the Foundation are deemed to be actively traded.

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

Fair value measurements as of June 30, 2021 are as follows:

	Level 1	Level 2	Level 3	Total
Common stocks	\$ 5,400,976	\$ -	\$ -	\$ 5,400,976
Mutual funds	4,195,149	-	-	4,195,149
Equity exchange traded funds	33,889	-	-	33,889
Municipal bonds	-	409,892	-	409,892
Corporate bonds	-	2,777,796	-	2,777,796
Total assets at fair value	<u>\$ 9,630,014</u>	<u>\$ 3,187,688</u>	<u>\$ -</u>	<u>\$ 12,817,702</u>

Net Assets With Donor Restrictions

Net assets with donor restrictions as of June 30, 2021 are restricted for the following purpose:

KENTUCKY STATE UNIVERSITY
NOTES TO FINANCIAL STATEMENTS
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June 30, 2021

NOTE 15 – KENTUCKY STATE UNIVERSITY FOUNDATION, INC. (CONTINUED)

Subject to expenditure for specified purpose:	
Instruction and institutional support	\$ 2,503,189
Scholarships	1,662,973
Total subject to expenditure for specified purpose	<u>4,166,162</u>
 Subject to the passage of time	 82,000
 Subject to endowment spending policy and appropriation:	
Investments in perpetuity (including amounts above the original gift amount of \$4,006,525), which once appropriated, are expendable to support the following programs:	
Instruction and institutional support	1,700,725
Scholarships	6,206,612
Total subject to endowment spending policy and appropriation	<u>7,907,337</u>
 Total Net Assets with Donor Restrictions	 <u><u>\$ 7,907,337</u></u>

Net Assets Released from Restriction

For the year ended June 30, 2021, net assets were released from donor restrictions by incurring expenses satisfying the purpose of the restrictions specified by donors as follows:

Endowment spending allocation	\$ 12,631
University support	128,066
Scholarships	597,292
Operating and other expenses	185,286
Student support	191,817
Travel and other expenses	<u>9,411</u>
 Total release from restrictions	 <u><u>\$ 1,124,503</u></u>

Endowment Composition

The Foundation's endowment consists of approximately 52 individual funds established by donors to provide annual funding for specific activities and general operations. The endowment also includes certain net assets without donor restrictions that have been designated for endowment by the Board of Trustees.

The Foundation's Board of Trustees has interpreted the Commonwealth of Kentucky Uniform Prudent Management of Institutional Funds Act (UPMIFA) as requiring the preservation of the fair value of the original gift as of the date of the donor-restricted endowment funds, unless there are explicit donor stipulations to the contrary. As of June 30, 2021, there were no such donor stipulations. As a result of this interpretation, the Foundation retains in perpetuity (a) the original value of initial and subsequent gift amounts including promises to give net of discount and allowance for doubtful accounts donated to the endowment and (b) any accumulations to the endowment made in accordance with the direction of the

KENTUCKY STATE UNIVERSITY
NOTES TO FINANCIAL STATEMENTS
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NOTE 15 – KENTUCKY STATE UNIVERSITY FOUNDATION, INC. (CONTINUED)

applicable donor gift instrument at the time the accumulation is added. Donor-restricted amounts not retained in perpetuity are subject to appropriation for expenditure by the Foundation in a manner consistent with the standard of prudence prescribed by UPMIFA. The Foundation considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

- The duration and preservation of the fund
- The purposes of the organization and the donor-restricted endowment fund
- General economic conditions
- The possible effect of inflation and deflation
- The expected total return from income and the appreciation of investments
- Other resources of the organization
- The investment policies of the organization

Endowment net asset composition by type of fund as of June 30, 2021 is as follows:

	Without Donor <u>Restrictions</u>	With Donor <u>Restrictions</u>	Total Net Endowment <u>Assets</u>
Board-designated endowment fund	\$ 2,472,680	\$ -	\$ 2,472,680
Original donor-restricted gift amount and amounts required by to be maintained in perpetuity by donor	-	5,214,862	5,214,862
Accumulated investment gains	<u>-</u>	<u>2,692,475</u>	<u>2,692,475</u>
Total operating expenses	<u>\$ 2,472,680</u>	<u>\$ 7,907,337</u>	<u>\$ 10,380,017</u>

From time to time, certain donor-restricted endowment funds may have fair value less than the amount required to be maintained by donors or by law (underwater endowments). The Foundation has interpreted UPMIFA to permit spending from underwater endowments in accordance with prudent measures required under law. There were no such deficiencies as of June 30, 2021.

Spending Policy: The Foundation spending policy is to distribute an amount at least equal to 3-5% of a moving sixteen quarter average of the fair value of the endowment funds. Accordingly, over the long term, the Foundation expects its spending policy to allow its endowment assets to grow at an average rate of 3% annually. This is consistent with the Foundation's objective to maintain the purchasing power of endowment assets as well as to provide additional real growth through investment return.

Changes in endowment net assets as of June 30, 2021 are as follows:

KENTUCKY STATE UNIVERSITY
NOTES TO FINANCIAL STATEMENTS
(Continued)
June 30, 2021

NOTE 15 – KENTUCKY STATE UNIVERSITY FOUNDATION, INC. (CONTINUED)

	Without Donor <u>Restrictions</u>	With Donor <u>Restrictions</u>	Total Net Endowment <u>Assets</u>
Endowment net assets, beginning of year	\$ 1,884,774	\$ 5,693,462	\$ 7,578,236
Contributions	-	1,106,454	1,106,454
Interest and dividends	85,598	88,932	174,530
Realized and unrealized gains	1,004,086	1,133,921	2,138,007
Other, net of investment expense	-	(124,676)	(124,676)
Amounts appropriated for expenditure	(501,778)	(12,631)	(514,409)
Reclassifications	<u>-</u>	<u>21,875</u>	<u>21,875</u>
Total operating expenses	<u>\$ 2,472,680</u>	<u>\$ 7,907,337</u>	<u>\$ 10,380,017</u>

Retirement Plan

The Foundation has a defined contribution profit sharing plan which covers all employees who meet certain requirements. Foundation contributions are discretionary. No contributions were made for the year ended June 30, 2021.

NOTE 16 – SUBSEQUENT EVENTS

On August 3, 2021, the University issued Certificates of Participation, Series 2021 totaling \$49,190,000 to finance the construction of new student housing and dining facilities. With final maturity in November 2056, these certificates bear interest at rates ranging from 4.00% to 5.00% per annum.

On April 8, 2022, the Governor of the Commonwealth of Kentucky signed House Bill 250, appropriating \$23,000,000 to the Council on Post-Secondary Education (the Council) to address financial instability at the University due to cash shortfalls and a projected financial structural imbalance. The additional appropriations are structured as a loan to the University and the Council will be responsible for making recommendations on repayment of the loan during the 2026 regular session of the Kentucky State Legislature. The repayment of the loan beginning in fiscal year 2027 will be determined at that time. The amount of interest accrued by the loan has not yet been determined.

REQUIRED SUPPLEMENTARY INFORMATION

KENTUCKY STATE UNIVERSITY
SCHEDULE OF THE UNIVERSITY'S (KSU)
PROPORTIONATE SHARE OF THE NET PENSION LIABILITY
KENTUCKY EMPLOYEES' RETIREMENT SYSTEM
June 30, 2021
(Amounts in thousands)

Non-hazardous

	<u>2021</u>	<u>2020</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>
KSU's proportion of the net pension liability	\$ 45,185	\$ 42,075	\$ 30,999	\$ 32,618	\$ 29,146	\$ 29,408	\$ 28,555
KSU's proportionate share of the net pension liability	0.32%	0.30%	0.23%	0.24%	0.26%	0.29%	0.32%
KSU's covered payroll	\$ 4,548	\$ 4,358	\$ 3,583	\$ 3,888	\$ 4,321	\$ 5,390	\$ 5,453
KSU's proportionate share of the net pension liability as a share of its covered payroll	993.51%	965.47%	865.17%	838.94%	674.52%	545.60%	523.66%
Plan fiduciary net position as a percentage of total pension liability	14.01%	13.66%	12.84%	13.30%	14.80%	18.83%	22.32%

Hazardous

	<u>2021</u>	<u>2020</u>	<u>2019</u>	<u>2018</u>
KSU's proportion of the net pension liability	\$ 340	\$ 393	\$ 939	\$ 237
KSU's proportionate share of the net pension liability	0.06%	0.07%	0.19%	0.05%
KSU's covered payroll	\$ 106	\$ 114	\$ 309	\$ 79
KSU's proportionate share of the net pension liability as a share of its covered payroll	320.75%	344.74%	303.88%	300.00%
Plan fiduciary net position as a percentage of total pension liability	55.18%	55.49%	56.10%	54.80%

Notes: This table represents data that is one year in arrears.

Changes in Assumptions: There have been no actuarial assumption or method changes since June 30, 2020. For fiscal year 2020, there was an increase to the salary increase assumptions for individual members and the base retiree mortality tables were replaced with a KERS-specific mortality table developed using the actual mortality experience of non-disabled retirees in KERS. Mortality tables for disable retirees and active members were updated with Public Retirement Mortality tables. Termination rates and rates of disability incidence were increased. Retirement rates were decreased slightly for members with participation date prior to July 1, 2003. For members with participation date on or after July 1, 2003, retirement rates were set equal to 80% of the retirement rates applicable for the pre-July 1, 2003 participants for ages below 65. There were no changes for fiscal year 2019. For fiscal year 2018, the demographic and economic assumptions that affect the measurement of the total pension liability have been updated as follows

- The assumed investment rate of return was decreased from 6.75% to 5.25% (Non-hazardous) and 7.50% to 6.25% (Hazardous)

See report of independent auditors.

KENTUCKY STATE UNIVERSITY
SCHEDULE OF THE UNIVERSITY'S (KSU)
PROPORTIONATE SHARE OF THE NET PENSION LIABILITY
KENTUCKY EMPLOYEES' RETIREMENT SYSTEM
June 30, 2021
(Amounts in thousands)

- The assumed rate of inflation was reduced from 3.25% to 2.30%.
- Payroll growth assumption was reduced from 4.00% to 3.05%.

Changes in Benefit Terms: Senate Bill 169 passed during the 2021 legislative session and increased the liability benefits for certain qualifying members who become "totally and permanently disabled" in the line of duty or as a result of a duty-related disability. The total pension liability as of June 30, 2021, is determined using these updated benefits provisions. During the 2018 legislative session, House Bill 185 was enacted, which updated the benefit provisions for active members who die in the line of duty. Benefits paid to the spouses of deceased members have been increased from 25% of the member's final rate of pay to 75% of the member's average pay. If the member does not have a surviving spouse, benefits paid to surviving dependent children have been increased from 10% of the member's final pay rate to 50% of average pay for one child, 65% of average pay for two children, or 75% of average pay for three children. The Total Pension Liability (TPL) as of June 30, 2018 is determined using these updated benefit provisions.

KENTUCKY STATE UNIVERSITY
SCHEDULE OF THE UNIVERSITY'S PENSION CONTRIBUTIONS
KENTUCKY EMPLOYEES' RETIREMENT SYSTEM
June 30, 2021
(Amounts in thousands)

Non-hazardous

	2021	2020	2019	2018	2017	2016	2015
Contractually required contribution	\$ 1,649	\$ 1,867	\$ 1,789	\$ 1,471	\$ 1,516	\$ 1,312	\$ 1,515
Contributions in relation to the contractually required contribution	\$ 1,649	\$ 1,867	\$ 1,789	\$ 1,471	\$ 1,516	\$ 1,312	\$ 1,515
Contribution deficiency (excess)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
KSU covered payroll	\$ 4,015	\$ 4,548	\$ 4,358	\$ 3,583	\$ 3,888	\$ 4,321	\$ 5,390
Contributions as a percentage of covered payroll	41.07%	41.05%	41.05%	41.05%	38.99%	30.36%	28.11%

Hazardous

	2021	2020	2019	2018
Contractually required contribution	\$ 65	\$ 32	\$ 35	\$ 61
Contributions in relation to the contractually required contribution	\$ 65	\$ 32	\$ 35	\$ 61
Contribution deficiency (excess)	\$ -	\$ -	\$ -	\$ -
KSU covered payroll	\$ 179	\$ 106	\$ 114	\$ 309
Contributions as a percentage of covered payroll	36.31%	30.19%	30.70%	19.74%

Note: These are 10-year schedules. However, the information in this schedule is not required to be presented retroactively. Years will be added to this schedule in future fiscal years until 10-years of information is available.

KENTUCKY STATE UNIVERSITY
SCHEDULE OF THE UNIVERSITY'S (KSU)
PROPORTIONATE SHARE OF THE NET PENSION LIABILITY
KENTUCKY TEACHERS' RETIREMENT SYSTEM
June 30, 2021
(Amounts in thousands)

	2021	2020	2019	2018	2017	2016	2015
KSU's proportion of the net pension liability	\$ 24,786	\$ 22,159	\$ 22,617	\$ 40,538	\$ 68,926	\$ 63,956	64,987
State's proportionate share of the collective net pension liability	26,067	24,011	16,827	32,308	6,496	6,503	7,374
Total	<u>\$ 50,853</u>	<u>\$ 46,170</u>	<u>\$ 39,444</u>	<u>\$ 72,846</u>	<u>\$ 75,422</u>	<u>\$ 70,459</u>	<u>72,361</u>
KSU's proportionate share of the net pension liability	0.17%	0.16%	0.16%	0.14%	0.22%	0.23%	0.30%
KSU's covered payroll	\$ 23,652	\$ 22,544	\$ 19,083	\$ 17,779	\$ 16,961	\$ 19,076	21,451
KSU's proportionate share of the net pension liability as a share of its covered payroll	104.79%	98.29%	118.52%	228.01%	406.38%	335.27%	302.96%
Plan fiduciary net position as a percentage of total pension liability	58.27%	58.10%	59.30%	39.83%	35.22%	42.49%	45.59%

Note: This table represents data that is one year in arrears.

Changes in assumptions: For fiscal year 2021, the assumed long-term investment rate of return was changed from 7.50 percent to 7.10 percent and the price inflation assumption was lowered from 3.0 percent to 2.5 percent. The Municipal Bond Index Rate used for this purpose is the June average of the Bond Buyer General Obligation 20-year Municipal Bond Index. For fiscal year 2020, the assumed municipal bond index rate decreased from 3.89% to 3.50%. For fiscal year 2019, the KTRS plan discount increased from 4.49% to 7.50%. For fiscal year 2018, the KTRS plan discount rate increased from 4.20 percent to 4.49 percent. For fiscal year 2017, the KTRS plan discount rate decreased from 4.88 percent to 4.20 percent. For fiscal year 2016, there was a decrease in the assumed investment rate of return from 7.75 percent to 7.50 percent; a decrease in the assumed rate of inflation from 3.50 percent to 3.25 percent; a decrease in the assumed rate of wage inflation from 1.00 percent to 0.75 percent and a decrease in the payroll growth assumption from 4.50 percent to 4.00 percent.

KENTUCKY STATE UNIVERSITY
SCHEDULE OF THE UNIVERSITY'S PENSION CONTRIBUTIONS
KENTUCKY TEACHERS' RETIREMENT SYSTEM
June 30, 2021
(Amounts in thousands)

	<u>2021</u>	<u>2020</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>
Contractually required contribution	\$ 2,074	\$ 1,941	\$ 1,815	\$ 1,730	\$ 1,879	\$ 1,773	\$ 2,059
Contributions in relation to the contractually required contribution	\$ 2,074	\$ 1,941	\$ 1,815	\$ 1,730	\$ 1,879	\$ 1,773	\$ 2,059
Contribution deficiency (excess)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
KSU covered payroll	\$ 25,894	\$ 23,652	\$ 22,544	\$ 19,083	\$ 17,779	\$ 16,961	\$ 19,076
Contributions as a percentage of covered payroll	8.01%	8.21%	8.05%	9.07%	10.57%	10.45%	10.79%

Note: These are 10-year schedules. However, the information in this schedule is not required to be presented retroactively. Years will be added to this schedule in future fiscal years until 10-years of information is available.

KENTUCKY STATE UNIVERSITY
SCHEDULE OF THE UNIVERSITY'S (KSU)
PROPORTIONATE SHARE OF THE NET OPEB LIABILITY
KENTUCKY EMPLOYEES RETIREMENT SYSTEM
June 30, 2021
(Amounts in thousands)

Non-hazardous

	2021	2020	2019	2018
KSU's proportion of the net OPEB liability	\$ 8,099	\$ 6,622	\$ 5,398	\$ 6,178
KSU's proportionate share of the net OPEB liability	0.32%	0.30%	0.23%	0.24%
KSU's covered payroll	\$ 4,548	\$ 4,358	\$ 3,583	\$ 3,888
KSU's proportionate share of the net OPEB liability as a share of its covered payroll	178.08%	151.95%	150.66%	158.90%
Plan fiduciary net position as a percentage of total OPEB liability	29%	30.92%	27.32%	24.40%

Hazardous

	2021	2020	2019	2018
KSU's proportion of the net OPEB liability	\$ 26	\$ (19)	\$ (62)	\$ 3
KSU's proportionate share of the net OPEB liability	0.06%	0.07%	0.19%	0.05%
KSU's covered payroll	\$ 106	\$ 114	\$ 309	\$ 79
KSU's proportionate share of the net OPEB liability as a share of its covered payroll	24.53%	-16.67%	-20.06%	3.80%
Plan fiduciary net position as a percentage of total OPEB liability	92%	105.29%	106.83%	98.80%

Note: This table represents data that is one year in arrears.

Changes in assumptions: For Fiscal year 2021, the discount rate was changed from 5.73% to 5.43% for non-hazardous and from 5.66% to 5.28% for hazardous. The assumed increase in future health care costs, or trend assumption, was updated to better reflect the plans' anticipated long-term healthcare cost. For fiscal year 2020, the discount rate was changed from 5.86% to 5.73% for non-hazardous and from 5.88% to 5.66% for hazardous. In addition, the KERS Board of Trustees adopted new actuarial assumptions based on an actuarial experience study for the period ending June 30, 2018. Key assumptions include replacing the base retiree mortality tables were replaced with a KERS-specific mortality table developed using the actual mortality experience of non-disabled retirees in KERS. Mortality tables for disabled retirees and active members were updated with Public Retirement Mortality tables. Termination rates and rates of disability incidence were increased. Retirement rates were decreased slightly for members with participation date prior to July 1, 2003. For members with participation date on or after July 1, 2003, retirement rates were set equal to 80% of the retirement rates applicable for the pre-July 1, 2003 participants for ages below 65. For fiscal year 2019, the discount rate used to measure the total Non-hazardous OPEB liability was 5.86%, which was reduced from the 6.90% discount rate used in the prior year. The discount rate used to measure the total Hazardous OPEB liability was 5.88%, which was increased from the 5.87% discount rate used in the prior year. For fiscal year 2018, the assumed investment rate of return was changed from 7.50% to 6.25%. The inflation assumption was changed from 3.25% to 2.30%. The payroll growth assumption was changed from 4.00% to 0.00%.

Changes in benefit terms: However, Senate Bill 169 passed during the 2021 legislative session and increased the disability benefits for certain qualifying members who become "totally and permanently disabled" in the line of duty or as a result of duty-related disability. During the 2018 legislative session, House Bill 185 was enacted, which updated the benefit provisions for active members who die in the line of duty. The system shall now pay 100% of the insurance premium for spouses and children of all active members who die in the line of duty. The total OPEB liability as of June 30, 2018, is determined using these updated benefit provisions.

KENTUCKY STATE UNIVERSITY
SCHEDULE OF THE UNIVERSITY'S OPEB CONTRIBUTIONS
KENTUCKY EMPLOYEES RETIREMENT SYSTEM
June 30, 2021
(Amounts in thousands)

Non-hazardous

	2021	2020	2019	2018
Contractually required contribution	\$ 337	\$ 394	\$ 375	\$ 301
Contributions in relation to the				
contractually required contribution	\$ 337	\$ 394	\$ 375	\$ 301
Contribution deficiency (excess)	\$ -	\$ -	\$ -	\$ -
KSU covered payroll	\$ 4,016	\$ 4,548	\$ 4,358	\$ 3,583
Contributions as a percentage of				
covered payroll	8.39%	8.66%	8.60%	8.40%

Hazardous

	2021	2020	2019	2018
Contractually required contribution	\$ -	\$ 7	\$ 7	\$ 12
Contributions in relation to the				
contractually required contribution	\$ -	\$ 7	\$ 7	\$ 12
Contribution deficiency (excess)	\$ -	\$ -	\$ -	\$ -
KSU covered payroll	\$ -	\$ 106	\$ 114	\$ 309
Contributions as a percentage of				
covered payroll	0.00%	6.60%	6.14%	3.88%

Note: These are 10-year schedules. However, the information in this schedule is not required to be presented retroactively. Years will be added to this schedule in future fiscal years until 10-years of information is available

KENTUCKY STATE UNIVERSITY
PROPORTIONATE SHARE OF THE NET OPEB LIABILITY
KENTUCKY TEACHERS RETIREMENT SYSTEM
June 30, 2021
(Amounts in thousands)

	<u>2021</u>	<u>2020</u>	<u>2019</u>	<u>2018</u>
KSU's proportion of the net OPEB liability	\$ 4,350	\$ 5,053	\$ 5,626	\$ 5,880
State's proportionate share of the net OPEB liability	<u>1,918</u>	<u>2,198</u>	<u>2,700</u>	<u>2,630</u>
Total	\$ 6,268	\$ 7,251	\$ 8,326	\$ 8,510
KSU's proportionate share of the net OPEB liability	0.17%	0.30%	0.16%	0.16%
KSU's covered payroll	\$ 23,652	\$ 22,544	\$ 19,083	\$ 17,779
KSU's proportionate share of the net OPEB liability as a share of its covered employee payroll	18.39%	22.41%	29.48%	33.07%
Plan fiduciary net position as a percentage of total OPEB liability	39.05%	32.58%	25.50%	21.18%

Note: This table represents data that is one year in arrears.

Changes in assumptions: The expectation of mortality was changed to the Pub2010 Mortality Tables (Teachers Benefit-Weighted) adjustments for each of the groups: service retirees, contingent annuitants, disabled retirees, and actives. The assumed long-term investment rate of return was changed from 8.00% for the HealthTrust and 7.5% for the Life Trust to 7.10%. The price inflation assumption was lowered from 3.00% to 2.50%. The rates of member participation and spousal participation were adjusted to reflect actual experience more closely. For fiscal year 2020, the healthcare cost trend rate decreased from 7.75% and 5.75% to 7.50% and 5.50% for Pre-65 and Post-65, respectively. Medicare Part B premiums increased 2.63% from 0.00%. The municipal bond rate decreased from 3.89% to 3.50%. For fiscal year 2019, healthcare cost trend rates decreased to 0.00% from 1.02% for Medicare Part B Premiums. The municipal bond index rate increased from 3.56% to 3.89%.

Change in benefit terms: There were no changes for fiscal years 2021 and 2019. For fiscal year 2018, the eligibility for non-single subsidies (NSS) for the KEHP-participating members who retired prior to July 1, 2010 was restored, but the state will only finance, via its KEHP "Shared Responsibility" contributions, the costs of the NSS related to those KEHP participating members who retired on or after July 1, 2010.

KENTUCKY STATE UNIVERSITY
SCHEDULE OF THE UNIVERSITY'S OPEB CONTRIBUTIONS
KENTUCKY TEACHERS RETIREMENT SYSTEM
June 30, 2021
(Amounts in thousands)

	2021	2020	2019	2018
Contractually required contribution	\$ 307	\$ 298	\$ 297	\$ 287
Contributions in relation to the				
contractually required contribution	\$ 307	\$ 298	\$ 297	\$ 287
Contribution deficiency (excess)	\$ -	\$ -	\$ -	\$ -
KSU covered payroll	\$ 25,894	\$ 23,652	\$ 22,544	\$ 19,083
Contributions as a percentage of				
covered payroll	1.19%	1.26%	1.32%	1.50%

Note: These are 10-year schedules. However, the information in this schedule is not required to be presented retroactively. Years will be added to this schedule in future fiscal years until 10-years of information is available.

KENTUCKY STATE UNIVERSITY
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
Year Ended June 30, 2021

Program Title	CFDA Number	Pass-Through Entity Identifying Number	Federal Expenditures
DEPARTMENT OF EDUCATION			
Direct Programs			
Title III Strengthening All Black Colleges and University Program	84.031B		\$ 1,774,320
Title III HBCU Future Act Program	84.031E		564,938
Title III HBCU Master's Program	84.382G		379,340
COVID-19 - HEERF Student Emergency Aid	84.425E		633,745
COVID-19 - HEERF Institutional Aid	84.425F		1,192,226
COVID-19 - HEERF HBCU Aid	84.425J		5,835,476
Total Direct Programs			10,380,045
Student Financial Aid Cluster			
Federal Supplemental Educational Opportunity Grants	84.007		477,592
Federal Work Study Program	84.033		121,024
Federal Perkins Loan Program	84.038		402,440
Pell Grant Program	84.063		5,440,604
Federal Direct Student Loans	84.268		9,942,923
Teacher Education Assistance for College and Higher Education Grants	84.379		1,875
Total Student Financial Aid Cluster			16,386,458
TRIO Cluster			
Student Support Services	84.042A		273,771
Upward Bound	84.047A		313,865
Total TRIO Cluster			587,636
Passed through the Commonwealth of Kentucky			
Governors Emergency Education Relief and Economic Security Act	84.425C	SC 415 2000002003	324,758
TOTAL DEPARTMENT OF EDUCATION			<u>\$ 27,678,897</u>
DEPARTMENT OF HEALTH AND HUMAN SERVICES			
Direct Programs			
Family and Community Violence Prevention Program	93.910		186,602
Passed through Eastern Kentucky University			
Foster Care Title IV-E	93.658	453927-21-103	7,457
Foster Care Title IV-E	93.658	453922-21-102	2,022
Foster Care Title IV-E	93.658	453924-21-104	38,391
TOTAL DEPARTMENT OF HEALTH AND HUMAN SERVICES			<u>\$ 234,472</u>
DEPARTMENT OF THE INTERIOR			
Passed through Murray State University			
National Land Remote Sensing Education Outreach and Research	15.815	2020-044	\$ 1,998
DEPARTMENT OF JUSTICE			
Passed through National 4H Council			
Juvenile Mentoring Program	16.726	2018-JU-FX-0005	(424)
Juvenile Mentoring Program	16.726	2019-MJ-FX-0002	53,977
TOTAL DEPARTMENT OF JUSTICE			<u>\$ 53,553</u>
DEPARTMENT OF TREASURY			
COVID-19 - Coronavirus Relief Fund	21.019		\$ 1,173,401
NATIONAL SCIENCE FOUNDATION			
Direct Programs			
Education and Human Resources	47.076		193,203
Passed through University of Rhode Island			
Office of International Science and Engineering	47.079	4978/111315KSU	15,465
Passed through University of Kentucky Research Foundation			
Education and Human Resources	47.076	3200002015-19-122	127,215
Integrative Activities	47.083	3200000271-18-071	1,000
Integrative Activities	47.083	3200002692-20-026	98,934
TOTAL NATIONAL SCIENCE FOUNDATION			<u>\$ 435,817</u>

See report of independent auditors and accompanying notes to the schedule of expenditures of federal awards.

KENTUCKY STATE UNIVERSITY
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
(Continued)
Year Ended June 30, 2021

During the year ended June 30, 2021, the University provided \$208,580 in expenditures to subrecipients as follows:

Program Title	CFDA Number	Pass-Through Entity Identifying Number	Federal Expenditures
DEPARTMENT OF AGRICULTURE			
Direct Programs			
Agricultural Research Basic and Applied Research	10.001		\$ 76,984
Plant and Animal Disease, Pest Control, and Animal Care	10.025		37,325
Cooperative Forestry Research	10.202		95,362
Payments to 1890 Land-Grant Colleges	10.205		2,366,382
1890 Institution Capacity Building Grant	10.216		640,272
Agriculture and Food Research Initiative	10.310		311,035
Beginning Farmer and Rancher Development Program	10.311		89,927
Outreach and Assistance for Socially Disadvantaged and Veteran Farmers and Ranchers	10.443		8,777
Cooperative Extension Service	10.500		1,398,093
Agriculture Extension at 1890 Land-grant Institutions	10.512		2,318,457
Expanded Food and Nutrition Education Program	10.514		105,682
Renewable Resources Extension Act and National Focus Fund Projects	10.515		3,259
Scholarships for Students at 1890 Institutions	10.524		679,830
Soil and Water Conservation	10.902		3,518
Passed through University of Kentucky			
Cooperative Extension Service	10.500	3200002871-20-111	6,763
Passed through Kentucky Department of Community Based Services (DCBS)			
State Administrative Matching Grants for the Supplemental Nutrition Assistance Program	10.561	SC 736 1800004123	(15,640)
State Administrative Matching Grants for the Supplemental Nutrition Assistance Program	10.561	SC 736 2000001287	659,700
Passed through Ohio State University			
Grants for Agricultural Research, Special Research Grants	10.200	60073463	7,693
Passed through University of Georgia			
Sustainable Agriculture Research and Education	10.215	SUB00002306	35,202
Passed through University of Alabama - Pine Bluff			
1890 Institution Capacity Building Grant	10.216	229-23-11110714	34,174
Passed through University of Kentucky Research Foundation			
Agriculture and Food Research Initiative	10.310	3200003240	200
TOTAL DEPARTMENT OF AGRICULTURE			<u>\$ 8,862,995</u>
TOTAL FEDERAL EXPENDITURES			<u>\$ 38,441,133</u>

During the year ended June 30, 2021, the University provided \$208,850 in expenditures to subrecipients as follows:

Program Title	CFDA Number	Amount
DEPARTMENT OF AGRICULTURE		
Direct Programs		
1890 Institution Capacity Building Grant	10.216	\$ 130,789
Agriculture and Food Research Initiative	10.310	35,455
Beginning Farmer and Rancher Development Program	10.311	<u>42,336</u>
		<u>\$ 208,580</u>

See report of independent auditors and accompanying notes to the schedule of expenditures of federal awards.

KENTUCKY STATE UNIVERSITY
NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
June 30, 2021

NOTE 1 – BASIS OF PRESENTATION

The accompanying schedule of expenditures of federal awards (the "Schedule") includes the federal award activity of the University under programs of the federal government for the year ended June 30, 2021. The information in this Schedule is presented in accordance with the requirements of Title 2 U.S. Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (Uniform Guidance). Because the Schedule presents only a selected portion of the operations of the University, it is not intended to and does not present the financial position, changes in net assets, or cash flows of the University.

Expenditures reported on the Schedule are reported on the accrual basis of accounting. The University has elected not to use the 10-percent de minimis indirect cost rate as allowed under the Uniform Guidance.

Such expenditures are recognized following the cost principles contained in Title 2 U.S. Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards, wherein certain types of expenditures are not allowable or are limited as to reimbursement.

Negative amounts shown on the Schedule represent adjustments or credits made in the normal course of business to amounts reported as expenditures in prior years.

NOTE 2 – PERKINS LOAN PROGRAM

The amount presented on the schedule of expenditures of federal awards for the Federal Perkins Loan Program represents loan balances outstanding at July 1, 2021, for which the government imposes continuing compliance requirements. No disbursements are allowed to be made from the Perkins Loan Program subsequent to June 30, 2019. The University has loans outstanding in the amount of \$402,440 with an allowance for doubtful accounts of \$305,299 under the Federal Perkins Loan Program at June 30, 2021.

NOTE 3 – FEDERAL STUDENT LOAN PROGRAM

The University participates in the Direct Loan Program (including Direct Subsidized and Direct Unsubsidized Loans for Students, Direct PLUS Loans for parents of undergraduate students, and Direct PLUS loans for graduate students).

Federal Direct Student Loans Program	
Direct Loans	
Subsidized	\$ 3,344,803
Unsubsidized	4,421,354
PLUS	
Parent	2,175,808
Graduate	958
	<u>\$ 9,942,923</u>



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

To the Board of Regents
Kentucky State University
Frankfort, 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 financial statements of the business-type activities and the discretely presented component unit of Kentucky State University (the University), a component unit of the Commonwealth of Kentucky, as of and for the year ended June 30, 2021, and the related notes to the financial statements, which collectively comprise the University's basic financial statements and have issued our report thereon dated October 27, 2023. Our report includes a reference to other auditors who audited the financial statements of Kentucky State University Foundation, Inc. (Foundation) as described in our report on the University's financial statements. The financial statements of the Foundation were not audited in accordance with Government Auditing Standards.

Report on Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the University's internal control over financial reporting (internal control) as a basis for designing 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 University's internal control. Accordingly, we do not express an opinion on the effectiveness of the University'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 University's financial statements will not be prevented or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. We identified certain deficiencies in internal control, described in the accompanying schedule of findings and questioned costs as items 2021-001 through 2021-005 that we consider to be material weaknesses.

Report on Compliance and Other Matters

As part of obtaining reasonable assurance about whether the University'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 financial statements. 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 result of our test disclosed no instances of noncompliance or other matter that are required to be reported under Government Auditing Standards.

University's Response to Findings

Government Auditing Standards requires the auditor to perform limited procedures on the University's response to the findings identified in our audit and described in the accompanying schedule of findings and questioned costs. The University's response was not subjected to the other auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on the response.

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 University'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 University's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Blue & Co., LLC

Lexington, KY
October 27, 2023



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**REPORT OF INDEPENDENT AUDITORS ON COMPLIANCE WITH
EACH MAJOR FEDERAL PROGRAM AND ON INTERNAL CONTROL OVER
COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE**

To the Board of Regents
Kentucky State University
Frankfort, Kentucky

We have audited the Kentucky State University and Affiliate's (the University) compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of the University's major federal programs for the year ended June 30, 2021. The University's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of the University's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 *Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the University's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our adverse and unmodified opinions on compliance for each major federal program. However, our audit does not provide a legal determination of the University's compliance.

Basis for Adverse Opinion on HEERF Cluster

As described in the accompanying schedule of findings and questioned costs, the University did not comply with requirements regarding the HEERF Cluster as described in finding numbers 2021-006 for Return of HEERF Funds, 2021-007 for Reporting, and 2021-008 for Lost Revenue. Compliance with such requirements is necessary, in our opinion, for the University to comply with the requirements applicable to that program.

Adverse Opinion on HEERF Cluster

In our opinion, because of the significance of the matter discussed in the Basis for Adverse and Unmodified Opinions section of our report, the University did not comply, in all material respects, with the compliance requirements referred to above is that could have a direct and material effect on the HEERF Cluster for the year ended June 30, 2021.

Unmodified Opinion on Each of the Other Major Federal Programs

In our opinion, the University complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its other major federal programs identified in the summary of auditor's results section of the accompanying schedule of findings and questions costs for the year ended June 30, 2021.

Other Matters

The results of our auditing procedures disclosed other instances of noncompliance, which are required to be reported in accordance with the Uniform Guidance and which are described in the accompanying schedule of findings and questioned costs as findings 2021-009, 2021-010, 2021-011, 2021-012, 2021-013, 2021-014, 2021-015, 2021-016, 2021-017, and 2021-018. Our opinion on each major program is not modified with respect to these matters.

The University's response to the noncompliance findings identified in our audit is described in the accompanying schedule of findings and questioned costs. The University's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

Report on Internal Control Over Compliance

Management of the University is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the University's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the University's internal control over compliance.

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. Therefore, material weaknesses or significant deficiencies may exist that have not been identified. However, as discussed below, we did

Board of Regents
Kentucky State University
Frankfort, Kentucky

identify certain deficiencies in the internal control over compliance that we consider to be material weaknesses and significant deficiencies.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A material weakness in internal control over compliance is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. We consider the deficiency in internal control over compliance described in the accompanying schedule of findings and questioned costs as finding 2021-008 to be a material weakness.

A significant deficiency in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance. We consider the deficiencies in internal control over compliance described in the accompanying schedule of findings and questioned costs as items 2021-006, 2021-007, 2021-009, 2021-010, 2021-011, 2021-012, 2021-013, 2021-014, 2021-015, 2021-016, 2021-017, and 2021-018 to be significant deficiencies.

The University's response to the internal control over compliance findings identified in our audit is described in the accompanying schedule of finds and questions costs. The University's response was not subjected to the auditing procedures applied in the audit of compliance and , accordingly, we express no opinion on the response.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

Blue & Co., LLC

Lexington, Kentucky
October 27, 2023

KENTUCKY STATE UNIVERSITY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
June 30, 2021

Section I - Summary of Auditor's Results

Financial Statements

Type of auditor's report issued: Unmodified

Internal control over financial reporting:

Material weakness(es)
identified? ☒ Yes ☐ No

Significant deficiency(ies)
identified that are not
considered to be
material weaknesses? ☐ Yes ☒ None Reported

Noncompliance material to financial
statements noted? ☐ Yes ☒ No

Federal Awards

Internal control over major programs:

Material weakness(es)
identified? ☒ Yes ☐ No

Significant deficiency(ies)
identified that are not
considered to be
material weaknesses? ☒ Yes ☐ None Reported

Type of auditor's report issued on compliance for major programs:

Adverse:

Education Stabilization Fund (CFDA 84.425C, 84.425E, 84.425F, 84.425J)

Unmodified:

Student Financial Aid Cluster (CFDA 84.007, 84.033, 84.038, 84.063, 84.268, 84.379)

Higher Education Institutional Aid Cluster (CFDA 84.031B, 84.031E)

Payments to 1890 Land-Grant Colleges and Tuskegee University (CFDA 10.205)

Cooperative Extension Service (CFDA 10.500)

Agriculture Extension at 1890 Land-Grant Institutions Program (CFDA 10.512)

Coronavirus Relief Fund (CFDA 21.019)

Any audit findings disclosed that are
required to be reported in accordance
with Uniform Guidance? ☒ Yes ☐ No

KENTUCKY STATE UNIVERSITY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
(Continued)
June 30, 2021

Identification of major programs:

<u>CFDA Number</u>	<u>Name of Federal Program or Cluster</u>
	Student Financial Aid Cluster:
84.007	FSEOG Grant Program
84.033	Federal Work-Study Program
84.038	Federal Perkins Loan Program
84.063	Federal Pell Grant Program
84.268	Federal Direct Student Loans
84.379	TEACH Grants
	Education Stabilization Fund:
84.425C	Governors Emergency Education Relief and Economic Security Act
84.425E	HEERF Student Emergency Aid
84.425F	HEERF Institutional Aid
84.425J	HEERF HBCU Aid
	Higher Education Institutional Aid:
84.031B	Title III Strengthening All Black Colleges and University Program
84.031E	Title III HBCU Future Act Program
10.205	Payments to 1890 Land-Grant Colleges and Tuskegee University
10.500	Cooperative Extension Service
10.512	Agriculture Extension at 1890 Land-Grant Institutions Program
21.019	Coronavirus Relief Fund

Dollar threshold used to distinguish between type A and type B programs: \$1,153,233

Auditee qualified as low-risk auditee: _____ Yes X No

KENTUCKY STATE UNIVERSITY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
(Continued)
June 30, 2021

Section II - Findings - Financial Statement Audit

2021-001 Finding: Preparation of Financial Statements

Criteria or specific requirement: Management is responsible for establishing and maintaining effective internal controls over financial reporting. Effective internal controls are an important component of a system that supports accurate external financial reporting.

Condition and context: During fiscal year 2021, the University did not have in place the processes and controls that would assure the preparation of external year-end financial statements and related note disclosures in accordance with accounting principles generally accepted in the United States of America.

Cause: Such preparation would require the in-house ability to maintain appropriate technical knowledge, including the ability to research current and changing accounting standards as well as unique industry considerations.

Effect: Recognizing the above condition, the University engaged the external independent auditors to assist with the drafting of the 2021 year-end external financial statements. Once drafted, the financial statements were submitted to management for review, revision, and approval. While this practice is common and practical, it is considered a material weakness in internal control over financial reporting since the year-end external financial statement preparation cannot be performed in-house.

Recommendation: We recommend management review, and if practical, enhance the external financial reporting procedures and controls in place to address the preparation and review of external year-end financial statements.

Views of responsible officials and planned corrective actions: *Management concurs with the above finding and, accordingly, has engaged the auditors to assist with the preparation of the 2021 year-end external financial statements. Management is currently reviewing the procedures and controls in place to address the preparation and review of external year-end financial statements and will revise and enhance as warranted.*

KENTUCKY STATE UNIVERSITY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
(Continued)
June 30, 2021

2021-002 Finding: Bank Reconciliations

Criteria or specific requirement: Management is responsible for establishing and maintaining effective internal controls for the safeguarding of financial assets. Effective internal controls are an important component of a system that helps mitigate risk of misappropriation.

Condition and context: During fiscal year 2021, the University did not reconcile the bank statements to the general ledger.

Cause: The University experienced a high degree of staffing turnover during fiscal year 2021, resulting in the delay or omission of necessary financial and accounting controls and procedures.

Effect: Without accurate and timely reconciliations of bank statements to the general ledger, the University is not able to promptly detect misappropriation or error in cash accounts, which substantially increases risk of loss.

Recommendation: We recommend that the University reconcile all bank statement activity to the accounting ledger on a monthly basis and that those reconciliations be reviewed and approved by an appropriate level of management in a timely manner.

Views of responsible officials and planned corrective actions: *The University concurs with the above finding. Since this is an integral part of the month-end closing process and will remain so, the accountant completes the bank reconciliation. Subsequently, it undergoes review by the Senior Accountant and receives approval from the Controller.*

KENTUCKY STATE UNIVERSITY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
(Continued)
June 30, 2021

2021-003 Finding: Financial Policies and Procedures Manual

Criteria or specific requirement: Management is responsible for establishing and maintaining effective policies and procedures for financial operations.

Condition and context: During the audit of fiscal year 2021 financial statements, it was noted that the Business Office Policies and Procedures Manual had not been updated since 2010. As some procedures were no longer relevant to financial operations, certain University departments were using self-created policy and procedure drafts that had not been formally approved by management.

Cause: No process was in place for the timely review and revision of the Business Office Policies and Procedures Manual.

Effect: Without necessary reviews and revisions of financial policies and procedures to guide financial operations, the University is at greater risk of inaccurate, inconsistent, and irrelevant financial reporting and, further, is unable to properly safeguard financial assets.

Recommendation: We recommend that the University implement a policy to review the Business Office Policy and Procedure Manual at least annually and make revisions as necessary to support financial operations.

Views of responsible officials and planned corrective actions: *The University concurs with the finding mentioned above. In an effort to enhance the accounting and reporting system, as well as internal controls, the University has crafted an updated policy and procedure manual. This manual is designed to align not only with GAAP but also with the NACUBO (FARM) manual as it pertains to our policies and procedures. The University commits to ongoing updates of this newly created annual as changes arise with standard operating procedures.*

KENTUCKY STATE UNIVERSITY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
(Continued)
June 30, 2021

2021-004 Finding: Administration of Corporate Credit Cards

Criteria or specific requirement: Management is responsible for establishing and maintaining effective internal controls for the proper administration of University corporate credit cards.

Condition and context: During the audit of fiscal year 2021 financial statements, it was noted that usage agreements for all cardholders were either not obtained or not maintained. It was also noted that review of credit card purchases was not adequate for proper management oversight. Although the Purchasing department required all receipts and supporting documentation for credit card purchases as part of the submission of expense reports, no supervisory review of the validity and/or necessity of purchases was performed.

Cause: No process was in place for direct supervisory review of credit card purchases, nor was there a process to follow up on cardholder user agreements that were not obtained upon issuance of a corporate credit card.

Effect: Without appropriate administration over the corporate credit card program, the University is at greater risk of misappropriation and fraud that would not be detected in a timely manner.

Recommendation: We recommend that the University implement procedures to obtain user agreements from every corporate cardholder and perform adequate reviews of credit card purchases in a timely manner.

Views of responsible officials and planned corrective actions: *Management concurs with the above finding and, accordingly, has prepared updated credit card policy and procedures for consideration by KSU leadership and the KSU Board of Regents in alignment with best practices for credit card usage:*

KENTUCKY STATE UNIVERSITY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
(Continued)
June 30, 2021

2021-005 Finding: University President's Expenditures

Criteria or specific requirement: Governance is responsible for establishing and maintaining effective oversight of the University President's activities.

Condition and context: During the audit of fiscal year 2021 financial statements, it was noted that the President's credit card purchases and other expenditures were not reviewed at the appropriate level of authority.

Cause: No process is in place for governance-level review of the President's expenditures.

Effect: Without proper oversight of the President's expenditures and purchases, the University is at a greater risk of loss due to misappropriation or fraud.

Recommendation: We recommend that a member of the Board of Regents review the expenditures of the President on a regular basis (i.e., quarterly) to establish transparency around and maintain appropriate oversight of the activities of leadership.

Views of responsible officials and planned corrective actions: *The University concurs with the finding mentioned above. Quarterly, a detailed report outlining all expenditures related to the President's travel, entertainment, and discretionary expenses is presented to the Board of Regents. This report will be consistently provided upon the Board of Regent's request, ensuring ongoing oversight of the President's expenditures.*

KENTUCKY STATE UNIVERSITY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
(Continued)
June 30, 2021

Section III - Findings and Questioned Costs - Major Federal Awards Program Audit

Finding 2021-006: Return of HEERF Funds

Information on the Federal Program: HEERF Student Aid Portion (CFDA Number 84.425E) – U.S. Department of Education

Criteria: In accordance with 2 CFR § 200.305(b) of the Uniform Guidance, which applies to the HEERF grants, grantees must seek to minimize the time between drawing down funds from the G5 system and applying those funds to support a grant award's activities. Consistent with this requirement, grantees must maintain grant funds in interest-bearing accounts, and any interest earned on grant funds above \$500 per year must be remitted to the Federal government. An institution should refund any portion of the HEERF award that it does not have an immediate ability to expend on emergency financial grants to students, until the institution has a plan for the orderly distribution of the remainder of the funds. It can then be re-drawn from the institution's account in G5.

Condition and context: The University transferred \$633,744.80 of HEERF Student Aid funds to the KSU Foundation for the purpose of holding and releasing funds to students. \$146,242.20 of checks distributed to students did not clear, and these funds were held in an interest-bearing account. As of September 15, 2023, accrued interest totaled \$49,145.32. The University did not refund the portion of the HEERF award that could not be disbursed back to the Department of Education. The University also did not remit the accrued interest.

Questioned Cost: \$195,387.52

Cause: The University did not have an adequate plan in place for the orderly distribution of the HEERF award that it did not have an immediate ability to expend.

Effect: The University is not in compliance with the refund requirements of the Department of Education.

Recommendation: We recommend the University complete the refund procedures for the funds unable to be disbursed and the accrued interest. Additionally, the University should establish a plan for the orderly distribution of the remaining balance of HEERF funds.

Management Response: *The University concurs with the finding. The University has since issued the refund for both the accrued interest in and the student funds in the amount of \$49,145.32 and \$146,242.20, respectively.*

KENTUCKY STATE UNIVERSITY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
(Continued)
June 30, 2021

Finding 2021-007: Improper Reporting of HEERF Funds

Information on the Federal Program: HEERF Student, Institutional, and HBCU Portion (CFDA Numbers 84.425E, 84.425F and 84.425J) – U.S. Department of Education

Criteria: Federal Register Vol. 85, No. 169 and Vol. 86, No. 91 state that reporting information must appear in a format and location that is easily accessible to the public. This information must be updated no later than 10 days after the end of each calendar quarter. Additionally, HEERF FAQ guidance published by the Department of Education states an Institution can discharge the complete balance of student debt and reimburse themselves through their HEERF grants by reporting the discharge as lost revenue from academic sources in quarterly and annual reporting.

Condition and context: The University does not have the Student Funding Report for the quarter ending June 30, 2021, posted to their website. The Institutional and HBCU portion report for the quarter ended September 30, 2020, was created more than 10 days after the end of the quarter. The Institutional and HBCU portion report for the quarter ended March 31, 2021, was revised in 2022, and the University removed the original version from their website; therefore it cannot be determined if the reporting deadline requirement was met. The University reported discharge of student debt as emergency financial aid grants to students instead of lost revenue from academic sources on the Institutional and HBCU portion report for the quarter ended March 31, 2021.

Questioned Cost: \$0

Cause: The University did not have the proper internal controls in place to ensure that all reporting requirements were being adhered to.

Effect: The University is not in compliance with the reporting requirements for HEERF funds specified by the Department of Education.

Recommendation: We recommend the University review all previously submitted reporting documentation and update per the current guidance posted by the Department of Education. The University should also implement and maintain an effective system of internal controls over the administration of HEERF funds to ensure funds are reported accurately and timely, in accordance with grant requirements.

Management Response: *The University concurs with the finding. Additional procedures have been put in place to ensure the timely completion of all federal reports. In addition, all reports will be audited, and the amended reports will be placed on the University website. The University also will adjust all reports to include lost revenue for student debt relief.*

KENTUCKY STATE UNIVERSITY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
(Continued)
June 30, 2021

Finding 2021-008: Lost Revenue

Information on the Federal Program: HEERF HBCU Portion (CFDA Number 84.425J) – U.S. Department of Education

Criteria: Consistent with the cost principles of the Uniform Guidance (2 CFR part 200 subpart E), the calculation of lost revenue must measure the amount of baseline revenue and lost revenue consistently.

Condition and context: Lost Revenue for Fall 2021 was calculated by applying the year over year percent increase in dining revenue to the Fall 2020 dormitory revenue and subtracting that amount from the actual Fall 2021 dormitory revenue.

Questioned Cost: \$688,691

Cause: To measure the amount of baseline revenue and lost revenue consistently, lost revenue should have been calculated by subtracting Fall 2020 dormitory revenue from Fall 2021 revenue.

Effect: Lost Revenue was incorrectly calculated and therefore overstated.

Recommendation: We recommend the University improve its administration of federal grant funds. KSU should allocate sufficient staff and resources to ensure grant funds are spent in accordance with federal statutes, regulations, and the terms and conditions of the various federal awards. Specifically, the University should implement and maintain an effective system of internal controls over the administration of federal funds to ensure funds are spent appropriately and in accordance with the specific grant requirements. This includes establishing a chain of command that has the skills and knowledge to administer the funds and to ensure internal controls are not circumvented or overridden.

Management Response: *The University concurs with finding. The Grant Accounting staff will be re-evaluating the previous submission and adjusting the lost revenue calculation according to federal grant guidelines. Appropriate internal controls have since been established and updated procedures have been established to prevent future miscalculations.*

KENTUCKY STATE UNIVERSITY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
(Continued)
June 30, 2021

Finding 2021-009: Unallowable Expenditures

Information on the Federal Program: Governor's Emergency Education Relief Fund (CFDA Number 84.425C) – U.S. Department of Education

Criteria: PL 116-260 Consolidated Appropriations Act Section 312(c)(2)

Grant funds must be used to provide emergency support to institutions of higher education that have been significantly impacted by coronavirus to support the ability to continue to provide educational services and support the on-going functionality of the institution.

Condition and context: Out of a population of 62 expenditures made from GEER funds totaling \$324,757.83, we sampled 4 expenditures totaling \$17,268.97. Out of this sample, \$5,245 were spent on activities other than those outlined in the CRRSA Act and Grant Agreement.

Questioned Cost: \$5,245

Cause: The University used a portion of GEER funds to purchase bounce houses, waterslides, and other inflatable entertainment for a Pre-College Academy Event.

Effect: The University is not in compliance with the allowable activities outlined by the awarding agency.

Recommendation: We recommend the University must ensure staff working in federal grant expenditures are provided adequate training to understand the specific requirements of each grant and federal spending in general, including the factors affecting allowability of costs, that costs are necessary and reasonable for the performance of the award, and that sufficient documentation is maintained.

Management Response: *The University concurs with finding. The Grant Accounting Department, in conjunction with the Office of Sponsored Research, have updated all grant-related policies and procedures and additional measures have been put in place to ensure the appropriate spending of federal expenditures.*

KENTUCKY STATE UNIVERSITY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
(Continued)
June 30, 2021

Finding 2021-010: Credit Card Approvals

Information on the Federal Program: Higher Education Institutional Aid (CFDA Number 84.031B) – U.S. Department of Education

Criteria: The University's approval policy, as found in the Business Policies and Procedures Manual, is outlined as follows:

- Purchases less than \$10,000 require the approval of the Department Chair and the Principal Investigator
- Purchases between \$10,000 and \$19,999.99 require the additional approval of the Director, Dean, Associate/Assistant VP
- Purchases between \$20,000 and \$39,999.99 require the additional approval of the Vice President
- Purchases above \$40,000 require the additional approval of the President

Condition and context: Out of a population of 1,377 expenses, including 18 credit card payments, made from Title III Part B funds totaling \$1,774,314, we sampled 42 expenditures, including 2 credit card payments, totaling \$353,291.64. Out of this sample, the University failed to correctly provide approval for both of the credit card expenditures. The University pays all corporate credit card bills without consideration of the published approval policy. Therefore, it can be determined that the entire population of credit card expenditures were not in compliance with the above criteria.

Questioned Cost: \$12,639

Cause: The University pays all corporate credit card bills without consideration of the published approval policy.

Effect: Expenditures made via corporate credit card were not subject to approval.

Recommendation: We recommend the University develop a procedure for ensuring all expenditures made via corporate credit card receive appropriate approval.

Management Response: *The University concurs with finding. Use of the corporate credit card is restricted to one office and is managed strictly. The offices ensures, before use, that all procurement procedures have been followed and approvals obtained.*

KENTUCKY STATE UNIVERSITY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
(Continued)
June 30, 2021

Finding 2021-011: NSLDS Notification of Withdrawn Status

Information on the Federal Program: Federal Direct Student Loan Program (CFDA Number 84.268) – U.S. Department of Education

Criteria: 34 CFR 685.309

Unless the school expects to submit its next enrollment report within 60 days, the school must notify the lender or the guaranty agency within 30 days if it discovers that a student who received a loan either did not enroll or ceased to be enrolled on at least a half-time basis. The school is responsible for timely reporting whether they report directly or via a third-party servicer.

Condition and context: Out of a population of 34 withdrawn students, we sampled 7. Out of this sample, the University failed to correctly notify NSLDS of 4 students' status changes.

Questioned Cost: \$0

Cause: The University relied on their third-party servicer for reporting and did not have a control in place to ensure that timely reporting of all status changes to NSLDS was occurring.

Effect: Without notification, the NSLDS is not timely updated of change in status for students who have withdrawn or graduated. Timely notification allows the NSLDS to determine when a student enters repayment status.

Recommendation: We recommend that the University establish controls to review the reporting function of their third-party servicer to ensure student enrollment status in the NSLDS is updated in a timely manner in compliance with Federal requirements.

Management Response: *The University concurs with finding. All students were reported to the National Student Clearinghouse (NSC) as to what their status was for those terms. The updates were not updated in the NSLDS side. According to the audit staff, this is a common finding amongst institution due to this being a fairly new process/requirement. This process will be corrected going forward.*

KENTUCKY STATE UNIVERSITY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
(Continued)
June 30, 2021

Finding 2021-012: NSLDS Notification of Graduated Status

Information on the Federal Program: Federal Direct Student Loan Program (CFDA Number 84.268) – U.S. Department of Education

Criteria: 34 CFR 685.309

Unless the school expects to submit its next enrollment report within 60 days, the school must notify the lender or the guaranty agency within 30 days if it discovers that a student who received a loan either did not enroll or ceased to be enrolled on at least a half-time basis. The school is responsible for timely reporting whether they report directly or via a third-party servicer.

Condition and context: Out of a population of 127 graduated students, we sampled 17. Out of this sample, the University failed to correctly notify NSLDS of 9 students' status changes.

Questioned Cost: \$0

Cause: The University relied on their third-party servicer for reporting and did not have a control in place to ensure that timely reporting of all status changes to NSLDS was occurring.

Effect: Without notification, the NSLDS is not timely updated of change in status for students who have withdrawn or graduated. Timely notification allows the NSLDS to determine when a student enters repayment status.

Recommendation: We recommend that the University establish controls to review the reporting function of their third-party servicer to ensure student enrollment status in the NSLDS is updated in a timely manner in compliance with Federal requirements.

Management Response: *The University concurs with finding. All students were reported to the National Student Clearinghouse (NSC) as to what their status was for those terms. The updates were not updated in the NSLDS side. According to the audit staff, this is a common finding amongst institution due to this being a fairly new process/requirement. This process will be corrected going forward.*

KENTUCKY STATE UNIVERSITY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
(Continued)
June 30, 2021

Finding 2021-013: Student Account Credit Balance Reimbursement

Information on the Federal Program: Student Financial Aid Cluster (CFDA Numbers 84.268, 84.063, 84.033, 84.379, 84.038, and 84.077) – U.S. Department of Education

Criteria: 34 CFR 668.164(h)

If a credit balance occurred on or before the first day of class of a payment period, it must be paid directly to the student or parent within 14 days of the first day of class. If a credit balance occurred after the first day of class of a payment period, it must be paid directly to the student or parent within 14 days of the occurrence.

Condition and context: Out of a population of 1,425 students, we sampled 40. Out of this sample, the Institution failed to reimburse student account credit balances timely for 5 students.

Questioned Cost: \$3,987

Cause: The University did not have a control in place to ensure credit balances were refunded timely.

Effect: The University is not in compliance with Title 34, Section CFR 668.164 with respect to the referenced students.

Recommendation: We recommend that the University establish controls to ensure that credit balances are paid directly to the student or parent within 14 days of the first day of class or within 14 days of the occurrence of a credit balance.

Management Response: *The University concurs with finding. The Bursar Office, under the office's current leadership, has improved reporting procedures which allows for timely student reimbursements.*

KENTUCKY STATE UNIVERSITY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
(Continued)
June 30, 2021

Finding 2021-014: Right to Cancel Notifications

Information on the Federal Program: Federal Direct Student Loan Program (CFDA Number 84.268) – U.S. Department of Education

Criteria: 34 CFR 668.165(a)(2)(ii)

If an institution credits a student ledger account with Direct Loan, or Federal Perkins Loan funds, the institution must notify the student or parent of their right to cancel all or a portion of that loan, or loan disbursement.

Condition and context: Out of a population of 79 graduate students, we sampled 8. Out of this sample, the Institution failed to provide evidence that right to cancel notifications were sent for all 8 students.

Questioned Cost: \$0

Cause: The University did not have a control in place to ensure right to cancel notifications were sent to graduate students timely.

Effect: The University is not in compliance with Title 34, Section 668.165 with respect to graduate students.

Recommendation: We recommend that the University establish controls to ensure that right to cancel notifications are sent when student ledger accounts are credited.

Management Response: *The University concurs with the finding. The University is currently utilizing the Banner Optimization to develop a message alert within the Student Portal (Wired) when a loan disbursement is made. This will be fully functional in FY25.*

KENTUCKY STATE UNIVERSITY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
(Continued)
June 30, 2021

Finding 2021-015: Incomplete Summary Level Report of Title IV Funds Not Returned

Information on the Federal Program: Federal Direct Student Loan Program (CFDA Number 84.268) – U.S. Department of Education

Criteria: CARES Act Section 3508(2)

The Secretary shall require each institution using a waiver relating to the withdrawal of recipients to report the number of such recipients, the amount of grant or loan assistance associated with each such recipient, and the total amount of grant or loan assistance for which each institution has not returned assistance under title IV to the Secretary.

Condition and context: Out of a population of 34 withdrawn students, we sampled 7. Out of this sample, 1 student was not included in the Summary Level Report of Title IV Funds not returned.

Questioned Cost: \$0

Cause: There was not a procedure in place to verify that all students who withdrew from the institution after attending less than 60% of the enrollment period were included in the Summary Level Report.

Effect: The number of recipients and total amount of assistance included in the Summary Level Report was understated.

Recommendation: We recommend the University develop a procedure for verifying that all withdrawn students are included in the Summary Level Report to ensure accurate reporting to the Department.

Management Response: *The University concurs with the finding. The University is currently utilizing the Banner Optimization to refine that all withdrawn students are included in the Summary Level Report. This will be fully functional in FY25.*

KENTUCKY STATE UNIVERSITY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
(Continued)
June 30, 2021

Finding 2021-016: Exit Counseling Notification for Withdrawn Students

Information on the Federal Program: Federal Direct Student Loan Program (CFDA Number 84.268) – U.S. Department of Education

Criteria: 34 CFR 685.304(b)(3)

If a student borrower withdraws from school, exit counseling must be provided either electronically, by mailing, or by email to the student borrower within 30 days.

Condition and context: Out of a population of 34 withdrawn students, we sampled 7. Out of this sample, the University failed to correctly notify 2 students of exit counseling.

Questioned Cost: \$0

Cause: The University did not have a control in place to ensure exit counseling notifications were sent to withdrawn students timely.

Effect: The University is not in compliance with Title 34, Section 685.304 with respect to the referenced withdrawn students.

Recommendation: We recommend that the University establish controls to ensure that exit counseling notifications are sent timely once a student has been identified as a withdrawal.

Management Response: *The University concurs with the finding The University is currently utilizing the Banner Optimization to develop a message alert within the Student Portal (Wired) when a withdrawal date is entered. This will be fully functional in FY25.*

KENTUCKY STATE UNIVERSITY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
(Continued)
June 30, 2021

Finding 2021-017: Exit Counseling Notification for Graduated Students

Information on the Federal Program: Federal Direct Student Loan Program (CFDA Number 84.268) – U.S. Department of Education

Criteria: 34 CFR 685.304(b)(1)

A school must ensure that exit counseling is conducted with each Direct Subsidized Loan or Direct Unsubsidized Loan borrower and graduate or professional student Direct PLUS Loan borrower shortly before the student borrower ceases at least half-time study at the school.

Condition and context: Out of a population of 127 graduated students, we sampled 17. Out of this sample, the University failed to correctly notify 6 students of exit counseling.

Questioned Cost: \$0

Cause: The University did not have a control in place to ensure exit counseling notifications were sent to graduating students timely.

Effect: The University is not in compliance with Title 34, Section 685.304 with respect to the referenced graduated students.

Recommendation: We recommend that the University establish controls to ensure that exit counseling notifications are sent prior to the date of graduation.

Management Response: *The University concurs with the finding. The University is currently utilizing the Banner Optimization to develop a message alert within the Student Portal (Wired) when a Graduation Fee is charged. This will be fully functional in FY25.*

KENTUCKY STATE UNIVERSITY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
(Continued)
June 30, 2021

Finding 2021-018: Single Audit Submission Deadline

Criteria: 2 CFR Section 200.512(a) requires the data collection form and Single Audit reporting package be submitted the earlier of 30 days after the reports are received from the auditors or nine months after the end of the audit period. Office of Management and Budget (OMB) Memo M-21-20 extended this deadline to six months beyond the normal due date for recipients of federal funds with fiscal year-ends through June 30, 2021. Accordingly, the due date for the Single Audit submission for the year ended June 30, 2021, was extended to September 30, 2022.

Condition and context: The reporting package for the year ended June 30, 2021, was not submitted by the September 30, 2022, extended reporting deadline.

Questioned Cost: \$0

Cause: The audit report on the financial statements for the year ended June 30, 2021, was issued subsequent to the September 30, 2022, deadline.

Effect: The Organization is not in compliance with the provisions of 2 CFR Section 200.512(a) for the year ended June 30, 2021.

Recommendation: Not applicable.

Management Response: *The University concurs with the finding. The audit report on the financial statements for the year ended June 30, 2021, was issued on October 23, 2023. The Data Collection form and reporting package will be submitted within 5 business days thereafter.*

KENTUCKY STATE UNIVERSITY
PRIOR YEAR SCHEDULE OF FINDINGS AND QUESTIONED COSTS
June 30, 2020

Finding 2020-001: Return Of Title IV Funds

Condition: During the predecessor auditor's testing of return of Title IV funds, multiple control deficiencies and instances of noncompliance with federal compliance regulations were noted surrounding the return of funds process.

Predecessor Auditor's Recommendation: Predecessor auditor recommend the Financial Aid Office implement the following processes: 1.) a process to review the University's academic calendar and break days in the enrollment period to ensure the days in the enrollment period calculation is accurate and complete and consider Sundays surrounding Spring Break where there is no schedule classes; 2.) develop a timely secondary review process to detect potential errors and ensure return of funds calculation are completely entered into the Banner software; and 3.) develop a process to ensure appropriate supporting documentation is maintained to support withdrawal dates used in the return of funds calculation. Under the CARES Act passed in March 2020, institutions are not require to return Title IV funds under the waiver exception, however, the Department of Education has outlined specific reporting requirements under the CARES Act include: Identifying information for each student for whom R2T4 was waived under the CARES Act; the payment period "begin" and "end" dates for the period that the student did not complete as a result of the COVID-19 emergency; the amount of Title IV grant or loan assistance (other than Federal Work Study funds) that each such student received for the payment period in which he or she withdrew; and the total amount of Title IV grant or loan assistance that each institution has not returned to the Secretary as a result of the CARES Act provisions. Institutions should retain this information for each student who withdraws and qualifies for an R2T4 waiver under the CARES Act, and should plan to provide, for each student, identifying information, payment period begin and end dates, and information regarding the Title IV grant and loan disbursements (except for Federal Work Study) that the student received for the payment period. In order to fulfill the third reporting requirement, an institution must determine the total amount of grant and loan assistance that otherwise would have been returned, identified in Step 5 of the R2T4 calculation, had the calculation been performed. Therefore, it will continue to be necessary for institutions to perform an R2T4 calculation for each student covered by the CARES Act R2T4 waiver.

Status: Unresolved. See finding 2021-015.