Combined Financial Statements
and Required Supplementary Information

2023

Kentucky Higher Education Assistance Authority/ Kentucky Higher Education Student Loan Corporation

June 30, 2023

Strothman+Co

Combined Financial Statements
and Required Supplementary Information

Kentucky Higher Education Assistance Authority/
Kentucky Higher Education Student Loan Corporation

June 30, 2023

Strothman and Company
Certified Public Accountants and Advisors
325 West Main Street
Suite 1600
Louisville, KY 40202
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Strothman+Co

Independent Auditors' Report

Board of Directors
Kentucky Higher Education Assistance Authority/
Kentucky Higher Education Student Loan Corporation
Frankfort, Kentucky

Opinions

We have audited the accompanying combined financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the Kentucky Higher Education Assistance Authority and the Kentucky Higher Education Student Loan Corporation (the "Authority/Corporation"), component units of the Commonwealth of Kentucky, as of and for the year ended June 30, 2023, and the related notes to the combined financial statements, which collectively comprise the Authority/Corporation's combined financial statements as listed in the accompanying table of contents.

In our opinion, based on our audit and the report of other auditors, the combined financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the Authority/Corporation as of June 30, 2023, 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.

Basis for Opinions

We did not audit the financial statements of Kentucky Education Savings Plan Trust, which statements reflect total assets of $251,844,195 as of June 30, 2023, and an increase to fiduciary net position of $15,716,603 for the year ended June 30, 2023. Those financial statements were audited by other auditors whose reports have been furnished to us, and our opinion, insofar as it relates to the amounts included for Kentucky Education Savings Plan Trust, is solely based 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 audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Authority/Corporation and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Responsibilities of Management for the Combined Financial Statements

Management is responsible for the preparation and fair presentation of these combined financial statements in accordance with accounting principles generally accepted in the United States of America; and for 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.

In preparing the combined financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Authority/Corporation's ability to continue as a going concern for twelve months beyond the combined financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

Auditors' Responsibilities for the Audit of the Combined Financial Statements

Our objectives are to obtain reasonable assurance about whether the combined financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinions. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with generally accepted auditing standards, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the combined financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the combined financial statements.
- Obtain an understanding of internal control relevant to the audit 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 Authority/Corporation's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the combined financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Authority/Corporation's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis (unaudited) on pages 4 through 13 and the required supplemental information on pages 75 through 80 be presented to supplement the basic combined financial statements. Such information is the responsibility of management and, although not a part of the basic combined financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic combined financial statements in an appropriate operational, economic, or historical context. We and other auditors 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 combined financial statements, and other knowledge we obtained during our audit of the basic combined financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued a report dated September 28, 2023, on our consideration of the Authority/Corporation's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Authority/Corporation's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Authority/Corporation's internal control over financial reporting and compliance.

STROTHMAN AND COMPANY

Louisville, Kentucky
September 28, 2023

Description of the Business

The Kentucky Higher Education Assistance Authority (the "Authority" or "KHEAA") was established in 1966 as the Commonwealth of Kentucky's agency for improving higher education opportunities. To that end, KHEAA administers multiple financial aid programs and disseminates information about higher education opportunities. The Authority also guarantees existing Federal Family Education Loan Program ("FFELP") loans, performs default aversion activities, pays lender default and other claims and performs collection activities on eligible student loans. The Kentucky Educational Savings Plan Trust (the "Trust") and the Commonwealth Postsecondary Education Prepaid Trust Fund, Kentucky's Affordable Prepaid Tuition Plan (the "Plan"), offer savings and investment opportunities for Kentuckians to save for higher education. The Kentucky Higher Education Student Loan Corporation (the "Corporation" or "KHESLC") makes loans directly to parents, students, and refinancing borrowers as part of the Advantage Loan Program. The Corporation also purchases and/or services eligible Federal and Advantage student loans and performs collection activities on certain eligible student loans. The Mission of the organizations is "Helping Kentucky students and families prepare, plan, and pay for higher education." The Vision is "Connecting all Kentuckians to higher education." The Guiding Principles are "Promoting the merits of higher education and improving access, affordability, and completion." The Authority and the Corporation maintain bundled operations to maximize the efficiency of all Authority and Corporation operational and support activities. Accordingly, all senior management positions have responsibilities related to both the Authority and the Corporation. Additionally, the Plan and the Trust are governed by the Authority and Corporation's combined Board of Directors. Throughout the accompanying combined financial statements, the "Authority/Corporation" refers to the combined group of operations.

The Authority/Corporation maintains the following operations:

Outreach – Outreach operations provide critical informational resources to make higher education accessible to Kentucky's current and future generations.

Student Aid – Student Aid operations provide some or all levels of administration of seventeen student aid programs.

College Savings Programs – College Savings operations administer both the Trust and the Plan for the Commonwealth of Kentucky.

Loan Guarantee – Loan Guarantee operations maintain loan guarantees for qualified students and parents of qualified students made by approved lenders, under the FFELP program.

Advantage Loan Program Operations – The Advantage Loan Program operations consist of credit underwriting, loan origination, and issuing disbursements directly to schools or applicable lenders for the Advantage Loan Program.

School Services – The School Services operation provides mission focused services to higher education institutions through a contractual relationship.

Loan Finance – The Loan Finance operation refinances existing long-term debt, issues new debt, originates and acquires private supplemental student loans, and acquires rehabilitated FFELP loans, other FFELP loan portfolios and certain other FFELP loans required to be repurchased by the Higher Education Act.

Loan Servicing – The Loan Servicing operation performs servicing and default prevention activities on FFELP and supplemental loans held by the Authority/Corporation's Loan Finance operation and other lenders.

Loan Collection – The Loan Collection operation performs collection activities associated with defaulted FFELP and Advantage loans.

Industry Update

The Health Care and Education Reconciliation Act ("HCERA") of 2010 (H.R.4872/Public Law 111-152) was signed into law on March 30, 2010. HCERA eliminated the origination and/or guarantee of FFELP loans, effective July 1, 2010. In accordance with HCERA, the Authority/Corporation continues to provide guarantee services on $1.4 billion of FFELP loans. This amount includes loan guarantees transferred to the Authority/Corporation on January 1, 2020 from the New Jersey Higher Education Student Assistance Authority as part of Federal Student Aid's ("FSA") designation of KHEAA as the guarantor for the State of New Jersey. The Authority/Corporation also continues to own and/or service $790 million of FFELP loans and other education loans. The Authority/Corporation can no longer originate, guarantee or fund any newly originated FFELP loans; however, the Authority/Corporation does continue to look for opportunities to mitigate the impact of the runoff of the FFELP legacy loan portfolio through Advantage Loan Program growth and through the acquisition of FFELP (rehabilitation) loans and additional FFELP guarantees.

As it relates to currently known facts, decisions or conditions that have, could have or are expected to have a significant effect on financial position or results of operations, there are two primary items worthy of disclosure, the second of which encompasses several subsets of items outlined in Note Q. First, as noted in Note M and Note N, House Bill 8 ("HB8") was passed into law on March 23, 2021. HB8 allows KHESLC to remain in the Retirement System under the (signed into law) provisions of HB8. Effective July 1, 2021, the provisions of HB8 changed retirement contributions from a percentage of payroll to the sum of (1) a normal cost times the payroll of the Authority/Corporation employees earning benefits in the Kentucky Employees Retirement System ("KERS"), and (2) an allocated portion of the Retirement System's annual amortization cost. Nearly all of the FY2022 material decrease in the Authority/Corporation retirement liabilities was recognized over a two-year period in the Proprietary Fund Combined Statement of Revenues, Expenditures and Changes in Net Position in the prior FY2022 and in these current FY2023 financial statements.

Second, the Authority/Corporation continues to monitor the financial and operational impact of the end of the student loan payment pause discussed in Note Q. Some of the Authority/Corporation's borrowers are also borrowers under the federal programs impacted by the payment pause. Therefore, changes to the effective payment requirements applicable to federal Higher Education Act loans may affect the demand for and performance of some of the Authority/Corporation's loans. The net impact of these and other possible prospective changes in general federal Higher Education Act loan administration and of general federal and state higher education funding policies upon the rate of amortization of, or security for, the Authority/Corporation's direct placements, direct borrowings and revenue bonds payable cannot be projected with certainty at this time. Nonetheless, the

Authority/Corporation did endeavor to consider these factors in its FY2022 and FY2023 provision for loan loss estimates.

Overview of Financial Statements

This discussion and analysis is intended to serve as an introduction to the Authority/Corporation's combined financial statements. The Authority/Corporation's combined financial statements are comprised of the following three components: 1) combined government-wide financial statements, 2) combined fund financial statements, and 3) notes to combined financial statements.

The combined government-wide statement of net position and statement of activities include the Governmental Funds and Proprietary Funds. The combined government-wide financial statements can be found on pages 14 and 15 of this report. The combined fund financial statements can be found on pages 16 through 23 of this report. See Note A for additional information regarding ARC as a blended component unit of the Corporation's proprietary fund.

Fiduciary funds are used to account for resources held for the benefit of parties outside the Authority/Corporation. Fiduciary funds are not reflected in the combined government-wide financial statements because the resources are not available to support the Authority/Corporation's programs.

The fiduciary fund statement of net position (deficit) and changes in fiduciary net position (deficit) can be found on pages 24 and 25 of this report.

The Trust publishes separate financial statements and footnotes.

To obtain a copy of the combined financial statements and footnotes, please contact the Authority/Corporation at (502) 329-7079.

The following page is a condensed summary of financial information for the years ended June 30, 2023 and 2022, respectively.

Condensed Financial Information - Governmental Fund and Proprietary Funds

Management's Discussion and Analysis (Unaudited)

Kentucky Higher Education Assistance Authority/
Kentucky Higher Education Student Loan Corporation

June 30, 2023

	Governmental Fund 2023	Governmental Fund 2022	Proprietary Funds 2023	Proprietary Funds 2022
Net Position Information				
Capital assets			$ 4,300,162	$ 4,852,350
Other assets	$ 55,792,053	$ 75,468,950	1,111,292,152	1,200,569,660
Total Assets	55,792,053	75,468,950	1,115,592,314	1,205,422,010
Deferred Outflows of Resources:				
Deferred Amount on Debt Refunding			1,038,188	1,239,127
Deferred OPEB expense			7,077,987	3,928,221
Deferred pension expense			6,098,680	5,259,250
Total Assets and Deferred Outflows of Resources	55,792,053	75,468,950	1,129,807,169	1,215,848,608
Long-term liabilities			815,025,110	893,246,700
Other liabilities	104,558	26,765	55,889,916	91,933,667
Deferred pension expense			5,820,599	27,063,960
Deferred OPEB expense			6,819,197	8,431,396
Deferred gain on debt retirements, net			7,902,481	8,979,556
Total Liabilities and Deferred Inflows of Resources	104,558	26,765	891,457,303	1,029,655,279
Invested in capital assets, net of expended debt proceeds			4,300,162	4,852,350
Unrestricted			(30,191,113)	(44,779,868)
Restricted, other			109,042,808	93,661,196
Restricted for program benefits	55,687,495	75,442,185		
Restricted for student aid and related activities			155,198,009	132,459,651
Total Net Positon	$ 55,687,495	$ 75,442,185	$ 238,349,866	$ 186,193,329
Activity Information				
Interest and investment income fund	$ 319,729	$ 255,425	$ 6,537,484	$ (3,265,065)
Student aid & advancement fund revenue	333,309,349	296,865,894		
Unclaimed lottery revenue	15,987,400			
Contributions from Agency Operating Fund	2,312,780	2,240,663		
Federal funds revenue	1,727,960	812,640		
Servicing Fees from external sources			31,046	30,314
Servicing Fees from Education Finance Funds			4,434,289	5,059,298
Debt recovery commission			5,443,490	(6,829,574)
State General Fund revenue			9,077,000	
Reimbursement for lost revenue			21,524,563	33,564,298
Federal fees earned			962,878	1,183,894
Default aversion fee income			(468,540)	(83,818)
Interest income on loans			14,854,390	12,999,031
Amortization of deferred gain on debt retirements			1,077,075	1,077,075
Gain on the sale of loans			716,453	108,596
Late payment penalties			677,518	648,326
School Services			798,663	749,178
Other income	937,753	432,626	602,969	339,062
Total Revenue	354,594,971	300,607,248	66,269,278	45,580,615
Kentucky Tuition Grant	35,097,279	34,027,716		
College Access Program Grant	171,823,426	106,765,016		
Early Graduation Scholarship	248,143	260,035		
Early Childhood Development Scholarship	1,781,131	2,190,681		
Kentucky National Guard Tuition Award Program	8,129,893	7,782,265		
Kentucky Educational Excellence Scholarship	111,570,112	114,291,727		
Teacher Scholarship	1,089,270	333,348		
Osteopathic Medicine Scholarship	(156,166)	1,015,369		
Optometry Scholarship Program	1,015,145	948,606		
Veterinary Contract Spaces Program	5,448,893	5,520,032		
Coal County Scholarship Program for Pharmacy Students	508,332	608,513		
Dual Credit Scholarship	20,659,092	11,429,239		
Work Ready Scholarship	13,640,689	10,645,045		
Shot at a Million		2,063,494		
Innovative Scholarship Pilot Program	3,304,851			
John R. Justice Grant	189,571	195,057		
Loan guarantee operations			1,525,693	1,937,844
Default collections			4,249,429	5,694,125
Loan finance and servicing activities			(1,193,969)	(4,952,436)
Outreach			4,412,126	3,396,130
Student aid administration			2,312,780	2,240,663
School services			2,358,259	2,957,147
Other activities			448,423	161,518
Total Expenditures	374,349,661	298,076,143	14,112,741	11,434,991
Change in Net Position	$ (19,754,690)	$ 2,531,105	$ 52,156,537	$ 34,145,624

Financial Analysis – Governmental and Proprietary Funds

As previously noted, the Authority and the Corporation maintain bundled operations to maximize the efficiency of operations. Throughout the financial analysis, the "Authority/Corporation" refers to the combined group of operations for both organizations. Financial results for specific operating activities may be discussed as needed to provide appropriate disclosure.

This section of the annual financial report presents a discussion and analysis of the Authority/Corporation's government-wide performance for the fiscal year ended June 30, 2023. Please read it in conjunction with the Authority/Corporation's combined financial statements and notes to the combined financial statements, which follow this section.

Financial Overview

- The Authority/Corporation's proprietary fund total assets and deferred outflows decreased approximately $86 million (7.1%), from $1.216 billion to $1.130 billion. The net change was comprised of several offsetting increases and decreases in cash and cash equivalents, investments, loans and the receivable from FSLRF for reimbursement for lost revenue (see Note Q) and deferred OPEB expense.

- The Authority/Corporation's proprietary fund liabilities and deferred inflows decreased $138 million (13.4%) from $1.030 billion to $892 million. The overall decrease in liabilities and deferred inflows was attributable to the net of various decreases and increases year over year. The decrease in other liabilities relates primarily to four separate decreases of $13.8 million in accounts payable and accrued expenses (prior year Population 3 adjustments), $5.7 of the payable to USDE (less negative SAP payable due to rising interest rates), $12.6 million in direct borrowings (less volume and a paydown from the 2023 financing) and $5 million in bonds payable (defeasance of 2018 FY2024 maturity). The $78 million decrease in long-term liabilities is related primarily to a $29 million and $48 million decrease in direct placements and bonds payable, respectively, due primarily to paydowns of those liabilities funded from loan payments received, net of new 2023 bonds payable.

- The Authority/Corporation's proprietary fund revenues increased $20.7 million which is comprised of primarily of a combined increase of $11.7 million from interest income on both loans and investments due to rising interest rates and also from an increase of $9.1 million from General Fund revenue in support of both student aid administration and outreach operations totaling $6 million and an additional capital appropriation of approximately 3.08 million for the HVAC and roof repair project associated with the building KHEAA leases. See the condensed financial information schedule for Governmental Fund and Proprietary Funds for the detail of these and other revenue variances year over year.

The Authority/Corporation's total proprietary fund expenditures increased approximately $2.7 million (23.4%). The overall increase is generally the net of the following increases and decreases: $3.8 million increase associated with loan finance and servicing related expense, $1.4 million decrease in default collections expense, $412,000 decrease in loan guarantee operations expense, $1 million increase in outreach expense and $599,000 decrease in school services expense. See the condensed financial information schedule for Governmental Fund and Proprietary Funds for a detailed side by side comparison of expenditures for each business-type activity.

- The Authority/Corporation's governmental fund assets decreased by approximately $19.7 million due primarily to the net of an $8.2 million increase in cash and a $27.3 million decrease in accounts receivable. The decrease in receivables is reflective of an overall increase in the utilization of CAP/KTG continuing appropriations.

- The Authority/Corporation's governmental fund liabilities did not materially change year over year.

- The Authority/Corporation's governmental fund revenues increased approximately $53.9 million comprised of three primary increases. See the condensed financial information schedule for Governmental Fund and Proprietary Funds for a detailed side by side comparison of Governmental Fund revenues.

- The Authority/Corporation's governmental fund expenditures increased approximately $76.2 million (25.6%) as a result of various material increases and decreases in several student aid program expenditures including the following: $1.1 million increase for Kentucky Tuition Grants, $65.1 million increase for College Access Program Grants, $415,000 decrease for Early Childhood Development Scholarships, $2.7 million decrease for Kentucky Educational Excellence Scholarships, $751,000 increase in Teacher Scholarships, $1.2 million decrease in Osteopathic Medicine Scholarships, $9.2 million increase for Dual Credit Scholarships, $3 million increase for Work Ready Scholarships and $2.1 million decrease for last year's one-year Shot at a Million vaccination incentive program. See the condensed financial information schedule for Governmental Fund and Proprietary Funds for a detailed side by side comparison of Governmental Fund expenditures.

Combined Statement of Net Position – Governmental Fund and Proprietary Funds

Total governmental net position decreased from $75.4 million to $55.7 million. Total proprietary fund net position increased $52.2 million comprised of a $23.3 million increase from default collection operations (compared to a $21 million increase in prior year), $2.1 million increase from loan guarantee operations (compared to $3.8 million decrease in prior year), $702,000 benefit (including General Fund revenue) for outreach activities (compared to $3.4 million contribution in prior year), $0 contribution (including General Fund revenue) for student aid administration (compared to $2.2 million in prior year), $27.5 million increase in loan finance and servicing activities (compared to $24.8 million decrease in prior year), and $1.4 million contribution for school services (compared to $2.2 million in prior year).

Certain highlights related to the combined statement of net position as of June 30, 2023, are as follows:

- The Authority/Corporation maintained $1.4 billion of FFELP guarantees outstanding.

- The Authority/Corporation owned and serviced $790 million of FFELP loans and education loans.

- The change in proprietary fund net position connected with outreach and student aid administration was primarily related to the inclusion of $6 million of Commonwealth of Kentucky General Fund revenue allocated to these two business-type activities. There was, however, an additional capital appropriation of approximately $3.1 million that was allocated to several of the Authority's business-type activities.

- The Authority/Corporation maintained $451 million of defaulted loan principal in its collection portfolio.

- Although less negative this year, unrestricted net position is presented as a negative amount reflecting the overall decrease to the Corporation's Operating Fund net position due to GASB 68 and 75.

- Unrestricted net position increased from ($44.8) million to ($30.2) million due primarily to the the continued two-year impact of the decrease in retirement liabilities offset by Operating Fund equity contributed to the Series 2023 transaction recorded in the EFF.

- Net position restricted for student aid and related activities increased from $132.5 million to $155.2 million. Net position restricted other increased from $93.7 million to approximately $109 million.

Combined Statement of Revenues, Expenses and Changes in Net Position

The $52.2 million increase in proprietary fund net position during fiscal year 2023 was $18.1 million more than the $34.1 million increase during fiscal year 2022. The overall increase in proprietary fund net position was attributable to a $24.6 million increase for the Authority and a $27.5 million increase for the Corporation. The Authority's increase of $24.6 million reflects the continued DCL accounting and recognition of both reimbursement for lost revenue (see Note Q) and debt recovery commissions as well as $8.4 million of $9.1 million related to General Fund revenue. The General Fund request for the $6 million reimbursement of KHEAA expenses for student aid administration and outreach operations correlated with a then collections pause end date of January 31, 2022. At the time of that funding request, management could not have anticipated a 19-month extension of the pause end date through August 2023. The material decline to future KHEAA revenues was deferred as a result of that 19-month extension. The remaining $3.08 million of General Fund revenue pertains to the aforementioned capital appropriation for the building KHEAA leases. Approximately $2.47 million of the $3.08 million is reflected in the change in Net Position since only approximately $607,000 of the $3.08 million was disbursed and expensed during FY2023. The Corporation's net increase was largely related to the net of the following three items: (1) the decrease in retirement liabilities discussed in the industry update portion of this discussion and analysis, (2) increases in the activity in the Education Finance Funds, and (3) equity contributions from the Operating Fund to help overcollateralize the Series 2023 transaction. Another critical highlight related to the combined statement of revenues, expenses and changes in net position for the year ended June 30, 2023 is the $9.1 million of program benefits provided by the Authority/Corporation. The majority of these program benefits directly benefited the citizens of the Commonwealth of Kentucky.

Management's Discussion and Analysis (Unaudited)

Kentucky Higher Education Assistance Authority/
Kentucky Higher Education Student Loan Corporation

June 30, 2023

	Federal Student Loan Reserve Fund		Kentucky's Affordable Prepaid Tuition		Kentucky Education Savings Plan Trust	
	2023	2022	2023	2022	2023	2022
Net Position Information						
Other assets	$ 22,194,601	$ 35,958,595	$ 7,974,778	$ 19,085,957	$ 251,844,195	$ 236,120,728
Total Assets	22,194,601	35,958,595	7,974,778	19,085,957	251,844,195	236,120,728
Total Liabilities	17,145,157	30,412,045	40,897,741	53,542,115	230,417	223,553
Restricted net position (deficit)	5,049,444	5,546,550	(32,922,963)	(34,456,158)	251,613,778	235,897,175
Total Net Position	**$ 5,049,444**	**$ 5,546,550**	**$ (32,922,963)**	**$ (34,456,158)**	**$ 251,613,778**	**$ 235,897,175**
Changes in Fiduciary Net Position Information						
Federal reinsurance	$ 107,908,370	$ 95,774,669				
Contributions			$ 3,206	$ 32,200	$ 23,176,239	$ 27,421,673
Federal minimum reserve ratio transfer	19,821,203	28,309,154				
Investment revenue	584,719	8,995	190,077	(849,255)	20,343,017	(24,604,378)
Other income	60,010	595,993				
Total Additions	128,374,302	124,688,811	193,283	(817,055)	43,519,256	2,817,295
Administrative expenses			420,097	268,149	1,001,710	1,073,898
Refunds			1,706,073	2,706,087		
Trustee expense			29,588	36,145		
Tuition benefits expense (savings), net			(3,495,670)	781,146		
Loan claims	107,815,385	95,636,358				
Withdrawals					26,800,943	25,281,371
Default aversion	(468,540)	(83,818)				
Expenses for reimbursement of lost revenue	21,524,563	33,564,298				
Total Deductions	128,871,408	129,116,838	(1,339,912)	3,791,527	27,802,653	26,355,269
Change in Net Position	**$ (497,106)**	**$ (4,428,027)**	**$ 1,533,195**	**$ (4,608,582)**	**$ 15,716,603**	**$ (23,537,974)**

Financial Analysis – Fiduciary Funds

This section of the annual financial report presents a discussion and analysis of the Authority/Corporation's fiduciary fund performance for the fiscal year ended June 30, 2023. Please read it in conjunction with the Authority/Corporation's combined financial statements and notes to the combined financial statements, which follow this section.

Financial Overview

- Federal reinsurance and loan claims paid balances typically approximate the other each fiscal year. Both balances increased by approximately $12.1 million in FY2023 due primarily to an apparent reduced impact the end of Covid-19 had on lower FFEL delinquencies and defaults. In addition, approximately $19.8 million and $21.5 million of federal minimum reserve ratio ("MRR") transfers in and expenses for reimbursement for lost revenue, respectively, were recognized in FY2023. See the Statement of Fiduciary Net Position explanation below and Note Q for more detail describing the nature of this addition and expense, respectively, for FY2023.

- The Plan noted a decrease in the Net Deficit of approximately $1.5 million in fiscal year 2023, due primarily to the net of several different factors including the following: favorable tuition inflation, change in program expense assumptions, certain changes in future program assumptions and interest on the deficit at a prior assumed rate.

- At June 30, 2023 and 2022, the Trust's fiduciary net position totaled $251.6 million and $235.9 million, respectively. Fiduciary net position decreased $15.7 million, or 6.7%, from June 30, 2022, to June 30, 2023.

Statement of Fiduciary Net Position (Deficit)

The Federal Student Loan Reserve Fund ("FSLRF") net position decreased approximately $500,000 over ending net position in the prior year. Assets decreased by approximately $13.8 million while liabilities decreased $13.3 million. On December 18, 2015, the Consolidated Appropriations Act, 2016, was signed into law and amended the maximum reinsurance rate within Section 428(c)(1) of the Higher Education Act by striking 95% and inserting 100% (see Notes E and S). Therefore, the Authority/Corporation has not recorded a reserve at June 30, 2023 for losses on federal reinsurance. Subsequently, the reinsurance complement to the FSLRF for collections of defaulted student loans has generally resulted in year over year increases to the FSLRF net position. However, the Dear Colleague Letter ("DCL") guidance issued in the spring of 2021 has resulted in a material decrease in the Net Position of the FSLRF over the last couple of years. See Note Q for Dear Colleague Letter ("DCL") guidance issued in the spring of 2021 describing required actions of the Authority. Those provisions include an allowance for the reimbursement of lost revenue for FFEL guaranty agencies. In addition, beginning in FY2022, USDE subsidized the shortfall in the FSLRF and continued to use that same formulation through the end of the collections pause in August 2023. The subsidy is the federal minimum reserve ratio transfer. As of June 30, 2023, the FSLRF maintained a payable to the agency operating fund of $13.5 million for reimbursement for lost revenue and also a $7.1 million receivable from USDE for the minimum reserve ratio.

The Plan's total assets decreased $11.1 million, from $19.1 million as of June 30, 2022 to $8 million as of June 30, 2023. Total liabilities decreased $12.6 million from $53.5 million to $40.9 million. Detail related to tuition and investment return assumptions, as applicable, include the following:

- 2023-thereafter – The investment yield assumption is based on estimates of the yields that will be available on the investment portfolio and cash and cash equivalents. The gross investment yield assumption utilized in the calculation of the tuition benefit payable is based on an investment glide path approach for the Plan. The investments in the Plan did not change during FY2023 since the late FY2022 change to 50% short duration U.S. fixed income and 50% cash. Given the pending depletion of all remaining assets, the FY2022 change eliminates equity exposure to help preserve investment gains. A glide path approach better matches projected payouts as the value of the Plan's assets continues to move closer to its depletion date that is currently expected to occur during FY2024. See Note B for a chart of the aforementioned target asset allocation.

- As of June 30, 2023, the tuition for the 2023-2024 academic year will increase 2.1% for the Value Plan while tuition payout values for the Standard Plan and Premium Plan increased by 2.75%. The Standard Plan and the Premium Plan tuition payout value assumption increase for the 2023-2024 academic year is 4.00%. The tuition increase assumption for each year thereafter through 2028, when all current participant standard utilization periods expire, is also 4.00%.

The Trust is an Internal Revenue Code Section 529 plan managed by the Authority and administered on behalf of the Authority by Ascensus College Savings Recordkeeping Services, LLC. Trust assets are entirely comprised of cash and pooled investments. Total net position increased approximately $15.7 million during the year due primarily to investment revenue of $20.3 million offset by $3.6 million and $1 million in net withdrawals and administrative expenses, respectively. See the condensed financial information schedule for Fiduciary Funds on page 11 for a detailed side by side comparison of the Trust's revenues and expenses.

Statement of Changes in Fiduciary Net Position (Deficit)

The FSLRF net position decreased approximately $497,100 over ending net position in the prior year. This decrease in net position is primarily comprised of certain timing differences relative to the provisions of the aforementioned DCL including the processing of DCL "population three" provisions and federal MRR transfers. See the Statement of Fiduciary Net Position explanation above and Note Q for more detail describing the change in the FSLRF balance during FY2023.

As noted above, the Plan experienced a decrease in the Net Deficit of approximately $1.5 million in fiscal year 2023. For the year ended June 30, 2023, the Trust experienced net investment income of $20.3 million whereas for the year ended June 30, 2022, the Trust experienced net investment loss of $24.6 million.

Combined Government-Wide Statement of Net Position

Kentucky Higher Education Assistance Authority/
Kentucky Higher Education Student Loan Corporation

June 30, 2023

ASSETS	Governmental Activities	Business-Type Activities	Total
Current:			
Cash and cash equivalents	$ 15,283,681	$ 82,262,099	$ 97,545,780
Investments		59,644,151	59,644,151
Accounts receivable and prepaid expenses	34,523,780	1,145,165	35,668,945
Accrued interest income		22,708,360	22,708,360
Receivable from U.S. Department of Education		4,055,943	4,055,943
Receivable from FSLRF for reimbursement for lost revenue		13,549,680	13,549,680
Loans, net		100,466,646	100,466,646
Scholarship conversion loans receivable	450,000		450,000
Total Current Assets	50,257,461	283,832,044	334,089,505
Noncurrent:			
Restricted cash and cash equivalents		61,088,792	61,088,792
Investments		92,161,321	92,161,321
Receivable from Federal Student Loan Reserve Fund		367,742	367,742
Fixed assets, net		4,300,162	4,300,162
Lease assets, net		1,555,656	1,555,656
Loans, net		659,599,117	659,599,117
Accrued interest income, net		12,687,480	12,687,480
Scholarship conversion loans receivable, net	3,300,596		3,300,596
Scholarship advances receivable	2,233,996		2,233,996
Total Noncurrent Assets	5,534,592	831,760,270	837,294,862
Total Assets	55,792,053	1,115,592,314	1,171,384,367
Deferred Outflows of Resources:			
Deferred amount on debt refunding		1,038,188	1,038,188
Deferred OPEB expense		7,077,987	7,077,987
Deferred pension expense		6,098,680	6,098,680
Total Assets and Deferred Outflows of Resources	55,792,053	1,129,807,169	1,185,599,222
LIABILITIES			
Current:			
Accounts payable and accrued expenses	104,558	5,856,471	5,961,029
Accrued interest expense		2,095,703	2,095,703
Direct borrowing		37,417,864	37,417,864
Lease liability		379,878	379,878
Bonds payable		10,140,000	10,140,000
Total Current Liabilities	104,558	55,889,916	55,994,474
Noncurrent:			
Net OPEB liability		16,783,148	16,783,148
Net pension liability		68,090,257	68,090,257
Allowance for arbitrage liabilities		291,861	291,861
Direct placements		131,303,000	131,303,000
Lease liability		1,210,940	1,210,940
Bonds payable, net		597,345,904	597,345,904
Total Noncurrent Liabilities		815,025,110	815,025,110
Total Liabilities	104,558	870,915,026	871,019,584
Deferred Inflows of Resources:			
Deferred pension expense		5,820,599	5,820,599
Deferred OPEB expense		6,819,197	6,819,197
Deferred gain on debt retirements, net		7,902,481	7,902,481
Total Liabilities and Deferred Inflows of Resources	104,558	891,457,303	891,561,861
NET POSITION			
Invested in capital assets, net of expended debt proceeds		4,300,162	4,300,162
Restricted, other		109,042,808	109,042,808
Restricted for program benefits	55,687,495		55,687,495
Restricted for student aid and related activities		155,198,009	155,198,009
Unrestricted		(30,191,113)	(30,191,113)
Total Net Position	$ 55,687,495	$ 238,349,866	$ 294,037,361

Combined Government-Wide Statement of Activities

Kentucky Higher Education Assistance Authority/
Kentucky Higher Education Student Loan Corporation

For the Year Ended June 30, 2023

			Program Revenue		**Net (Expenses) Revenues and Changes in Net Position**		
	Direct Expenses	**Indirect Expenses**	**Charges for Services**	**Operating Grants and Contributions**	**Governmental Activities**	**Business-Type Activities**	**Total**
Governmental Activities:							
Kentucky Tuition Grant	$ 34,941,386	$ 155,893		$ 39,898,048	$ 4,800,769		$ 4,800,769
College Access Program Grant	171,667,533	155,893		139,546,557	(32,276,869)		(32,276,869)
Early Graduation Scholarship	92,250	155,893		248,143			
Early Childhood Development Scholarship	1,625,238	155,893		1,850,175	69,044		69,044
Kentucky National Guard Tuition Award Program	7,974,000	155,893		7,569,615	(560,278)		(560,278)
Kentucky Educational Excellence Scholarship	111,414,219	155,893		116,144,156	4,574,044		4,574,044
Teacher Scholarship	933,377	155,893		1,155,893	66,623		66,623
Dual Credit Scholarship Program	20,503,199	155,893		17,555,688	(3,103,404)		(3,103,404)
Osteopathic Medicine Scholarship	(312,059)	155,893		397,287	553,453		553,453
Work Ready Scholarship	13,484,796	155,893		13,021,146	(619,543)		(619,543)
Veterinary Contract Spaces Program	5,293,000	155,893		5,649,893	201,000		201,000
Optometry Scholarship Program	859,252	155,893		1,004,293	(10,852)		(10,852)
Coal County Scholarship Program for Pharmacy Students	352,439	155,893		234,228	(274,104)		(274,104)
Innovative Scholarship Pilot Program	3,174,573	130,278		10,130,278	6,825,427		6,825,427
John R. Justice Grant	33,678	155,893		189,571			
Total Governmental Activities	372,036,881	2,312,780		354,594,971	(19,754,690)		(19,754,690)
Business-Type Activities:							
Loan guarantee operations	1,525,693		$ 2,674,568	954,536		$ 2,103,411	2,103,411
Default collections	4,249,429		26,968,053	536,701		23,255,325	23,255,325
Loan finance and servicing activities	(1,193,969)		26,302,571			27,496,540	27,496,540
Outreach	4,412,126			5,114,060		701,934	701,934
Student aid administration	2,312,780			2,312,780			
School services	2,358,259		798,663	158,923		(1,400,673)	(1,400,673)
Other activities	448,423		448,423				
Total Business-Type Activities	14,112,741		57,192,278	9,077,000		52,156,537	52,156,537
Total Activities	$ 386,149,622	$ 2,312,780	$ 57,192,278	$ 363,671,971	(19,754,690)	52,156,537	32,401,847
Net Position, July 1, 2022					75,442,185	186,193,329	261,635,514
Net Position, June 30, 2023					$ 55,687,495	$ 238,349,866	$ 294,037,361

Combined Statement of Net Position - Proprietary Funds

Kentucky Higher Education Assistance Authority/
Kentucky Higher Education Student Loan Corporation

June 30, 2023

	Authority			Corporation			Combined
	Internal Service Fund	Agency Operating Fund	Authority Total	Education Finance Funds	Operating Fund	Corporation Total	Total
ASSETS							
Current:							
Cash and cash equivalents	$ 5,710,363	$ 57,989,710	$ 63,700,073		$ 18,562,026	$ 18,562,026	$ 82,262,099
Investments		5,251,579	5,251,579	$ 54,392,572		54,392,572	59,644,151
Accounts receivable and prepaid expenses	175,000	177,249	352,249	126,163	666,753	792,916	1,145,165
Accrued interest income		629,248	629,248	20,364,785	1,714,327	22,079,112	22,708,360
Receivable from U.S. Department of Education		225,500	225,500	3,433,495	396,948	3,830,443	4,055,943
Receivable from FSLRF for reimbursement for lost revenue		13,549,680	13,549,680				13,549,680
Loans, net				89,591,218	10,875,428	100,466,646	100,466,646
Total Current Assets	5,885,363	77,822,966	83,708,329	167,908,233	32,215,482	200,123,715	283,832,044
Noncurrent:							
Restricted cash and cash equivalents				61,088,792		61,088,792	61,088,792
Investments		83,084,979	83,084,979		9,076,342	9,076,342	92,161,321
Lease assets, net					1,555,656	1,555,656	1,555,656
Fixed assets, net		4,198,611	4,198,611		101,551	101,551	4,300,162
Loans, net				609,480,107	50,119,010	659,599,117	659,599,117
Receivable from Federal Student Loan Reserve Fund		367,742	367,742				367,742
Accrued interest income, net				11,017,247	1,670,233	12,687,480	12,687,480
Total Noncurrent Assets		87,651,332	87,651,332	681,586,146	62,522,792	744,108,938	831,760,270
Total Assets	5,885,363	165,474,298	171,359,661	849,494,379	94,738,274	944,232,653	1,115,592,314
Deferred Outflows of Resources:							
Deferred Amount on Debt Refunding				1,038,188		1,038,188	1,038,188
Deferred OPEB expense		256,805	256,805		6,821,182	6,821,182	7,077,987
Deferred pension expense		428,982	428,982		5,669,698	5,669,698	6,098,680
Total Deferred Outflows		685,787	685,787	1,038,188	12,490,880	13,529,068	14,214,855
Total Assets and Deferred Outflows of Resources	5,885,363	166,160,085	172,045,448	850,532,567	107,229,154	957,761,721	1,129,807,169

Combined Statement of Net Position - Proprietary Funds

Kentucky Higher Education Assistance Authority/
Kentucky Higher Education Student Loan Corporation

June 30, 2023

	Authority			Corporation			Combined
	Internal Service Fund	Agency Operating Fund	Authority Total	Education Finance Funds	Operating Fund	Corporation Total	Total
LIABILITIES							
Current:							
Accounts payable and accrued expenses	1,114,551	577,875	1,692,426	184,830	3,979,215	4,164,045	5,856,471
Interfund payable (receivable)	4,770,812	(4,534,523)	236,289	(436,848)	200,559	(236,289)	
Accrued interest expense				1,907,054	188,649	2,095,703	2,095,703
Direct borrowing					37,417,864	37,417,864	37,417,864
Lease liability					379,878	379,878	379,878
Bond payable				10,140,000		10,140,000	10,140,000
Total Current Liabilities	5,885,363	(3,956,648)	1,928,715	11,795,036	42,166,165	53,961,201	55,889,916
Noncurrent:							
Net OPEB liability		905,903	905,903		15,877,245	15,877,245	16,783,148
Net pension liability		5,620,577	5,620,577		62,469,680	62,469,680	68,090,257
Allowance for arbitrage liabilities				291,861		291,861	291,861
Direct placements				131,303,000		131,303,000	131,303,000
Lease liability					1,210,940	1,210,940	1,210,940
Bonds payable, net				597,345,904		597,345,904	597,345,904
Total Noncurrent Liabilities		6,526,480	6,526,480	728,940,765	79,557,865	808,498,630	815,025,110
Total Liabilities	5,885,363	2,569,832	8,455,195	740,735,801	121,724,030	862,459,831	870,915,026
Deferred Inflows of Resources:							
Deferred pension expense		1,202,188	1,202,188		4,618,411	4,618,411	5,820,599
Deferred OPEB expense		520,977	520,977		6,298,220	6,298,220	6,819,197
Deferred gain on debt retirements, net				7,902,481		7,902,481	7,902,481
Total Liabilities and Deferred Inflows of Resources	5,885,363	4,292,997	10,178,360	748,638,282	132,640,661	881,278,943	891,457,303
NET POSITION							
Invested in capital assets, net		4,198,611	4,198,611		101,551	101,551	4,300,162
Restricted, other		2,470,468	2,470,468	101,894,285	4,678,055	106,572,340	109,042,808
Restricted for student aid and related activities		155,198,009	155,198,009				155,198,009
Unrestricted					(30,191,113)	(30,191,113)	(30,191,113)
Total Net Position	$	$ 161,867,088	$ 161,867,088	$ 101,894,285	$ (25,411,507)	$ 76,482,778	$ 238,349,866

Combined Statement of Revenues, Expenditures and Changes in Net Position - Proprietary Funds

Kentucky Higher Education Assistance Authority/
Kentucky Higher Education Student Loan Corporation

For the Year Ended June 30, 2023

	Authority			Corporation			Combined
	Internal Service Fund	Agency Operating Fund	Authority Total	Education Finance Funds	Operating Fund	Corporation Total	Total
Operating Revenues:							
Interest Revenues:							
Interest on loans				$ 42,745,104	$ 4,956,697	$ 47,701,801	$ 47,701,801
Interest and investment income		$ 2,027,684	$ 2,027,684	3,937,066	572,734	4,509,800	6,537,484
Amortization of deferred gain on debt retirements				1,077,075		1,077,075	1,077,075
Interest expense on bonds				(30,540,098)	(2,307,313)	(32,847,411)	(32,847,411)
Total Net Interest Revenues		2,027,684	2,027,684	17,219,147	3,222,118	20,441,265	22,468,949
Financing Expenses:							
Long-term debt credit facility and remarketing fees				128,686	35,144	163,830	163,830
Provision for loan losses				4,927,387	147,472	5,074,859	5,074,859
Provision for arbitrage				(145,707)		(145,707)	(145,707)
Debt issuance costs				1,289,728		1,289,728	1,289,728
Total Financing Expenses				6,200,094	182,616	6,382,710	6,382,710
Interest Revenues Net of Financing Expenses		2,027,684	2,027,684	11,019,053	3,039,502	14,058,555	16,086,239
Other Operating Revenues:							
Servicing fees from external sources					31,046	31,046	31,046
Servicing fees from Education Finance Funds					4,434,289	4,434,289	4,434,289
State General Fund revenue		9,077,000	9,077,000				9,077,000
Debt recovery commission		5,443,490	5,443,490				5,443,490
Reimbursement for lost revenue, net		21,524,563	21,524,563				21,524,563
Federal fees earned		962,878	962,878				962,878
Default aversion fee income		(468,540)	(468,540)				(468,540)
Gain on sale/purchase of loans					716,453	716,453	716,453
Late payment penalties				619,105	58,413	677,518	677,518
School services		798,663	798,663				798,663
Other income	$ 448,423	152,546	600,969		2,000	2,000	602,969
Total Operating Revenues	448,423	39,518,284	39,966,707	11,638,158	8,281,703	19,919,861	59,886,568

Combined Statement of Revenues, Expenditures and Changes
in Net Position - Proprietary Funds

Kentucky Higher Education Assistance Authority/
Kentucky Higher Education Student Loan Corporation

For the Year Ended June 30, 2023

	Authority			Corporation			Combined
	Internal Service Fund	Agency Operating Fund	Authority Total	Education Finance Funds	Operating Fund	Corporation Total	Total
Operating Expenses:							
Administrative expenses	448,423	6,504,354	6,952,777		11,960,523	11,960,523	18,913,300
Servicing fees for Operating Fund				4,434,289		4,434,289	4,434,289
Depreciation and amortization		288,656	288,656		487,136	487,136	775,792
Other expenses		229,039	229,039	192,741	786,311	979,052	1,208,091
Total Operating Expenses	448,423	7,022,049	7,470,472	4,627,030	13,233,970	17,861,000	25,331,472
Net Changes to Retirement Liabilities/Deferred Resources		1,246,927	1,246,927		25,481,544	25,481,544	26,728,471
Net Operating Income Before Program Benefits		33,743,162	33,743,162	7,011,128	20,529,277	27,540,405	61,283,567
Program Benefits:							
Principal and interest benefits				43,794	71	43,865	43,865
School service		2,358,259	2,358,259				2,358,259
Outreach		4,412,126	4,412,126				4,412,126
Student aid administration		2,312,780	2,312,780				2,312,780
Total Program Benefits		9,083,165	9,083,165	43,794	71	43,865	9,127,030
Operating Income Before Transfers		24,659,997	24,659,997	6,967,334	20,529,206	27,496,540	52,156,537
Transfers (to) from Other Funds							
Interfund transfers				7,128,937	(7,128,937)		
Increase in Net Position After Transfers		24,659,997	24,659,997	14,096,271	13,400,269	27,496,540	52,156,537
Net Position, July 1, 2022		137,207,091	137,207,091	87,798,014	(38,811,776)	48,986,238	186,193,329
Net Position, June 30, 2023		$ 161,867,088	$ 161,867,088	$ 101,894,285	$ (25,411,507)	$ 76,482,778	$ 238,349,866

Combined Statement of Cash Flows - Proprietary Funds

Kentucky Higher Education Assistance Authority/
Kentucky Higher Education Student Loan Corporation

For the Year Ended June 30, 2023

	Authority			Corporation			Combined
	Internal Service Fund	Agency Operating Fund	Authority Total	Education Finance Funds	Operating Fund	Corporation Total	Total
Cash Flows from Operating Activities:							
Principal received on loans				$ 136,535,499	$ 20,549,576	$ 157,085,075	$ 157,085,075
Interest received on loans				26,156,112	4,978,365	31,134,477	31,134,477
Special allowance paid				(2,388,566)	(150,146)	(2,538,712)	(2,538,712)
Servicing fees received, internal sources	$ (448,423)	$ 46,826	$ (401,597)	(4,434,289)	4,434,289		(401,597)
School services fees received		798,663	798,663				798,663
Servicing fees received, external sources					34,810	34,810	34,810
Debt recovery commission received		5,443,490	5,443,490				5,443,490
Reimbursement for lost revenue		21,524,563	21,524,563				21,524,563
Federal fees received		962,878	962,878				962,878
State General Fund revenue received		9,077,000	9,077,000				9,077,000
Default aversion fees received		(468,540)	(468,540)				(468,540)
Outreach		(4,412,126)	(4,412,126)				(4,412,126)
School services		(2,358,259)	(2,358,259)				(2,358,259)
Internal activity-payments to other funds	2,969,932	(2,969,932)		254,322	(254,322)		
Loans originated, including costs				(8,521,003)	(56,669,983)	(65,190,986)	(65,190,986)
Administrative expenses paid		(5,368,563)	(5,368,563)	(2,752,990)	(12,029,707)	(14,782,697)	(20,151,260)
Interfund loan sales and purchases				(71,639,492)	71,639,492		
Credit facility fees paid				(128,686)	(30,932)	(159,618)	(159,618)
Loans purchased, including premiums				(104,257)	(7,901,854)	(8,006,111)	(8,006,111)
Student aid administration		(2,312,780)	(2,312,780)				(2,312,780)
Client loan receipts					361,375	361,375	361,375
Loan receipts remitted to clients					(377,623)	(377,623)	(377,623)
Net Cash Provided By Operating Activities	2,521,509	19,963,220	22,484,729	72,976,650	24,583,340	97,559,990	120,044,719
Cash Paid from Noncapital Financing Activities:							
Proceeds from debt issued				93,283,981	30,530,000	123,813,981	123,813,981
Debt principal payments				(149,927,000)	(43,131,527)	(193,058,527)	(193,058,527)
Defeasance of debt				(24,700,000)		(24,700,000)	(24,700,000)
Interest on debt				(29,962,908)	(2,188,081)	(32,150,989)	(32,150,989)
Increase in Federal Student Loan Reserve receivable		(367,742)	(367,742)				(367,742)
Debt issuance costs				(1,289,728)		(1,289,728)	(1,289,728)
Interfund transfers				7,128,937	(7,128,937)		
Net Cash Provided by (Used In) Noncapital Financing Activities		(367,742)	(367,742)	(105,466,718)	(21,918,545)	(127,385,263)	(127,753,005)
Cash Flows From Capital and Related Financing Activities:							
Capital expenditures		(142,930)	(142,930)		(86,590)	(86,590)	(229,520)
Lease liability					(361,769)	(361,769)	(361,769)
Net Cash Used In Capital and Related Financing Activities		(142,930)	(142,930)		(448,359)	(448,359)	(591,289)
Cash Flows From Investing Activities:							
Proceeds from sales/maturities of investments		53,034,614	53,034,614		5,769,702	5,769,702	58,804,316
Purchases of investments		(56,403,357)	(56,403,357)	(54,240,720)	(5,655,551)	(59,896,271)	(116,299,628)
Investment income		4,464,435	4,464,435	3,660,446	346,101	4,006,547	8,470,982
Net Cash Provided By (Used In) Investing Activities		1,095,692	1,095,692	(50,580,274)	460,252	(50,120,022)	(49,024,330)
Net Increase (Decrease) in Cash and Cash Equivalents	2,521,509	20,548,240	23,069,749	(83,070,342)	2,676,688	(80,393,654)	(57,323,905)
Cash and Cash Equivalents, July 1, 2022	3,188,854	37,441,470	40,630,324	144,159,134	15,885,338	160,044,472	200,674,796
Cash and Cash Equivalents, June 30, 2023	$ 5,710,363	$ 57,989,710	$ 63,700,073	$ 61,088,792	$ 18,562,026	$ 79,650,818	$ 143,350,891

Combined Statement of Cash Flows - Proprietary Funds

Kentucky Higher Education Assistance Authority/
Kentucky Higher Education Student Loan Corporation

For the Year Ended June 30, 2023

	Authority			Corporation			Combined
	Internal Service Fund	**Agency Operating Fund**	**Authority Total**	**Education Finance Funds**	**Operating Fund**	**Corporation Total**	**Total**
Reconciliation of Operating Income to Net Cash Provided By Operating Activities							
Operating income before transfers		$ 24,659,997	$ 24,659,997	$ 6,967,334	$ 20,529,206	$ 27,496,540	$ 52,156,537
Adjustments to reconcile operating income to net cash provided by operating activities:							
Investment income (loss)		(2,027,684)	(2,027,684)	(3,812,298)	(517,084)	(4,329,382)	(6,357,066)
Depreciation and amortization		691,760	691,760		487,136	487,136	1,178,896
Amortization, expense and write-off of debt issuance costs				1,289,728		1,289,728	1,289,728
Amortization of deferred gain on debt retirements				(1,077,075)		(1,077,075)	(1,077,075)
Interest expense				30,540,098	2,307,313	32,847,411	32,847,411
OPEB expense					(1,197,863)	(1,197,863)	(1,197,863)
Provision for loan losses				4,927,387	147,472	5,074,859	5,074,859
Borrower interest converted to principal				(11,182,012)	(1,300,341)	(12,482,353)	(12,482,353)
Loan forgiveness				43,794		43,794	43,794
Pension expense		(2,196,718)	(2,196,718)		(24,283,681)	(24,283,681)	(26,480,399)
(Increases) decreases in assets:							
Accounts receivables and prepaid expenses	$ 331,756	(186,166)	145,590	(36,329)	(152,809)	(189,138)	(43,548)
Receivable from the FSLRF for reimbursement of lost revenue		2,455,816	2,455,816				2,455,816
Accrued interest receivable		232,992	232,992	(2,065,827)	1,618,109	(447,718)	(214,726)
Principal received on loans				136,535,499	20,549,576	157,085,075	157,085,075
Loans purchased, including premiums				(104,257)	(7,901,854)	(8,006,111)	(8,006,111)
Loans originated, including costs				(8,521,003)	(56,669,983)	(65,190,986)	(65,190,986)
Interfund loan sales and purchases				(71,639,492)	71,639,492		
Increases (decreases) in liabilities:							
Accounts payable and accrued expenses	(109,840)	(1,394,552)	(1,504,392)	(272,404)	417,545	145,141	(1,359,251)
Payable to U.S. Department of Education				(8,725,108)	(807,204)	(9,532,312)	(9,532,312)
Allowance for arbitrage liabilities				(145,707)		(145,707)	(145,707)
Interfund receivable/payable	2,299,593	(2,272,225)	27,368	254,322	(281,690)	(27,368)	
Net Cash Provided By Operating Activities	$ 2,521,509	$ 19,963,220	$ 22,484,729	$ 72,976,650	$ 24,583,340	$ 97,559,990	$ 120,044,719

Balance Sheet - Governmental Fund

Kentucky Higher Education Assistance Authority/
Kentucky Higher Education Student Loan Corporation

June 30, 2023

	Governmental Fund Student Aid
ASSETS	
Current:	
Cash and cash equivalents	$ 15,283,681
Accounts receivable	34,523,780
Scholarship conversion loans receivable	450,000
Total Current Assets	50,257,461
Noncurrent:	
Scholarship conversion loans receivable, net of allowance of $1,947,000	3,300,596
Scholarship advances receivable	2,233,996
Total Noncurrent Assets	5,534,592
Total Assets	55,792,053
LIABILITIES	
Current:	
Accounts payable	104,558
Total Liabilities	104,558
FUND BALANCE	
Restricted for program benefits	$ 55,687,495

Statement of Revenues, Expenditures and Changes
in Fund Balance - Governmental Fund

Kentucky Higher Education Assistance Authority/
Kentucky Higher Education Student Loan Corporation

For the Year Ended June 30, 2023

	Governmental Fund Student Aid
Revenues:	
Interest and investment income fund	$ 319,729
Unclaimed lottery revenue	15,987,400
State General Fund revenue	333,309,349
Federal funds revenue	1,727,960
Other income	937,753
Contribution from Agency Operating Fund	2,312,780
Total Revenues	354,594,971
Expenditures:	
Kentucky Tuition Grant	35,097,279
College Access Program Grant	171,823,426
Early Graduation Scholarship	248,143
Early Childhood Development Scholarship	1,781,131
Kentucky National Guard Tuition Award Program	8,129,893
Kentucky Educational Excellence Scholarship	111,570,112
Teacher Scholarship	1,089,270
Osteopathic Medicine Scholarship	(156,166)
Coal County Scholarship Program for Pharmacy Students	508,332
Optometry Scholarship Program	1,015,145
Veterinary Contract Spaces Program	5,448,893
Dual Credit Scholarship Program	20,659,092
Work Ready Scholarship	13,640,689
Innovative Scholarship Pilot Program	3,304,851
John R. Justice Grant	189,571
Total Expenditures	374,349,661
Net Change in Fund Balance	(19,754,690)
Fund Balance, July 1, 2022	75,442,185
Fund Balance, June 30, 2023	$ 55,687,495

Statement of Fiduciary Net Position (Deficit)

Kentucky Higher Education Assistance Authority/
Kentucky Higher Education Student Loan Corporation

June 30, 2023

ASSETS	Federal Student Loan Reserve Fund	Kentucky's Affordable Prepaid Tuition	Kentucky Education Savings Plan Trust
Current:			
Cash and cash equivalents	$ 12,224,584	$ 5,124,050	$ 87,690
Receivable from U.S. Department of Education	7,079,423		
Investments		2,850,728	251,713,931
Other current assets	2,074		42,574
Total Current Assets	19,306,081	7,974,778	251,844,195
Noncurrent:			
Default aversion fees receivable	2,888,520		
Total Noncurrent Assets	2,888,520		
Total Assets	22,194,601	7,974,778	251,844,195
LIABILITIES			
Current:			
Accounts payable	339,215		143,317
Accrued expenses			87,100
Tuition benefits payable		8,143,297	
Payable to AOF for reimbursement of lost revenue	13,549,680		
Payable to Agency Operating Fund	3,256,262		
Total Current Liabilities	17,145,157	8,143,297	230,417
Noncurrent:			
Tuition benefits payable		32,754,444	
Total Liabilities	17,145,157	40,897,741	230,417
NET POSITION (DEFICIT)			
Restricted for program benefits		(32,922,963)	251,613,778
Restricted for other purposes	5,049,444		
Total Net Position (Deficit)	$ 5,049,444	$ (32,922,963)	$ 251,613,778

Statement of Changes in Fiduciary Net Position (Deficit)

Kentucky Higher Education Assistance Authority/
Kentucky Higher Education Student Loan Corporation

For the Year Ended June 30, 2023

	Federal Student Loan Reserve Fund	Kentucky's Affordable Prepaid Tuition	Kentucky Education Savings Plan Trust
Additions:			
Federal reinsurance	$ 107,908,370		
Federal minimum reserve ratio transfer	19,821,203		
Contract income, net		$ 3,206	
Contributions			$ 23,176,239
Investment Revenues:			
Net decrease in fair value of investments		(638,199)	13,004,824
Interest and investment income	584,719	828,276	7,338,193
Other income	60,010		
Total Additions	128,374,302	193,283	43,519,256
Deductions:			
Program benefits:			
Loan claims	107,815,385		
Default aversion fee expense	(468,540)		
Withdrawals			26,800,943
Administrative expenses		40,597	1,001,710
Personnel and professional expenses		379,500	
Expenses for reimbursement of lost revenue	21,524,563		
Refunds		1,706,073	
Trustee fee expense		29,588	
Tuition benefits expense, net		(3,495,670)	
Total Deductions	128,871,408	(1,339,912)	27,802,653
Change in Net Position	(497,106)	1,533,195	15,716,603
Net Position (Deficit), July 1, 2022	5,546,550	(34,456,158)	235,897,175
Net Position (Deficit), June 30, 2023	$ 5,049,444	$ (32,922,963)	$ 251,613,778

Note A--Description of Business

The Kentucky Higher Education Assistance Authority (the “Authority” or “KHEAA”) was established in 1966 as the Commonwealth of Kentucky’s (the “Commonwealth”) agency for improving higher education opportunities. To that end, KHEAA administers several financial aid programs and disseminates information about higher education opportunities. The Authority also guarantees existing Federal Family Education Loan Program (“FFELP”) loans, performs default aversion activities, pays lender default and other claims and performs collection activities on eligible student loans. The Kentucky Educational Savings Plan Trust (the “Trust”) and the Commonwealth Postsecondary Education Prepaid Trust Fund, Kentucky’s Affordable Prepaid Tuition Plan (the “Plan”), offer savings and investment opportunities for Kentuckians to save for higher education. The Kentucky Higher Education Student Loan Corporation (the “Corporation” or “KHESLC”) makes loans directly to parents, students, and refinancing borrowers as part of the Advantage Loan Program. The Corporation also purchases and/or services eligible Federal and Advantage student loans and performs collection activities on certain eligible student loans. The Mission of the organizations is “Helping Kentucky students and families prepare, plan, and pay for higher education. The Vision is “Connecting all Kentuckians to higher education.” The Guiding Principles are “Promoting the merits of higher education and improving access, affordability, and completion. The Authority and the Corporation maintain bundled operations to maximize the efficiency of all Authority and Corporation operational and support activities. Accordingly, all senior management positions have responsibilities related to both the Authority and the Corporation. Additionally, the Plan and the Trust are governed by the Authority and Corporation’s combined Board of Directors. Throughout the accompanying combined financial statements, the “Authority/Corporation” refers to the combined group of operations.

The Health Care and Education Reconciliation Act (“HCERA”) of 2010 was signed into law on March 30, 2010. HCERA eliminated the origination and/or guarantee of new FFELP loans, effective July 1, 2010. HCERA did allow lenders to make subsequent disbursements on loans originated on or before June 30, 2010. The Authority/Corporation can no longer originate, guarantee or fund any newly-originated FFELP loans. However, the Authority/Corporation continues to operate under existing FFELP regulations for loans originated and guaranteed prior to July 1, 2010.

In 2012, the Authority/Corporation sought and received state legislative approval from the Commonwealth of Kentucky to create the Asset Resolution Corporation (“ARC”). ARC was created by the Kentucky General Assembly effective July 12, 2012. During Fiscal Year 2021, ARC contractually formalized FFELP and Advantage loan collection activities, shared staff and support services that resulted in revenues and expenses being recognized for ARC during such fiscal year. In addition, separate legislation amending ARC’s statutes was passed during the 2021 Commonwealth of Kentucky legislative session. The legislation established ARC as an independent de jure municipal corporation and political subdivision of the Commonwealth. ARC is attached to KHESLC for administrative and reporting purposes and is governed, managed, and administered as a separate and distinct instrumentality of the Commonwealth. Therefore, ARC meets the definition of a separate legal entity. GASB statement numbers 14 and 61 qualify ARC as a blended component unit of KHESLC for purposes of the Authority/Corporation’s combined financial statements. The GASB guidance also permits separate stand-alone financial statements of blended component units like ARC. KHEAA contracts with ARC to perform the aforementioned collection activities on eligible FFELP loans at cost. ARC and KHESLC also contract to utilize KHESLC employees in the collection of those defaulted loans. To request a copy of the ARC financial statements and footnotes, please contact KHESLC at (502) 329-7079.

Note A--Description of Business--Continued

Outreach Programs

Outreach - Outreach operations provide critical informational resources to make higher education accessible to Kentucky's current and future generations. Outreach counselors at the Authority/Corporation are available year-round to provide free college planning and financial aid assistance to students and families, school counselors, adult education programs and other community contacts. They conduct scholarship and other funding searches, help students with the admissions and financial aid application processes and increase motivation for at-risk students. Outreach services are offered through classroom presentations, financial aid nights, career fairs, college nights, adult education classes, Free Application for Federal Student Aid ("FAFSA") workshops, financial literacy workshops, professional development/staff training and other programs and camps. In addition, since March 2020 a greater percentage of these Outreach services have also been offered through social media, virtual counseling and webinars. Programs and services also include a mobile college-planning classroom, a one-stop Web portal, near-peer college coaches and targeted publications for students of all ages. Other Outreach initiatives include Kentucky College Application Campaign, which provides participating seniors with hands-on assistance in applying to college or technical school; FAFSA for the Win Challenge, which supports and incentivizes schools and students in the FAFSA completion process; College Decision Day, which celebrates and recognizes seniors for making educational plans beyond high school; and the Kentucky College Coaches Program, in which recent college graduates serve as coaches to students in schools with predominantly first-generation, low-income students.

Student Aid Programs

Student Aid – During FY2023, the Authority/Corporation provided some or all levels of administration of seventeen student aid programs: (1) Kentucky Educational Excellence Scholarship, (2) College Access Program Grant ("CAP"), (3) Kentucky Tuition Grant ("KTG"), (4) Teacher Scholarship, (5) Osteopathic Medicine Scholarship, (6) Veterinary Contract Spaces Program, (7) Early Childhood Development Scholarship, (8) Optometry Scholarship Program, (9) Work Ready Kentucky Scholarship, (10) John R. Justice Grant, (11) Kentucky National Guard Tuition Award Program, (12) Early Graduation Scholarship, (13) Minority Educator Recruitment and Retention Scholarship, (14) Dual Credit Scholarship Program, (15) Kentucky Academy for Equity in Teaching Program and (16) Coal County Scholarship Program for Pharmacy Students. The seventeenth student aid program is the new Kentucky Innovative Scholarship Pilot Project.

Kentucky Educational Savings Plan Trust

The Trust was formed on July 15, 1988, by Kentucky law, to help families save for the costs of higher education. The Trust is administered by the Authority/Corporation's Board of Directors. On February 22, 2019, program administration of the Trust converted from TIAA to Ascensus College Savings Recordkeeping Services, LLC. The Trust is operated in a manner such that it is exempt from registration as an investment company under the Investment Company Act of 1940. The Trust offers certain federal and state tax advantages to account owners.

Note A--Description of Business--Continued

An individual or entity participating in the Trust establishes an account in the name of a Beneficiary. During FY2023, investment contributions with Ascensus as Program Manager consisted of the following seven options offered by nine different investment companies: the Managed Allocation Option (seven different enrollment bands), the Active Bond Option, the Equity Index Option, the Active Equity Option, the Bond Index Option, the Capital Preservation Option and the Guaranteed Option. The Guaranteed Option was open only to those in the program as of the February 22, 2019 conversion date. Effective February 14, 2023, the Guaranteed Option closed, and assets were transferred into the existing Capital Preservation Option. The 2023 returns for the Guaranteed Option are for the period from July 1, 2022 through February 16, 2023.

Contributions in the current Ascensus Managed Allocation Option are allocated among seven school enrollment bands within an open architecture investment approach. Open architecture helps avoid the conflict of interest that would exist if the administrator only recommended its own products. Each age band invests in varying percentages within the remaining six investment options and investment choices include the following nine investment companies: Dimensional Fund Advisors (“DFA”), Cohen & Steers Capital Management, Inc. (“Cohen & Steers”), Baird Advisors, BlackRock, State Street Global Advisors (“SSGA”), Charles Schwab Investment Management, Inc. (“Schwab”), Vanguard, PGIM Investments LLC (“PGIM Investments”), and Principal Life Insurance Company.

All investment allocation percentages are determined by the Authority/Corporation’s Board of Directors and reviewed annually. The assets of the Guaranteed Option that were transferred into the existing Capital Preservation Option effective February 14, 2023 and a percentage of the assets of the six upper level enrollment bands in the Managed Allocation option are allocated to a funding agreement issued by the Principal Life Insurance Company. The agreement offers a guarantee of principal and a minimum rate of return to the Trust. The Guaranteed Option is contractually obligated to pay a minimum rate of return of 1%. For fiscal year 2023, the crediting rate on the TIAA-CREF funding agreement during the period from July 1, 2022 through February 22, 2023 was 1.60%, and the crediting rate on the Principal Life funding agreement during the period from October 7, 2022 through June 30, 2023 was 4.85%.

In February 2019, the Authority began collecting a small administrative fee from Trust participants to support program administration.

Prepaid Tuition Plan

The Authority/Corporation also administers the Plan, which was created by the 2000 Kentucky General Assembly and is governed under Kentucky Revised Statutes (“KRS”) 164A.700-709. On July 1, 2005, governance of the Plan permanently transferred to the Authority/Corporation. The Plan was established to provide families with an opportunity to save for future postsecondary education expenses. The Plan’s investment policy goal is to earn rates of return that closely match or exceed anticipated tuition inflation rates and remain sufficiently liquid to meet the Plan’s benefit payments in a timely manner. The Plan offered enrollment periods in fiscal years 2002, 2003 and 2005, for purchasers to buy prepaid tuition contracts. The Plan offers certain federal and state tax advantages to purchasers. There have been no enrollment periods since fiscal year 2005 as the Plan currently maintains an accumulated net deficit of approximately $32.9 million.

Note A--Description of Business--Continued

Participants purchased annual tuition units at then current tuition levels, or tuition levels at the time of purchase, plus a premium, and receive benefits equal to tuition rates in place at the time that the student attends a qualified postsecondary education institution. The Plan offered three tuition plans – the Value Plan, the Standard Plan and the Premium Plan. In the Value Plan, participants purchased tuition units and receive benefits indexed to the tuition rate of the Kentucky Community and Technical College System. The Standard Plan offers tuition units and benefits indexed to the tuition rate of Kentucky's most expensive public university. The Premium Plan offers tuition units at the then current average tuition cost of Kentucky's private colleges and universities and guarantees a return on a participant's investment equal to the tuition inflation rate for the University of Kentucky.

Participants were allowed to elect to spread payments to the Plan over three, five or seven years or until the anticipated year of the student's enrollment in a qualified postsecondary education institution. Participants may use Plan benefits for eligible educational expenses at any eligible public or private vocational school, college or university in the United States. If a beneficiary attends an eligible educational institution with tuition rates in excess of Plan benefits, the Plan will not be responsible for the difference. If a beneficiary attends an eligible educational institution with tuition rates less than Plan benefits, participants may use the difference for other qualified educational expenses such as room, board, books, computers, and required supplies.

Participants may withdraw from the Plan at any time for any reason. Terminating participants are refunded any contract payments made less benefits received, administrative and cancellation fees. Participants who withdraw after July 1 of the beneficiary's projected college entrance year receive the statutorily defined payout value of the contract less benefits received, administrative and cancellation fees. Non-qualified withdrawals are subject to a 10% penalty in accordance with Section 529 of the Internal Revenue Code ("IRC") except in cases where the withdrawal is: (1) made on account of the death or disability of the student; (2) made on account of a scholarship received by a student, or (3) a non-taxable transfer to another account or to another IRC Section 529 program for a different student who is a family member of the original student.

The Kentucky General Assembly approved certain changes to the Plan during the 2014 Legislative Session that became effective July 2014. These changes included the following: the addition of a utilization period definition; the establishment of a closure date of the Plan; the establishment of certain limitations on the growth of a plan account beyond the utilization period; the prohibition of projected college entrance year extensions; and the clarification of provisions for transferring a plan account to another qualified tuition program. During the 2019 General Assembly, House Bill 250 was passed and became effective June 27, 2019. With the law change, the KAPT program established a new eight (8) year full growth value beyond the Projected College Entrance Year for all accounts. The law also extends the plan close date to June 30, 2030.

As of June 30, 2023, the Plan maintained a present value fund deficit of $32.9 million. This represents a $1.5 million decrease over the previous year's deficit. Based on actuarial estimates, the Plan's assets will be exhausted in fiscal year 2024, at which time the liability of the Plan becomes a General Obligation of the Commonwealth of Kentucky. Per KRS 164A.708, once a real liability is expected to accrue, the General Assembly shall appropriate the necessary funds to meet the liability. Over the remaining estimated life of the program, through fiscal year 2030, actuarial estimates show the Commonwealth of Kentucky will need to transfer approximately $37.2 million. Alternatively, if the

Note A--Description of Business--Continued

Commonwealth of Kentucky transferred a lump-sum amount during the 2024 fiscal year of $34.1 million ($32.9 million with interest), the Plan would be estimated to have the necessary funds to meet future liabilities over the remaining life of the Plan.

Loan Guarantee Operations

The Authority/Corporation’s loan guarantee operations guarantee existing FFELP loans to qualified students and parents of qualified students made by approved lenders primarily in Kentucky, Alabama and New Jersey. Commencing in 1969, retroactive to 1965, the federal government agreed to insure 80% of such guaranteed student loans. FFELP was established by Congress and is administered by the United States Department of Education (“USDE” or “ED”) as a pre-HCERA means of making loans available to students attending colleges, universities and vocational institutions. FFELP provides for the Authority/Corporation’s loan guarantee operations to guarantee the repayment of principal and accrued interest to lenders for each eligible student loan. The Authority/Corporation’s loan guarantee operation is responsible for maintaining loan guarantees, providing default aversion assistance to lenders for delinquent loans, reporting loan information to the National Student Loan Data System (“NSLDS”), paying lender claims for loans in default, paying lender specialty claims such as death, disability or bankruptcy and collecting loans on which default claims have been paid. The Authority/Corporation also educates lenders about FFELP requirements and regulatory changes.

Effective January 10, 1977, the Authority/Corporation’s loan guarantee operation entered into a supplemental guaranty agreement with the Federal government, which provided up to 100% reimbursement, depending upon default experience as specified in the agreement. Subsequently, federal reinsurance on guaranteed loans made from October 1, 1993 to September 30, 1998 was reduced to a maximum of 98% and federal reinsurance on guaranteed loans made on or after October 1, 1998, was reduced to a maximum of 95%. The maximum reinsurance rate was amended to 100% effective for default claims paid on or after December 1, 2015 (see Note E). The Higher Education Amendments of 1998 (the “1998 Amendments”) which were enacted on October 7, 1998, with an effective date of October 1, 1998, changed the manner in which FFELP is administered. Under the 1998 Amendments, the Authority/Corporation established a Federal Student Loan Reserve Fund (the “FSLRF”) and an Agency Operating Fund (the “AOF”) to account for all FFELP guarantee activities. FSLRF assets and all earnings on those assets are the property of the Federal government.

The guarantee reserves of the Authority/Corporation were required to be deposited in the new Federal Fund no later than 60 days after enactment. The result of this federal legislation was that the Authority/Corporation’s guarantee reserve fund equity of approximately $40.6 million was transferred to the newly established FSLRF and the Authority/Corporation’s AOF commenced activities with a zero fund equity. The funds in the newly established FSLRF were used to pay for the reimbursements to the lenders for student loan claims and pay the AOF for default aversion fees, Account Maintenance Fee shortfall and any U.S. Treasury recall amounts. Funds used to pay loan claims are primarily replenished from reimbursements from the federal government.

Other sources of revenues to the FSLRF include the federal complement on collections of defaulted loans, investment income and federal minimum reserve ratio transfers. See Note Q. All of the other sources and uses of funds not related to the FSLRF are recorded in the AOF. The AOF assets and

Note A--Description of Business--Continued

earnings on those assets are the property of the Authority/Corporation and are restricted for financial aid related activities including guaranty agency activities.

Sources of funds to the AOF include investment income, agency retention on collections of defaulted loans, reimbursement for lost revenue (see Note Q), default aversion fees, account maintenance fees, and school services revenue. Expenditures from the AOF include personnel, professional and other administrative expenses directly related to the loan program operations, outreach program activities, school services, and other operating activities. The AOF also provides funding to the governmental fund to pay administration costs for multiple student aid programs and administrative costs for the Trust. Both the FSLRF and AOF are subject to federal oversight.

Advantage Loan Program Operations

The Advantage Loan Program was initiated to assist students and families in reducing the total cost of their education by offering lower-cost options for filling the gap between the overall cost of attendance and other forms of financial aid such as grants and scholarships. The Advantage Loan Program is comprised of: the Advantage Education Loan ("AEL") with students as the primary borrower (often with parents as co-signers), the Advantage Parent Loan ("APL") where parents borrow on behalf of their eligible students, and the Advantage Refinance Loan ("ARL") where borrowers can consolidate and refinance their higher cost education debt into a single loan with lower interest rates. All education debt is eligible for inclusion in the ARL program as long as it is certified by the school in the original loan process.

All Advantage loans are underwritten using three factors: 1) Fair Isaac Corporation ("FICO") credit scores, 2) minimum income requirements and 3) a debt-to-income ratio. This approach provides a level of assurance that borrowers have the ability to successfully repay their debt and that they are not overburdened with more debt than can be managed. All loan proceeds are disbursed directly to the school being attended for AEL and APL products or the applicable lenders for the ARL program.

The Advantage program is financed through the issuance of both tax-exempt and taxable bonds. Tax-exempt bonds are used to finance loans for students enrolled in an institution within the Commonwealth or for residents of the Commonwealth. Taxable bonds are used to finance loans for nonresidential students attending institutions outside the Commonwealth. The utilization of tax-exempt bonds helps reduce costs for Kentucky students.

Personnel, professional and administrative costs associated with loan origination and disbursement operations are accounted for in the proprietary fund of the Authority/Corporation.

Note A--Description of Business--Continued

School Services Operations

School service operations provide mission focused services to higher education institutions through a contractual relationship. KHEAA Verify provides services associated with the required verification of the Free Application for Federal Student Aid ("FAFSA") information submitted by potential students at an institution. These services help simplify the cumbersome verification process for families and institutions. Cohort Default Management Services engage current and former students of institutions to educate them about persistence and completing their education and/or successfully repaying any educational debt while providing information about the various options available. These services help reduce defaults that have severe long-term consequences for families and that can impact an institution's participation in both federal and state student aid programs. New areas of services are continuously analyzed and evaluated based on the needs of school partners across the Commonwealth and beyond. Personnel, professional and administrative costs associated with school services are accounted for in the Agency Operating Fund ("AOF"), a proprietary fund of the Authority/Corporation and through the collection of revenues generated through service contracts with each institution.

Personnel, professional and administrative costs associated with school services are accounted for in the proprietary fund of the Authority/Corporation and are reported in the "Program Benefits" section of the Combined Statement of Revenues, Expenditures and Changes in Net Position – Proprietary Funds.

Loan Finance, Servicing and Collection Operations

The Corporation is an independent *de jure* municipal corporation established by the Kentucky General Assembly in 1978 to provide a loan finance program for post-secondary students in the Commonwealth of Kentucky. The Corporation is authorized to finance loans for students attending or who attended eligible post-secondary institutions. In addition, the Corporation services and collects education loans and issues bonds and notes not to exceed $5 billion in order to carry out its corporate powers and duties.

The Authority/Corporation's finance, servicing and collection activities include: (i) the origination and acquisition of education loans; (ii) the financing of FFELP and Advantage Loans; (iii) the servicing of FFELP, Advantage, certain federal and other education loans; and (iv) the collection of FFELP, Advantage, certain federal and other education loans for other holders on a commission or cost-reimbursement basis. FFELP student loans held, serviced and collected by the Authority/Corporation include Federal Stafford Loans ("Stafford"), Unsubsidized Stafford Loans ("Unsubsidized Stafford"), Federal Supplemental Loans for Students ("SLS"), Federal Parent Loans for Undergraduate Students ("PLUS") and Federal Consolidation Loans ("Consolidations").

Most FFELP loans held by the Authority/Corporation are insured by a guaranty agency. FFELP loans made prior to October 1, 1993, are 100% insured. FFELP loans made between October 1, 1993 and June 30, 2006, are 100% insured against borrowers' death, disability, or bankruptcy and 98% insured against borrowers' default. FFELP loans made after June 30, 2006, are 100% insured against borrowers' death, disability, or bankruptcy and 97% insured against borrowers' default. Advantage Loans do not have the same insurance as the FFELP loans originated under the federal program;

Note A--Description of Business--Continued

however, upon default, ownership of the loans remain with the Authority/Corporation and debt recovery efforts continue.

The Authority/Corporation's indentures and separate series resolutions for issuance of revenue bonds contain provisions establishing funds and accounts for the segregation of assets and provisions restricting the use of the proceeds of bonds and other funds received. In addition, the Authority/Corporation's lines of credit also provide for certain collateral account and proceeds restrictions.

As of June 30, 2023, the Authority/Corporation held and/or serviced approximately $790 million of FFELP and other education loans. $710 million of loans were pledged pursuant to the 2014 Indenture, the 2017 Indenture, the 2019 indenture, the 2020 Indenture, the 2021 Indenture and the 2023 Indenture. The remaining $79 million of loans held were funded by the Corporation's Operating Fund. Also, the Authority/Corporation services approximately $1 million of FFELP and other education loans on behalf of other holders. The majority of such education loans are serviced by the Authority/Corporation pursuant to servicing agreements which do not provide for the acquisition by the Authority/Corporation of the education loans serviced. As a servicer of FFELP and other education loans, the Authority/Corporation collects student loan remittances and subsequently disburses these remittances to the appropriate lending entities. The Authority/Corporation's obligations pursuant to such servicing and collection agreements are without recourse to assets pledged to collateralize any Authority/Corporation financings.

Personnel, professional and administrative costs associated with finance, servicing and collection operations are accounted for in the proprietary fund of the Authority/Corporation.

Note B--Summary of Significant Accounting Policies

Basis of Presentation - The Authority/Corporation reports its financial information in accordance with the Government Accounting Standard Board ("GASB") Statement No. 34, *Basic Financial Statements and Management's Discussion and Analysis – for State and Local Governments* as amended by GASB No. 37 and modified by GASB No. 38, *Certain Financial Statement Disclosures*, (collectively "GASB No. 34"). The Authority/Corporation's basic financial statements are prepared in accordance with GASB No. 34 and are comprised of the following three components: 1) combined government-wide financial statements; 2) combined fund financial statements, and 3) notes to combined financial statements. The government-wide financial statements are comprised of a statement of net position and a statement of activities. Prepared using the economic resources measurement focus and the accrual basis of accounting, these statements reflect all of the assets, liabilities, deferred inflows of resources, deferred outflows of resources, revenues, expenses, gains and losses of the combined Authority/Corporation's governmental and business-type activities. The Authority/Corporation's governmental activities reflect the activities of administering the various student grants, scholarships and advance/loan programs for the Commonwealth of Kentucky and the Federal Government.

The Authority/Corporation's business-type activities include administering loan guarantees, default collection, loan finance and servicing, outreach program activities, student aid administration and contributions, school services and other activities.

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

The combined government-wide financial statements do not reflect fiduciary activities whose resources are not available to finance the Authority/Corporation's programs.

The Authority/Corporation's combined fund financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America applicable to state governmental entities, which provide that accounting systems be organized by funds to account for specific activities consistent with legal and operating requirements. The Authority/Corporation's governmental fund includes the activities of administering grants, scholarships and advance/loan programs for the Commonwealth of Kentucky and the Federal Government.

The Authority/Corporation's loan guarantee, default collection, loan finance and servicing, outreach activities, student aid administration and contributions, school services and other business-type activities are presented as proprietary funds. Proprietary funds also include internal service funds, which are used to report activity that provides goods or services on a cost reimbursement basis predominantly to the Authority/Corporation's other business-type activities. The Authority/Corporation follows all applicable GASB pronouncements.

Fiduciary activities include private-purpose trust and agency funds administered by the Authority/Corporation pursuant to FFELP, the Trust and the Plan. The fiduciary fund financial statements are comprised of a statement of net position and a statement of changes in fiduciary net position. Prepared using the economic resources measurement focus and the accrual basis of accounting, these statements reflect all of the assets, liabilities, revenues, expenses, gains and losses of the FSLRF, the Trust and the Plan.

The Authority/Corporation's Fiduciary Funds are held in a custodial capacity. FSLRF assets and all earnings on those assets are the property of the Federal government and are used primarily to facilitate FFELP claim payments. Assets of the Trust are held by the Authority/Corporation on behalf of program participants. Assets of the Plan are held by the Authority/Corporation to offset future tuition obligations.

Cash and Cash Equivalents - The Authority/Corporation considers cash and cash equivalents to include highly liquid investments, which mature within one month or less of purchase.

Investments - Investments for all funds consist primarily of securities of the federal government or its agencies, corporate bonds, commercial paper collateralized mortgage obligations and mutual funds, which are stated at fair market value. Fair market value is determined by using quoted market prices as of the last day of the fiscal year.

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

The Plan maintains a separate investment policy. In May 2022, a change to the target asset allocation was approved and later implemented on June 30, 2022 and remains in effect. The target asset allocations in effect from June 30, 2022 to current were and are as follows:

Large Cap U.S. Equities	0%
Mid Cap U.S. Equities	0%
Small Cap U.S. Equities	0%
Non-U.S. Equities	0%
Total Equity	0%
Inflation Indexed Bonds	0%
Domestic Fixed Income	0%
Short Duration U.S. Fixed Income	50%
Cash	50%
Total Fixed Income	100%

No more than 10% of the total amount of the fixed income portion of the investment account shall be committed to the securities of any one issuer at the time of purchase, with the exception of securities issued or guaranteed by the full faith and credit of the United States of America or AAA-related securities issued by government agencies as to which there is no limit.

Under Kentucky Revised Statutes, the Authority/Corporation's Board of Directors is charged with selecting the various options in which the participants of the Trust can invest their funds. An individual participating in the Trust establishes an account in the name of a Beneficiary. See Kentucky Educational Savings Plan Trust description in Note A for a better understanding of investment options during fiscal year 2023.

Scholarship Conversion Loans and Advances Receivable - Teacher Scholarship advances to students may be repaid via eligible service credits granted for specified teaching in primary or secondary schools. The disbursements are recorded as advances and charged to program benefits over the period that the teaching service is performed. If the teaching requirements are not satisfied, the advances are converted to loans, which are repayable with interest.

Osteopathic medicine scholarship advances to students may be repaid via eligible service credits granted for working as a doctor in Kentucky. The expenditures are recorded as advances and charged to program benefits over the period that the medical services are provided. If the medical requirements are not satisfied, the advances are converted to loans, which are repayable with interest.

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

Pharmacy Scholarships are awarded to eligible Kentucky students who are enrolled or accepted for enrollment at an accredited school of pharmacy in the Commonwealth with preference given to students who reside in a coal-producing county. Scholarship recipients must agree to work one year as a full-time, licensed pharmacist in a Kentucky coal-producing county for each year the scholarship is awarded. Recipients who do not fulfill the service requirement must repay the scholarship.

Fixed Assets, Net - Fixed assets are stated at cost, less accumulated depreciation. Acquisitions in excess of $500 qualify for fixed asset capitalization and are depreciated beginning when the assets are placed in service and continuing over the estimated useful life range of three to 30 years using the straight-line method.

Defaulted Student Loans - All applicable collections on defaulted loans are recorded as income when received. The portion of collections due to the federal government is treated as a contra-revenue. Federal defaulted loans outstanding are accounted for by the Authority/Corporation but are not presented on the accompanying combined statement of net position.

Allowance for Uncollectible Loans - As discussed in Note A, most FFELP loans held by the Authority/Corporation are insured by guarantee agencies and the ED. Management of the Authority/Corporation believes that all of its respective guaranty agencies and the ED will be able to honor all loan claims submitted. However, the Authority/Corporation records a provision for loan losses based upon its expected default claims with respect to 98% and 97% insured loans and for loans with certain loan servicing violations. The allowance for loan loss on all loans funded through normal operations was $12.8 million for loan principal and $808,000 for accrued interest as of June 30, 2023. Furthermore, the Authority/Corporation is required to purchase loans owned by third party customers with certain loan servicing violations. As of June 30, 2023, the allowance for third party servicing loan losses for loans that have been purchased was $792,000 for loan principal and $582,000 for accrued interest. In July 2015, the Authority/Corporation purchased an uninsured loan portfolio at a substantial discount. As of June 30, 2023, the allowance for the loans purchased at a discount was $15.1 million for loan principal and $8.8 million for accrued interest. In addition, the Authority/Corporation records a provision for loan loss related to Teacher, Osteopathic Medicine and Pharmacy advances that have converted to loans. As of June 30, 2023, the allowance for advances converted to loans was $1.9 million.

Pensions and OPEB - For purposes of measuring the net pension liability, the net other postemployment benefit liability (“OPEB”), deferred outflows of resources and deferred inflows of resources related to pensions and OPEB and pension and OPEB expense, information about the fiduciary net position of the Kentucky Employees Retirement System (“KERS”) and additions to/deductions from KERS’ fiduciary net position have been determined on the same basis as they are reported by KERS. 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.

Interest Income on Loans - The Authority/Corporation earns interest income on loans from the following three sources: (1) subsidized interest from ED earned while certain students are in school, in grace or in deferment status; (2) special allowance from ED (discussed in Note G); and (3) borrower interest. All interest is recorded when earned and is shown in the combined financial statements net

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

of the interest related portion of the provision for loan losses and net of any negative special allowance owed to ED (discussed in Note G).

Servicing Fees - The Authority/Corporation's fees for servicing loans held by third parties are recorded as servicing fee revenue when earned.

Third party loans serviced by the Authority/Corporation are not presented on the combined statement of net position, as they are not owned by the Authority/Corporation.

Debt Issuance Costs - Debt issuance costs are expensed when incurred.

Deferred Gain on Early Retirement of Debt - In accordance with GASB No. 23, *Accounting and Financial Reporting of Debt Reported by Proprietary Activities*, and in accordance with GASB No. 63, *Financial Reporting of Deferred Outflows or Resources, Deferred Inflows of Resources and Net Position,* the Authority/Corporation defers any gains related to early retirement associated with a refinancing of debt over the shorter of the remaining life of the old debt or the life of the new debt.

Income Taxes - The Authority is a state government agency established by the Kentucky General Assembly and the Corporation is an independent *de jure* municipal corporation and political subdivision of the Commonwealth of Kentucky; therefore, they are not subject to federal or state income taxes. The Trust and the Plan are state sponsored IRC Section 529 education savings plans and are also not subject to federal or state income taxes.

Use of Estimates - Accounting principles generally accepted in the United States of America require management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the combined financial statements and the reported amounts of revenues and expenses during the reporting periods. Actual results could differ from those estimates.

Interfund Eliminations - Interfund receivables and payables are eliminated in the governmental and business-type activities column of the combined government-wide statement of net position. Net residual amounts due between governmental and business-type activities are reflected as receivable (payable) for internal balances. Amounts reported in funds as receivable from or payables to fiduciary funds are reflected in the combined government-wide statement of net position. Eliminations are made in the combined government-wide statement of activities to remove the doubling-up effect of internal service fund activity.

Program Revenues - Program revenues are reported in two categories including (1) charges for services and (2) program-specific operating grants and contributions. Charges for services include revenues received in the form of fees and charges for the Authority/Corporation loan guarantee, default collection, interest income from the corporate loan finance and servicing activities, school services, and other activities.

Program-specific operating grants and contributions include revenues from mandatory and voluntary non-exchange transactions with other governments and organizations that are restricted for use in a

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

particular program. Program-specific operating grant and contribution services include the interest earned on scholarship loans.

Contribution Receivable - As discussed in Note A, participants in the Plan may elect to make payments on executed tuition contracts over a specific period. Contributions receivable are recorded at their net realizable value in the period in which a tuition contract is purchased. A finance charge of 7.25% per annum of the outstanding balance is charged to participants who enrolled in the Plan during fiscal year 2005.

Tuition Benefits and Other Payable - Tuition benefits payable are reported at the actuarial net present value of estimated future benefits to be paid on behalf of participants of the Plan. The reported amount reflects actuarial assumptions, including anticipated tuition and fee increases, expected investment earnings, and refunds and other terminations.

Indirect Costs - Indirect costs are allocated among functions/programs utilizing a full cost allocation approach with the objective of allocating all expenses to the Authority/Corporation's various functions and programs.

Risk Management - The Authority/Corporation is exposed to various risks of loss related to property loss, torts, errors and omissions, and employee injuries. Coverage against various risks of loss is obtained through participation in the State of Kentucky's Risk Management Fund, State Sponsored Group Insurance Fund, and policies purchased from outside insurance corporations.

Restricted Net Position - Restricted net position is comprised of net position with legal or contractual restrictions and thus cannot be used in operations of the Authority/Corporation.

Unrestricted Net Position - Unrestricted net position is comprised of net position available to be used in operations or transfers of the Authority/Corporation. As of June 30, 2023, the Authority/Corporation's unrestricted net position is ($30,191,113).

Subsequent Events - In preparing these combined financial statements, the Authority/Corporation has evaluated events and transactions for potential recognition or disclosure through the date of the Independent Auditors' Report, which represents the date the financial statements were available to be issued.

Note C--Cash and Investments

The Authority/Corporation has adopted provisions of GASB Statement No. 40, *Deposits and Investment Risk Disclosures*. This statement adds certain additional disclosures about cash and investments, including common areas of investment risk.

The Authority/Corporation's operating funds and investments comply with the Operating Funds Investment Policy. The policy permits investments in bank time deposits, certificates of deposit, commercial paper, agency mortgage-backed securities, asset-backed commercial paper, banker's acceptance and floating-rate notes with a coupon reset of 30 days or less, direct obligations of the United States of America (which are unconditionally guaranteed by the United States of America), indebtedness issued by certain Federal agencies, U.S. dollar denomination corporate bonds and obligations of foreign governments, asset-backed securities, and taxable and tax-exempt municipal bonds. All securities must have a minimum rating of investment grade BBB or better by a nationally recognized credit rating agency at the time of purchase. Money market instruments must be rated A-1 or P-1 or better at the time of purchase. An average rating of A must be maintained by the total portfolio.

The investments in the Authority/Corporation's Education Finance Funds comply with the underlying bond resolution and indenture requirements, as applicable. Additionally, such requirements mandate specific classes of investment vehicles including bank time deposits, certificates of deposit, direct obligations of the United States of America (which are unconditionally guaranteed by the United States of America), indebtedness issued by certain Federal agencies, collateralized repurchase agreements or investment funds secured by obligations of the United States of America with collateral held by or at the direction of the trustee.

<u>Custodial Credit Risk and Interest Rate Risk</u> - Custodial credit risk is the risk that in the event of a bank failure, the Authority/Corporation's deposits may not be returned to it. The Authority/Corporation's investment policy does not contain a requirement for the collateralization of cash and investments nor does it require investments to be maintained in the Authority/Corporation's name.

Note C--Cash and Investments--Continued

As of June 30, 2023, the Authority/Corporation's Proprietary Funds, Governmental Fund and Fiduciary Funds maintained cash on deposit as follows:

	Governmental Fund Bank Balance	Proprietary Fund Bank Balance	Fiduciary Fund Bank Balance
Insured (FDIC)		$ 59,679	$ 628,068
Uncollateralized		180,921	
Collateralized by pledging securities held by the financial institution		7,405,467	4,265,464
Money market securities		130,992,160	12,522,049
Cash deposited with Kentucky State Treasurer	$ 15,283,681	5,710,368	20,704
	$ 15,283,681	$ 144,348,595	$ 17,436,285

Of the $144.3 million of cash and cash equivalents maintained in the Proprietary Funds, $64 million was held for guarantee operations and the remaining $80.3 million was held for loan finance and servicing activities.

Of the $17.4 million of cash and cash equivalents maintained in the Fiduciary Funds, $12.2 million was related to the FSLRF and the remaining $5.2 million was associated with the Plan and the Trust.

As of June 30, 2023, all Proprietary Fund investments were registered in the Authority/Corporation's name and maintained by an external trustee or investment manager, as applicable. The investment balances as of June 30, 2023 are summarized as follows:

Note C--Cash and Investments--Continued

	Fair Value	Weighted Average Maturity (in years)
Corporate bonds	$ 47,922,559	2.84
U.S. Treasury and government agency securities	99,616,762	1.14
Collateralized mortgage obligations	4,266,151	7.55
	$ 151,805,472	

As of June 30, 2023, Trust investments of $251.7 million comprised primarily of mutual funds were held by Ascensus.

As of June 30, 2023, Plan investments of $2.9 million comprised primarily of mutual funds were held by State Street Global Advisors.

Investments are made based upon prevailing market conditions at the time of the transaction with the intent to hold the instrument until maturity. If the yield of the portfolio can be improved upon sale of an investment, prior to its maturity, with the reinvestment of proceeds, then this provision is also allowed.

Concentration of Credit Risk - The Authority/Corporation does not maintain investments in any one issuer that represents 5% or more of the total investment base, excluding investments issued or explicitly guaranteed by the U.S government and investments in mutual funds.

Credit Risk - The Authority/Corporation's investment policy limits the credit risk for securities. Securities must have a credit rating of BBB by a nationally recognized credit rating agency. Money Market Securities must be rated A-1 or P-1 or better at the time of purchase. The investment manager is allowed to hold up to 5% in aggregate market value securities that have been downgraded below BBB, but must maintain an average rating of A for the total portfolio. The following table summarizes the Standard & Poor's / Moody's rating (as applicable) for all corporate bonds held by the Authority/Corporation's Proprietary Funds as of June 30, 2023:

Rating	Fair Value
AAA / Aaa	$ 15,218,320
AA / Aa	245,588
A / A	18,448,019
BAA / Baa	14,010,632
	$ 47,922,559

Note C--Cash and Investments--Continued

The Plan maintains an investment policy that limits the credit risk for fixed income securities and short-term commercial paper. No more than 10% of the total amount of fixed-income portion of the investment account shall be committed to the securities of any one issuer at the time of purchase, with the exception of securities issued or guaranteed by the full faith and credit of the United States or AAA-rated securities issued by government agencies as to which there is no limit. See Note B for reference to the currently active target asset allocation of the Plan's investments.

Fair Value Measurement

In accordance with GASB No. 72, *Fair Value Measurement and Application,* the Authority/Corporation categorizes its fair value measurements within the fair value hierarchy established by accounting principles generally accepted in the United States of America. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets, Level 2 inputs are significant other observable inputs; and Level 3 are significant unobservable inputs.

> Level 1: Quoted prices (unadjusted) of identical assets or liabilities in active markets that an entity has the ability to access as of the measurement date, or observable inputs.
>
> Level 2: Significant other observable inputs other than Level 1 prices, such as quoted prices for similar assets and liabilities, quoted prices in markets that are not active, and other inputs that are observable or can be corroborated by observable market data.
>
> Level 3: Significant unobservable inputs that reflect an entity's own assumptions about the assumptions that market participants would use in pricing an asset or liability.

Fair Value on a Recurring Basis

The Authority/Corporation has the following recurring fair value measurements as of June 30, 2023:

Money Market Securities of $130,992,160 are valued using quoted market prices. (Level 1 Inputs).

Corporate bonds, U.S. Treasury and government agency securities, and collateralized mortgage obligations of $151,805,472 were based on Level 2 inputs.

As of June 30, 2023, 100% of the value of the Trust and Plan investments was based on Level 1 inputs.

Note D--Fixed Assets

A summary of fixed assets follows:

	Beginning Balance July 1, 2022	Additions	Disposals	Ending Balance June 30, 2023
Proprietary fund:				
Furniture and equipment	$ 14,205,419	$ 229,520	$ 8,260	$ 14,426,679
Building	12,075,048			12,075,048
System development	55,955			55,955
Student loan servicing system	541,131			541,131
Debt recovery system	81,047			81,047
Accumulated depreciation and amortization	(22,106,250)	(781,708)	(8,260)	(22,879,698)
Fixed Assets, Net	$ 4,852,350	$ (552,188)	$	$ 4,300,162
Fiduciary Fund:				
Furniture and equipment	$ 66,604		$ 650	$ 65,954
Accumulated depreciation	(66,604)		(650)	(65,954)
	$	$	$	$

Depreciation and amortization expense totaled $1,178,896 for the year ended June 30, 2023, of which $1,088,761 was allocated to business-type activities and $90,135 allocated to governmental activities.

Depreciation and amortization expense were allocated to the business-type activities functions as follows:

Loan guarantee operations	$ 184,768
Outreach	276,191
School services	30,763
Default collections	103,888
Loan finance and servicing	487,136
Other activites	6,015
	$ 1,088,761

Note E--Federal Family Education Loan Programs (Loan Guarantee Operations)

Pursuant to FFELP, the loan guarantee operating unit of the Authority/Corporation insures eligible student loans for losses incurred from the default, death, disability, or bankruptcy and also insures for other losses such as school closures and false certifications. As of June 30, 2023, the outstanding balance of aggregate insured student loans was approximately $1.4 billion.

Loans insured by the Authority/Corporation are reinsured under FFELP by the federal government. Death, disability, bankruptcy, lender of last resort, closed school, false certification, and ineligible borrower claims are reinsured at 100%. Default claims are subject to the Authority/Corporation's default claims rate (reinsurance claims for the federal fiscal year divided by the total loans in repayment at the end of the preceding fiscal year).

The reinsurance trigger rate provision as outlined in 34 CFR 682.404(b) has been waived by ED through September 30, 2023. Therefore, the Authority/Corporation's reimbursement rate remains at the highest level. On December 18, 2015, the Consolidated Appropriations Act, 2016, was signed into law and amended the maximum reinsurance rate within Section 428(c)(1) of the Higher Education Act by striking 95% and inserting 100%. Therefore, the Authority/Corporation has not recorded a reserve at June 30, 2023 for losses on federal reinsurance. See Note S.

Under normal default collection operations, the Authority/Corporation is entitled to charge certain fees associated with its reinsurance activities. A summary of those normal fees are as follows:

<u>Rehabilitated Loans</u> - The Authority/Corporation was entitled to retain 18.5% of principal and all accrued interest for rehabilitated loans, plus 18.5% of collection costs through June 30, 2014. Effective July 1, 2014, 100% of principal is paid to ED and the Authority/Corporation is entitled to retain all accrued interest for rehabilitated loans plus 16% of collection costs.

<u>Consolidated Loans</u> - For William D. Ford Consolidation, the Authority/Corporation is entitled to 10% collection costs (18.5% collected, less 8.5% rebate to ED).

<u>Recoveries Payable to Federal Government</u> - The Authority/Corporation is entitled to retain 16% of defaulted loan collections received after October 1, 2007.

<u>Account Maintenance Fees ("AMF")</u> - The 1998 Amendments established an account maintenance fee based on 0.06% of the sum of net guarantees as of September 30. AMF is paid to the Authority/Corporation on a quarterly basis by the Federal government.

<u>Default Aversion Fees ("DAF")</u> - The Authority/Corporation receives DAF for its aversion activities on delinquent loans at the time lenders request default aversion assistance. DAF are equal to 1% of principal and interest on the loan at the time the Authority/Corporation receives a request from a lender for preclaim assistance. DAF are recorded monthly and are recognized as a deduction in the FSLRF and as revenue in the AOF. DAF are remitted back to the FSLRF for loans that default.

Excluding AMF and DAF, the aforementioned "normal" fees relate to accrued interest and collection costs retained by the Authority/Corporation from regular, administrative wage garnishment, rehabilitation and direct consolidation collections. These normal fees were temporarily superseded by the provisions of Dear Colleague Letter GEN-21-03 released in May 2021. Some of these normal

Note E--Federal Family Education Loan Programs (Loan Guarantee Operations)--Continued

collection retention and fee provisions will become effective again when the DCL's activities end on August 28, 2023. Still others are expected to resume at a future date. See Note Q.

Note F--Loans (Finance and Servicing Operations)

The Authority/Corporation originates private supplemental loans, purchases loans and holds various types of student loans as described in Note A. The terms of these loans, which vary on an individual basis depending upon loan type and the date the loan was originated, generally provide for repayment in monthly installments of principal and interest over a period of generally ten years with most FFELP consolidation loans and many Advantage refinance loans having longer repayment terms. The repayment period begins after a grace period of six months following graduation or loss of qualified student status for the Subsidized and Unsubsidized Stafford loans. The repayment period for Consolidation, SLS and PLUS loans begins within 60 days from the date the loan is fully disbursed. Statutory interest rates on student loans ranged from 1.9% to 12% for the fiscal year ended June 30, 2023 depending upon the type and date of origination of the individual loan. Actual rates may be lower due to interest rate reductions associated with payments via electronic funds transfer or for other reasons such as borrowers making a specified number of consecutive on-time payments.

Loans consist of the following at June 30, 2023:

Stafford - Subsidized	$ 157,869,778
Stafford - Unsubsidized	188,841,188
PLUS/SLS	10,986,020
Consolidation	213,396,560
Supplemental	205,870,296
Other	12,359,161
Total gross loans	789,323,003
Allowance for loan losses	(28,676,040)
Unamortized discount on purchase of loans	(581,200)
Loans, net	760,065,763
Less amount shown as current assets	100,466,646
Noncurrent loans, net	$ 659,599,117

All principal and accrued interest on FFELP student loans is insured against borrower death, disability, bankruptcy or default, as long as the Authority/Corporation performs all required loan servicing due diligence activities. In July 2015, the Authority/Corporation purchased an uninsured loan portfolio at a substantial discount. As of June 30, 2023, the allowance for the loan principal purchased at a discount was $15.1 million. In addition, $1,680,231 of student loan principal was no longer insured due to violations of due diligence requirements.

All student loans in the Education Finance Funds and some student loans of the Corporation Operating Fund are pledged as collateral for certain bonds and lines of credit payable.

Note G--Special Allowance

The Higher Education Act of 1965 provides for quarterly Special Allowance Payments ("SAP") to be made by ED to holders of student loans to the extent necessary to ensure that they receive at least specified market interest rates of return. Certain FFELP loans disbursed during the period from January 1, 2000 through June 30, 2010 received special allowance at a rate based upon the average of the bond equivalent rates of the three-month commercial paper rate as reported by the U.S. Federal Reserve through March 31, 2012. Pursuant to a December 23, 2011, amendment to the Higher Education Act, the Authority/Corporation elected to change the index for special allowance calculations on its FFELP loans disbursed after January 1, 2000, from the three-month commercial paper ("CP") rate to the one-month LIBOR index beginning on April 1, 2012.

In connection with the phase-out of LIBOR, the Adjustable Interest Rate "LIBOR Act" was signed into law on March 15, 2022. The LIBOR Act provided a clear and uniform federal solution for transitioning legacy contracts that either lack or contain insufficient contractual provisions addressing the permanent cessation of LIBOR by providing for the transition from LIBOR to a replacement rate. For FFELP loans, the LIBOR Act amended the Higher Education Act of 1965 to allow the LIBOR rate for special allowance payments to be substituted by the Secured Overnight Financing Rate ("SOFR") plus a spread. During the last quarter of FY2023, the Authority/Corporation requested special allowance calculated using SOFR which effectuated a July 1, 2023 transition to the SOFR-based SAP calculation.

Other eligible loans receive special allowance based on the 91-day Treasury bill rates. The special allowance is accrued as either earned or payable, as applicable.

Note H--Loan and Other Forgiveness

During fiscal year 2023, the Authority/Corporation forgave $670,494 in loan principal and accrued interest for teachers funded by ED. Also, during fiscal year 2023, the Authority/Corporation provided additional loan forgiveness of $43,865.

Note I--Revenue Bonds Payable

As of June 30, 2023, the Authority/Corporation had bonds payable outstanding across four separate indentures of trust. Both the 2014 and 2023 indentures of trust are master indentures that permit additional bonds to be issued under that same master indenture. The 2014 master indenture includes bond issuances in 2014, 2017, 2019, and 2021 whereas the 2023 master indenture has only had the one issuance in 2023. Both the 2020-1 and 2021-1 indentures of trust are closed indentures that only allowed for the one issuance and do not permit any future issuances under the same indentures of trust. These four indentures of trust and supporting supplemental indentures of trust within each of the four, among other things, require the Authority/Corporation to comply with various covenants, such as annual financial statements and investor reporting. Each of the seven issuances with bonds payable outstanding as of June 30, 2023 under the aforementioned four indentures of trust have supporting official statements or offering memorandums, as applicable, that include certain summarized provisions of the indenture that list and describe the different events that constitute events of defaults. Reference can be made to such events and to the remedies on default through review of these statements and memorandums that can also be accessed through registration at www.munios.com.

Note I--Revenue Bonds Payable--Continued

The balance of revenue bonds and notes payable at June 30, 2023 and the related activity for the year ended June 30, 2023 is as follows:

Series		Scheduled Maturity	Interest	Beginning Balance July 1, 2022	Bond Maturities Redemptions	Bonds Defeased	New Issues	Premium / (Discount)	Ending Balance June 30, 2023
2014 Indenture									
2014 A	*	June 1, 2031	Fixed	$ 2,496,862	$ (1,000,000)			$ (16,315)	$ 1,480,547
2017 A	*	June 1, 2034	Fixed	16,952,842	(4,085,000)			(83,644)	12,784,198
2019 A1-B1	*	June 1, 2036	Fixed	36,322,808	(1,200,000)			(335,837)	34,786,971
2019 A2		June 1, 2034	Fixed	31,845,000	(4,600,000)				27,245,000
2021A-1	*	June 1, 2033	Fixed	12,495,891				(364,703)	12,131,188
2021A-2		June 1, 2035	Fixed	47,500,000	(1,050,000)				46,450,000
				147,613,403	(11,935,000)			(800,499)	134,877,904
2018 Indenture									
2018-1A		June 1, 2036	Monthly	31,600,000	(6,900,000)	$(24,700,000)			
2018-1B		June 1, 2036	Monthly	16,000,000	(16,000,000)				
				47,600,000	(22,900,000)	(24,700,000)			
2020-1 Indenture									
2020-1A-1A		November 25, 2050	Monthly	88,797,672	(16,179,226)				72,618,446
2020-1A-1b		November 25, 2050	Monthly	253,512,328	(46,190,774)				207,321,554
2020-1B		November 25, 2050	Monthly	7,000,000					7,000,000
				349,310,000	(62,370,000)				286,940,000
2021-1 Indenture									
2021-1A-1A		March 25, 2051	Monthly	26,076,078	(5,399,031)				20,677,047
2021-1A-1B		March 25, 2051	Monthly	87,613,922	(18,137,969)				69,475,953
2021-1B		March 25, 2051	Monthly	2,000,000					2,000,000
				115,690,000	(23,537,000)				92,153,000
2023-AB Indenture									
2023A-1	*	June 1, 2037	Fixed				$ 10,980,000		10,980,000
2023A-2		June 1, 2037	Fixed				70,535,000		70,535,000
2023B-1		June 1, 2046	Fixed				12,000,000		12,000,000
							93,515,000		93,515,000
				$ 660,213,403	$ (120,742,000)	$ (24,700,000)	$ 93,515,000	$ (800,499)	$ 607,485,904

* This bond series is tax exempt

Note I--Revenue Bonds Payable--Continued

The Authority/Corporation's revenue bonds include fixed and variable rates of interest based on various index rates. Those fixed rates and variable index rates ranged from 1.41% to 7.22% as of June 30, 2023. Debt service requirements to maturity or redemption date, assuming interest rates based on fixed rates and variable index rates at June 30, 2023, are as follows:

	Principal Repayment Amount (Thousands)				
	2014	2020-1	2021-1	2023AB	Total
Year Ending June 30, 2024	$ 10,140				$ 10,140
Year Ending June 30, 2025	11,205			$ 1,265	12,470
Year Ending June 30, 2026	13,665			1,770	15,435
Year Ending June 30, 2027	13,485			2,150	15,635
Year Ending June 30, 2028	10,500			3,025	13,525
5 Years Ending June 30, 2033	22,850			22,075	44,925
5 Years Ending June 30, 2038	49,570			51,230	100,800
5 Years Ending June 30, 2043				4,000	4,000
5 Years Ending June 30, 2048				8,000	8,000
4 Years Ending June 30, 2053		$ 286,940	$ 92,153		379,093
	$ 131,415	$ 286,940	$ 92,153	$ 93,515	$ 604,023

	Interest Repayment Amount (Thousands)				
	2014	2020-1	2021-1	2023AB	Total
Year Ending June 30, 2024	$ 5,109	$ 14,716	$ 4,710	$ 5,376	$ 29,911
Year Ending June 30, 2025	4,695	14,716	4,710	5,376	29,497
Year Ending June 30, 2026	4,255	14,716	4,710	5,305	28,986
Year Ending June 30, 2027	3,711	14,716	4,710	5,210	28,347
Year Ending June 30, 2028	3,196	14,716	4,710	5,097	27,719
5 Years Ending June 30, 2033	11,664	73,580	23,551	22,497	131,292
5 Years Ending June 30, 2038	4,159	73,580	23,551	15,667	116,957
5 Years Ending June 30, 2043		73,580	23,551	4,188	101,319
5 Years Ending June 30, 2048		73,580	23,551	1,286	98,417
4 Years Ending June 30, 2053		29,434	14,132		43,566
	$ 36,789	$ 397,334	$ 131,886	$ 70,002	$ 636,011

Note I--Revenue Bonds Payable--Continued

All assets of the 2014 Indenture, the 2020 indenture, the 2021 Indenture and the 2023 indenture are pledged for repayment of the specific bond or note issues under each resolution or program. As it relates to the 2020 and 2021 indentures, the underlying contractual documents provided for the July 1, 2023 conversion from a LIBOR-based cost of funds index to a SOFR-based index.

Note J--Direct Placements and Direct Borrowings

The Authority/Corporation closed its $171,068,000 Direct Purchase Series 2017-1 and its $104,965,000 Direct Purchase Series 2019-1 student loan backed notes on December 21, 2017 and August 15, 2019, respectively. On May 17, 2022, the Authority/Corporation executed a new Amendment to Loan Documents with a commercial bank (the "Bank") to renew an existing $75,000,000 revolving Line of Credit. The revolving Line of Credit has a three-year term period.

The balance of direct purchase notes payable and direct borrowings under lines of credit agreements at June 30, 2023 and the related activity for the year then ended June 30, 2023 is as follows:

Series		Scheduled Maturity	Interest Rate	Beginning Balance July 1, 2022	Bond Maturities & Redemptions	New Issues	Ending Balance June 30, 2023
Direct Placements							
2017-1 Indenture							
2017-1	*	December 1, 2037	Monthly	$ 94,138,000	$ (18,005,000)		$ 76,133,000
2019-1 Indenture							
2019-1	*	August 1, 2039	Monthly	38,100,000	(5,610,000)		32,490,000
2019-1		August 1, 2039	Monthly	28,250,000	(5,570,000)		22,680,000
				66,350,000	(11,180,000)		55,170,000
				$ 160,488,000	$ (29,185,000)		$ 131,303,000
Direct Borrowings							
Revolver Line of Credit		May 16, 2025	Monthly	$ 50,019,391	$ (43,131,527)	$ 30,530,000	$ 37,417,864
				$ 50,019,391	$ (43,131,527)	$ 30,530,000	$ 37,417,864

* This bond series is tax exempt

Note J--Direct Placements and Direct Borrowings--Continued

The Authority/Corporation's direct purchase notes include variable rates of interest based on daily one-month SOFR. Those variable rates ranged from 5.41% to 6.06% as of June 30, 2023.

Debt service requirements to maturity or redemption date, assuming interest rates based on the daily one-month LIBOR at June 30, 2023, are as follows:

	Principal Repayment Amount (Thousands)		
	2017-1	2019-1	Total
Year Ending June 30, 2024			
Year Ending June 30, 2025			
Year Ending June 30, 2026			
Year Ending June 30, 2027			
Year Ending June 30, 2028			
5 Years Ending June 30, 2033			
5 Years Ending June 30, 2038	$ 76,133		$ 76,133
5 Years Ending June 30, 2043		$ 55,170	55,170
	$ 76,133	$ 55,170	$ 131,303

	Interest Repayment Amount (Thousands)		
	2017-1	2019-1	Total
Year Ending June 30, 2024	$ 4,389	$ 3,135	$ 7,524
Year Ending June 30, 2025	4,389	3,135	7,524
Year Ending June 30, 2026	4,389	3,135	7,524
Year Ending June 30, 2027	4,389	3,135	7,524
Year Ending June 30, 2028	4,389	3,135	7,524
5 Years Ending June 30, 2033	21,942	15,672	37,614
5 Years Ending June 30, 2038	17,554	15,672	33,226
5 Years Ending June 30, 2043		3,134	3,134
	$ 61,441	$ 50,153	$ 111,594

Note J--Direct Placements and Direct Borrowings--Continued

The collateral for the notes directly placed with an investor is defined in the respective Continuing Covenant Agreements ("CCA") between the Corporation and the Investor as "the Trust Estate other than the moneys and investments held in the Department Rebate Fund and the Treasury Rebate Fund." The student loans backing the direct purchase notes are loans made under the FFEL program. Cash and marketable securities of the Operating Funds of the Authority/Corporation are pledged as collateral against any outstanding balance on the $75,000,000 Line of Credit. The amount of unused revolving line of credit as of June 30, 2023 was approximately $37.5 million.

For the two remaining direct placements, the events of default are similar for each and include the following: failure to pay interest for a period of three days; failure to pay principal through either mandatory redemption or on the related note final maturity date; the occurrence of an event of bankruptcy; the receipt by the Trustee and the Corporation of written notice of the existence of an "Event of Default" under the CCA; or, default in the performance or observance of any other of the covenants, agreements or conditions on the part of the Corporation to be kept, observed and performed contained in the Indentures or in the notes, and continuation of such default for a period of 90 days after the earlier of: (1) the actual knowledge thereof by an Authorized Representative of the Corporation; or (2) written notice thereof by a responsible officer of the Trustee to the Corporation. Upon the occurrence and during the continuance of an event of default, the notes shall bear interest at a default rate provided, however, that during the aforementioned 90-day standstill period, as applicable, the notes shall bear interest at a base rate.

For the direct borrowing under line of credit agreement, the line has thirteen possible events of default. Two of these events of default will cause the outstanding balance to be immediately due and payable whereas the other eleven events of default may, at the bank's option cause an acceleration of all amounts due and payable. At the Bank's option, the notes would bear interest at a default rate from the date of occurrence of the event of default.

The May 2022 Revolving Line of Credit renewal was structured with a SOFR-based interest rate whereas the 2017 and 2019 indentures transitioned from a LIBOR-based index to a SOFR-based index effective June 1, 2023.

Note K--Allowance for Arbitrage Liabilities

Certain of the Authority/Corporation's tax-exempt bond issues are subject to potential arbitrage liabilities under U.S. tax law. Arbitrage liabilities, under current federal income tax law regarding tax-exempt bond issues, may be satisfied in three ways (1) yield adjustment payments with respect to (a) non-purpose obligations allocated to bonds issued on a variable rate basis, and (b) purpose obligations that were acquired after July 18, 2016 or that were acquired prior to such date if allocated to tax-exempt bonds bearing interest on a variable rate basis or to tax-exempt bonds issued primarily to finance Federal Family Education Loan Program loans, (2) loan forgiveness, and (3) arbitrage rebate. At June 30, 2023, the Authority/Corporation is reporting liabilities for excess yield on acquired purpose investments of $176,203.

Note K--Allowance for Arbitrage Liabilities--Continued

The determination of excess yield on acquired purpose investments is cumulative over the life of the applicable bond series, as is the determination of arbitrage rebate on non-purpose investments, except for variable rate bonds for which arbitrage rebate is generally determined for each five-year period without retroactivity.

Yield adjustment payments, which also relate to yield restriction on acquired purpose investments, are applicable to all tax-exempt bonds with respect to such investments that were acquired after July 18, 2016 and also apply to such investments that were acquired prior to such date if allocated to tax exempt bonds bearing interest on variable rate basis or to tax exempt bonds issued primarily to finance Federal Family Education Loan Program loans. The allowable yield is 2% above the bond yield (arbitrage yield), with the federal special allowance included in income. The loss of tax-exempt status may be avoided by rebating 75% of the excess yield to the US treasury at least once every five years subsequent to the 10th anniversary date of the issuance and the full amount upon final maturity of the bonds.

Forgiveness is applicable to all tax-exempt bonds. In general, a yield restriction is imposed on acquired purpose investments, designating the allowable yield as 2% above the bond yield (arbitrage yield). The loss of tax-exempt status may be avoided by partial forgiveness of the applicable student loans. Forgiveness can be applied upon maturity of the bonds or as otherwise prescribed by the bond resolutions.

Arbitrage rebate is applicable to all of the Authority/Corporation's tax-exempt bonds. With certain limited exceptions, income earned on non-purpose investments (investments other than student loans) which exceeds the bond yield (arbitrage yield), must be rebated to the U.S. Treasury. Payments of at least 90% are due every five years after the year of issuance, and upon final maturity of bonds. At June 30, 2023, the Authority/Corporation is reporting excess yield restriction liabilities on non-purpose investments of $115,658.

Note L--Deferred Gain on Retirement of Debt

In fiscal year 2010, the Authority/Corporation purchased $1.198 billion of its own auction rate securities and retired the debt. The resulting $80.2 million of gain was deferred and is being amortized over the life of the new debt. In addition, in fiscal year 2014 the Authority/Corporation purchased $358.65 million of its own auction rate securities and retired the debt. This resulted in an additional $7.2 million of gain which was deferred and is being amortized over the remaining life of the old debt. The Authority/Corporation recognized a gain of approximately $1.1 million for the year ended June 30, 2023. As of June 30, 2023, there is approximately $7.9 million of gain remaining to be amortized.

Note M--Net Pension Liability

Plan Description. Employees of the Authority/Corporation participate in Kentucky Employees Retirement Systems ("KERS"), a cost-sharing multiple-employer defined benefit pension plan administered by Kentucky Public Pensions Authority ("KPPA"). KPPA is governed by Kentucky Revised Statutes 61.510 through 61.705 and can only be modified by the state legislature.

Benefits Provided. KERS provides retirement, disability, and death benefits. Benefit provisions are established by state statute and can only be modified by the state legislature.

All regular full-time employees of the Authority/Corporation are covered by KERS. A regular full-time employee is an employee that averages one hundred or more hours per month over a calendar or fiscal year. KERS consist of three tiers:

Tier 1: Participation prior to September 1, 2008
Tier 2: Participation on or after September 1, 2008 to December 31, 2013
Tier 3: Participation on or after January 1, 2014

For Tiers 1 and 2, the benefit paid is based on the following formula: Final Compensation X Benefit Factor X Years of Service = Annual Benefit. For Tier 3, the benefit paid is based on the member's accumulated account balance at the time of retirement.

In 2013, all Cost of Living Adjustments ("COLA's") were eliminated unless the State Legislature so authorizes on a biennial basis and either (1) the system is over 100% funded or (2) the Legislature appropriates sufficient funds to prepay the increased liability for the COLA.

Contributions. Kentucky statutes set the rates for employer and employee contributions. Contributions rates can only be modified by the state legislature.

The employer and each employee contribute a percentage of the employee's creditable compensation. Creditable compensation consists of all wages includable on the employee's Federal Form W-2, Wage and Tax statement, under the heading "Wages, Tips, and Other Compensation". There are two exceptions of payment of wages not included in creditable compensation: (1) the lump-sum compensatory leave payments to employees in Tier 2 and 3 and (2) vacation payout at termination. Effective July 1, 2021, the provisions of HB8 changed retirement contributions from a percentage of payroll to the sum of (1) a normal cost times the payroll of the Authority/Corporation employees earning benefits in KERS, and (2) an allocated portion of the Retirement System's annual amortization cost. The Authority employer total contribution rate for FY23 was 78.00% comprised of the normal cost contribution of 9.97% and the actuarially accrued liability contribution of 68.03%. The normal cost contribution of 9.97% comprised of 7.82% for pension contributions and 2.15% for insurance contributions. The Authority employer total contribution rate for FY22 was 83.97% comprised of the normal cost contribution of 10.10% and the actuarially accrued liability contribution of 73.87%. The normal cost contribution of 10.10% comprised of 7.90% for pension contributions and 2.20% for insurance contributions. The Corporation employer total normal cost contribution rate for FY23 was 9.97% comprised of 7.82% for pension contributions and 2.15% for insurance contributions. The Corporation's FY23 total allocated annual amortized cost for retirement liabilities was $4,310,436. The

Note M--Net Pension Liability--Continued

Corporation employer total normal cost contribution rate for FY22 was 10.10% comprised of 7.90% for pension contributions and 2.20% for insurance contributions. The Corporation's FY22 total allocated annual amortized cost for retirement liabilities was $4,452,228. The employee's contribution rates are as follows: Tier 1 - 5%, Tier 2 and 3 - 6%.

The contributions for the employer and employee are as follows:

	FY23	FY22
Authority: Employer	$ 287,553	$ 423,009
Authority: Employee	23,061	27,248
	$ 310,614	$ 450,257
Corporation: Employer	$ 4,322,117	$ 4,379,893
Corporation: Employee	533,922	569,885
	$ 4,856,039	$ 4,949,778
Total: Employer	$ 4,609,670	$ 4,802,902
Total: Employee	556,983	597,133
	$ 5,166,653	$ 5,400,035

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pension. At June 30, 2023, the Authority/Corporation reported a net pension liability of $68,090,257 for its proportionate share of the KERS's collective net pension liability. The Authority's portion is $5,620,577 and the Corporation's is $62,469,680. The net pension liability was measured as of June 30, 2022, and the total pension liability used to calculate the net pension liability was determined by the actuarial valuation as of that date.

The Authority/Corporation's estimated proportionate share of the collective net pension liability was based on a projection of the Authority/Corporation's long-term share of contributions to the pension plan relative to the projected contributions of all employer participants, as actuarially determined. The Authority's contributions during the measurement period as provided by KPPA were $429,223 with a proportionate share percentage of .042364%. The Corporation's contributions during the measurement period as provided by KRS were $4,842,963 with a proportionate share percentage of .470853%.

Note M--Net Pension Liability--Continued

For the year ended June 30, 2023, the Authority/Corporation recognized pension expense of $(20,644,248) for its proportionate share of KERS's pension expense. The Authority's portion was $(682,684) and the Corporation's was $(19,961,564).

At June 30, 2023, the Authority reported its proportionate share of KERS's deferred outflows of resources and deferred inflows of resources, and its contributions subsequent to the measurement date, from the following sources:

Authority	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between expected and actual experience		$ 6,584
Net difference between projected and actual investment earnings on pension plan investments	$ 121,246	99,463
Changes in proportion and differences between employer contributions and proportionate share of contributions	20,183	1,096,141
Authority's contributions to KERS subsequent to the measurement date	287,553	
	$ 428,982	$ 1,202,188

$287,553 reported as deferred outflows of resources related to pensions resulting from the Authority's contributions to KERS subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2024. Other amounts reported as deferred outflows and inflows of resources related to KERS pensions will be recognized in pension expense as follows:

Year Ending June 30:	
2024	$(1,061,291)
2025	(21,516)
2026	(5,496)
2027	27,544

Note M--Net Pension Liability--Continued

At June 30, 2023, the Corporation reported its proportionate share of KERS's deferred outflows of resources and deferred inflows of resources, and its contributions subsequent to the measurement date, from the following sources:

Corporation	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between expected and actual experience		$ 73,182
Net difference between projected and actual investment earnings on pension plan investments	$ 1,347,581	1,105,478
Changes in proportion and differences between employer contributions and proportionate share of contributions		3,439,751
Corporation's contributions to KERS subsequent to the measurement date	4,322,117	
	$ 5,669,698	$ 4,618,411

$4,322,117 reported as deferred outflows of resources related to pensions resulting from the Corporation's contributions to KERS subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2024. Other amounts reported as deferred outflows and inflows of resources related to KERS pensions will be recognized in pension expense as follows:

Year Ending June 30:	
2024	$ (3,502,949)
2025	(12,922)
2026	(61,087)
2027	306,128

Actuarial Assumptions. The total pension liability was determined by an actuarial valuation as of June 30, 2022, using the entry age normal cost method and the following actuarial assumptions:

Assumptions	Percentage
Inflation	2.30% per year
Active Member Payroll Growth	0.00% per year
Investment Rate of Return	5.25% per year

Note M--Net Pension Liability--Continued

Salary increases were based on a service-related table.

The mortality table used for pre-retirement members is PUB-2010 General Mortality table projected with the ultimate rates from the MP-2014 mortality improvement scale using a base year of 2010. For non-disabled post-retirement members, the mortality table used is the 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. For disabled post-retirement members, the mortality table used is the PUB-2010 Disabled Mortality table, with a 4-year set-forward for both male and female rates, projected with the ultimate rates from the MP-2014 mortality improvement scale using a base year of 2010.

The actuarial assumptions used in the June 30, 2022 valuation was based on the results of an actuarial experience study for the period July 1, 2013 - June 30, 2018. 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. The ranges were combined by weighting the expected future real rate of return by the target asset allocation percentage.

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

Asset Class	Long Term Expected Real Rate of Return	Target Allocation
Equity		
Public Equity	4.45%	32.50%
Private Equity	10.15%	7.00%
Fixed Income		
Core Fixed Income	0.28%	20.50%
Speciality Credit	2.28%	15.00%
Cash	-0.91%	5.00%
Inflation Protected		
Real Estate	3.67%	10.00%
Real Return	4.07%	10.00%
		100.00%

Note M--Net Pension Liability--Continued

The long-term expected rate of return on plan assets is 5.25%, which was established by the Board of Trustees of the Kentucky Retirement Systems based on a blending of the factors described above.

Discount Rate. The discount rate used to measure the total pension liability was 5.25%. The projections of cash flows used to determine the discount rate must include an assumption regarding actual employer contributions made each future year. Future contributions are projected assuming that each participating employer in KERS contributes the actuarially determined employer contribution each future year calculated in accordance with the current funding policy, as most recently revised by House Bill 8, passed during the 2021 Legislative Session.

Pension Liability Sensitivity. The following table presents the Authority/Corporation's proportionate share of the net pension liability in KERS, calculated using the discount rate disclosed in the preceding paragraph, as well as what the Authority/Corporation's proportionate share of the net pension liability would be if it were calculated using a discount rate 1 percentage point lower or 1 percentage point higher than the current discount rate:

	1% Decrease in Discount Rate	Discount Rate	1% Increase in Discount Rate
KERS Discount Rate	4.25%	5.25%	6.25%
Authority's proportionate share of net pension liability	$ 6,464,578	$ 5,620,577	$ 4,925,620
Corporation's proportionate share of net pension liability	$ 71,850,293	$ 62,469,680	$ 54,745,607

Pension Plan Fiduciary Net Position. Detailed information about KERS's fiduciary net position is available in a KPPA financial report. That report may be obtained on the Internet at www.kyret.ky.gov; by writing to Kentucky Public Pensions Authority, 1260 Louisville Road, Frankfort, KY 40601; or by calling 1-800-928-4646.

Note N--Net Other Post-Employment Benefits ("OPEB")

Plan Description. Employees of the Authority/Corporation participate in Kentucky Employees Retirement Systems ("KERS"), a cost-sharing multiple-employer defined benefit retiree healthcare plan (Insurance Fund) administered by Kentucky Public Pension Authority ("KPPA"). KPPA is governed by Kentucky Revised Statutes 61.510 through 61.705 and can only be modified by the state legislature.

Note N--Net Other Post-Employment Benefits ("OPEB")--Continued

Benefits Provided. The Insurance Fund provides hospital and medical insurance for eligible retirees. Benefit provisions are established by state statute and can only be modified by the state legislature. The plan provides the following benefits based on the employees starting participation date:

- Participation prior to July 1, 2003 - The Insurance Fund contributes a percentage of a single monthly plan based on years of service and are as follows:

Years of Service	Paid by Insurance Fund (%)
20+ years	100.00%
15-19 years	75.00%
10-14 years	50.00%
4-9 years	25.00%
Less than 4 years	0.00%

- Participation on or after July 1, 2003 and before September 1, 2008 – Once employees reach a minimum vesting period of 10 years, they earn $10 per month for insurance benefits at retirement for every year of earned service without regard to a maximum dollar amount. This dollar amount is subject to adjustment annually, which is currently 1.50% based upon Kentucky Revenue Statutes

- Participation on or after September 1, 2008 – Once employees reach a minimum vesting period of 15 years, they earn $10 per month for insurance benefits at retirement for every year of earned service without regard to a maximum dollar amount. This dollar amount is subject to adjustment annually, which is currently 1.50% based upon Kentucky Revenue Statutes.

Note N--Net Other Post-Employment Benefits ("OPEB")--Continued

Contributions. Contribution percentages are established in state statutes by the Kentucky Legislature. The contribution is a percentage of the employee's creditable compensation. Effective July 1, 2021, the provisions of HB8 changed retirement contributions from a percentage of payroll to the sum of (1) a normal cost times the payroll of the Authority/Corporation employees earning benefits in KERS, and (2) an allocated portion of the Retirement System's annual amortization cost. The Authority employer total contribution rate for FY23 was 78.00% comprised of the normal cost contribution of 9.97% and the actuarially accrued liability contribution of 68.03%. The normal cost contribution of 9.97% comprised of 7.82% for pension contributions and 2.15% for insurance contributions. The Authority employer total contribution rate for FY22 was 83.97% comprised of the normal cost contribution of 10.10% and the actuarially accrued liability contribution of 73.87%. The normal cost contribution of 10.10% comprised of 7.90% for pension contributions and 2.20% for insurance contributions. The Corporation employer total normal cost contribution rate for FY23 was 9.97% comprised of 7.82% for pension contributions and 2.15% for insurance contributions. The Corporation's FY23 total allocated annual amortized cost for retirement liabilities was $4,310,436. The Corporation employer total normal cost contribution rate for FY22 was 10.10% comprised of 7.90% for pension contributions and 2.20% for insurance contributions. The Corporation's FY22 total allocated annual amortized cost for retirement liabilities was $4,452,228. Employees participating on or after September 1, 2008 are required to pay an additional 1% of their credible compensation for health insurance benefits. The contributions for the employer and additional 1% are as follows:

	FY23	FY22
Authority: Employer	$ 79,037	$ 64,385
Authority: Employee 1%		
	$ 79,037	$ 64,385
Corporation: Employer	$ 1,187,976	$ 1,219,561
Corporation: Employee 1%	35,710	38,212
	$ 1,223,686	$ 1,257,773
Total: Employer	$ 1,267,013	$ 1,283,946
Total: Employee	35,710	38,212
	$ 1,302,723	$ 1,322,158

Note N--Net Other Post-Employment Benefits ("OPEB")--Continued

OPEB Liabilities, OPEB Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB. At June 30, 2023, the Authority/Corporation reported a liability of $16,783,148 for its proportionate share of the KERS's collective net OPEB liability. The Authority's portion is $905,903 and the Corporation's is $15,877,245. The net OPEB liability was measured as of June 30, 2022, and the total OPEB liability used to calculate the net OPEB liability was determined by the actuarial valuation as of that date.

The Authority/Corporation's proportionate share of the net OPEB liability was determined using the employers' actual contributions for FY22. The Authority's contributions during the measurement period as provided by KPPA were $55,079 with a proportionate share percentage of .040952%. The Corporation's contributions during the measurement period as provided by KPPA were $677,896 with a proportionate share percentage of .717742%.

For the year ended June 30, 2023, the Authority/Corporation recognized OPEB expense of $(207,540) for its proportionate share of KERS's OPEB expense. The Authority's portion was $(197,653) and the Corporation's was $(9,887).

The fully-insured premiums KPPA pays for KERS Insurance Fund are blended rates based on the combined experience of active and retired members. Because the average cost of providing health care benefits to retirees under age 65 is higher than the average cost of providing health care benefits to active employees, there is an implicit employer subsidy for the non-Medicare eligible retirees. The Authority/Corporation is required to include the liability associated with this implicit subsidy in the deferred outflows and calculation of the total OPEB liability. At June 30, 2023, the Authority/Corporation reported an implicit subsidy of $335,021. The Authority's portion is $18,083 and the Corporation's is $316,938. At June 30, 2022, the Authority/Corporation reported an implicit subsidy of $237,296. The Authority's portion is $23,093 and the Corporation's is $214,203.

Note N--Net Other Post-Employment Benefits ("OPEB")--Continued

At June 30, 2023, the Authority reported its proportionate share of KERS's deferred outflows of resources and deferred inflows of resources related to OPEB, and its contributions subsequent to the measurement date, from the following sources:

Authority	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between expected and actual experience	$ 22,072	$ 72,559
Net difference between projected and actual investment earnings on pension plan investments	68,060	49,577
Changes in assumptions	50,921	60,101
Changes in proportion and differences between employer contributions and proportionate share of contributions	18,632	338,740
Authority's implicit subsidy to KERS subsequent to the measurement date	18,083	
Authority's contributions to KERS subsequent to the measurement date	79,037	
	$ 256,805	$ 520,977

$79,037 reported as deferred outflows of resources related to OPEB resulting from the Authority's contributions to KERS subsequent to the measurement date will be recognized as a reduction of the net OPEB liability in the year ended June 30, 2024. Amounts reported as deferred outflows and inflows of resources related to OPEB will be recognized in OPEB expense as follows:

Year Ending June 30:	
2024	$ (173,954)
2025	(136,472)
2026	(65,508)
2027	14,642

Note N--Net Other Post-Employment Benefits (“OPEB”)--Continued

At June 30, 2023, the Corporation reported its proportionate share of KERS’s deferred outflows of resources and deferred inflows of resources related to OPEB, and its contributions subsequent to the measurement date, from the following sources:

Corporation	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between expected and actual experience	$ 386,846	$ 1,271,704
Net difference between projected and actual investment earnings on pension plan investments	1,192,854	868,914
Changes in assumptions	892,457	1,053,356
Changes in proportion and differences between employer contributions and proportionate share of contributions	2,844,111	3,104,246
Corporation's implicit subsidy to KERS subsequent to the measurement date	316,938	
Corporation's contributions to KERS subsequent to the measurement date	1,187,976	
	$ 6,821,182	$ 6,298,220

$1,187,976 reported as deferred outflows of resources related to OPEB resulting from the Corporation’s contributions to KERS subsequent to the measurement date will be recognized as a reduction of the net OPEB liability in the year ended June 30, 2024. Other amounts reported as deferred outflows and inflows of resources related to KERS OPEB will be recognized in OPEB expense as follows:

Year Ending June 30:	
2024	$ (1,227,780)
2025	(266,522)
2026	255,718
2027	256,632

Note N--Net Other Post-Employment Benefits ("OPEB")--Continued

Actuarial Assumptions. The total OPEB liability was determined by an actuarial valuation as of June 30, 2022, using the entry age normal cost method and the following actuarial assumptions:

Assumptions	Percentage
Inflation	2.30%
Payroll Growth	0.00%
Investment Rate of Return	6.25%

The mortality table used for pre-retirement members is PUB-2010 General Mortality table projected with the ultimate rates from the MP-2014 mortality improvement scale using a base year of 2010. For non-disabled post-retirement members, the mortality table used is the 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. For disabled post-retirement members, the mortality table used is the PUB-2010 Disabled Mortality table, with a 4-year set-forward for both male and female rates, projected with the ultimate rates from the MP-2014 mortality improvement scale using a base year of 2010.

The actuarial assumptions used in the June 30, 2022, valuation was based on the results of an actuarial experience study for the period July 1, 2013 - June 30, 2018. 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. The ranges are combined by weighting the expected future real rate of return by the target asset allocation percentage.

Note N--Net Other Post-Employment Benefits ("OPEB")--Continued

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

Asset Class	Long Term Expected Real Rate of Return	Target Allocation
Equity		
Public Equity	4.45%	43.50%
Private Equity	10.15%	10.00%
Fixed Income		
Core Fixed Income	0.28%	10.00%
Speciality Credit	2.28%	15.00%
Cash	-0.91%	1.50%
Inflation Protected		
Real Estate	3.67%	10.00%
Real Return	4.07%	10.00%
		100.00%

The long-term expected rate of return on plan assets is 6.25%, which was established by the Board of Trustees of the Kentucky Retirement Systems based on a blending of the factors described above.

Discount Rate. The discount rate used to measure the total OPEB liability was 5.72%. This rate is based on the expected rate of return on OPEB plan investments of 6.25% and a municipal bond rate of 3.69%, as reported in Fidelity Index's 20-Year Municipal GO AA Index as of June 30, 2022. The projection of cash flows used to determine the discount rate must include an assumption regarding actual employer contributions made each future year. Future contributions are projected assuming that each participating employer contributes the actuarially determined employer contribution each future year calculated in accordance with the current funding policy.

Note N--Net Other Post-Employment Benefits ("OPEB")--Continued

Sensitivity of Authority/Corporations proportionate share of the net OPEB liability to changes in the Discount Rate. The following table presents the Authority/Corporation's proportionate share of the net OPEB liability in KERS, calculated using the discount rate disclosed in the preceding paragraph, as well as what the Authority/Corporation's proportionate share of the net OPEB liability would be if it were calculated using a discount rate 1 percentage point lower or 1 percentage point higher than the current discount rate:

	1% Decrease	Discount Rate	1% Increase
KERS Discount Rate	4.72%	5.72%	6.72%
Authority's proportionate share of net OPEB liability	$ 1,084,525	$ 905,903	$ 741,525
Corporation's proportionate share of net OPEB liability	$ 19,007,836	$ 15,877,245	$ 12,996,278

Sensitivity of Authority/Corporations proportionate share of the net OPEB liability to Healthcare Cost Trend Rate. The following table presents the Authority/Corporation's proportionate share of the net OPEB liability in KERS, calculated using the discount rate disclosed in the preceding paragraph, as well as what the Authority/Corporation's proportionate share of the net OPEB liability would be if it were calculated using a discount rate 1 percentage point lower or 1 percentage point higher than the current discount rate:

	1% Decrease	Healthcare Cost Trend Rate	1% Increase
Authority's proportionate share of net OPEB liability	$ 744,803	$ 905,903	$ 1,078,911
Corporation's proportionate share of net OPEB liability	$ 13,053,737	$ 15,877,245	$ 18,909,456

OPEB Fiduciary Net Position. Detailed information about KERS's fiduciary net position is available in a KPPA financial report. That report may be obtained on the Internet at www.kyret.ky.gov; by writing to Kentucky Public Pensions Authority, 1260 Louisville Road, Frankfort, KY 40601; or by calling 1-800-928-4646.

Payable to the OPEB Plan. At June 30, 2023, the Authority/Corporation reported a payable of $27,618 for the outstanding amount of contributions to the Insurance Plan required for the year ended June 30, 2023. The Authority's portion is $3,179 and the Corporation's is $24,439.

Note O--Tuition Benefits Payable

The following assumptions provided by management were used in the actuarial valuation of tuition benefits payable as of June 30, 2023. These assumptions are based on national and state specific economic data, contractual provisions, previous program actuarial valuation reports, historical state general fund appropriations to the University of Kentucky and KCTCS and actual tuition increases from previous years (2002-2022).

Investment Rates - The investment yield assumption is based on estimates of the yields that will be available on the investment portfolio and cash and cash equivalents. The gross investment yield assumption utilized in the calculation of the tuition benefit payable is based on an investment glide path approach for the Plan. The investments in the Plan continue to change over time to asset allocations that reduce equity exposure to help preserve investment gains. A glide path approach better matches projected payouts as the value of the Plan's assets continues to move closer to its expected depletion date that is currently expected to occur during FY2024. See Note B for the target asset allocation changes that fully replaced all remaining equity investments with cash equivalents and fixed income investments.

Investment Expenses - The minimum investment expense is assumed to be 20 basis points on all invested assets.

Tuition Increases - Tuition increases are based on the known increases for the next academic year and best estimates of future tuition increases for Kentucky's public colleges and universities. The historical tuition increases are as follows:

- The tuition increases for the 2002-2003 academic year were 32.4% for the Value Plan and 6.4% for the Standard Plan and the Premium Plan.
- The tuition increases for the 2003-2004 academic year were 23.4% for the Value Plan and 14.4% for the Standard Plan and the Premium Plan.
- The tuition increases for the 2004-2005 academic year were 24.3% for the Value Plan and 16.9% for the Standard Plan and the Premium Plan.
- The tuition increases for the 2005-2006 academic year were 6.5% for the Value Plan and 12.5% for the Standard Plan and the Premium Plan.
- The tuition increases for the 2006-2007 academic year were 11.2% for the Value Plan and 12% for the Standard Plan and the Premium Plan.
- The tuition increases for the 2007-2008 academic year were 5.5% for the Value Plan and 9.0% for the Standard Plan and the Premium Plan.
- The tuition increases for the 2008-2009 academic year were 5.2% for the Value Plan and 9.0% for the Standard Plan and the Premium Plan.

Note O--Tuition Benefits Payable--Continued

- The tuition increases for the 2009-2010 academic year were 3.3% for the Value Plan and 5.0% for the Standard Plan and the Premium Plan.
- The tuition increases for the 2010-2011 academic year were 4.0% for the Value Plan and 6.0% for the Standard Plan and the Premium Plan.
- The tuition increases for the 2011-2012 academic year were 3.8% for the Value Plan and 6.0% for the Standard Plan and the Premium Plan.
- The tuition increases for the 2012-2013 academic year were 3.8% for the Value Plan and 6.0% for the Standard Plan and the Premium Plan.
- The tuition increases for the 2013-2014 academic year were 2.9% for the Value Plan and 3.0% for the Standard Plan and the Premium Plan.
- The tuition increases for the 2014-2015 academic year were 2.1% for the Value Plan and 5.0% for the Standard Plan and the Premium Plan.
- The tuition increases for the 2015-2016 academic year were 2.0% for the Value Plan and 3.0% for the Standard Plan and the Premium Plan.
- The tuition increases for the 2016-2017 academic year were 4.0% for the Value Plan and 5.0% for the Standard Plan and the Premium Plan.
- The tuition increases for the 2017-2018 academic year were 9.0% for the Value Plan and 4.0% for the Standard Plan and the Premium Plan.
- The tuition increases for the 2018-2019 academic year were 4.1% for the Value Plan and 2.5% for the Standard Plan and the Premium Plan.
- The tuition increases for the 2019-2020 academic year were 2.8% for the Value Plan and negative 0.5% for the Standard Plan and the Premium Plan.
- The tuition increases for the 2020-2021 academic year were 2.7% for the Value Plan and 1% for the Standard Plan and the Premium Plan.
- The tuition increases for the 2021-2022 academic year were 0.0% for the Value Plan and 1% for the Standard Plan and the Premium Plan.
- The tuition increases for the 2022-2023 academic year were 2.7% for the Value Plan and 1% for the Standard Plan and the Premium Plan.

Note O--Tuition Benefits Payable--Continued

As of June 30, 2023, the tuition for the 2023-2024 academic year will increase 2.1% for the Value Plan while tuition payout values for the Standard Plan and Premium Plan increased by 2.75%. The Standard Plan and the Premium Plan tuition payout value assumption increase for the 2023-2024 academic year is 4.00%. The tuition increase assumption for each year thereafter through 2028, when all current participant standard utilization periods expire, is also 4.00%. For the period from inception to June 30, 2023, the annualized tuition increase for the highest-priced Kentucky public university, as applicable to the tuition benefits payout rate of Kentucky's Affordable Prepaid Tuition Standard and Premium Plans, which represents 95.4% of the Plan's enrollments, has been 6.0%. For the Kentucky Community and Technical College System ("KCTCS"), as applicable to the tuition benefits payout rate of the Value Plan, the average annualized tuition increase from inception to June 30, 2023, has been 7.1%.

Payment of Tuition and Mandatory Fees - Payments of tuition and mandatory fees are assumed to be 128 credit hours of utilization and payments occur twice annually.

Note P--Restricted Net Position

The following categories of restricted net position are included in the combined statement of net position for the following purposes:

a. **Federal Student Loan Reserve Fund:** Net position is restricted for certain FFELP activities, primarily the payments of claims and reimbursement for lost revenue.

b. **Agency Operating Fund:** Net position is restricted for certain FFELP activities and other student aid activities.

c. **Education Finance Funds:** Net position is restricted as required by the 2014 Indenture, the 2017 Indenture, the 2019 indenture, the 2020 indenture, and the 2021 indenture and the 2023 indenture.

d. **Corporation Operating Fund:** Net position is primarily restricted for an estimated amount of mandatory repurchases of loans subject to bankruptcy claims.

e. **Student Aid Funds:** The Student Aid fund balance is restricted for the Student Aid Programs.

f. **The Trust:** Net position is restricted for use by trust participants.

Note Q--Reimbursement for Lost Revenue

On March 30, 2021, USDE made an announcement titled "*March 30, 2021 U.S. Department of Education Announcement Expanding Covid-19 Emergency Flexibilities to Additional Federal Student Loans in Default*." That announcement expanded the pause on federal student loan interest and collections to all defaulted loans in the FFEL program. Although USDE's announcement on March 30, 2021 was a formal announcement, Dear Colleague Letter ("DCL" or the "Letter") GEN-21-03 was released on May 12, 2021 and updated on May 24, 2021. DCL GEN-21-03 is titled "Expansion of Collections Pause to Defaulted FFEL Program Loans Managed by Guaranty Agencies (Updated May 24, 2021)." DCL GEN-21-03 provided official activation and implementation guidance of the March 30, 2021 announcement and can be read in its entirety at this link: https://fsapartners.ed.gov/knowledge-center/library/dear-colleague-letters/2021-05-12/expansion-collections-pause-defaulted-ffel-program-loans-managed-guaranty-agencies-updated-may-24-2021.

The Letter requires Guaranty Agencies ("GA") like the Authority to take a number of actions on three primary different groups of loans. The first group of loans include all outstanding loans on which a default claim was paid prior to March 13, 2020, that are not subject to an active bankruptcy filing, and were still in default as of the date of the Letter. The actions required for this first group of loans include the following: set interest rates to 0% effective March 13, 2020; refund all involuntary borrower payments received through Administrative Wage Garnishment ("AWG"), the Treasury Offset Program ("TOP"), and other forms of involuntary collection from March 13, 2020; provide all borrowers who made voluntary payments during this time frame with the option for a refund of those payments; suspend all forms of involuntary collection; cease all collection attempts, including billings; and, notify borrowers with active rehabilitation agreements they are not required to make further payments to receive credit toward rehabilitation.

The second group of loans includes outstanding loans on which a default claim was paid on or after March 13, 2020 and on or prior to the end date for the pause for loans held by the Department, that are not subject to an active bankruptcy filing, and are in default on or after the date of the Letter. The actions required for this second group of loans includes all actions required for the aforementioned first group of loans plus (1) deleting the GA's trade line from a borrower's credit report entirely and (2) the mandatory assignment of these loans to the Department. The third and final group of loans includes outstanding loans that were in default during the pandemic (regardless of when the claim was paid) and for which that default was resolved through rehabilitation or consolidation prior to the date of the Letter. The actions required for this third group of loans includes all actions required for the first group of loans plus sending financial adjustments and associated money to purchasing lenders (for loan rehabilitations) or the Department (for loan rehabilitations or consolidations).

KHEAA's FSLRF fund has been reimbursed for the cash necessary to process both (1) the refunds applicable to groups one and two, and (2) the financial adjustments for the third group. These refunds and adjustments include any collection costs charged to the borrower. However, a number of these suspension actions, especially the special mandatory assignment of the group two loans, have significantly lowered the Authority's revenues from debt recovery commissions. DCL GEN-21-03's provision for the "Reimbursement of Lost Revenue" authorizes a GA to reimburse itself from the FSLRF for lost revenue that it will realize because of these actions. GAs may reimburse themselves for this lost revenue from the FSLRF on a quarterly basis based on their good-faith estimates, and

Note Q--Reimbursement for Lost Revenue--Continued

without the requirement for prior approval from Federal Student Aid as to lost revenue. USDE did not set specific requirements for the GA's estimate of its lost collection revenues for the purposes of seeking reimbursement from the Federal Fund, but the estimate must be made in good faith and supported by the GA's records. During FY2023, the Authority continued utilizing the same model to calculate and record good faith reimbursement for lost revenue estimates supported by its records.

During FY2022 the source of funds eligible to pay reimbursement for lost revenue was expanded by ED. The Authority/Corporation and other guarantors shared with FSA the insufficiency of FSLRF funds available to perform all actions required by DCL GEN-21-03 while also maintaining compliance with the minimum reserve ratio ("MRR"). Subsequently, ED has continued subsidizing the shortfall in the FSLRF. During FY2023, the Authority/Corporation recognized $19.8 million of federal minimum reserve ratio transfers in the FSLRF and also recognized expenses for reimbursement of lost revenue in the FSLRF and reimbursement for lost revenue to the AOF, respectively, of $21.5 million.

While the provisions of DCL GEN-21-03 ended on August 28, 2023, the federal student loan repayment pause on student loan repayment, interest, and collections ended a few days later on August 31, 2023. The Authority/Corporation continued to receive GEN-21-03 reimbursement for lost revenue under the same formulation used to compensate guarantors for lost revenues through the August end date. For the first group of loans on which a default claim was paid prior to March 13, 2020, the provisions of a new DCL GEN-22-16 will be in place for one year following the pandemic payment pause to help those borrowers who opt-in receive a "Fresh Start." DCL GEN-22-16 was released on December 2, 2022 and is titled "Fresh Start Initiative Guidance to Guaranty Agencies." Interest rate accruals will resume, but during the Fresh Start opt-in window no collection attempts are allowed on that first group of loans. Borrowers who default after the pandemic payment pause will be subject to collections. After the end of the pandemic payment pause, guaranty agencies will be reimbursed based on the September 30, 2023 original principal outstanding as of the end of payment pause multiplied by 0.7% for an annual amount that will be paid on a quarterly basis.

Note R--Leases

The Authority/Corporation, as a lessee, entered into a five-year lease agreement for office space effective June 1, 2022. The interest rate of 2.20% was assumed for the lease asset and liability calculations. The total of the Authority/Corporation's lease asset is recorded at a cost of $1,985,943, less accumulated amortization of $430,287.

A summary of lease asset activity during the year ended June 30, 2023 is as follows:

	Beginning Balance July 1, 2022	Additions	Remeasure-ments	Deductions	Ending Balance June 30, 2023
Lease Asset: Office space	$ 1,985,943				$ 1,985,943
Accumulated amortization:					
Office space	(33,099)	$ (397,188)			(430,287)
	$ 1,952,844	$ (397,188)	$	$	$ 1,555,656

A summary of the changes in the lease liability during the year ended June 30, 2023 is as follows:

	Beginning Balance July 1, 2022	Additions	Remeasure-ments	Deductions	Ending Balance June 30, 2023	Amounts Due Within One Year
Lease Liability: Office space	$ 1,952,587	$	$	$ (361,769)	$ 1,590,818	$ 379,878

The future lease payments under the lease agreement are as follows:

Year Ending June 30:	Principal	Interest	Total
2024	$ 379,878	$ 31,191	$ 411,069
2025	398,470	22,646	421,116
2026	415,907	13,704	429,611
2027	396,563	4,376	400,939
	$ 1,590,818	$ 71,917	$ 1,662,735

In addition, the Authority/Corporation recorded other low-value lease expenses in the proprietary fund combined statement of revenues, expenditures and changes in net position of $161,140 during the year.

Note S--Commitments and Contingencies

The FSLRF is contingently liable for loans made by financial institutions that qualify for guarantee. The reinsurance trigger rate provision as outlined in 34 CFR 682.404(b) has been waived by ED through September 30, 2023. Therefore, the Authority/Corporation's reimbursement rate remains at the highest level. Prior to December 1, 2015, the federal government's reinsurance rate for defaults was 100% for loans made prior to October 1, 1993, 98% for loans made on or after October 1993 to September 30, 1998, and 95% for loans made after September 30, 1998. Effective December 1, 2015, the maximum reinsurance rate was amended from 95% to 100%. In the event of future adverse default experience, the FSLRF could be liable for 25% of defaulted loans for a default ratio in excess of 9%. The liability for a default ratio over 5% and up to 9% is 15%. At the beginning of each federal fiscal year, the reinsurance rate returns to applicable baseline; management does not expect that all guaranteed loans could default in one year. Although the reinsurance trigger rate is currently waived and management believes the FSLRF's expected maximum contingent liability is less than 25% of outstanding guaranteed loans, if the waiver were not in place the maximum contingent liability at June 30, 2023 would be calculated as follows:

Amount of guaranteed student loans outstanding at lenders	$ 1,431,695,442
Less minimum federal government share - 75%	1,073,771,582
	$ 357,923,860

In a letter dated March 9, 2020, Federal Student Aid ("FSA") informed KHEAA that on November 14, 2019 the Financial Institution Oversight Service of the Eastern Division of the U.S. Department of Education completed a review of KHEAA's administration of the Federal Family Education Loan ("FFEL") Program. The review performed an analysis of default claims paid for the period October 1, 2016 through July 1, 2019. The finding of that review was detailed in a Program Review Report included with the letter.

The finding was titled "Untimely Requests for Reinsurance" and stated that KHEAA did not timely submit claims for reinsurance for 5,133 loans. The report referenced the requirement that "under 34 CFR section 682.406(a)(9), a guaranty agency may make a claim payment from the Federal Fund and receive a reinsurance payment on a loan only if the agency submitted a request for the payment on a form required by the Secretary no later than 30 days following payment of a default claim to the lender." FSA quantified the total reinsurance payment amount for the 5,133 loans that were paid for claims filed between 3 and 19 days after the 30-day period. The amount was quantified to be $24,300,484. KHEAA submitted its response to FSA on June 30, 2020. KHEAA included in its response its belief that KHEAA's failure to timely submit claims for reinsurance for 5,133 loans did not result in any injury or damage to FSA or the federal fiscal interest. In addition, KHEAA estimated that as of June 2020, collections totaling approximately 85.58% of the $24,300,484 ineligible reinsurance payments had been received by KHEAA. These collections totaled $20,795,407, of which $9,135,016 was from loan rehabilitations that assisted 545 borrowers in resolving their defaults. KHEAA does not believe that any amount is due FSA. KHEAA currently believes that any ultimate enforcement would be in the form of a possible penalty. Although it is possible that a penalty could be assessed in lieu of enforcement of the total finding, KHEAA believes that such amount, though not estimable, would be immaterial to the financial statements as a whole.

Note T--Recent Pronouncements

One of the GASB's new standards became effective for adoption during the current year. Statement No. 96, *Subscription-based Information Technology Arrangements,* is designed to improve government financial reporting by providing uniform guidance for IT subscriptions which are a growing resource for many state and local government organizations. The Statement was adopted during the current year but that adoption did not result in any adjustments or disclosures due to the immaterial nature of the affected IT arrangements. A new IT arrangement subsequent to June 30, 2023 will be assessed during FY2024. The Authority/Corporation is also currently evaluating the impact that will result from adopting prospective GASB standards and is not yet prepared to disclose the impact that adopting those standards will have on the Authority/Corporation's financial position and the results of its operations when the standards are adopted.

REQUIRED SUPPLEMENTARY INFORMATION

Schedule of Proportionate Share of the Net Pension Liability and Related Ratios
June 30, 2022

Kentucky Higher Education Assistance Authority/
Kentucky Higher Education Student Loan Corporation

	FY 2022	FY 2021	FY 2020	FY 2019	FY 2018	FY 2017	FY 2016	FY 2015	FY 2014
Authority's proportion of the net pension liability	0.042364%	0.057939%	0.054812%	0.058291%	0.069264%	0.085192%	0.093544%	0.097187%	0.101355%
Authority's proportionate share of the net pension liability	$ 5,620,577	$ 7,715,735	$ 7,763,930	$ 8,232,439	$ 9,422,519	$ 11,405,792	$ 10,663,495	$ 9,749,658	$ 9,093,000
Authority's covered-employee payroll	$ 551,530	$ 754,480	$ 781,500	$ 852,612	$ 1,057,832	$ 1,317,197	$ 1,556,281	$ 1,628,998	$ 1,740,891
Authority's proportionate share of the net pension liability as a percentage of its covered-employee payroll	1019.09%	1022.66%	993.47%	965.56%	890.74%	865.91%	685.19%	598.51%	522.32%
Plan fiduciary net position as a percentage of the total pension liability	18.51%	18.48%	14.01%	13.66%	12.84%	13.30%	14.87%	18.83%	22.32%

	FY 2022	FY 2021	FY 2020	FY 2019	FY 2018	FY 2017	FY 2016	FY 2015	FY 2014
Corporation's proportion of the net pension liability	0.470853%	0.477177%	0.800634%	0.819901%	0.850042%	0.833570%	0.819117%	0.839524%	0.796208%
Corporation's proportionate share of the net pension liability	$ 62,469,680	$ 63,545,649	$ 113,407,028	$ 115,794,636	$ 115,637,803	$ 111,601,157	$ 93,375,171	$ 84,220,102	$ 71,434,000
Corporation's covered-employee payroll	$ 10,535,584	$ 11,280,083	$ 11,415,195	$ 11,992,554	$ 12,982,294	$ 12,888,303	$ 13,627,623	$ 14,071,702	$ 13,672,643
Corporation's proportionate share of the net pension liability as a percentage of its covered-employee payroll	592.94%	563.34%	993.47%	965.55%	890.73%	865.91%	685.19%	598.51%	522.46%
Plan fiduciary net position as a percentage of the total pension liability	18.51%	18.48%	14.01%	13.66%	12.84%	13.30%	14.87%	18.83%	22.32%

Total collective net pension liability for the Kentucky Employees Retirement System (KERS) non-hazardous employees	$ 13,267,343,000	$ 13,316,997,000	$ 14,164,653,000	$ 14,123,002,000	$ 13,603,775,000	$ 13,388,336,000	$ 11,399,489,047	$ 10,031,891,000	$ 8,971,820,000
KERS' non-hazardous employees total fiduciary net position	$ 3,013,845,000	$ 3,018,660,000	$ 2,308,080,000	$ 2,233,672,000	$ 2,004,446,000	$ 2,056,870,000	$ 1,980,292,118	$ 2,327,782,000	$ 2,578,290,000
KERS' non-hazardous employees total pension liability	$ 16,281,188,000	$ 16,335,657,000	$ 16,472,733,000	$ 16,356,674,000	$ 15,608,221,000	$ 15,445,206,000	$ 13,379,781,165	$ 12,359,673,000	$ 11,550,110,000

Note: Schedule is intended to show information for 10 years. Additional years will be displayed as they become available.

Schedule of Required Contributions-Pension
June 30, 2022

Kentucky Higher Education Assistance Authority/
Kentucky Higher Education Student Loan Corporation

	FY 2022	FY 2021	FY 2020	FY 2019	FY 2018	FY 2017	FY 2016	FY 2015	FY 2014
Authority's contractually required contribution	$ 429,223	$ 610,978	$ 555,099	$ 604,423	$ 434,346	$ 552,959	$ 479,957	$ 502,383	$ 567,008
Authority's contributions in relation to the contractually required contribution	(429,223)	(552,883)	(555,099)	(604,423)	(434,346)	(530,040)	(479,957)	(502,383)	(301,000)
Authority's contribution deficiency	$ -	$ 58,095	$ -	$ -	$ -	$ 22,919	$ -	$ -	$ 266,008
Authority's covered-employee payroll	$ 551,530	$ 754,480	$ 781,500	$ 852,612	$ 1,057,832	$ 1,317,197	$ 1,556,281	$ 1,628,998	$ 1,740,891
Authority's contributions as a percentage of covered-employee payroll	77.82%	73.28%	71.03%	70.89%	41.06%	40.24%	30.84%	30.84%	17.29%

	FY 2022	FY 2021	FY 2020	FY 2019	FY 2018	FY 2017	FY 2016	FY 2015	FY 2014
Corporation's contractually required contribution	$ 4,842,963	$ 9,134,611	$ 8,108,213	$ 8,518,310	$ 5,330,530	$ 5,410,509	$ 4,202,759	$ 4,339,713	$ 4,453,180
Corporation's contributions in relation to the contractually required contribution	(4,842,963)	(4,631,602)	(4,687,079)	(4,924,142)	(5,330,530)	(5,186,253)	(4,202,759)	(4,339,713)	(2,364,000)
Corporation's contribution deficiency	$ -	$ 4,503,009	$ 3,421,134	$ 3,594,168	$ -	$ 224,256	$ -	$ -	$ 2,089,180
Corporation's covered-employee payroll	$ 10,535,584	$ 11,280,083	$ 11,415,195	$ 11,992,554	$ 12,982,294	$ 12,888,303	$ 13,627,623	$ 14,071,702	$ 13,672,643
Corporation's contributions as a percentage of covered-employee payroll	45.97%	41.06%	41.06%	41.06%	41.06%	40.24%	30.84%	30.84%	17.29%

Note: Schedule is intended to show information for 10 years. Additional years will be displayed as they become available.

Note to the Required Supplemental Information-Pension
June 30, 2022

Kentucky Higher Education Assistance Authority/
Kentucky Higher Education Student Loan Corporation

Actuarial valuation date	June 30, 2020
Actuarial cost method	Entry age normal
Amortization method	Level percent of pay
Amortization period	30-year closed period at June 30, 2019, Gains/losses incurring after 2019 will be amortized over separate closed 20-year amortization bases
Asset valuation method	20% of the difference between the market value of assets and the expected actuarial value of assets is recognized
Inflation	2.30%
Payroll growth	0.00%
Investment rate of return	5.25%

Schedule of Proportionate Share of the Net OPEB Liability and Related Ratios
June 30, 2022

Kentucky Higher Education Assistance Authority/
Kentucky Higher Education Student Loan Corporation

	FY 2022	FY 2021	FY 2020	FY 2019	FY 2018	FY 2017
Authority's proportion of the net OPEB liability	0.040952%	0.057622%	0.054812%	0.058291%	0.069214%	0.085192%
Authority's proportionate share of the net OPEB liability	$ 905,903	$ 1,313,394	$ 1,391,626	$ 1,295,748	$ 1,641,003	$ 2,160,437
Authority's covered-employee payroll	$ 551,530	$ 754,480	$ 781,500	$ 852,612	$ 1,057,832	$ 1,317,197
Authority's proportionate share of the net OPEB liability as a percentage of its covered-employee payroll	164.25%	174.08%	178.07%	151.97%	155.13%	164.02%
Plan fiduciary net position as a percentage of the total OPEB liability	38.15%	38.38%	29.47%	30.92%	27.32%	24.40%

	FY 2022	FY 2021	FY 2020	FY 2019	FY 2018	FY 2017
Corporation's proportion of the net OPEB liability	0.717742%	0.534471%	0.800634%	0.819901%	0.849297%	0.833570%
Corporation's proportionate share of the net OPEB liability	$ 15,877,245	$ 12,182,342	$ 20,327,361	$ 18,225,547	$ 20,136,083	$ 21,139,020
Corporation's covered-employee payroll	$ 10,535,584	$ 11,280,083	$ 11,415,195	$ 11,992,554	$ 12,982,294	$ 12,888,303
Corporation's proportionate share of the net OPEB liability as a percentage of its covered-employee payroll	150.70%	108.00%	178.07%	151.97%	155.10%	164.02%
Plan fiduciary net position as a percentage of the total OPEB liability	38.15%	38.38%	29.47%	30.92%	27.32%	24.40%
Total collective net OPEB liability for the Kentucky Employees Retirement System (KERS) non-hazardous employees	$ 2,212,111,000	$ 2,279,327,000	$ 2,538,908,000	$ 2,222,896,000	$ 2,370,912,000	$ 2,535,962,000
KERS' non-hazardous employees total fiduciary net position	$ 1,364,419,000	$ 1,419,477,000	$ 1,060,649,000	$ 995,089,000	$ 891,205,000	$ 817,370,000
KERS' non-hazardous employees total OPEB liability	$ 3,576,530,000	$ 3,698,804,000	$ 3,599,557,000	$ 3,217,985,000	$ 3,262,117,000	$ 3,353,332,000

Note: Schedule is intended to show information for 10 years. Additional years will be displayed as they become available.

Schedule of Required Contributions-OPEB
June 30, 2022

Kentucky Higher Education Assistance Authority/
Kentucky Higher Education Student Loan Corporation

	FY 2022	FY 2021	FY 2020	FY 2019	FY 2018	FY 2017
Authority's contractually required contribution	$ 55,079	$ 90,764	$ 96,906	$ 105,724	$ 88,978	$ 110,776
Authority's contributions in relation to the contractually required contribution	(55,079)	(84,125)	(96,906)	(105,724)	(88,978)	(109,986)
Authority's contribution deficiency	$ -	$ 6,639	$ -	$ -	$ -	$ 790
Authority's covered-employee payroll	$ 551,530	$ 754,480	$ 781,500	$ 852,612	$ 1,057,832	$ 1,317,197
Authority's contributions as a percentage of covered-employee payroll	9.99%	11.15%	12.40%	12.40%	8.41%	8.35%

	FY 2022	FY 2021	FY 2020	FY 2019	FY 2018	FY 2017
Corporation's contractually required contribution	$ 677,896	$ 1,356,994	$ 1,415,484	$ 1,487,077	$ 1,091,820	$ 1,083,906
Corporation's contributions in relation to the contractually required contribution	(677,896)	(948,655)	(960,018)	(1,008,574)	(1,091,820)	(1,076,173)
Corporation's contribution deficiency	$ -	$ 408,339	$ 455,466	$ 478,503	$ -	$ 7,733
Corporation's covered-employee payroll	$ 10,535,584	$ 11,280,083	$ 11,415,195	$ 11,992,554	$ 12,982,294	$ 12,888,303
Corporation's contributions as a percentage of covered-employee payroll	6.43%	8.41%	8.41%	8.41%	8.41%	8.35%

Note: Schedule is intended to show information for 10 years. Additional years will be displayed as they become available.

Note to the Required Supplemental Information-OPEB
June 30, 2022

Kentucky Higher Education Assistance Authority/
Kentucky Higher Education Student Loan Corporation

Actuarial valuation date	June 30, 2020
Actuarial cost method	Entry age normal
Amortization method	Level percent of pay
Amortization period	30-year closed period at June 30, 2019, Gains/losses incurring after 2019 will be amortized over separate closed 20-year amortization bases
Asset valuation method	20% of the difference between the market value of assets and the expected actuarial value of assets is recognized
Inflation	2.30%
Payroll growth	0.00%
Investment rate of return	6.25%
Healthcare Trend Rates Pre-65	Initial trend starting at 6.40% at January 1, 2022 and gradually decreasing to an ultimate trend rate of 4.05% over a period of 14 years
Healthcare Trend Rates Post-65	Initial trend starting at 6.30% at January 1, 2023 and gradually decreasing to an ultimate trend rate of 4.05% over a period of 13 years