

# KY COUNCIL ON POSTSECONDARY EDUCATION MEETINGS



November 4, 2021 – 1:30-8:00 p.m. ET  
Transylvania University, William T Young Campus Center  
361 N. Broadway, Lexington, KY 40508

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- I. **Meet & Greet with New Council Members ..... 1:30-2:00 p.m.**
  
- II. **Council Work Session.....2:00-4:00 p.m.**
  - A. KSU Financial Report/Budget Request and Management Improvement Plan.....pg 2
  - B. Review of the Proposed 2022-24 Biennial Budget Request for CPE and Kentucky’s Public Institutions ..... pg 104
  - C. Review of the Proposed 2022-30 Statewide Strategic Agenda for Postsecondary Education ..... pg 106
  
- III. **Break .....4:00-4:15 p.m.**
  
- IV. **Meet & Greet with Presidents and Students.....4:15-4:30 p.m.**
  
- V. **Joint meeting of the Council on Postsecondary Education, Campus Presidents, and the Board of Student Body Presidents ..... 4:30-6:00 p.m.**
  - A. How can we ensure students and families are not burdened by surmounting levels of student debt and how can financial literacy education become more effective?
  - B. How can we ensure all of Kentucky’s public institutions are financially secure without raising tuition or fees, while also preserving its existing assets and program offerings?
  - C. How can we ensure all students have access to equitable mental health solutions, and what avenues have not yet been explored in this area?
  
- VI. **Spotlight Session for Transylvania University and Reception for the Council and Attending Guests .....6:00-8:00 p.m.**



# CURRENT FINANCIAL STATUS OF **KENTUCKY STATE UNIVERSITY**

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An Assessment Conducted by the  
Kentucky Council on Postsecondary Education

**November 2021**

## **About the Council on Postsecondary Education**

The Council on Postsecondary Education is Kentucky's higher education coordinating agency committed to strengthening our workforce, economy and quality of life. We do this by guiding the continuous improvement and efficient operation of a high-quality, diverse, and accessible system of postsecondary education.

Key responsibilities include:

- developing and implementing a strategic agenda for postsecondary education that includes measures of progress.
- producing and submitting a biennial budget request for adequate public funding of postsecondary education.
- determining tuition rates and admission criteria at public postsecondary institutions.
- collecting and distributing data about postsecondary education performance.
- ensuring the coordination and connectivity of technology among public institutions.
- licensing non-public postsecondary institutions to operate in the Commonwealth.

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## EXECUTIVE SUMMARY

The Kentucky Council on Postsecondary Education (CPE) has an extensive set of statutory responsibilities relating to the coordination of higher education in Kentucky. In accordance with these duties and responsibilities, on July 20, 2021, following reports of financial instability at Kentucky State University (KSU) and the abrupt resignation of its president, Governor Andy Beshear issued an Executive Order directing CPE to, among other items, provide a report assessing the current financial status of KSU prior to providing recommendations for biennial appropriations.

### Methodology

In order to provide a full assessment of the current financial status of KSU, CPE conducted five areas of review and analysis, including: Cash Flow & Working Capital Analysis; Financial Health Assessment; Peer Group Comparisons; Validation of Financial Information; and Review of Controls over Financial Management and Reporting. In each area, CPE identified relevant research questions, the methodology used to answer those questions, and the resulting findings.

### Key Findings

- Cash as reported on the audited financial statements was relatively stable in 2016 and 2017, at \$19.9 and \$18.7 million, respectively, before declining to \$14.0 million in fiscal year 2018. Cash then declined to approximately \$2.0 million in fiscal years 2019 and 2020. The decline in cash reserves between 2016 and 2020 resulted from operating deficits totaling \$35 million over the same period.
- Beginning in fiscal year 2019, several inappropriate techniques were used to generate or maintain enough cash for the university to satisfy payroll obligations each month, including failure to pay amounts owed to vendors in a timely manner and failure to collect student receivables.
- Financial health assessment ratios revealed KSU was in an overall financially healthy condition from fiscal years 2015-16 to 2017-18, but beginning in 2018-19, a significant draw-down in reserves to cover a structural imbalance in the annual budget (which continued into the next fiscal year) resulted in a precipitous drop in financial health scores.
- KSU's tuition and fee, state appropriations, and government grants and contracts revenue per student are higher than peer group medians.
- KSU's net price is considerably lower than that of peer institutions and has exhibited a much larger percentage decrease in recent years than the group median.
- KSU's production of bachelor's degrees, normalized to account for differences in student enrollment, is the lowest among peer institutions; KSU's degree productivity has exhibited a precipitous decline in recent years.
- Since the issuance of the Executive Order, all information communicated by KSU staff to the Board of Regents and other key stakeholders has been accurate.
- KSU's internal audit function was non-existent for approximately three years due to a vacancy in the Internal Auditor position. Additionally, the externally managed KSU "Tip Line" was discontinued in 2017.
- KSU lacks sufficient controls to prevent, or alert, spending over board approved budgets. KSU staff, dictated by prior senior leadership, often failed to follow existing fiscal policies in recent years, resulting in significant operating deficits.
- KSU had numerous external financial audit findings in recent years and has consistently missed audited financial statement deadlines.

## Recommendations

1. Request \$23 million from the Kentucky General Assembly to cover the fiscal year 2021-22 projected cash shortfall, plus \$1 million annually in the 2022-24 biennium for strategic initiatives.
2. Cultivate a culture of accountability, transparency, and compliance.
3. Improve budgetary controls and provide a quarterly budget to actual report to the Board of Regents.
4. Improve the accounting and reporting system, as well as internal controls over financial reporting, and provide quarterly GAAP statements and other financial information to the Board of Regents.
5. Outsource or co-source the Internal Audit function and reinstate the externally managed tip line.
6. Implement a formal accounting and reporting framework for endowment distributions.
7. Improve the collection of student accounts receivable, including implementation of a comprehensive Student Financial Responsibility Agreement and utilization of external collection agencies, including Kentucky's Department of Revenue.
8. Complete a comprehensive review of expenses to ensure they are charged to the correct functional area and that costs are appropriately allocated to grants and auxiliary units.
9. Complete a review of academic programs and establish appropriate faculty productivity metrics.
10. Implement a long-range planning process to support the strategic and capital investment decision-making process.
11. Implement an enterprise risk management process to identify, evaluate, and mitigate key risks facing the institution and higher education industry, including strategic, operational, financial, and compliance risks.
12. Develop appropriate policies and procedures governing the key functions of treasury management including cash management, operating investment management, debt management, and internal loans.
13. Review and update the Endowment Investment Policy and incorporate a formal spending policy within the investment policy.
14. Implement quarterly reporting to the Board of Regents on the President's travel, entertainment, and discretionary expenses.

## Conclusion

Significant operating deficits in recent years, and in particular from 2019 forward, have resulted in the depletion of KSU's cash reserves. Its current structural budget deficit is unsustainable, and without a significant infusion of cash, KSU will be depleted of operating funds by approximately April 2022. This appears primarily to result from poor leadership over the financial management of the institution, including inadequate budgetary controls, inadequate internal and external financial reporting, and lack of an internal audit function.

A culture of accountability, transparency, and compliance set forth and modeled by the KSU Board of Regents and executive leadership is key to ensuring that these issues do not reoccur. KSU compares favorably to its peers in state appropriations, government grants and contracts, and tuition and fee revenue per student, providing evidence that a strong basis for stable, recurring funding currently exists. Moving forward, the key will be crafting a budget that optimizes the use of those funds to meet the strategic goals of the institution, and in turn, operating within that budget with regular accountability to both internal and external stakeholders.

## INTRODUCTION

The Kentucky Council on Postsecondary Education (CPE) is assigned extensive statutory responsibilities relating to the coordination of higher education in Kentucky. In addition to determining tuition at Kentucky's public colleges and universities, approving academic programs, and leading the biennial budget process for higher education, CPE is charged with a broad scope of higher education oversight duties, the core of which is outlined in KRS 164.020.

Specifically, KRS 164.020(4) charges CPE with "evaluating the performance and effectiveness of the state's postsecondary system." KRS 164.020(9) further charges CPE with the development and implementation of "policies to be used in making recommendations to the Governor for consideration in developing recommendations to the General Assembly for appropriations to the universities," as well as "policies that provide for allocation of funds among the universities."

In carrying out these duties, the General Assembly empowers CPE to:

- "[d]evelop a financial reporting procedure to be used by all state postsecondary education institutions," [KRS 164.020(26)];
- "[r]equire reports from the executive officer of each institution it deems necessary for the effectual performance of its duties," [KRS 164.020(12)]; and
- "[e]xercise any other powers, duties, and responsibilities necessary to carry out the purposes of this chapter," [KRS 164.020(38)].

In accordance with these duties and responsibilities, on July 20, 2021, following reports of financial instability at Kentucky State University (KSU) and the abrupt resignation of its president, Governor Andy Beshear issued an Executive Order containing the following directives:

1. CPE shall provide an assessment of the current financial status of KSU, and shall provide a report to the Governor detailing its assessment prior to providing recommendations concerning appropriations for the next biennial budget.

2. To assist CPE in performing its assessment, KSU shall provide CPE access to any records CPE deems necessary to preparing its assessment.
3. CPE shall assist the KSU Board of Regents in developing a management and improvement plan with goals and measurable metrics, which shall be subject to the approval of CPE. The management and improvement plan shall be designed to assist with organizational and financial stability. The management and improvement plan shall provide for continuing oversight by, and reporting to, CPE concerning the implementation of the plan.
4. CPE shall make recommendations to the KSU Board of Regents concerning the KSU administrative structure and leadership.

This report is issued in response to the directive in Item 1 of the Executive Order, the assessment of the current financial status of KSU. This assessment will serve as the basis for an appropriation recommendation for KSU in the upcoming biennial budget.

In order to provide a full assessment of the current financial status of KSU, CPE staff identified the following five areas of review and analysis:

- Cash Flow and Working Capital Analysis
- Financial Health Assessment
- Peer Group Comparisons
- Validation of Financial Information
- Review of Controls over Financial Management and Reporting

In each area, CPE staff has identified relevant research questions, the methodology used to answer those questions, and the resulting findings.

At the conclusion of the report, CPE provides a recommendation for an appropriation to cover the FY 2021-22 budget shortfall at KSU. Additionally, funding will be requested for strategic initiatives to assist KSU in moving past its current budget crisis and increasing its stability as a quality provider of higher education in Kentucky.

## CASH FLOW & WORKING CAPITAL ANALYSIS

CPE performed a cash flow and working capital analysis to evaluate the historical and projected cash position/liquidity of the institution. The following primary research questions were used to guide this work:

- What are the major cash inflows and outflows for KSU?
- When did the liquidity crisis begin?
- What cash/working capital management strategies did KSU utilize to manage the liquidity crisis?
- What is the current and projected cash position?

CPE performed various procedures and research methods to analyze the cash position/liquidity for KSU. Staff worked with the KSU Chief Financial Officer (CFO) to assess the historical and current situation. Audited financial statements and related financial institution statements and reports from the Commonwealth of Kentucky were reviewed. Additionally, KSU Finance & Administration staff members participated in a number of interviews with CPE staff.

### Cash inflows and outflows

The following major cash inflows for KSU in recent years were identified. They are:

- Tuition & fees.
- State appropriations.
- Federal/state grants and contracts.
- Housing and dining/other auxiliaries.
- Draws on a revenue anticipation note.

Conversely, major cash outflows for KSU are as follows:

- Payments to employees.
- Payments to suppliers/service providers.
- Payments to students.
- Purchases of capital assets/capital improvements.
- Payments for debt service.
- Payments on a revenue anticipation note.

These cash inflows and outflows are typical for most institutions, with the exception of the cash flows related to the revenue anticipation note, which functioned as a line of credit beginning in 2019.

### Onset of liquidity crisis

As indicated in Figure 1 on page 9, a review of KSU financial statements indicates that the cash position of the university began to deteriorate in fiscal year 2018. Cash as reported on the audited financial statements was relatively stable in 2016 and 2017, at \$19.9 and \$18.7 million, respectively. In subsequent years, cash declined to \$14.0 million in fiscal year 2018, and dropped precipitously to approximately \$2.0 million in fiscal years 2019 and 2020. The decline in cash reserves between 2016 and 2020 resulted from operating deficits totaling \$35 million over the same period.

Audited financial statements are not yet available for fiscal year 2021, but a review of year-end bank balances and unpaid invoices and claims at the end of that fiscal year indicate that the cash position has not improved. In fact, it is likely the audit will show a further decline.

During the period that cash declined, current liabilities (accounts payable, accrued liabilities, unearned revenue, line of credit, current portion of long-term debt and other current liabilities) increased significantly as well. Current liabilities averaged approximately \$7.7 million per year until fiscal year 2019, when they increased to \$12.3 million, and then to \$18.3 million in fiscal year 2020. A preliminary review indicates that current liabilities will remain in the \$15 to \$20 million range in fiscal 2021, pending audited financial statements.

The combination of declining cash balances and increasing current liabilities has resulted in a significant liquidity crisis for the university. Interviews with staff and a review of cash management activities in the latter part of 2019 show an increasing reliance on lines of credit and delayed vendor payments to ensure sufficient cash was available for bi-weekly and monthly payrolls. This cash management strategy continued through fiscal years 2020 and 2021 as the financial position of the university continued to deteriorate. By the third week of July 2021, only \$1.9 million in cash was available for use, with no

significant revenue anticipated until September. Further complicating the problem, approximately \$3 million was owed to vendors, \$5.2 million was owed to the state, and payrolls averaged approximately \$3 million per month.

### Managing the liquidity crisis

To manage this crisis, the university worked with the CPE and the Office of the State Budget Director to advance the university's fourth quarter General Fund allotment. This allowed the university to access \$5.4 million in cash to satisfy outstanding vendor accounts and to support the late July payroll. This action only provided temporary relief, as the institution will not have access to those funds in April. The university also implemented a debt forgiveness plan using CARES Act funding, paying \$2.5 million in outstanding student balances. This one-time action provided much-needed liquidity.

Beginning in fiscal year 2019, several inappropriate techniques were used to generate or maintain enough cash for the university to satisfy payroll obligations each month. These include:

- **Failure to pay vendors in a timely manner.** Several hundred thousand and sometimes millions of dollars in invoices were older than 120 days. Staff have indicated that they were told to “not answer their phones” when vendors called. They also indicated that they were threatened with termination if they disclosed that the university did not have sufficient cash for its obligations. Additionally, at various times, accounts payable staff were instructed to “inactivate” invoices that had been entered into Banner for payment.
- **Failure to reimburse state construction accounts.** The Finance and Administration Cabinet, Division of Engineering and Contract Administration, manages construction projects for the university, making payments on behalf of the institution, particularly on federally funded, land grant, construction projects. The university subsequently reimburses the state after reimbursement funds are drawn down from the USDA. Beginning in 2019, the university stopped providing those reimbursements to the state, and apparently used the cash drawn down from the USDA for working capital.
- **Draws from revenue anticipation note.** In 2019, the university opened a revenue anticipation note with Fifth Third Bank, the institution's depository. Revenue anticipation notes are typically used to provide short-term liquidity for entities that receive cash revenues sporadically throughout the fiscal year. They are a legitimate tool to manage working capital; however, they must be closed and settled within the fiscal year. The university began to draw against the note in 2019, but had failed to close the balance by the end of fiscal years 2019, 2020 and 2021, ending the fiscal years with balances of \$2,061,650, \$2,893,716, and \$5,000,000, respectively. The note was settled in early July 2021.
- **Asset preservation fee receipts used for operations.** In 2019, the university established a new mandatory student fee for “asset preservation” to support renovation of instructional facilities. These asset preservation fees cannot be used for any other purpose and should be accounted for separately in the accounting system. Students are assessed at a rate of \$150.00 for full-time students and \$10.00 per credit hour for part-time students. Assessments through the end of August 2021 totaled \$1.2 million, and the funds were used for working capital needs.
- **Failure to follow the institution's policies related to collection of student receivables.** The university has a written Accounts Receivable policy that requires internal and external collection efforts after an account is 30 days past due. However, bursar staff members were instructed not to follow the collection procedures set forth in the policy. As a result, student accounts receivable grew from \$1.7 million in June 2017 to \$2.6 million in June 2020, per audited financial statements. Additionally, a preliminary review indicates that student accounts receivable at the end of fiscal year 2021 were \$4.5 million, pending audited financial statements, representing a significant increase over 2020. Foregone collections in recent years were a detriment to cash inflows.

- Draws from the university endowment.**  
 The university maintains an externally managed investment account consisting of the institution’s endowment, which had a market value of \$21.9 million at the end of June 2021, based on preliminary, unaudited records. The endowment was originally funded from various sources, including the “Bucks for Brains” funds from the early 2000s. The university does not have a full set of donor agreements on file nor clear information about the requirements of the endowment accounts in all cases. Since 2019, annual spending policy withdrawals totaling \$2.8 million have been made, ostensibly for scholarship support. However, based on available records, only 43% of endowment earnings can be used to support scholarships. At this time, the accounting records are insufficient to verify that endowment withdrawals were used in accordance with donor agreements.

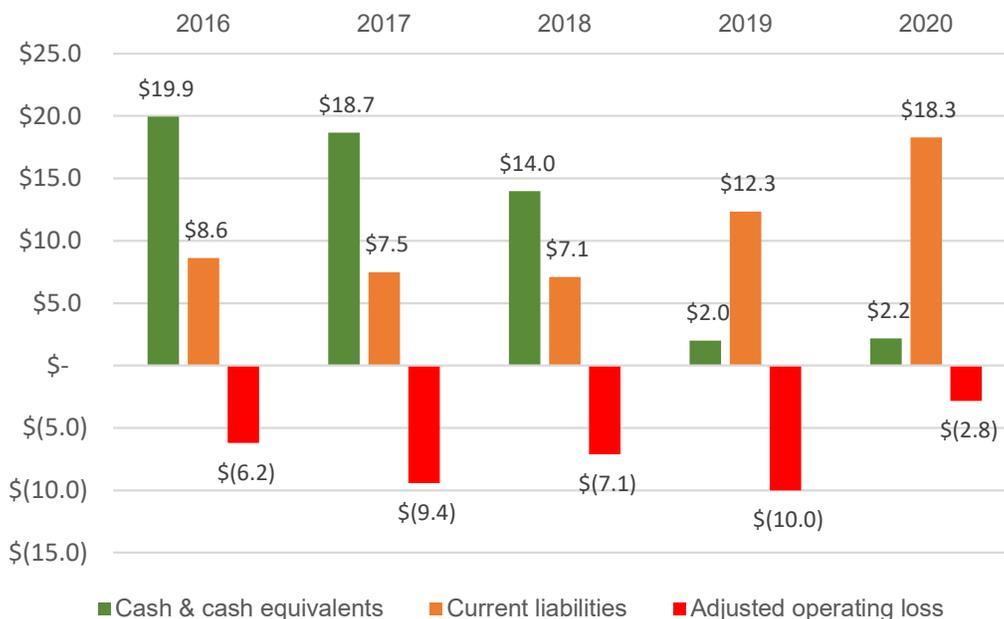
The known impact of these inappropriate cash management techniques is \$15.7 million of prior year expenses that were carried forward to fiscal year 2022. Additionally, KSU is projecting a fiscal year 2022 shortfall of up to \$7 million due to a structural imbalance of the university’s budget.

**Current and projected cash position**

At the end of September 2021, the university’s cash position was \$4.3 million, temporarily relieved by the advancement of the fourth quarter allotment from the state and the CARES Act debt forgiveness, as well as tuition/fee payments received for the fall 2021 semester.

Current projections indicate all cash reserves will be depleted by the end of March 2022, and the \$5 million revenue anticipation note will be utilized for April 2022 operations. An additional non-recurring appropriation from the General Assembly is needed for continued operations beyond April.

**Figure 1. KSU’s Liquidity Crisis Begins in 2019 (dollars in millions)**



Note: The amounts above were derived from audited financial statements from KSU. The adjusted operating losses represent the operating losses per the Statements of Revenues, Expenses and Changes in Net Position, adjusted to include state appropriations. The 2020 cash and cash equivalents amount excludes endowment cash held by ARGI Investment Services.

## FINANCIAL HEALTH ASSESSMENT

Higher education institutions operate in a unique and rapidly evolving environment. Colleges and universities must confront risks stemming from internal factors like existing or new business and operating models, as well as external factors like variations in enrollment projections, the institution’s competitive status, and governmental regulations. All of these areas of risk, and many more, can have significant impacts on the financial well-being of a college or university. As such, it is critical that institutions establish procedures for regularly identifying, measuring, and monitoring areas of financial risk.

First published in 1980 and currently in its 7th Edition, *Strategic Financial Analysis for Higher Education: Identifying, Measuring and Reporting Financial Risks* has been an invaluable resource for university trustees, management and analysts for its holistic approach to assessing the financial health and risks of both public and not-for-profit private higher education institutions. The publication identifies four primary ratios (primary reserve ratio, viability ratio, return on net assets ratio, and net operating ratio), which are weighted and combined to create a single indicator that represents an institution’s overall financial health, the Composite Financial Index (CFI). Due to the uniqueness of college and university missions, the authors recommend that their assessment framework primarily be used to track an institution’s performance over time rather than to compare its performance to other institutions.

The ultimate purpose of the assessment framework’s financial ratios is to answer a set of fundamental questions to assist in the evaluation of an institution’s financial health.<sup>1</sup> These questions are:

- Does the institution have sufficient liquidity?<sup>2</sup>
- Are resources sufficient and flexible enough to support the mission?
- Are financial resources, including debt, managed strategically to advance the mission?
- Does asset performance and management support the strategic direction?
- Do operating results indicate the institution is living within available resources?

To assess the financial health and risks of KSU, CPE set out to answer these questions using historical financial data from audited financial statements to calculate the framework’s four primary ratios (primary reserve ratio, viability ratio, return on net assets ratio, and net operating ratio), which were used to create a CFI representing KSU’s overall financial health.

Please note that audited financial statements for fiscal year 2021 have yet to be completed and are not included in this report.

### Primary Reserve Ratio

The primary reserve ratio indicates if the institution’s resources are sufficient and flexible enough to support their operating and capital needs now and in the future.<sup>3</sup> It is calculated by dividing the institution’s expendable net assets by total expenses. Because the numerator excludes net assets that are permanently restricted (e.g. endowment funds), the ratio reflects an institution’s ability to meet its expenses using available reserves while not depending on any newly generated assets from operations. The number of days of operations covered by reserves can be found by multiplying the value of this ratio by 365.<sup>4</sup>

**Figure 2. KSU’s Primary Reserve Ratio, Fiscal Years 2015-16 through 2019-20**

Industry Standard	Fiscal Year	2015-16	2016-17	2017-18	2018-19	2019-20
	$\frac{\text{Expendable Net Assets}}{\text{Total Expenses}} > 0.40$	Expendable Net Assets (Reserves)	\$32,650,988	\$30,827,476	\$33,746,076	\$18,957,252
Total Expenses		\$62,867,192	\$71,351,849	\$74,556,167	\$82,867,309	\$76,155,413
Ratio		0.52	0.43	0.45	0.23	0.10
Days of Expenses Covered by Reserves		190	158	165	83	36

As seen in Figure 2, KSU's primary reserve ratio was in a relatively financially healthy condition from fiscal year 2015-16 to fiscal year 2017-18. In 2018-19, the financial condition deteriorated towards a state of financial stress as the ratio fell below the industry standard. In 2019-20, KSU's condition declined further into a financially unhealthy position, such that only 35 days of expenses could be covered with reserves. As of June 30, 2020, the institution had very little resource flexibility, with limited resources available to reinvest in property, plant and equipment, and little margin for error in the operating budget.

The main driver of the rapid decline in KSU's primary reserve ratio is an unsustainable structural imbalance between revenue and expense streams that resulted in repeated and large operating deficits, requiring significant draw-downs of reserves. From fiscal year 2015-16 to fiscal year 2019-20, the institution's unrestricted net assets decreased by \$24,350,607, with the largest year-over-year decrease occurring in 2018-19 at \$12,376,886. Unrestricted net assets represent the most available and largest portion of KSU's reserves.

Over the assessment period, KSU's total expenses increased by \$14,179,031. In fiscal year 2018-19, total expenses peaked at \$82,867,309, which is \$20,000,117 higher than in 2015-16. Meanwhile, from 2015-16 to 2018-19, total revenues increased by \$6,960,184. In 2019-20, total revenues improved by another \$5,127,257, with \$3,396,633 (66.2%) of the increase coming in the form of federal operating grants and contracts (i.e., federal land grant funds).

### Viability Ratio

The second of the four primary ratios is called the viability ratio. This indicator reflects the capacity of an institution to cover its obligations if it were required

to settle its debts as of the date of the Statement of Net Position. Similar to the primary reserve ratio, the numerator of this ratio is the expendable net assets of the institution. The denominator is total plant-related debt. The debt included in this ratio is limited to only plant-related debt, which includes capital lease obligations.<sup>5</sup>

Four secondary ratios accompany the viability ratio and offer more detailed insights into the institution's debt management. These ratios include: Debt Burden Ratio, Debt Service Coverage Ratio, Interest Burden Ratio, and Portfolio Principal Duration Metric.

These secondary ratios provide a more comprehensive picture of an institution's debt management by determining whether debt payments are a sustainable size, if operations are sufficient to meet debt issuance requirements, and how long funding is invested in the institution.<sup>6</sup> (To see calculations for the secondary debt management ratios, see Appendix A.) When combined with the viability ratio, these indicators address the fundamental question, "Are resources, including debt, managed strategically to advance the mission?"

The industry standard for the viability ratio is a value greater than or equal to 1.0. This standard is more flexible than others, as "many public institutions can operate effectively at a ratio far less than 1:1 since the debt may be reported by a state agency and not the institution, or the institution enjoys the credit rating of the state for its borrowing purposes."<sup>7</sup> A ratio equal to or above the industry standard indicates the institution has sufficient expendable net assets (i.e., reserves) to cover existing debt.

As seen in Figure 3, for most of the analyzed time frame, KSU's viability ratio was in a very healthy condition, displaying values well above the standard for fiscal years 2015-16 to 2018-19. However, in 2019-

**Figure 3. KSU's Viability Ratio, Fiscal Years 2015-16 through 2019-20**

Industry Standard	Fiscal Year	2015-16	2016-17	2017-18	2018-19	2019-20
	$\frac{\text{Expendable Net Assets}}{\text{Plant-Related Debt}} \geq 1.0$	Expendable Net Assets (Reserves)	\$32,650,988	\$30,827,476	\$33,746,076	\$18,957,252
	Plant-Related Debt	\$5,863,231	\$5,111,791	\$4,257,692	\$3,423,306	\$16,141,582
	Ratio	5.57	6.03	7.93	5.54	0.45

20, the ratio fell quickly into financial stress due to a significant decrease in reserves (\$11,665,149) and a large increase in plant-related debt (\$12,718,276). As with the the primary reserve ratio, KSU’s financing of day-to-day operations with reserves in 2018-19 and 2019-20 diminished resource flexibility and limited their ability to meet debt obligations in the event of adverse conditions.

In fiscal year 2019-20, KSU entered into a capital lease for a guaranteed energy savings project. This project accounts for \$13,247,087 of plant-related debt. The lease obligation related to this project is to be paid by the guaranteed energy savings it generates. While this agreement seems relatively low risk, KSU’s precedent of inadequate, internal, financial controls does not guarantee that energy savings will be reserved to pay lease obligations and, therefore, substantially increases the project’s risk.

**Return on Net Assets Ratio**

The third primary ratio, the return on net assets ratio, is focused on determining if historical investments into programs and facilities are resulting in returns that can be reinvested to increase progress towards the institution’s strategic objectives. By measuring the institution’s total return, this ratio provides insight into whether the college or university has improved its financial condition over time. In other words, was the institution in a better financial position with regard to net assets at the end of the period as compared to when it began?

The return on net assets ratio is calculated by dividing the change in net assets over a given year by the total net assets the institution had at the beginning of the year.<sup>8</sup> Four secondary ratios accompany the

return on net assets ratio and offer more detailed insights into the institution’s asset performance and management. These ratios include: Physical Asset Reinvestment Ratio, Age of Facilities Ratio, Facilities Burden Ratio, and Deferred Maintenance Ratio.

These secondary ratios provide information pertaining to the rate of reinvestment in physical assets compared to their usage, the possible need for future investment in facilities, and a more complete measurement of the costs associated with building.<sup>9</sup> For calculations for the secondary asset performance and management ratios, see Appendix A.

The industry standard for the return on net assets ratio is between a 3% to 4% real rate of return – the nominal rate of return minus an inflation index measure like the Consumer Price Index (CPI) or Higher Education Price Index (HEPI).<sup>10</sup> Additionally, it’s important to note that this value should be interpreted in conjunction with other data, including the proportion of growth that is attributable to investment returns generated by favorable, external conditions. An occasional negative value for this ratio is not always indicative of a deteriorating financial condition, as long as it represents an investment to better fulfill the university’s mission and generate a future return.

Figure 4 shows that KSU’s return on net assets ratio never meets or exceeds the industry standard from fiscal years 2015-16 to 2019-20. From 2015-16 to 2017-18, the ratios weren’t particularly troublesome given that 2016-17 shows a positive return, and the negative results aren’t unreasonably large. The repeated, large, negative results in 2018-19 and 2019-20 illustrate that KSU’s draw-downs of available net assets were not providing the returns necessary for physical assets reinvestment and enhancement of financial flexibility.

**Figure 4. KSU’s Return on Net Assets Ratio, Fiscal Years 2015-16 through 2019-20**

Industry Standard	Fiscal Year	2015-16	2016-17	2017-18	2018-19	2019-20
$\frac{\text{Change in Net Assets}}{\text{Total Net Assets}} = \text{Real rate of return}$ <p>3-4%</p>	Change in Net Assets	\$(3,010,998)	\$1,739,491	\$(2,164,769)	\$(15,358,611)	\$(4,346,095)
	Total Net Assets (beginning of the year)	\$117,220,814	\$114,209,816	\$115,949,307	\$113,784,538	\$98,425,927
	Ratio	-2.57%	1.52%	-1.87%	-13.5%	-4.42%

Note that KSU’s rate of return is unadjusted for inflation

In fiscal year 2019-20, the institution received increased revenue from multiple sources that prevented the change in net assets from being substantially more negative. The largest increase was \$3,396,633 in federal operating grants and contracts (i.e., land grant funding), which is restricted as to its purpose. Additionally, tuition and fees, residence hall and dining revenues increased by a total of \$1,509,332.

### Net Operating Revenues Ratio

The final primary ratio is called the net operating revenues ratio. This ratio is intended to answer the fundamental question, “Do operating results indicate the institution is living within available resources?” An institution’s operations serve as a key source of liquidity and a means of generating resources for reinvestment in strategic initiatives. Therefore, generating a surplus over an extended period of time is essential for an institution to achieve its mission.

The net operating revenues ratio divides the institution’s surplus or deficit from operating activities into two categories - total operating and non-operating revenues - to show the degree to which operating activities are adding to or reducing net assets. As such, the results of this ratio directly inform the results of the three other primary ratios.<sup>11</sup>

Five secondary ratios accompany the net operating revenues ratio and provide a better understanding of the institution’s operating results. These ratios are: Cash Income Ratio, Contribution Ratios, Net Tuition Dependency Ratios, Net Tuition Dependency per FTE Ratio, and Demand Ratios. These secondary ratios contribute to the analysis of the institution’s operating results by determining the degree to which operations are impacting the cash position, how much of the

institution’s expenses are covered by various revenue sources, how much of the institution’s revenues are absorbed by different expense types, and how dependent the institution is on tuition and fee revenue. For calculations for these secondary ratios, see Appendix A.

In light of the important role the net operating revenues ratio plays in determining the outcomes of the other indicators of financial health, Tahey et al. recommend an industry standard of at least 4% to 6% for institutions that do not use an endowment spending rate, which includes KSU. As further guidance, the authors note that “[I]arge unplanned deficits and structural deficits are almost always a bad sign, particularly if management has not identified initiatives to reverse the shortfall.”

From fiscal year 2015-16 to fiscal year 2019-20, KSU maintained consistent operating losses, as shown in Figure 5. The smallest of these losses occurred in 2015-16 and 2016-17. Because the ratio includes depreciation, which is a significant noncash expense, the results in 2015-16 and 2016-17, while not desirable, are not as troublesome considering that backing out depreciation expense results in a positive ratio for each year (3.2% and 1.1% respectively).

Similar to the other ratios, the period from fiscal year 2017-18 to fiscal year 2019-20 contains the most significant and repeated negative results. As mentioned previously, the result in 2019-20 benefitted from an increase in federal operating grants and contracts revenue of \$3,396,633 and increased tuition and fee, residence hall and dining revenues of \$1,509,332.

KSU’s consistent and large negative results indicate that revenue and expense streams were unsustainable and needed to be restructured. From 2017-18 to 2018-19, total revenues decreased by \$1,581,269 (-2.3%), and total expenses increased by \$8,544,284 (11.6%). In 2019-20, total revenues were \$70,983,256, while total expenses were \$74,747,393.

**Figure 5. KSU’s Net Operating Revenues Ratio, Fiscal Years 2015-16 through 2019-20**

Industry Standard	Fiscal Year	2015-16	2016-17	2017-18	2018-19	2019-20
$\frac{\text{Net Operating Income}}{\text{Total Unrestricted Operating Revenues}} = \text{At least } 4-6\%$	Net Operating Income	\$(2,188,457)	\$(3,273,507)	\$(5,931,127)	\$(16,367,071)	\$(4,173,409)
	Total Unrestricted Operating Revenues	\$60,888,579	\$68,078,342	\$68,618,378	\$66,500,238	\$71,982,004
	Ratio	-3.59%	-4.81%	-8.64%	-24.61%	-5.80%

### Adjusting Ratios for Pension-Related Impacts

Consistent with guidance from the National Association of College and University Business Officers (NACUBO), all ratios that used inputs impacted by pension and other post-employment benefits (OPEB) reporting requirements specified in GASB Statements 68 and 75 have been adjusted to remove these effects. While pension and OPEB items are important to include in university financial statements due to the enhanced transparency they provide, the presence of net pension and OPEB liabilities, deferred inflows and outflows, and expenses significantly masks an institution’s operating results and financial position.

This is particularly true of KSU, as the pension and OPEB liabilities are ultimately liabilities of the Commonwealth of Kentucky. While ratios have been calculated both including and excluding these effects, the results shown in this report are limited to those excluding the impacts of pension and OPEB, as these are more meaningful.

### The Composite Financial Index

The final element of the financial ratio analysis framework is the calculation of a single score for representing the institution’s overall financial health and risk. This score is called the Composite Financial

Index or CFI. This single metric provides a holistic approach to assessing the institution’s financial health and risk.

The CFI combines the values of the four primary ratios using a weighting scheme such that any relative strengths or weaknesses among the ratios will be balanced out by a score in another ratio. Additionally, by converting the primary ratio values into a common scale, a particularly strong result in any one ratio is prevented from masking a weakness in another ratio and vice versa. The normalized scores are then totaled to calculate the CFI.<sup>12</sup>

The step-by-step methodology for determining the CFI is shown in detail in Appendix B and simplified as follows:

- Compute the values of the four primary ratios.
- Create strength factors by normalizing the ratio values to fall along a common scale.
- Multiply the new strength factors by the appropriate weights.
- Total the weighted results to calculate the CFI score.

Each of the individual ratios discussed in this report evaluates the essential components of KSU’s financial condition from a variety of perspectives. The Composite Financial Index (CFI) weights and combines an institution’s values from the four primary ratios to create a

### The Composite Financial Index

The CFI combines four ratios (primary reserve, viability, return on net assets and net operating revenues) into a single score (i.e., on a scale of -4 to 10) by using designated weights for each ratio.

This holistic approach allows an institution’s weakness or strength in one ratio to be offset by outcomes of other ratios.

### CFI Score Interpretation



single score for overall financial health. For more detail on the steps used to calculate the CFI.

The strength factors and final CFI score will fall within a scale from -4 to 10. An institution scoring a 3 (i.e., the midpoint of the scale) is in a relatively financially healthy condition. A score of 10 represents a college or university in the healthiest condition that can be indicated by the CFI. Similarly, a score of 1 reflects an entity that is in a state of financial stress, while a score of -4 reflects the lowest possible score of financial health and, therefore, a high level of financial risk.<sup>13</sup>

KSU was in an overall, financially healthy condition from fiscal years 2015-16 to 2017-18. This was due in large part to strong scores for the primary reserve and viability ratios. These ratios make up 70% of the CFI score and share expendable net assets as a numerator. The combination of these reserves with reasonable levels of total expenses and low levels of plant-related debt bolstered KSU's score on these two measures.

The net operating revenues and return on net assets ratios consistently produced a negative impact on the CFI, with the exception of the return on net assets ratio in fiscal year 2016-17. However, these ratios performed substantially worse from 2017-18 to 2019-20, as the weighted scores of -0.40 and -0.80 are, respectively, the lowest possible scores for these measures. Not surprisingly, 2017-18 shows a small decrease in KSU's CFI, followed by increasingly large declines in 2018-19 and 2019-20.

The impact of the institution's significant operating deficits is first observed in fiscal year 2018-19 through a decline in the primary reserve ratio due to a large draw-down of reserves. While the draw-down affected

the viability ratio as well in this year, KSU's plant-related debt was still at such a low level that the institution had more than enough expendable net assets to cover its obligations.

In 2019-20, the impact of another round of funding operations with reserves and the addition of over \$13 million in long-term debt through a capital lease arrangement is shown through a continued decline in the primary reserve ratio and a precipitous fall in the viability ratio. As the net operating revenues ratio illustrates, consistent structural imbalances between revenue and expense streams led to a deterioration in the other three primary ratios and, ultimately, in KSU's CFI score.

In short, the results of the calculated ratios and the resulting CFI scores indicate that in 2019-20, KSU had quickly become an institution in an unhealthy financial condition. A summary of all financial health assessment ratios with pension-related and OPEB adjustments can be found in Appendix C.

**Figure 6. KSU's Composite Financial Index, Fiscal Years 2015-16 through 2019-20**

Fiscal Year	2015-16	2016-17	2017-18	2018-19	2019-20
Primary Reserve (35%)	1.37	1.14	1.19	0.60	0.25
Net Operating Revenues (10%)	-0.28	-0.37	-0.40	-0.40	-0.40
Return on Net Assets (20%)	-0.26	0.15	-0.19	-0.80	-0.44
Viability (35%)	3.50	3.50	3.50	3.50	0.38
<b>CFI Score</b>	<b>4.33</b>	<b>4.42</b>	<b>4.10</b>	<b>2.90</b>	<b>-0.21</b>

## PEER GROUP COMPARISONS

CPE completed a benchmarking analysis of peer institutions to assess several measures related to KSU's operations including affordability, revenues and expenditures, staffing and compensation, and degree productivity and student success. The benchmarking analysis provided meaningful data to assist CPE in determining if KSU is adequately funded and deploying its capital effectively.

The identification of peer institutions by which to evaluate KSU's performance on a number of key metrics was guided by a set of research questions, listed below:

- How does KSU compare to other HBCUs on college affordability?
- To what extent does KSU differ from benchmark peers in terms of sources of core revenue and expenditures by function?
- How does KSU compare to other HBCUs in terms of staffing levels by occupational type?
- To what extent does KSU differ from benchmark peers in terms of faculty and administrator compensation?
- How does KSU compare to other HBCUs on key productivity and student success metrics?

To answer these questions, CPE staff examined trends over time for several measures of interest, including affordability metrics; sources of core revenues and expenditures by function; staffing and compensation by occupational type; degree productivity; and student success metrics. CPE then identified KSU's rank and distance from comparison group medians for those same measures for the most recent year for which data were available. The source of data for these analyses was the Integrated Postsecondary Education Data System (IPEDS) Data Feedback Report.

### KSU Peer Institutions

CPE staff worked with KSU officials to identify selection criteria for benchmark peers and used the IPEDS Data Feedback Report, Executive Peer Tool to develop a customized comparison group. The selection criteria included Historically Black Colleges and Universities (HBCUs), land-grant institutions, institutions in the continental United States, public four-year institutions, degree-granting baccalaureate

and above institutions, and enrollment between 1,000 and 3,600 students.

The resulting comparison group included the following eight institutions:

- Alcorn State University (Alcorn State, MS)
- Central State University (Wilberforce, OH)
- Fort Valley State University (Fort Valley, GA)
- Langston University (Langston, OK)
- Lincoln University (Jefferson City, MO)
- South Carolina State University (Orangeburg, SC)
- University of Arkansas at Pine Bluff (Pine Bluff, AR)
- University of Maryland Eastern Shore (Princess Anne, MD)

Data submitted by Kentucky State University (KSU) to the Integrated Postsecondary Education Data System (IPEDS) was compared to data reported by identified benchmark institutions. Where possible, the analysis examined both trends over time and snapshots in time for the most recent year of data available. See Appendix D for graphs illustrating how KSU compares to benchmark peers in the most recent year of available data. Graphs with additional years of data can be provided upon request.

### Affordability

While KSU's sticker price is the highest among its peer institutions, KSU students on average receive considerably more financial aid than students at peer institutions, making it one of, if not the most, affordable institutions in the comparison group. The following indicators were used to determine KSU's affordability in comparison to peer institutions:

- **Price.** KSU's published in-state sticker price is higher than most HBCUs in the comparison group, although its price has grown at a slower pace than the peer group median. In 2021, resident undergraduate tuition and fees at KSU ranked second highest out of nine HBCUs and were 113% of the comparison group median. However, between 2017 and 2021, published in-state prices grew more slowly at KSU (+13%) than the group median (+16%).

- **Net Price.** KSU's net price (the price most students pay after grants and scholarships are taken into account) is considerably lower than its peer institutions and has exhibited a much larger percentage decrease in recent years than the group median. In 2019, KSU had the lowest average net price (i.e., ranked ninth) of any peer institution, representing 60% of the group median. Between 2017 and 2019, KSU's net price decreased from \$9,561 to \$7,363, or by 23%, while the group median decreased by 1%.
- **Financial Aid.** A larger proportion of KSU undergraduate students received grant aid from any source than their counterparts at peer HBCUs, primarily driven by larger percentages of KSU students receiving state and local grants and institutional aid. In 2018-19, 92% of first-time, full-time degree-seeking undergraduate students at KSU were awarded grant aid from any source, ranking them third among the comparison group and four percentage points above the median. That same year, 45% of KSU undergraduates received state and local grants, and 91% received institutional aid, ranking them third and first among benchmark peers, and 17 and 43 percentage points above the group median, respectively. Additionally, undergraduate students at KSU receive considerably larger average amounts of federal grants (including Pell) than students at peer institutions.

## Revenues

KSU's budget compares favorably to its peer institutions in terms of state appropriations, tuition and fee revenue and government grants and contracts received, although it receives less revenue from other sources. Considering the number of full-time equivalent students enrolled, KSU is one of the more well-funded institutions in the comparison group, ranking second out of nine institutions on per-student revenues.

- **Revenues by Source.** Compared to peer institutions, a higher proportion of KSU's core revenue comes from tuition and fees, state appropriations and governmental grants and contracts, and a relatively lower proportion comes from other sources of revenue. In fiscal year 2019, 16% of KSU's total revenue came from tuition and fees, 42% from state

appropriations, and 39% from governmental grants and contracts. The comparison group median for those same three categories were 13%, 33%, and 35%, respectively. That same year, other revenues were 12% of total revenue at the median institution, compared to 2% at KSU. In 2020, KSU's tuition and fees as a percent of total revenue ranked second highest among peer institutions and was 3 percentage points above the group median. Additionally, KSU's state appropriations percentage ranked second highest and was 9 points above the median. Its government grants and contracts percentage ranked second highest, at 5 points above the median.

- **Revenues per FTE students.** A similar pattern can be observed in the data on core revenues per full-time equivalent (FTE) student. Revenues per student from tuition and fees, state appropriations and governmental grants and contracts are considerably higher at KSU than the peer group medians. In 2019, KSU's tuition and fee revenue per student (\$6,701) was 80% higher than the group median (\$3,728), its state appropriations per student (\$17,770) were 93% higher (\$9,195), and its governmental grants and contracts per student (\$16,478) were 70% higher (\$9,674). In 2020, KSU's tuition and fee revenue per student ranked second highest among its peer institutions and was 155% of the group median. KSU's state appropriations per student ranked second highest and were 156% of the median, and its governmental grants and contracts per student ranked highest at 144% of the median. A contributing factor to these differences is the relatively high proportion of part-time students at KSU, resulting in total FTE student enrollment that is well below the median.

## Expenditures

An examination of KSU's spending by function reveals that the university spends relatively more on research, public service, and institutional support than peer institutions and relatively less on instruction, academic support, and other expenses.

- **Expenses by Function.** In 2019, research accounted for 14% of KSU's total core expenses, compared to 11% for the peer group median. Public service expenditures were 17% of total spending at KSU versus 9% for the compari

group. Institutional support expenditures were 25% of total expenses at KSU and 16% at the median (i.e., a 9 percentage-point difference). In 2019, KSU's spending on instruction was 18% of total core expenses and 28% of the median institution's spending level (i.e., a 10 percentage point differential).

## Staffing

Compared to its benchmark peers, KSU employs fewer postsecondary teachers and instructional support staff, and more management and business and financial operations staff. In general, staffing at KSU is higher than its peer institutions in the areas of technology, engineering, science, community service, legal services, arts and media.

- **Staff by Occupational Category.** During fall 2020, the number of postsecondary teachers and staff employed by KSU ranked eight out of nine HBCUs and was 75% of the group median. The number of staff employed by KSU in instructional support occupations ranked seventh lowest and was 33% of the comparison group median. That same semester, the number of management staff employed by KSU ranked third highest and was 127% of the group median. The number of staff employed by KSU in business and financial operations ranked fourth highest and was 125% of the group median. During fall 2020, the number of computer, engineering, and science staff employed by KSU ranked first out of nine HBCUs and was 161% of the comparison group median. The number of staff employed by KSU in community service, legal, arts, and media occupations ranked third at 153% of the group median.

## Compensation

For the most part, the average salaries of faculty members employed by KSU are either at, or slightly above, the median of peer institutions. A notable exception is the average salary of full professors at KSU, which is well below the peer group median.

- **Instructional Staff Salaries.** During academic year 2020-21, the average nine-month equivalent salary of associate professors employed by KSU ranked fifth out of nine

HBCUs and was equal to the comparison group median. The average salary of assistant professors ranked fourth highest and was 103% of the group median. The average salary of Instructors ranked fifth at 102% of the group median. In 2020-21, the average salary of professors employed by KSU ranked seventh lowest and was 92% of the peer group median.

- **Administration Staff Salaries.** At the time of this writing, salaries for administrators at peer institutions were not available. CPE staff hopes to supplement the report with this information as soon as it is obtained.

## Productivity and Student Success

KSU's production of bachelor's degrees, normalized to account for differences in student enrollment, is the lowest among its peer institutions. Furthermore, KSU's degree productivity has exhibited a precipitous decline in recent years. With a six-year graduation rate of 25% for first-time, full-time students, KSU is nine points below the median of its peer institutions. The good news is that KSU has the highest student retention rate among the comparison group, and has shown the most improvement in retention over the last three years.

- **Degrees per 100 FTE Students.** In 2019-20, KSU awarded nine bachelor's degrees for every 100 full-time equivalent (FTE) undergraduate students enrolled, the lowest among the comparison group and 54% of the peer group median. That level of degree productivity represents a dramatic change from three years earlier, when KSU awarded 24 bachelor's degrees per 100 FTE undergraduates. In 2016-17, KSU ranked first among the nine peer institutions at 157% of the group median.
- **Retention Rates.** For the fall 2019 cohort, KSU's retention rate among first-time, full-time bachelor's degree-seeking students was the highest among the nine HBCUs. At 78%, KSU's retention rate was seven percentage points above the group median of 71%. Between 2017 and 2019, KSU's full-time retention rate increased from 56% to 78%, or by 22 percentage points, compared to an 8-point increase at peer institutions.

- **Graduation Rates.** KSU's graduation rate is well below the median of comparison group institutions. For the 2013 cohort, KSU's graduation rate among first-time, full-time degree seeking students within 150 percent of normal time was 9 percentage points below the comparison group median (25% at KSU, versus 34% at the median).

## Findings

In conclusion, the identification and analysis of a similar group of HCBU institutions enabled CPE to obtain a clearer understanding of how KSU compares to its competitors in terms of budget, revenue sources, expenditures, and student outcomes. This comparison not only provides more context for the current financial crisis, it suggests areas for improvement moving forward. Key findings include:

- KSU's published in-state sticker price is higher than most HBCUs in the comparison group, although its price has grown at a slower pace over time than the peer group median.
- KSU's net price is considerably lower than that of peer institutions and has exhibited a much larger percentage decrease in recent years than the group median.
- A larger proportion of KSU undergraduate students receives grant aid from any source than their counterparts at other HBCUs, primarily driven by larger percentages of KSU students being awarded state and local grants and institutional aid.
- Undergraduate students at KSU receive larger than average amounts of grant and scholarship aid from any source than students attending other HBCUs, mainly as a result of relatively large amounts of federal and Pell grants awarded to KSU students.
- A higher proportion of KSU's core revenue comes from tuition and fees, state appropriations, and governmental grants and contracts than at peer institutions.
- KSU's tuition and fee, state appropriations, and government grants and contracts revenue per student are higher than group medians.
- As a percent of total expenses, KSU spends relatively more on research, public service and institutional support than peer institutions and relatively less on instruction, academic support, and other expenses.
- Compared to its peers, KSU employs fewer postsecondary teachers and instructional support staff, and more management and business and financial operations staff.
- Compared to other HBCUS, KSU employs more computer, engineering, and science staff and more community service, legal, arts, and media staff.
- For the most part, the average salaries of faculty members employed by KSU are either at, or slightly above, the median of peer institutions. A notable exception is the average salary of full professors at KSU, which is well below the peer group median.
- KSU's production of bachelor's degrees, normalized to account for differences in student enrollment, is the lowest among peer institutions. KSU's degree productivity has exhibited a precipitous decline in recent years.
- KSU's retention rate is the highest among peer institutions and has shown the most improvement over a three-year period.
- KSU's graduation rate is well below the median of comparison group institutions.

## VALIDATION OF FINANCIAL INFORMATION

To meet the obligations of the Executive Order, it was critical that CPE independently verify that financial information presented to KSU's Board of Regents and other key stakeholders was accurate to the best of the institution's knowledge. In other words, was the financial information communicated to key KSU stakeholders accurate?

Since the Governor's Executive Order was issued, CPE has coordinated with KSU staff to validate all financial information presented by the KSU Chief Financial Officer (CFO) to KSU's Board of Regents and other key stakeholders/external parties. The financial information was verified to audited financial statements and other information, including statements from financial institutions; Commonwealth of Kentucky reports; Federal agency reports/correspondence (from the Department of Education and the U.S. Department

of Agriculture); reports run from the Banner accounting system or Argos report-writer linked to Banner; and internal accounting data.

Based on CPE's validation procedures, all information communicated to the Board of Regents and other key stakeholders/external parties since the issuance of the Executive Order has been accurate, or has been subsequently corrected by the KSU CFO as additional information was identified.

A detailed outline of the work completed to validate KSU financial information can be made available upon request.

## REVIEW OF CONTROLS OVER FINANCIAL MANAGEMENT & REPORTING

CPE performed a targeted review of key financial functions/operations and external audit findings to evaluate the control environment and identify opportunities for improvement.

The primary research questions addressed by this validation effort were:

- Are KSU's controls over financial management adequate for a high functioning and financially responsible public university?
- Does KSU's current financial reporting system and structure meet the needs of the Board of Regents to ensure sufficient financial oversight?

### Methodology

To arrive at its conclusions, CPE performed a targeted assessment consisting of the following actions:

- A review of key financial functions and related policies, procedures, and internal controls for the:
  - Accounting System and Related Reporting
  - Internal Audit.
  - Treasury/Endowment Management (encompasses cash/liquidity management, short-term/operating investment management, debt management, financial risk management, endowment management and long-range planning).
  - Student Accounts Receivable/Collections.
  - Budget Management and Interim Financial Reporting.
  - Enterprise Risk Management.
- A review of historical audited financial statements including OMB Uniform Guidance reports.
- A review of other documentation, including but not limited to prior Management and Improvement Plan Reports as required by HB 303 (2016), presidential evaluations, and relevant provisions of the KSU Gold Book.

- Meetings with KSU Finance & Administration staff members to share information or concerns related to KSU operations.

### Findings & Conclusions

#### **1. KSU's Banner accounting system and related Argos reporting tool is inadequate for internal and external reporting needs.**

A formal Banner upgrade and additional training is needed, including implementation of a financial reporting module to produce GAAP (generally accepted accounting principles) statements, as numerous manual adjustments are currently required to produce GAAP statements.

#### **2. KSU's internal audit function was non-existent for approximately three years.**

A vacancy in the Internal Auditor position meant that no one was paying adequate attention to internal budget irregularities. Additionally, the externally managed KSU "Tip Line" was discontinued in 2017.

#### **3. KSU's current internal audit function, beginning in early 2020 and comprised of a single FTE, has been ineffective.**

The internal audit failed to provide a comprehensive, risk-based audit approach with regular communication to the Board of Regents.

#### **4. KSU does not have written policies related to treasury management.**

With the exception of an endowment investment policy, which was last updated in 2012, CPE could find no written policies related to treasury management. The endowment investment policy references a separate spending policy; however, a formal spending policy has not yet been developed and approved.

#### **5. KSU does not perform any long-range financial planning.**

The industry standard for long-range financial planning is at least five years.

**6. KSU has not followed its approved policies related to the collection of student receivables.**

KSU has a formal Accounts Receivable policy that requires use of external collection agencies. However, KSU is not currently referring delinquent accounts to external collection agencies or the Department of Revenue (DOR). KSU's Bursar indicated bursar staff were instructed by senior leadership to not follow the policy some time ago.

**7. KSU lacks sufficient controls to prevent, or alert, spending over board approved budgets.**

KSU staff, dictated by prior senior leadership, often failed to follow existing fiscal policies in recent years, resulting in significant operating deficits. Additionally, based on a preliminary review of budget to actual results for the last three fiscal years, poor fiscal control was demonstrated by the President's Office, which incurred significant budget deficits for fiscal years 2019, 2020 and 2021, as well as significant travel expenses.

**8. KSU has inadequate interim financial reporting.**

GAAP financial statements, budget to actual comparisons, and summary financial dashboards are not regularly provided to the Board of Regents.

**9. KSU does not utilize an enterprise risk management framework.**

If implemented, such a framework would help identify and manage risks facing the institution.

**10. The financial health ratios and resulting CFI scores presented by KSU senior leadership were inconsistent with those calculated by CPE staff.**

In its HB 303 Management and Improvement Plan reports, KSU presented numbers that painted a more favorable financial position than those calculated by CPE staff.

**11. KSU has had numerous external financial audit findings in recent years and has consistently missed audited financial statement deadlines.**

Additional information on external audit findings, as well as the review work performed and specific findings and comments related to each item reviewed, are outlined in detail in a review summary spreadsheet that can be made available upon request.

## RECOMMENDATIONS

As a result of the financial assessment review and related research outlined in this report, CPE offers the following recommendations to address the noted findings:

**1. Request \$23 million from the General Assembly to cover the fiscal year 2021-22 projected cash shortfall plus \$1 million annually in the 2022-24 biennium for strategic initiatives.**

The verified fiscal year 2021-22 cash shortfall breakdown is as follows:

Deficit construction accounts with State Finance Cabinet	\$5.2 M
Prior year invoices paid in FY 2021-21	\$4.3 M
Asset Preservation Fee Receipts Not Reserved (2019-21)	\$1.2 M
July repayment of prior-year revenue anticipation note	<u>\$5.0 M</u>
FY 21-22 cash shortfall due to prior year deficits	\$15.7 M
Structural Imbalance in the University Budget	<u>≈\$7.0 M</u>
FY 21-22 Total Projected Cash Shortfall	\$23.0 M

Funding for strategic initiatives will be used to assist CPE and KSU in exploring programmatic initiatives that will help KSU meet the needs of the Commonwealth and create financial stability through increased oversight. Funds for the fiscal year 2021-22 cash shortfall should be placed in newly created funding program at CPE requiring CPE approval for funds to be accessed and expended by KSU. After funds are accessed and expended, CPE should continue its fiscal oversight to ensure ongoing fiscal stewardship at KSU.

**2. Cultivate a culture of accountability, transparency, and compliance.**

The culture of accountability, transparency, and compliance must be established and modeled by leadership (Board of Regents, Audit Committee, and senior management) to create a strong ethical

climate, ensure accountability/compliance, and prevent mismanagement and fraud. Training on internal controls and key policies and procedures should be developed and provided on an ongoing basis.

**3. Improve budgetary controls and provide a quarterly budget to actual report to the Board of Regents.**

Improved budgetary controls include implementation of available Banner accounting system controls, developing monitoring reports by department/area, and establishing an appropriate review and reporting framework. Quarterly budget to actual comparisons should be presented to the Board of Regents as part of a quarterly financial update package that includes the budget to actual comparison, GAAP financial statements, and a dashboard of key financial and operating data and related ratios.

**4. Improve the accounting and reporting system, as well as internal controls over financial reporting; provide quarterly GAAP statements and other financial information to the Board of Regents.**

KSU should initiate a fully integrated Banner accounting system upgrade, including a new chart of accounts and financial reporting module to enable timely and accurate completion of quarterly and annual GAAP financial statements. As part of the integration, staff should be properly trained in the system and adequate reporting tools should be developed. In addition to the quarterly financial reports described in recommendation 2, a dashboard of key financial and operating data and related ratios should be developed with ready access provided to key staff and board members. The data/ratios presented in the dashboard should be the same as those used to establish targets or measurements set forth in the long-range plan (see recommendation 9).

**5. Outsource or co-source the Internal Audit function and reinstate the externally managed tip line.**

Outsourcing or co-sourcing of the internal audit function is becoming more prevalent in the higher education industry as institutions face new regulatory and other emerging risks and increased pressure to manage costs. Outsourcing/co-sourcing benefits include true independence and direct accountability to the Board, continuity, and increased knowledge of the latest accounting and audit trends, including use of data analytics/mining to identify high risk areas

and establish the audit work plan. Outsourcing/co-sourcing also provides access to specialized services such as forensic investigations and enterprise risk management. This wealth and breadth of knowledge simply cannot be replicated in an in-house internal audit unit, particularly in a small institution like KSU. In addition to an effective internal audit function, tip lines are an essential element of an effective internal control structure, as they allow employees to disclose areas of concerns about the organization and/or management. Externally managed tip lines offer independence and anonymity for disclosing parties, as well as 24-hour access and flexible contact options (e.g., toll-free live telephone service, web, mobile, text).

**6. Implement a formal accounting and reporting framework for endowment distributions.**

KSU's current accounting records are not sufficient to link endowment withdrawals to the various endowed initiatives. A separate general fund cost center should be created for each endowed initiative to account for the endowment income distributions from the related endowment funds and the expenditures related to each initiative (i.e. scholarship awards, payroll/other expenses for professorships, etc.).

**7. Improve collection of student accounts receivable, including implementation of a comprehensive Student Financial Responsibility Agreement and utilization of external collection agencies, including Kentucky's Department of Revenue.**

KSU should initiate a review of its Accounts Receivable policy and related collection policies/procedures and resume utilizing external collection agencies, including the State's Department of Revenue. To utilize external collections, students must sign a comprehensive student financial responsibility agreement to acknowledge their responsibility to pay, and their understanding that nonpayment will result in initiation of an external collections process and assessment of collection fees. Most institutions utilize an electronic agreement within the online registration system. KSU should consult with internal and/or external legal counsel to ensure the student financial responsibility agreement includes all language required by Kentucky law, the Truth in Lending Act, the E-SIGN Act, and other applicable laws and regulations. Additionally, KSU should increase education to students and parents regarding KSU's policies related to payment of tuition/fees and collections.

**8. Complete a comprehensive review of expenses to ensure they are charged to the correct functional area and that costs are appropriately allocated to grants and auxiliary units.**

Peer group comparisons revealed KSU spends more, as percent of total expenses, on research, public service, and institutional support than peer institutions, and less on instruction, academic support, and other expenses. Current financial leadership suspects expenses may not be allocated correctly to the various functional areas, and all expenses may not be fully allocated to auxiliary units. Either way, until expenses are properly categorized, it is difficult, if not impossible, to make strategic budget decisions.

**9. Complete a review of academic programs and establish appropriate faculty productivity metrics.**

While this report only addresses finance-related issues and not larger academic and mission-related items, considering the percentage of the institution's budget expended for instruction, it is important that KSU ensure it is providing its academic programs in the most effective and efficient manner possible. In order to do that, faculty productivity should be measured each semester by not only courses and students taught, but by credit hours generated. Programs also should be measured for productivity along those lines. This will assist the administration in planning its faculty needs each semester and budgeting for instructional costs.

**10. Implement a long-range planning process to support the strategic and capital investment decision-making process.**

A long-range planning (LRP) model can be used to help implement an organization's long term strategic plan. Enterprise Performance Management (EPM) systems and cloud-based planning/budgeting software offer a turnkey solution for LRP and monitoring performance across the institutional enterprise; however, an LRP model also can be developed using Excel. The LRP model should encompass all funds (i.e. Unrestricted, Restricted, Endowment and Plant) related component units/entities and provide a five-year forecast of the GAAP statements, as well as key financial and operating data and related ratios selected by senior leadership and the Board of Regents. Additionally, the LRP should enable scenario analysis and drive the operating and capital budgeting process. KSU should engage key stakeholders in the development and refinement of the LRP model, and the model should be shared with the campus community

ensure a clear understanding of the targets established to achieve financial sustainability, as well as the framework to guide future financial decisions.

**11. Implement an enterprise risk management process to identify, evaluate and mitigate key risks facing the institution and higher education industry, including strategic, operational, financial, and compliance risks.**

Higher education is experiencing disruption at an accelerated pace due to a variety of factors (including the COVID-19 pandemic), requiring effective risk management practices. KSU should implement an enterprise risk management (ERM) process or framework to identify risk and prioritize risk management/mitigation strategies. Institutions utilizing ERM identify and typically prioritize the top 10 to 20 risks to the institution and utilize a multidisciplinary group of leaders, stakeholders, and subject matter experts to manage and report on the risks on a regular basis. The result of the “enterprise” approach is more effective risk management versus siloed and sporadic strategies, with the key benefit of regular, ongoing participation of key stakeholders in the risk management process.

**12. Develop appropriate policies and procedures governing the key functions of treasury management, including cash management, operating investment management, debt management, and internal loans.**

Effective treasury management is vital to all organizations and includes the key functions of cash/liquidity management, short-term/operating investment management, debt management, and financial risk management. Written treasury management policies and procedures should be developed to clearly define the roles/responsibilities, goals, and objectives of the different functions, as well as appropriate guidelines, limitations, protocols, and/or other guidance.

**13. Review and update the Endowment Investment Policy and incorporate a formal spending policy within the investment policy.**

KSU should formally review and update the Endowment Investment Policy and incorporate the spending policy within it, since the endowment asset allocation and spending policy are inextricably linked. The spending policy should include policies/procedures for handling underwater endowments.

**14. Implement quarterly reporting to the Board of Regents on the President's travel, entertainment, and discretionary expenses.**

Details of the reporting and related requirements should be addressed in the President's contract and should be regularly reported to the board or a board designated subcommittee. While the proportion of the budget dedicated to these expenses should be relatively small, the strategic use of these funds, and more importantly, the President's time and energy, is critical in making progress on goals set forth by the board, including but not limited to philanthropic objectives.

**Conclusion**

In conclusion, significant operating deficits in recent years, and in particular from 2019 forward, have resulted in the depletion of KSU's cash reserves. Its current structural budget deficit is unsustainable, and without a significant infusion of cash, KSU will be depleted of operating funds by approximately April 2022. This appears to be a result of poor leadership over the financial management of the institution. Inadequate budgetary controls did not prevent spending in excess of the approved budget. Internal and external financial reporting also were inadequate. Internal reporting mechanisms were insufficient to properly capture the fiscal status of the institution. External reporting to the board was either inadequate, extremely lagging (like most external annual financial audits), or simply inaccurate. Additionally, the institution's lack of an internal audit function contributed to the lax internal control environment.

However, with the requested funding for KSU and additional oversight by CPE, these issues all can be remedied. Some are already in the process of being resolved. As recommended in item 2, a culture of accountability, transparency, and compliance set forth by the KSU Board of Regents and executive leadership is key to ensuring that these issues do not reoccur.

KSU compares favorably to its peers in regard to state appropriations, government grants and contracts, and tuition and fee revenue per student, providing evidence that a strong basis for stable, recurring funding currently exists. Moving forward, the key will be crafting a budget that optimizes the use of those funds to meet the strategic goals of the institution, and in turn, operating within that budget with regular accountability to both internal and external stakeholders.

## NOTES

1. Tahey, P., Salluzzo, R., Prager, F., Mezzina, L., & Cowen, C. (2010). Strategic Financial Analysis for Higher Education: Identifying, Measuring & Reporting Financial Risks. Prager, Sealy & Co., LLC; KPMG LLP; and Attain LLC. (Tahey et al., 2010), pp. 105-107.
2. While the framework's authors include liquidity as an important ratio to assess the financial health of an institution, the ratio inputs include information outside of audited financial statements. Due to some of the accounting issues at KSU outlined in this report, the financial information needed to determine the liquidity ratio at KSU was not solidified at the time of this report; therefore, staff chose not to include it.
3. Tahey et. al., 2010, pp. 111.
4. Tahey et al., 2010, pp. 111-113.
5. Tahey et al., 2010, pp. 113-115.
6. Tahey et al., 2010, pp. 113-114.
7. Tahey et al. 2010, p. 115.
8. Tahey et al., 2010, pp. 121-122.
9. Tahey et al., 2010, pp. 123-126.
10. Tahey et al., 2010, p. 122.
11. Tahey et al., 2010, pp. 126-127.
12. Tahey et al., 2010, pp. 133-136.
13. Tahey et al., 2010, pp. 134-135.

## APPENDIX A: Financial Health Assessment Ratio Calculations

	Private Institutions	Public Institutions
Liquidity	<u>Sources of Liquidity</u> <u>Uses of Liquidity</u>	<u>Sources of Liquidity</u> <u>Uses of Liquidity</u>
Note: Ratio should be calculated using a short-term measure and an intermediate term measure as discussed in chapter 4.		
<b>Resource Sufficiency &amp; Flexibility</b>		
Primary Reserve Ratio	<u>Expendable Net Assets</u> <u>Total Expenses</u>	<u>Expendable Net Assets +</u> <u>Component Unit (CU) Expendable Net Assets</u> <u>Total Expenses + CU Total Expenses</u>
Debt Management		
Viability Ratio	<u>Expendable Net Assets</u> Long-Term Debt	<u>Expendable Net Assets +</u> <u>CU Expendable Net Assets</u> Long-Term Debt + CU Long-Term Debt
Debt Burden Ratio	<u>Debt Service</u> <u>Total Expenditures</u>	<u>Debt Service + CU Debt Service</u> <u>Total Expenditures + CU Total Expenditures</u>
Debt Service Coverage Ratio	<u>Adjusted Change in Net Assets</u> Debt Service	<u>Adjusted Change in Net Assets +</u> <u>CU Adjusted Change in Net Assets</u> Debt Service + CU Debt Service
Interest Burden Ratio	<u>Interest Expense</u> <u>Total Expenditures</u>	<u>Interest Expense + CU Interest Expense</u> <u>Total Expenditures + CU Total Expenditures</u>
Portfolio Principal Duration Metric	For each issue outstanding, the sum of (Par <u>Outstanding + Principal Duration Term</u> ) Total Par Outstanding	For each issue outstanding, the sum of (Par <u>Outstanding + Principal Duration Term</u> ) Total Par Outstanding
<b>Asset Performance &amp; Management</b>		
Return on Net Assets Ratio	<u>Change in Net Assets</u> Total Net Assets	<u>Change in Net Assets +</u> <u>CU Change in Net Assets</u> Total Net Assets + CU Total Net Assets
Physical Asset Reinvestment Ratio	<u>Capital Expenditures</u> Depreciation Expense	<u>Capital Expenditures</u> Depreciation Expense
Age of Facility Ratio	<u>Accumulated Depreciation</u> Depreciation Expense	<u>Accumulated Depreciation +</u> <u>CU Accumulated Depreciation</u> Depreciation Expense + CU Depreciation Expense
Facilities Burden Ratio	Facility Operation Expenses Property, Plant & Equipment, Net	Facility Operation Expenses + CU Facility Operation Expenses Property, Plant & Equipment, Net + CU Property, Plant & Equipment, Net
Deferred Maintenance Ratio	<u>Outstanding Maintenance Requirements</u> Expendable Net Assets	<u>Outstanding Maintenance Requirements +</u> <u>CU Outstanding Maintenance Requirements</u> Expendable Net Assets + CU Expendable Net Assets
Operating Results		
Net Operating Revenues Ratio	Excess (Deficiency) of Unrestricted Operating Revenues <u>Over Unrestricted Operating Expenses</u> Total Unrestricted Operating Revenues	Operating Income (Loss) + Net Non-Operating Revenues + <u>CU Change in Unrestricted Net Assets</u> Operating Revenues + Non-Operating Revenues + CU Total Unrestricted Income

	Private Institutions	Public Institutions
Cash Income Ratio	$\frac{\text{Net Cash Provided by Operating Activities}}{\text{Total Unrestricted Income, Excluding Gains \& Losses}}$	$\frac{\text{Adjusted Net Cash Provided by Operating Activities} + \text{CU Net Cash Provided by Operating Activities}}{\text{Adjusted Operating Income} + \text{CU Total Unrestricted Income, Excluding Gains}}$
<b>Net Tuition &amp; Fees Contribution Ratio</b>	$\frac{\text{Net Tuition \& Fees}}{\text{Total Expenses}}$	$\frac{\text{Net Tuition \& Fees}}{\text{Total Expenses}}$
Net Tuition Dependency Ratio	$\frac{\text{Net Tuition \& Fees}}{\text{Total Unrestricted Operating Revenues}}$	$\frac{\text{Net Tuition \& Fees}}{\text{Total Adjusted Operating Income}}$
<b>Net Tuition Per Student FTE Ratio</b>	$\frac{\text{Net Tuition \& Fees}}{\text{Full-Time Equivalent Students}}$	$\frac{\text{Net Tuition \& Fees}}{\text{Full-Time Equivalent Students}}$
Demand Ratios	$\frac{\text{Specific Types of Expenses}}{\text{Total Unrestricted Operating Revenues}}$	$\frac{\text{Specific Types of Expenses}}{\text{Total Operating Income}}$

Note: Adapted from *Strategic Financial Analysis for Higher Education: Identifying, Measuring & Reporting Financial Risks*, Tahey et al., 2010, pp. 143-44. ©2010 by Prager, Sealy & Co., LLC; KPMG LLP; and Attain LLC.

## APPENDIX B: Composite CFI Calculations

### Composite Financial Index Calculations: by Step (Excluding Pensions & OPEB)

#### Overall score based on institution's performance on core ratios

STEP	Calculating Strength Factors: To calculate the strength factor at a point other than those presented in the table below, divide the ratio value by the relevant value for "1" given in the table. "-4" is the minimum allowable "Institution Strength Factor" on any variable, and "10" is the maximum.					
<b>1</b>	<b>Scoring Scale</b>	<b>1</b>	<b>3</b>	<b>10</b>		
	Primary Reserve Ratio	0.133	0.4	1.33		
	Net Operating Revenues Ratio	1.3%	4.0%	13.0%		
	Return on Net Assets Ratio	2.0%	6.0%	20.0%		
	Viability Ratio	0.417	1.25	4.17		
<b>2</b>	<b>Institution Ratio Values</b>	<b>2015-16</b>	<b>2016-17</b>	<b>2017-18</b>	<b>2018-19</b>	<b>2019-20</b>
	Primary Reserve Ratio (Excluding Pensions)	0.52	0.43	0.45	0.23	0.10
	Net Operating Revenues Ratio (Excluding Pensions)	-3.59%	-4.81%	-8.64	-24.61%	-5.80%
	Return on Net Assets Ratio (Excluding Pensions)	-2.57%	1.52%	-1.87%	-13.50%	-4.42%
	Viability Ratio (Excluding Pensions)	5.57	6.03	7.93	5.54	0.45
<b>3</b>	<b>Institution Strength Factors</b>	<b>2015-16</b>	<b>2016-17</b>	<b>2017-18</b>	<b>2018-19</b>	<b>2019-20</b>
	Primary Reserve Ratio	3.90	3.25	3.40	1.72	0.72
	Net Operating Revenues Ratio	-2.76	-3.70	-4.00	-4.00	-4.00
	Return on Net Assets Ratio	-1.28	0.76	-0.93	-4.00	-2.21
	Viability Ratio	10.00	10.00	10.00	10.00	1.08
<b>4</b>	<b>Weighting Scheme</b>	<b>Institution with Long-Term Debt</b>	<b>Institution with No (or minimal) Long-Term Debt</b>	<b>Long-Term Debt?</b>		
	Primary Reserve Ratio	35%	55%	Yes		
	Net Operating Revenues	10%	15%			
	Return on Net Assets	20%	30%			
	Viability Ratio	35%	-			
<b>Final</b>	<b>Totaling the Calculations:</b> The last two steps in calculating the CFI are to apply the weighting factors against each ratio by multiplying the "Institution Strength Factors" by the "Weighting Scheme" based on the institution's sector and long-term debt. Then total the four results. The highest possible CFI is 10 (Healthy) and the lowest is -4 (Unhealthy).					

Composite Financial Index	2015-16	2016-17	2017-18	2018-19	2019-20
Primary Reserve Ratio (Excluding Pensions)	1.37	1.14	1.19	0.60	0.25
Net Operating Revenues Ratio (Excluding Pensions)	-0.28	-0.37	-0.40	-0.40	-0.40
Return on Net Assets Ratio (Excluding Pensions)	-0.26	0.15	-0.19	-0.80	-0.44
Viability Ratio (Excluding Pensions)	3.50	3.50	3.50	3.50	0.38
<b>CFI Total</b>	<b>4.33</b>	<b>4.42</b>	<b>4.10</b>	<b>2.90</b>	<b>-0.21</b>

CFI Score Interpretation	10 = Financially Healthy
	3 = Relatively Financially Healthy
	1 = Financially Stressed
	-4 = Financially Unhealthy

### APPENDIX C: Summary of All Financial Health Assessment: Pension- and OPEB-Adjusted Ratio Results

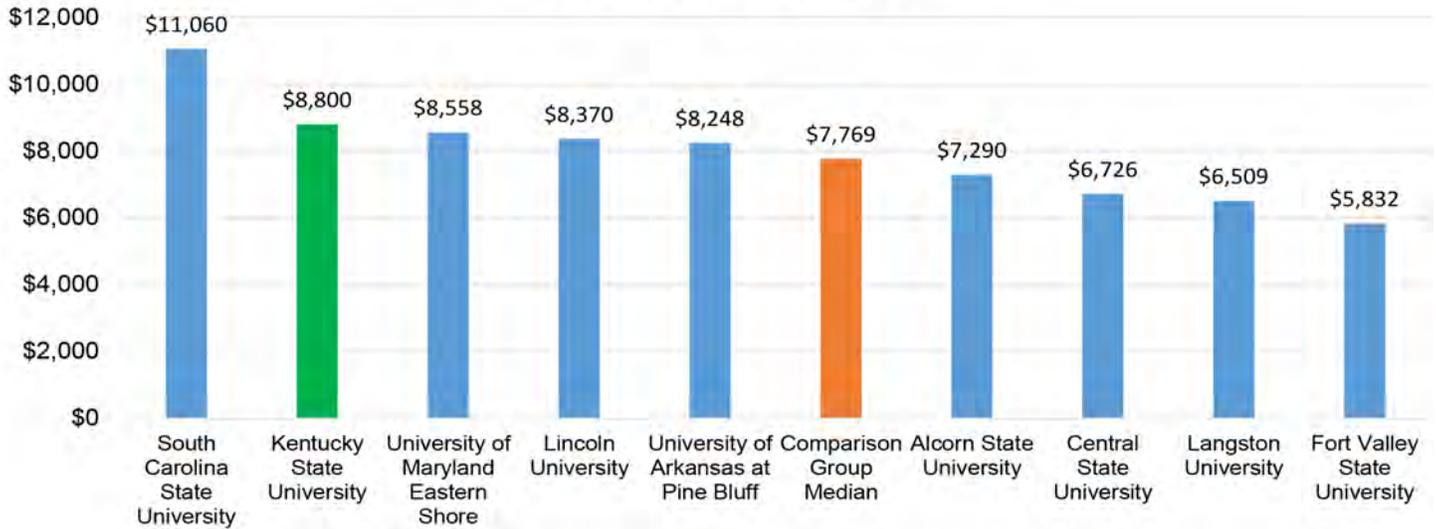
Ratio	2015-16	2016-17	2017-18	2018-19	2019-20	Industry Standard
<b>Primary Reserve</b>	0.52	0.43	0.45	0.23	0.10	> 0.40
Days of Expenses Covered by Reserves	190	158	165	83	35	> 146 days
<b>Viability</b>	5.57	6.03	7.93	5.54	0.45	> 1.0
Debt Burden	2.06%	0.70%	0.70%	1.40%	0.87%	< 7%
Debt Service Coverage	1.94	1.04	- 0.27	- 10.63	0.08	N/A
Interest Burden	0.75%	0.33%	0.28%	0.36%	0.14%	No more than 5% - 7%
Portfolio Principal Duration	6.94	6.37	5.81	5.25	4.69	N/A
<b>Return on Net Assets</b>	- 2.57%	1.52%	- 1.87%	- 13.50%	- 4.42%	3% - 4%
Physical Asset Reinvestment	0.53	1.67	0.83	0.56	2.34	> or = to 1.0
Age of Facilities	30.51	32.30	25.04	36.25	38.75	< or = 10 years
Facilities Burden	12.28%	11.44%	13.54%	12.68%	9.44%	N/A
Deferred Maintenance	296%	323%	304%	558%	1,494%	Lower is Better
<b>Net Operating Revenues</b>	- 3.59%	- 4.81%	- 8.64%	- 24.61%	- 5.80%	At least 4% - 6%
Cash Income	0.49%	2.12%	- 5.44%	- 16.74%	10.76%	N/A
Contribution Ratios:						
Net Tuition & Fees	14.95%	15.08%	15.71%	11.86%	13.77%	N/A
Gifts & Contributions	1.67%	1.37%	1.11%	0.82%	0.75%	N/A
Grant & Contracts	22.25%	33.00%	31.44%	29.16%	37.59%	N/A
Government Appropriations	51.45%	45.45%	40.91%	31.63%	34.47%	N/A
Net Auxiliary Enterprises	6.06%	5.42%	5.78%	5.41%	7.04%	N/A
Hospital Operations	0%	0%	0%	0%	0%	N/A
Endowment Payout	0%	0%	0%	1.24%	1.28%	N/A
Net Tuition Dependency	15.01%	15.42%	16.80%	14.60%	14.30%	Downward Trend; < 60%
<b>Demand Ratios:</b>						
Instruction	15.54%	16.05%	14.02%	15.53%	12.53%	N/A
Research	10.61%	13.14%	11.75%	11.20%	9.63%	N/A
Public Service	12.34%	13.35%	13.64%	15.17%	12.33%	N/A
Academic Support	4.70%	4.20%	2.07%	0.94%	0.39%	N/A
Student Services	8.73%	9.00%	9.23%	11.01%	12.01%	N/A
Institutional Support	17.65%	17.58%	17.34%	22.31%	20.15%	N/A
Plant Operations & Maintenance	7.60%	6.80%	6.91%	8.12%	6.94%	N/A
Auxiliary Enterprises	6.89%	7.94%	7.71%	6.65%	7.18%	N/A
Hospital Operations	0%	0%	0%	0%	0%	N/A
<b>Composite Financial Index</b>						<b>CFI Score Legend</b>
Primary Reserve (35%)	1.37	1.14	1.19	0.60	0.25	10 - Healthy
Net Operating Revenues (10%)	- 0.28	- 0.37	- 0.40	- 0.40	- 0.40	3 - Relatively Healthy
Return on Net Assets (20%)	- 0.26	0.15	- 0.19	- 0.80	- 0.44	1 - Stressed
Viability (35%)	3.50	3.50	3.50	3.50	0.38	-4 - Unhealthy
<b>CFI Score</b>	<b>4.33</b>	<b>4.42</b>	<b>4.10</b>	<b>2.90</b>	<b>- 0.21</b>	

Note. Results computed using inputs that are impacted by GASB Statement 68 and 75 pension and OPEB reporting requirements have been adjusted to remove these impacts as recommended by the National Association of College and University Business Officers (NACUBO).

### APPENDIX D: Peer Group Comparisons

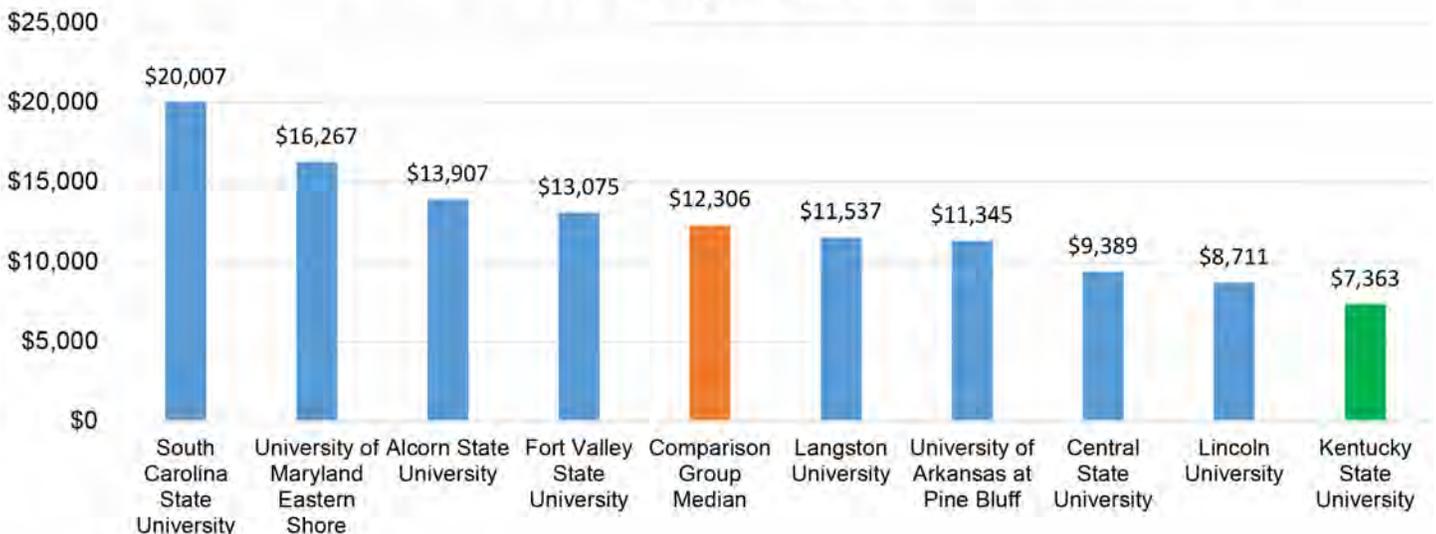
#### Affordability

**Published In-State Tuition and Fees  
Academic year 2020-21**



SOURCE: U.S. Department of Education, National Center for Education Statistics, Integrated Postsecondary Education Data System (IPEDS): Fall 2019, Institutional Characteristics component.

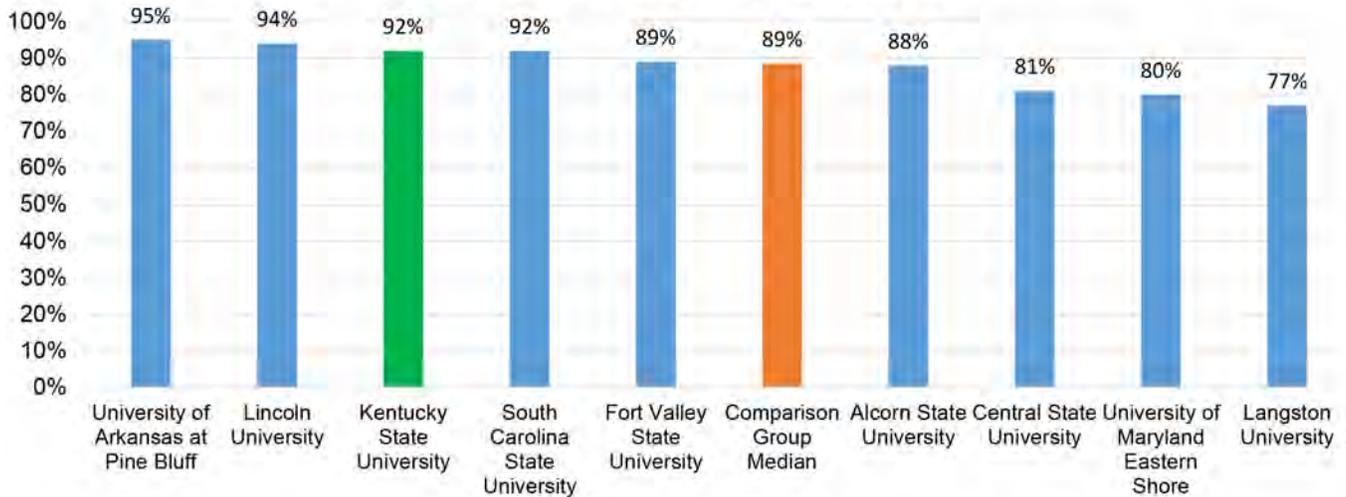
**Average net price of attendance for full-time, first-time degree/certificate-seeking undergraduate students, awarded grant or scholarship aid  
Academic year 2018-19**



SOURCE: U.S. Department of Education, National Center for Education Statistics, Integrated Postsecondary Education Data System (IPEDS): Fall 2019, Institutional Characteristics component and Winter 2019-20, Student Financial Aid component.

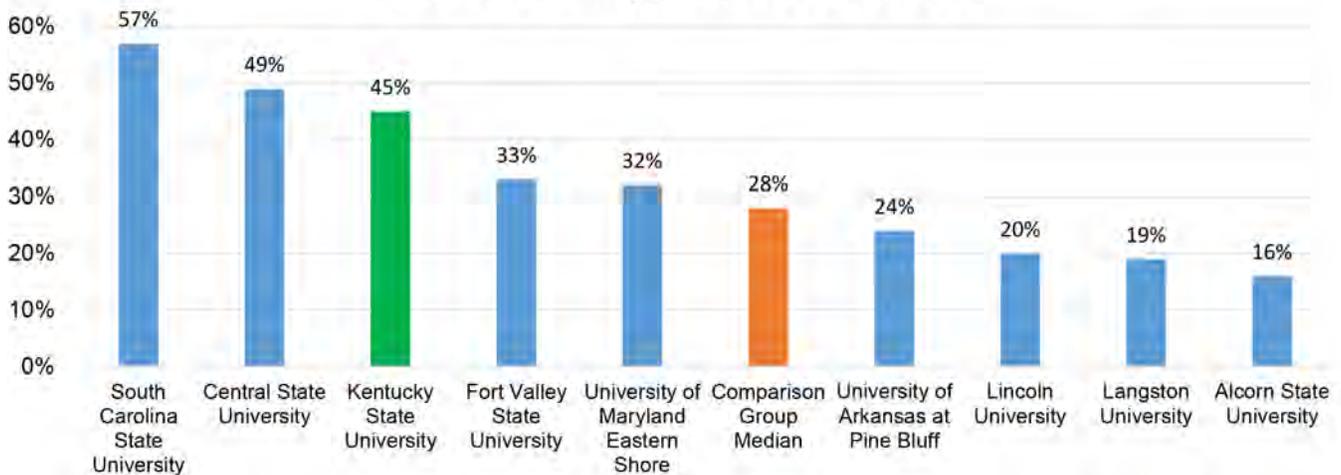
Financial Aid

**Percent of full-time, first-time degree/certificate-seeking undergraduate students awarded grant or scholarship aid, or loans, by type of aid  
Any Grant Aid, Academic Year 2018-19**



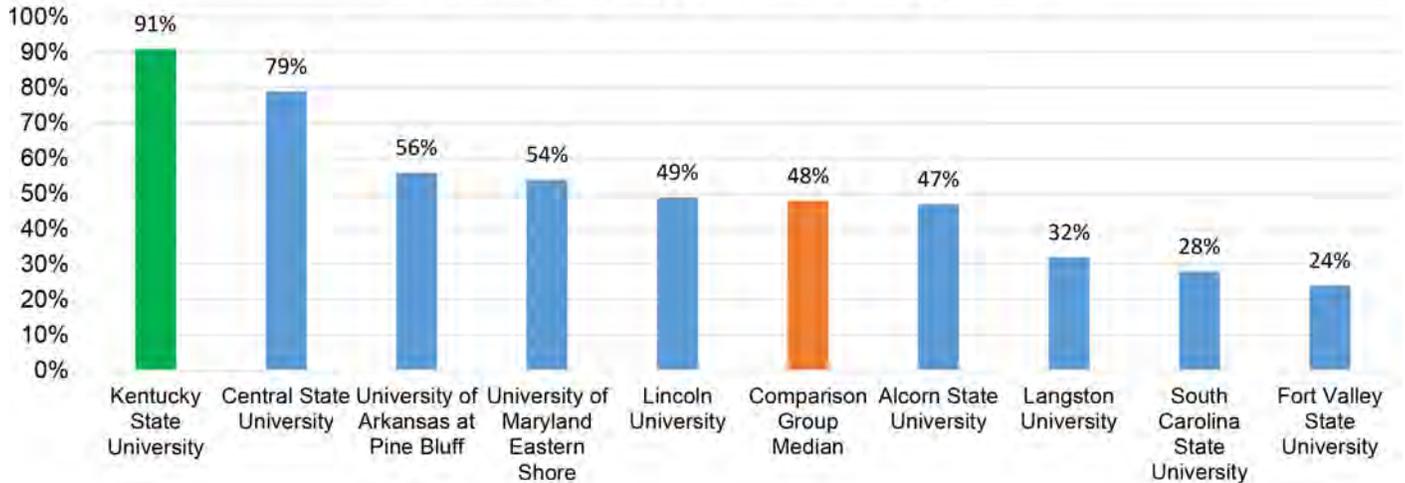
SOURCE: U.S. Department of Education, National Center for Education Statistics, Integrated Postsecondary Education Data System (IPEDS): Winter 2019-20, Student Financial Aid component.

**Percent of full-time, first-time degree/certificate-seeking undergraduate students awarded grant or scholarship aid, or loans, by type of aid  
State/local Grants, Academic Year 2018-19**



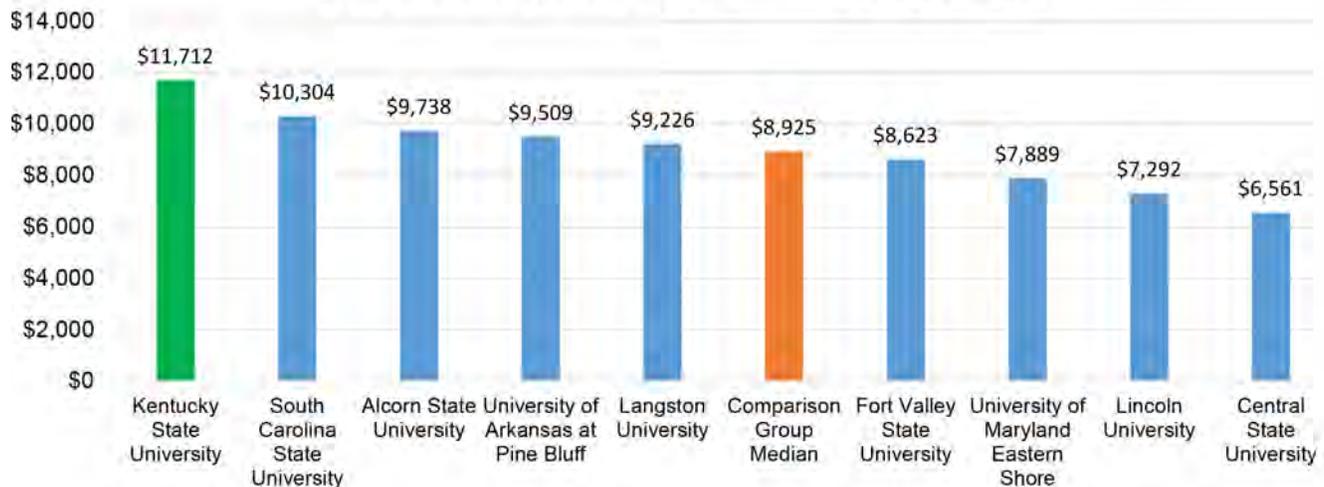
SOURCE: U.S. Department of Education, National Center for Education Statistics, Integrated Postsecondary Education Data System (IPEDS): Winter 2019-20, Student Financial Aid component.

**Percent of full-time, first-time degree/certificate-seeking undergraduate students awarded grant or scholarship aid, or loans, by type of aid  
Institutional Grants, Academic Year 2018-19**



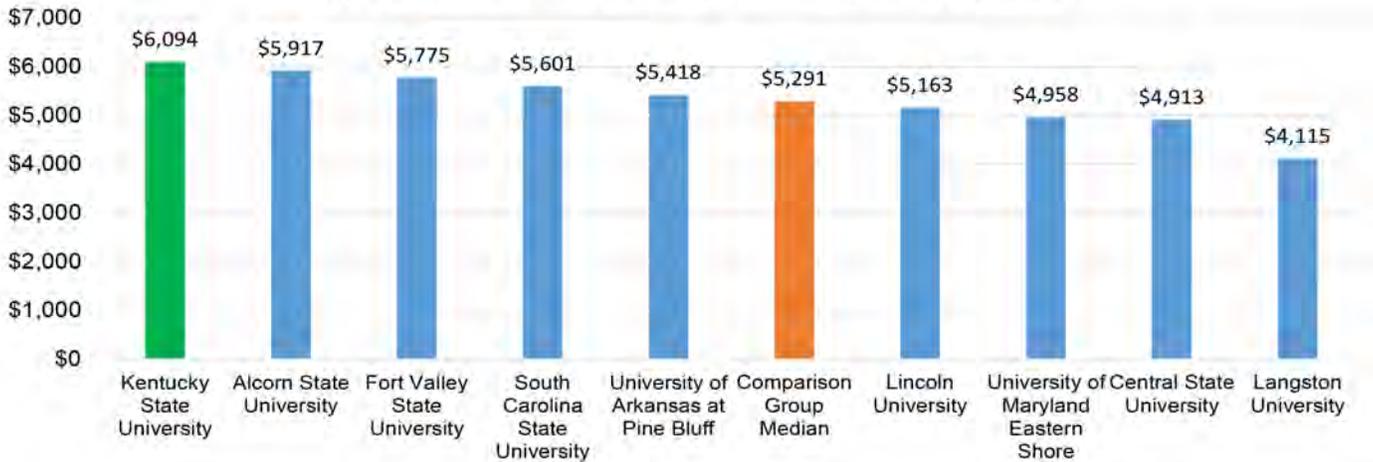
SOURCE: U.S. Department of Education, National Center for Education Statistics, Integrated Postsecondary Education Data System (IPEDS): Winter 2019-20, Student Financial Aid component.

**Average amounts of awarded grant or scholarship aid, or loans awarded to full-time, first-time degree/certificate-seeking undergraduate students, by type of aid, Any Grant Aid, Academic Year 2018-19**



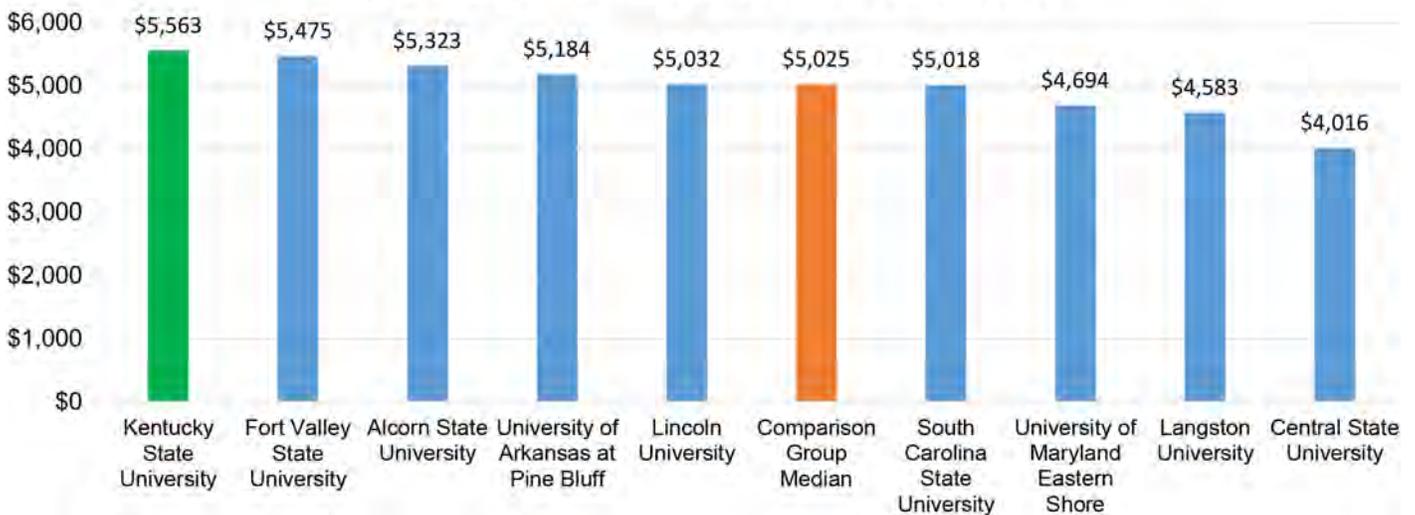
SOURCE: U.S. Department of Education, National Center for Education Statistics, Integrated Postsecondary Education Data System (IPEDS): Winter 2019-20, Student Financial Aid component.

**Average amounts of awarded grant or scholarship aid, or loans awarded to full-time, first-time degree/certificate-seeking undergraduate students, by type of aid, Federal Grants, Academic Year 2018-19**



SOURCE: U.S. Department of Education, National Center for Education Statistics, Integrated Postsecondary Education Data System (IPEDS): Winter 2019-20, Student Financial Aid component.

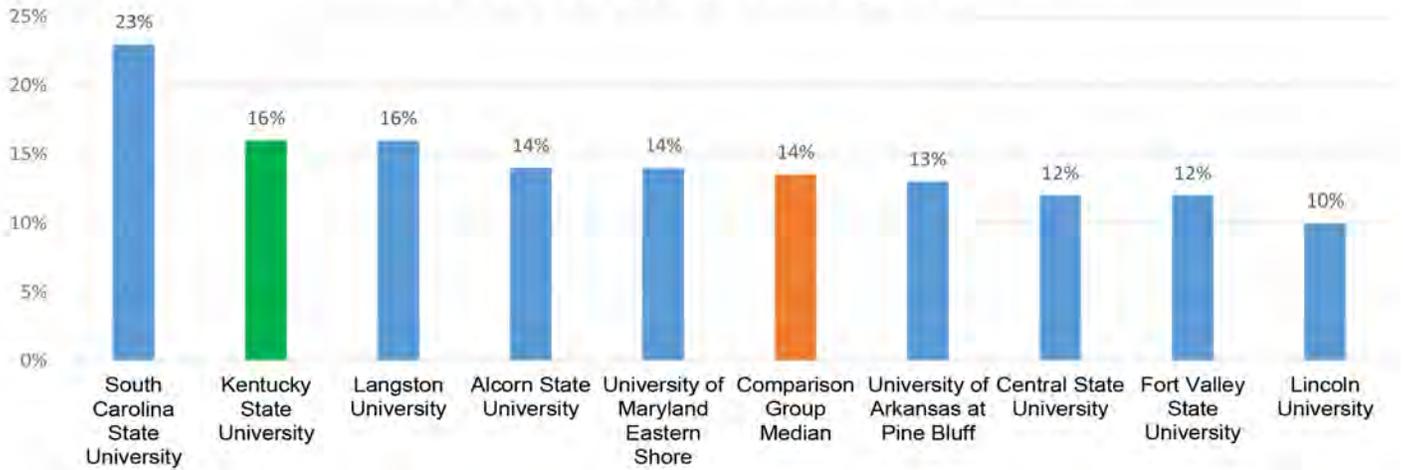
**Average amounts of awarded grant or scholarship aid, or loans awarded to full-time, first-time degree/certificate-seeking undergraduate students, by type of aid, Pell Grants, Academic Year 2018-19**



SOURCE: U.S. Department of Education, National Center for Education Statistics, Integrated Postsecondary Education Data System (IPEDS): Winter 2019-20, Student Financial Aid component.

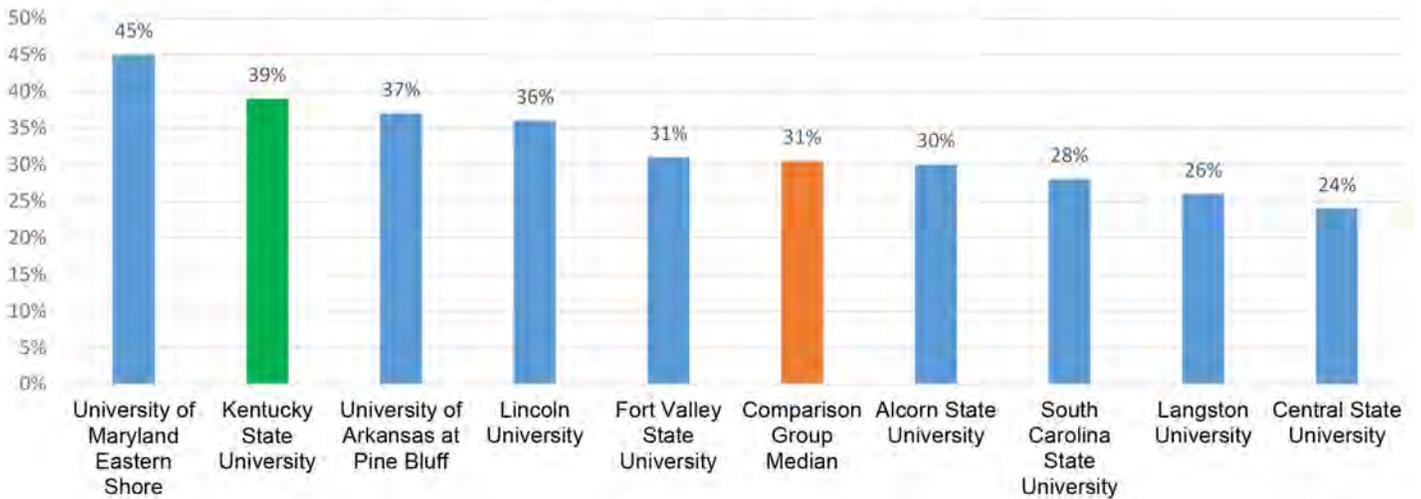
Financial Indicators

**Percent distribution of core revenues, tuition and fees  
Fiscal Year 2020 (Preliminary Data)**



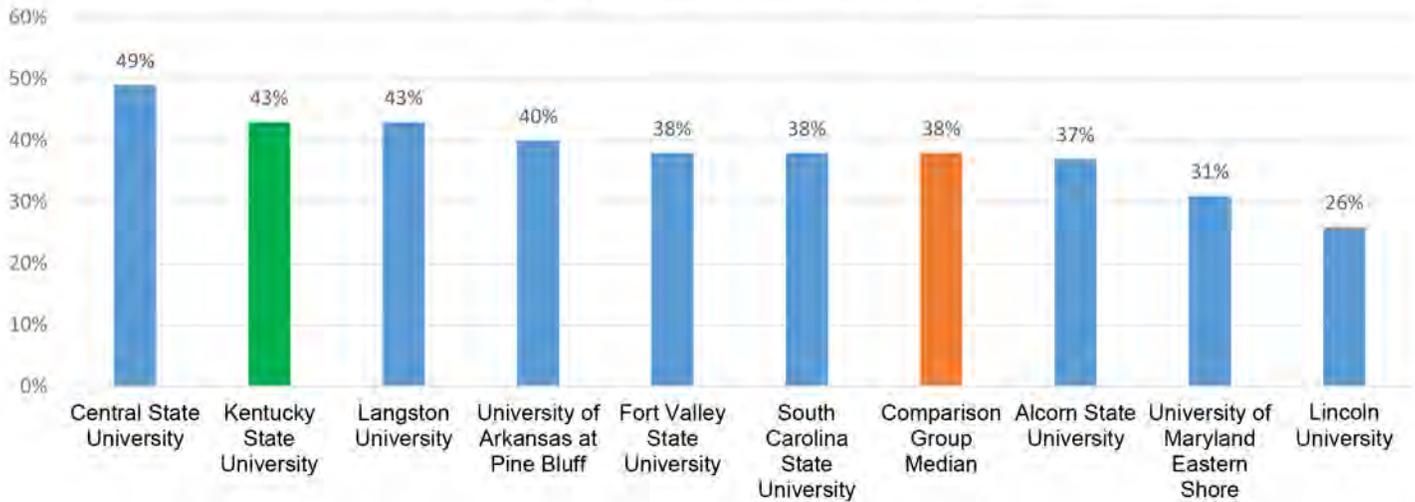
SOURCE: U.S. Department of Education, National Center for Education Statistics, Integrated Postsecondary Education Data System (IPEDS): Spring 2021, Finance component.

**Percent distribution of core revenues, state appropriations  
Fiscal Year 2020 (Preliminary Data)**



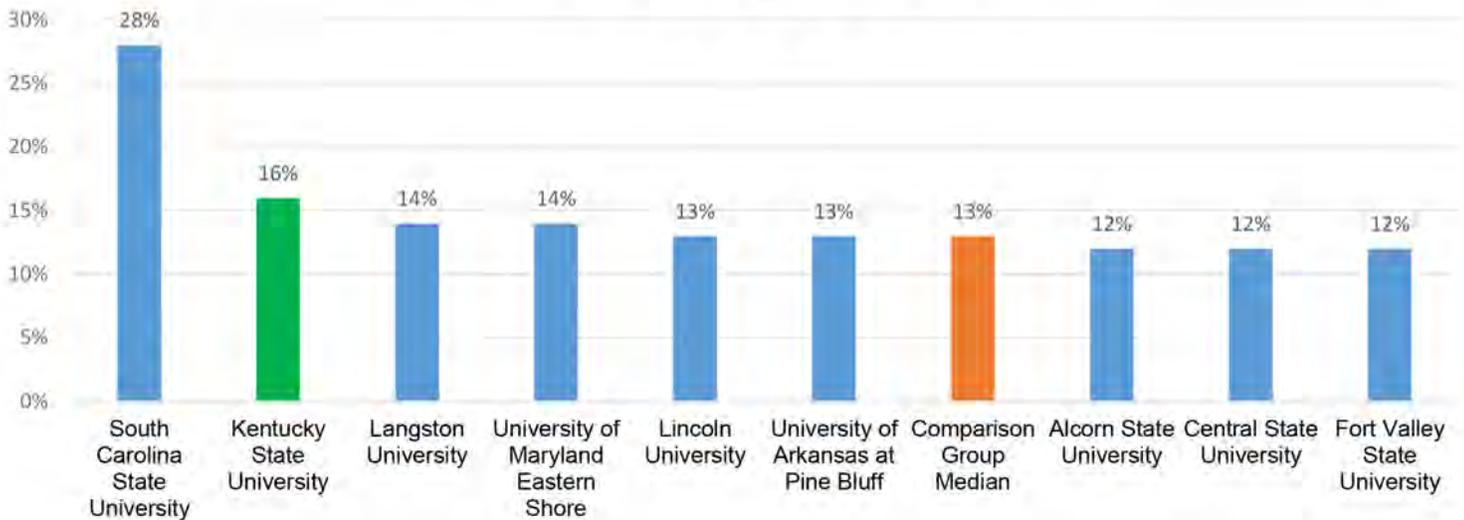
SOURCE: U.S. Department of Education, National Center for Education Statistics, Integrated Postsecondary Education Data System (IPEDS): Spring 2021, Finance component.

**Percent distribution of core revenues, government grants and contracts  
Fiscal Year 2020 (Preliminary Data)**



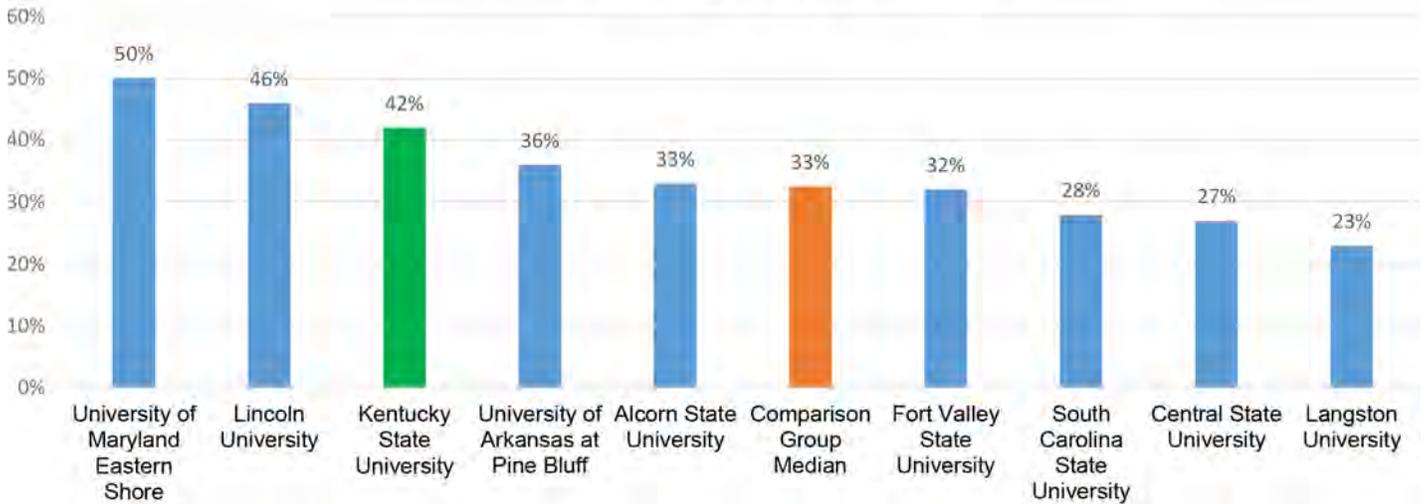
SOURCE: U.S. Department of Education, National Center for Education Statistics, Integrated Postsecondary Education Data System (IPEDS): Spring 2021, Finance component.

**Percent distribution of core revenues, tuition and fees  
Fiscal Year 2019**



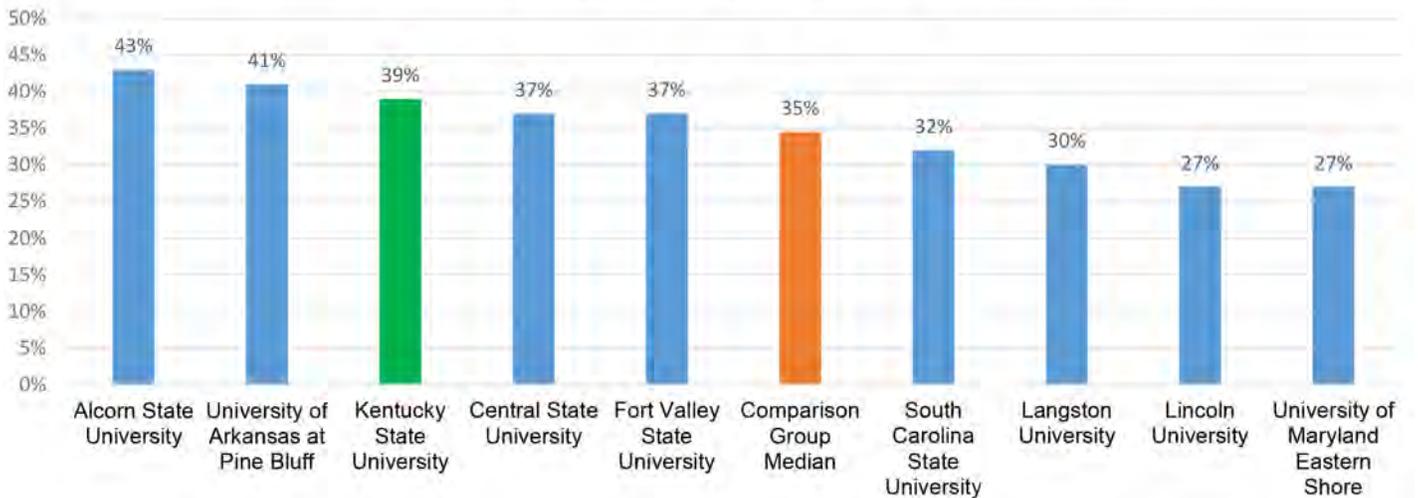
SOURCE: U.S. Department of Education, National Center for Education Statistics, Integrated Postsecondary Education Data System (IPEDS): Spring 2020, Finance component.

**Percent distribution of core revenues, state appropriations  
Fiscal Year 2019**



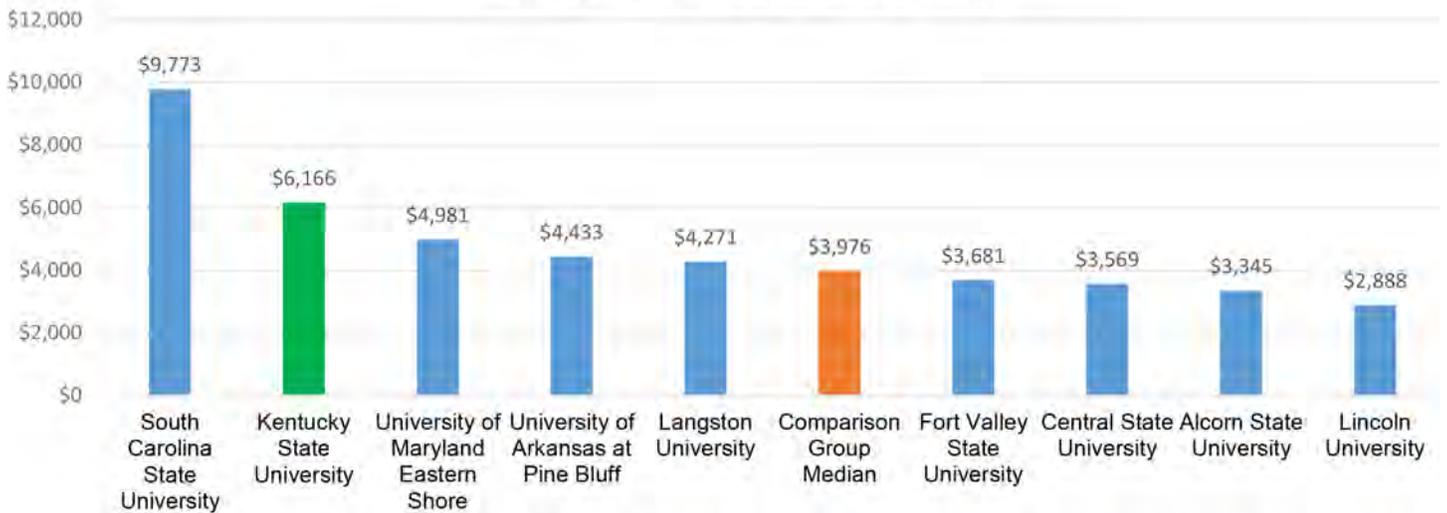
SOURCE: U.S. Department of Education, National Center for Education Statistics, Integrated Postsecondary Education Data System (IPEDS): Spring 2020, Finance component.

**Percent distribution of core revenues, government grants and contracts  
Fiscal Year 2019**



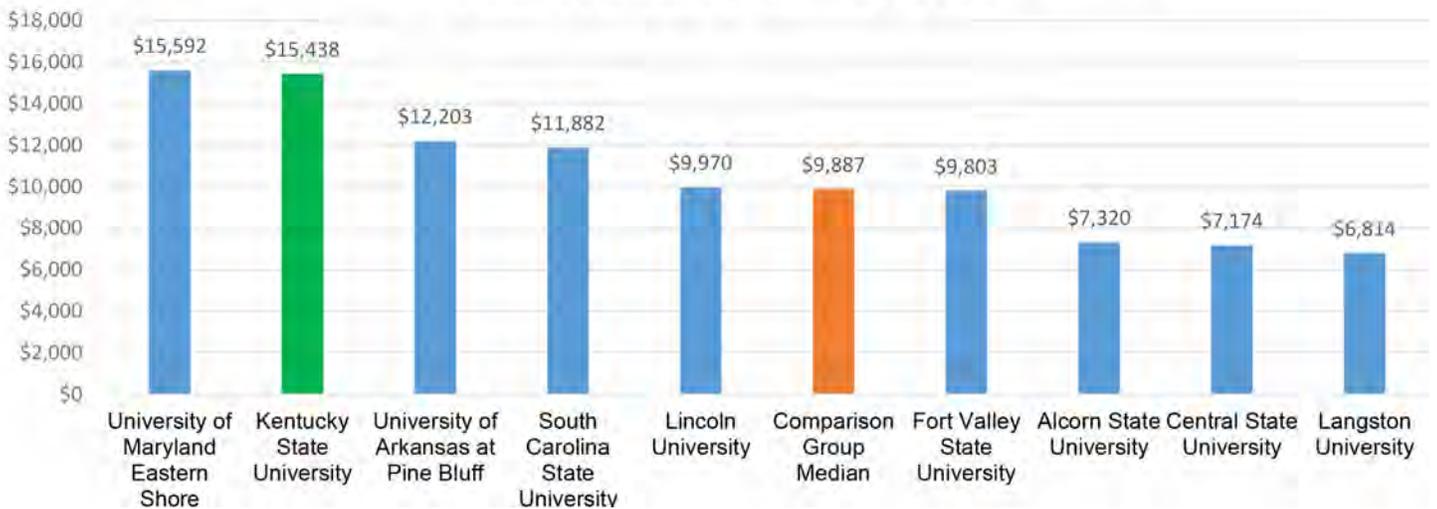
SOURCE: U.S. Department of Education, National Center for Education Statistics, Integrated Postsecondary Education Data System (IPEDS): Spring 2020, Finance component.

**Core revenues per FTE enrollment, tuition and fees  
Fiscal Year 2020 (Preliminary Data)**



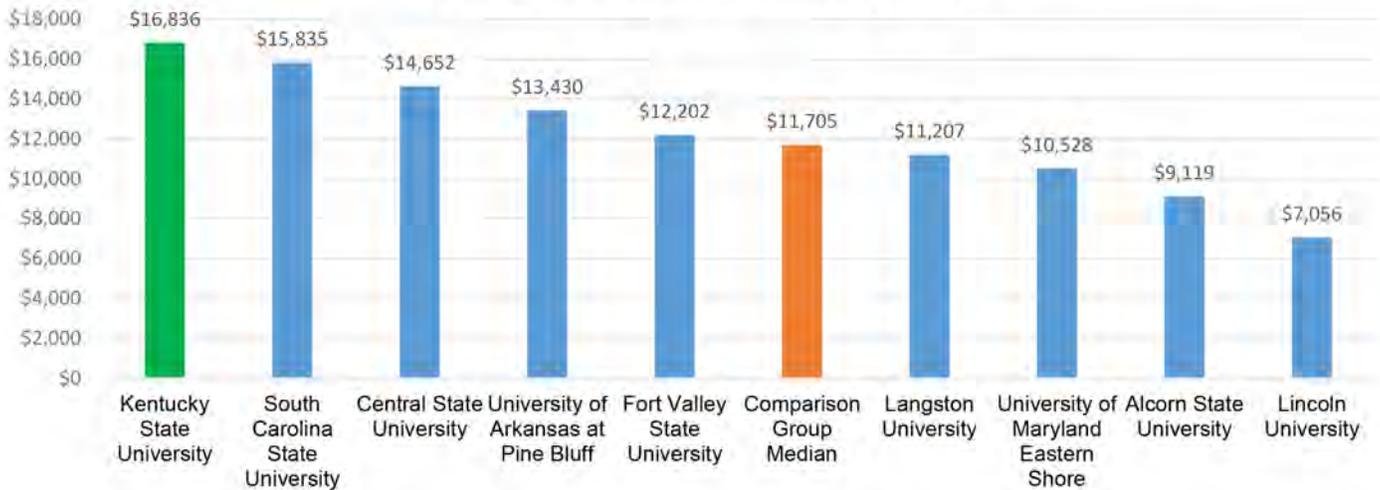
SOURCE: U.S. Department of Education, National Center for Education Statistics, Integrated Postsecondary Education Data System (IPEDS): Fall 2020, 12-month Enrollment component and Spring 2021 Finance component.

**Core revenues per FTE enrollment, state appropriations  
Fiscal Year 2020 (Preliminary Data)**



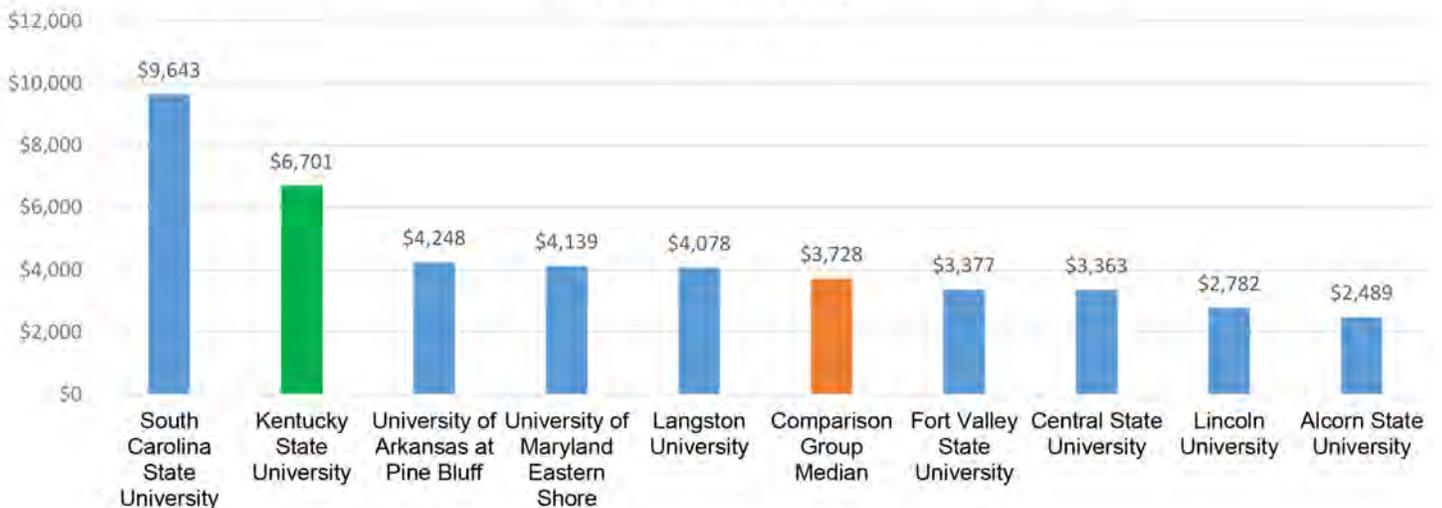
SOURCE: U.S. Department of Education, National Center for Education Statistics, Integrated Postsecondary Education Data System (IPEDS): Fall 2020, 12-month Enrollment component and Spring 2021 Finance component.

**Core revenues per FTE enrollment, government grants and contracts  
Fiscal Year 2020 (Preliminary Data)**



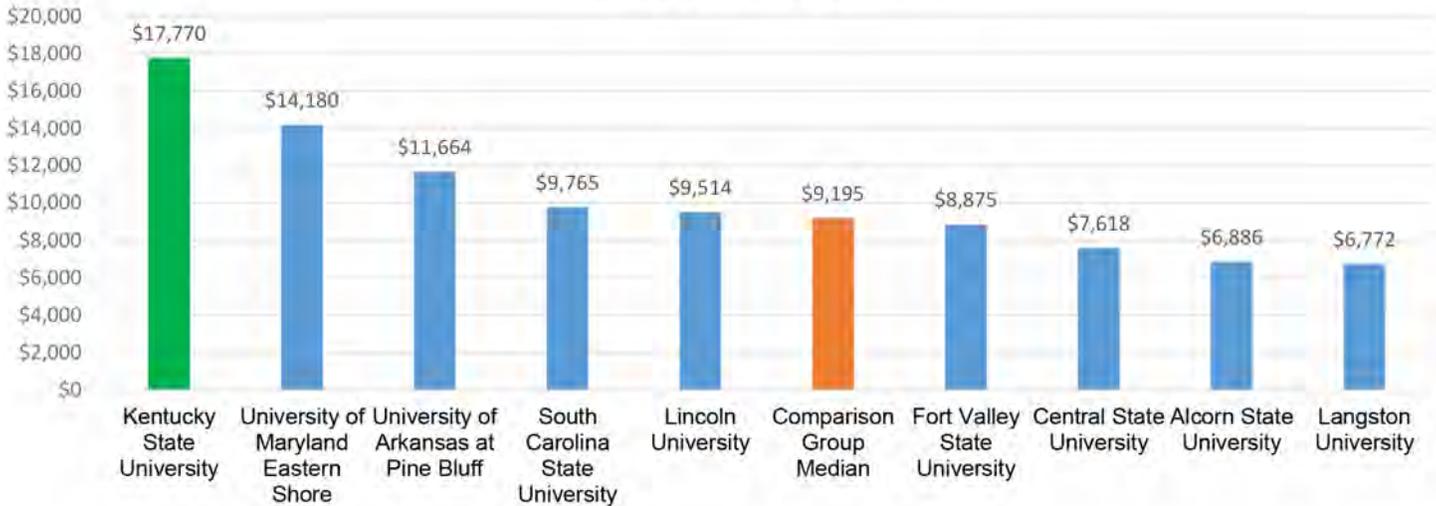
SOURCE: U.S. Department of Education, National Center for Education Statistics, Integrated Postsecondary Education Data System (IPEDS): Fall 2020, 12-month Enrollment component and Spring 2021 Finance component.

**Core revenues per FTE enrollment, tuition and fees  
Fiscal Year 2019**



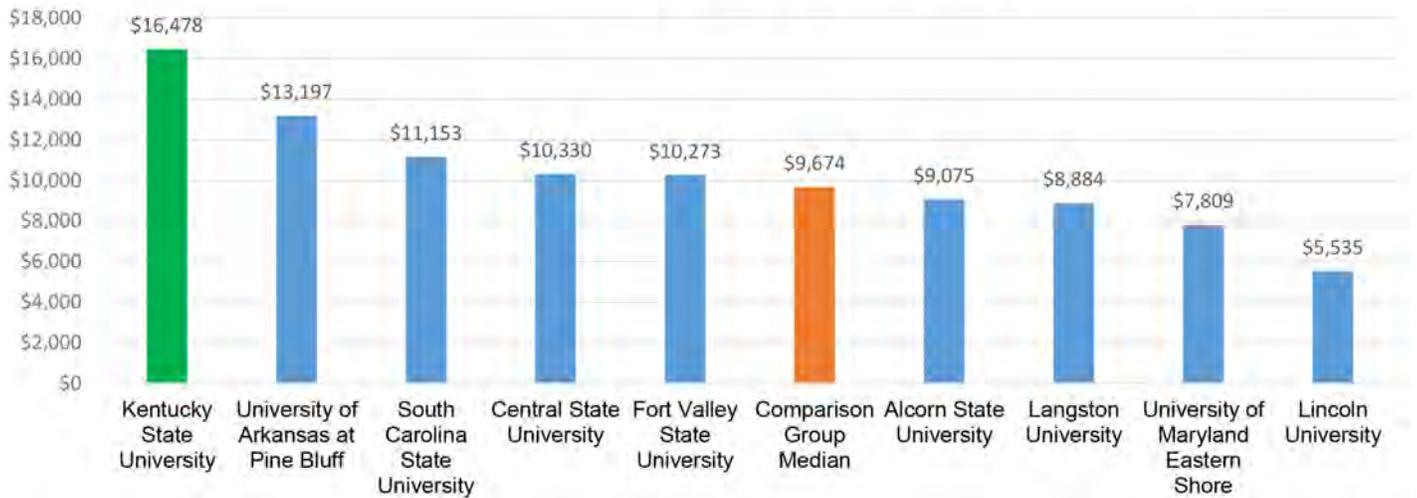
SOURCE: U.S. Department of Education, National Center for Education Statistics, Integrated Postsecondary Education Data System (IPEDS): Fall 2019, 12-month Enrollment component and Spring 2020 Finance component.

**Core revenues per FTE enrollment, state appropriations  
Fiscal Year 2019**



SOURCE: U.S. Department of Education, National Center for Education Statistics, Integrated Postsecondary Education Data System (IPEDS): Fall 2019, 12-month Enrollment component and Spring 2020 Finance component.

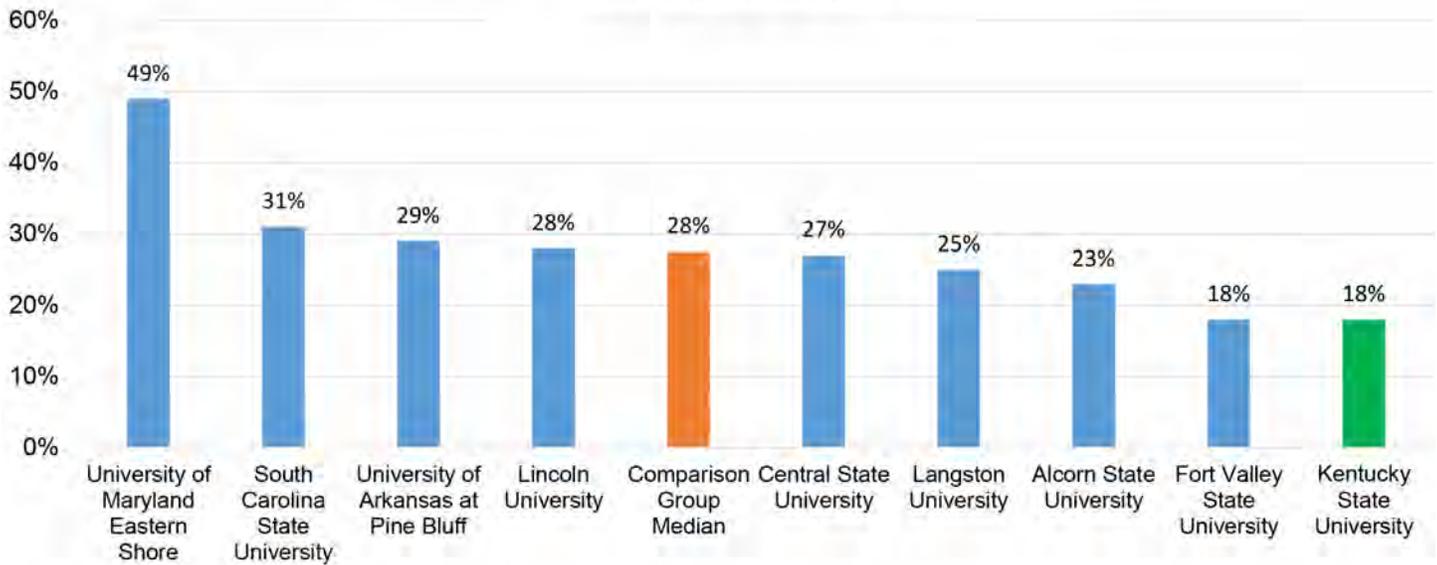
**Core revenues per FTE enrollment, government grants and contracts  
Fiscal Year 2019**



SOURCE: U.S. Department of Education, National Center for Education Statistics, Integrated Postsecondary Education Data System (IPEDS): Fall 2019, 12-month Enrollment component and Spring 2020 Finance component.

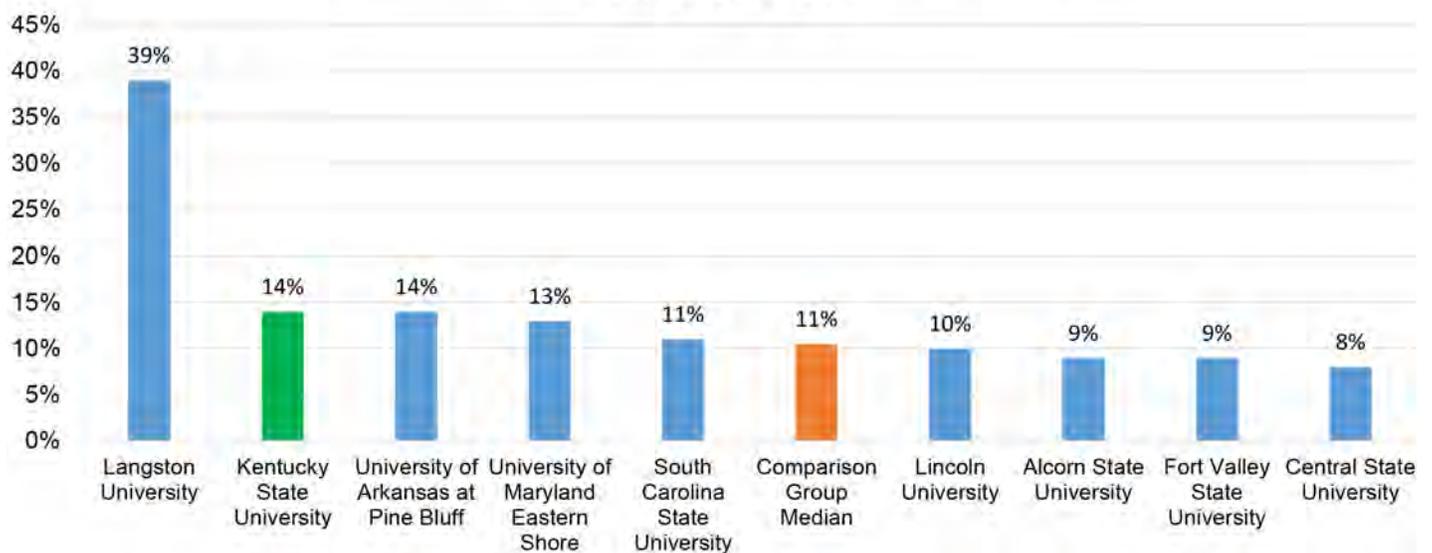
Expenses by Function

**Percent distribution of core expenses, instruction  
Fiscal Year 2019**



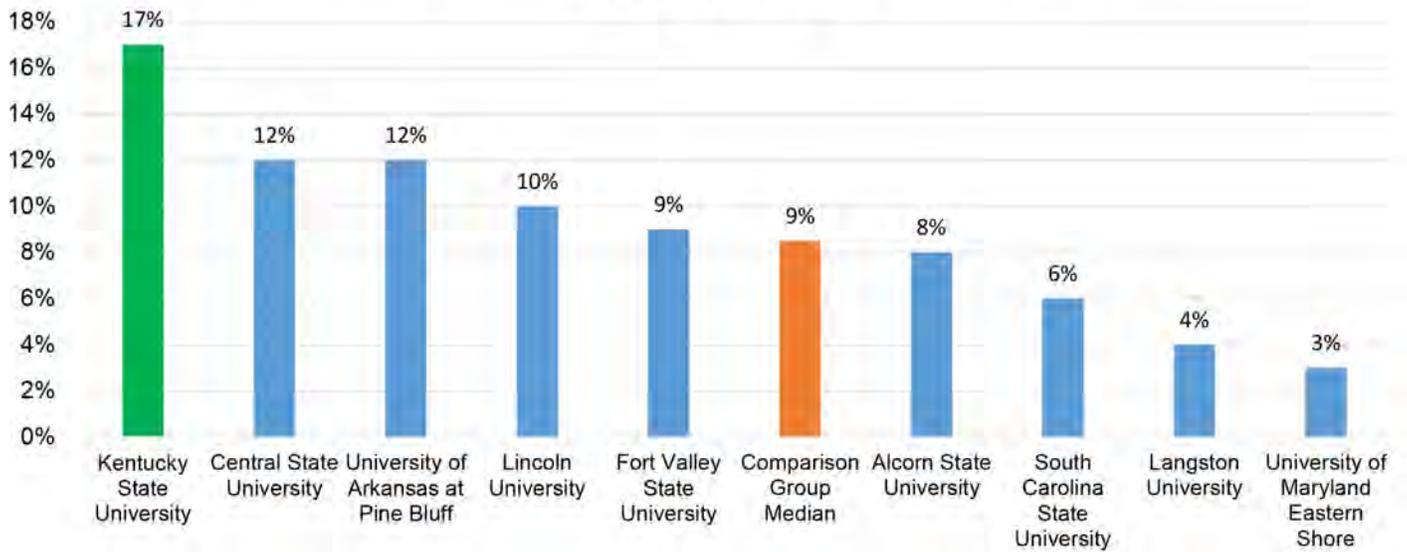
SOURCE: U.S. Department of Education, National Center for Education Statistics, Integrated Postsecondary Education Data System (IPEDS): Spring 2020, Finance component.

**Percent distribution of core expenses, research  
Fiscal Year 2019**



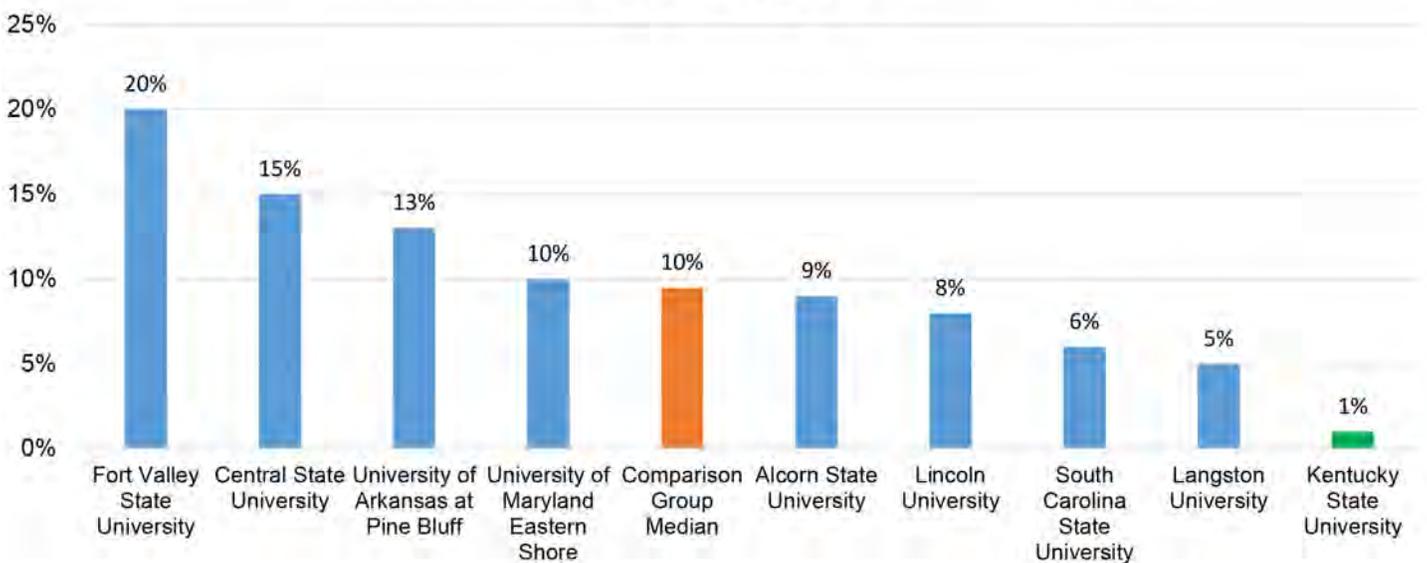
SOURCE: U.S. Department of Education, National Center for Education Statistics, Integrated Postsecondary Education Data System (IPEDS): Spring 2020, Finance component.

**Percent distribution of core expenses, public service  
Fiscal Year 2019**



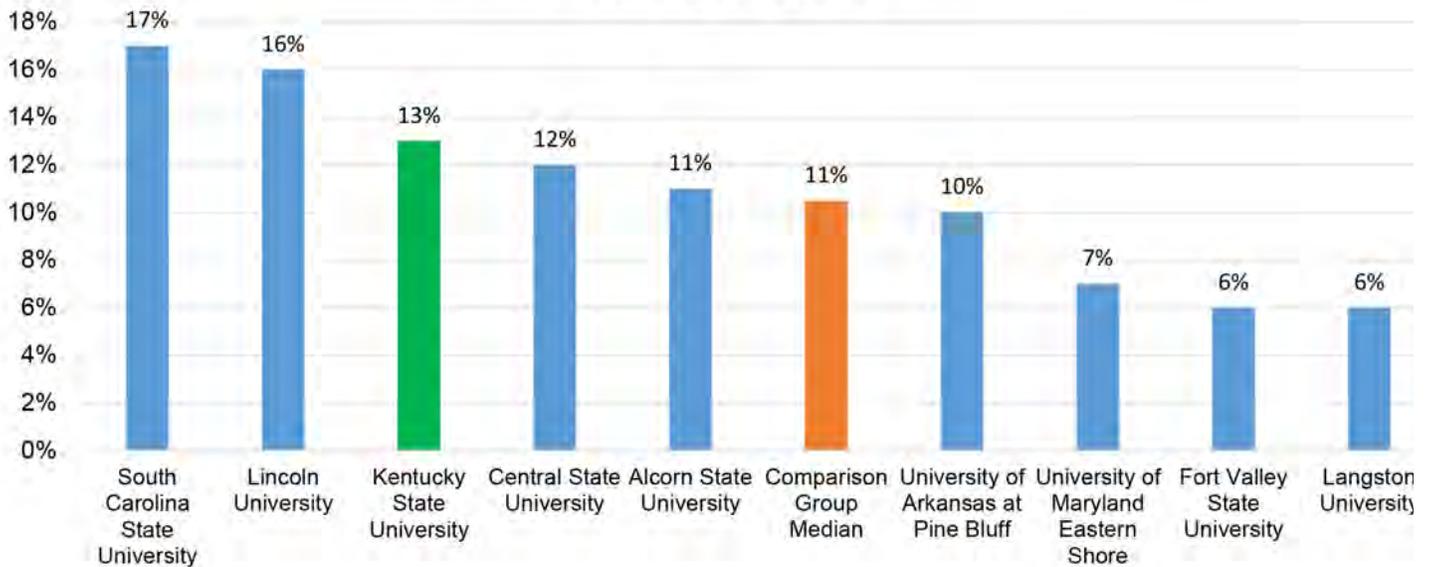
SOURCE: U.S. Department of Education, National Center for Education Statistics, Integrated Postsecondary Education Data System (IPEDS): Spring 2020, Finance component.

**Percent distribution of core expenses, academic support  
Fiscal Year 2019**



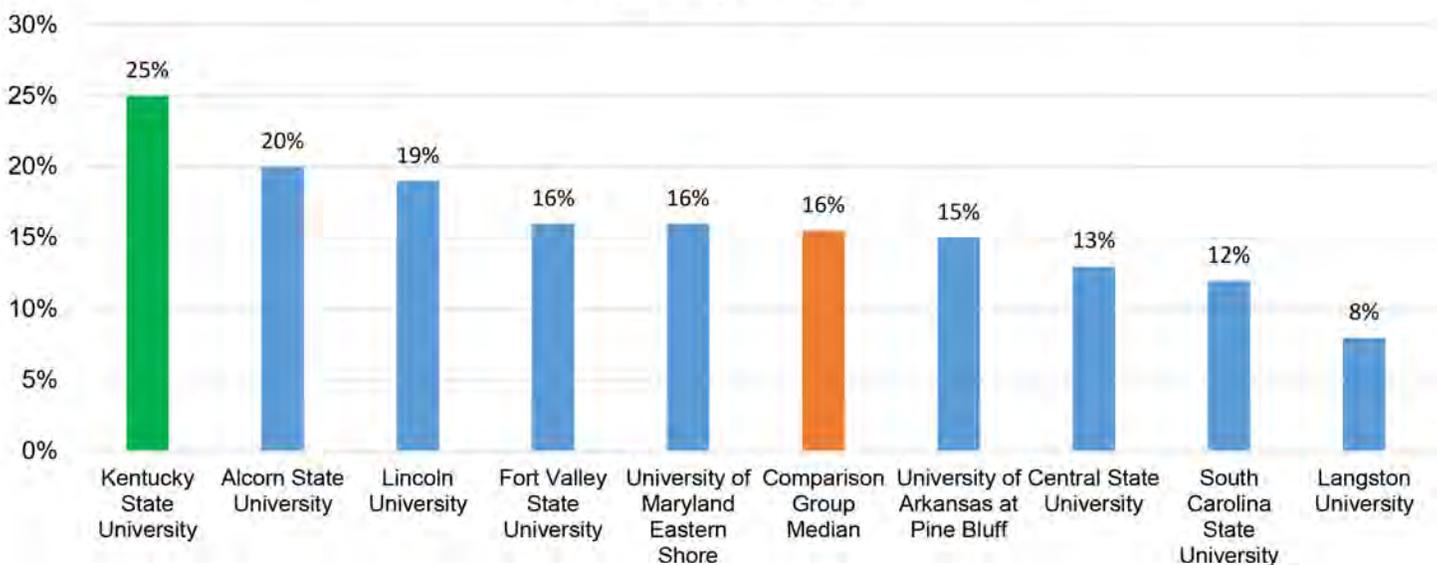
SOURCE: U.S. Department of Education, National Center for Education Statistics, Integrated Postsecondary Education Data System (IPEDS): Spring 2020, Finance component.

**Percent distribution of core expenses, student services  
Fiscal Year 2019**



SOURCE: U.S. Department of Education, National Center for Education Statistics, Integrated Postsecondary Education Data System (IPEDS): Spring 2020, Finance component.

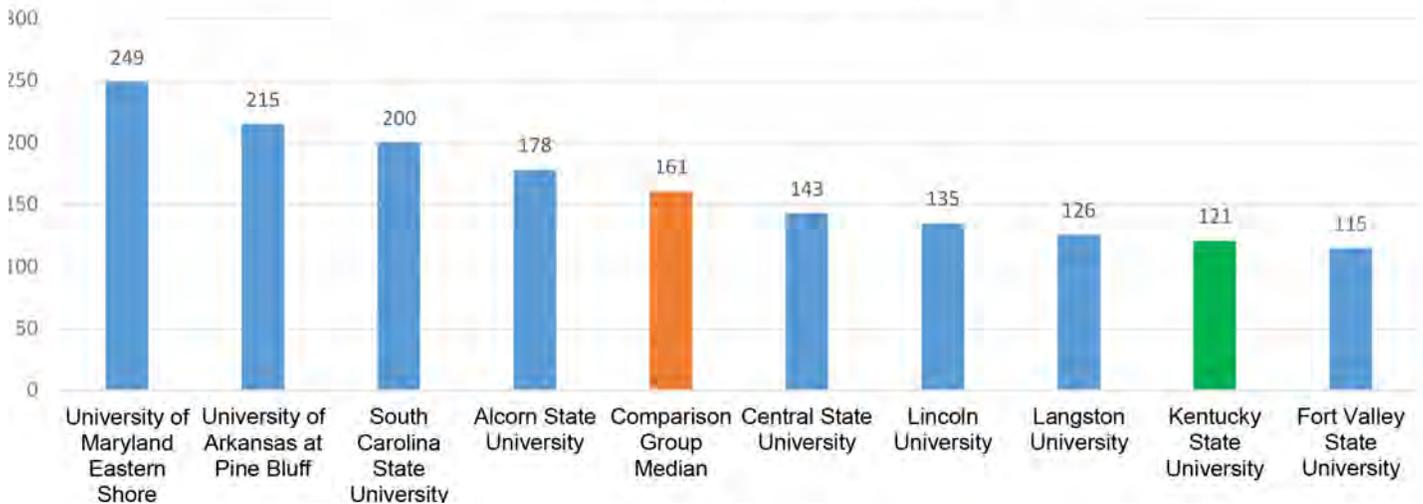
**Percent distribution of core expenses, institutional support  
Fiscal Year 2019**



SOURCE: U.S. Department of Education, National Center for Education Statistics, Integrated Postsecondary Education Data System (IPEDS): Spring 2020, Finance component.

**Staffing**

**Full-time equivalent staff, instructional research and public service  
Fall 2020 (Preliminary Data)**



SOURCE: U.S. Department of Education, National Center for Education Statistics, Integrated Postsecondary Education Data System (IPEDS): Spring 2021, Human Resources component.

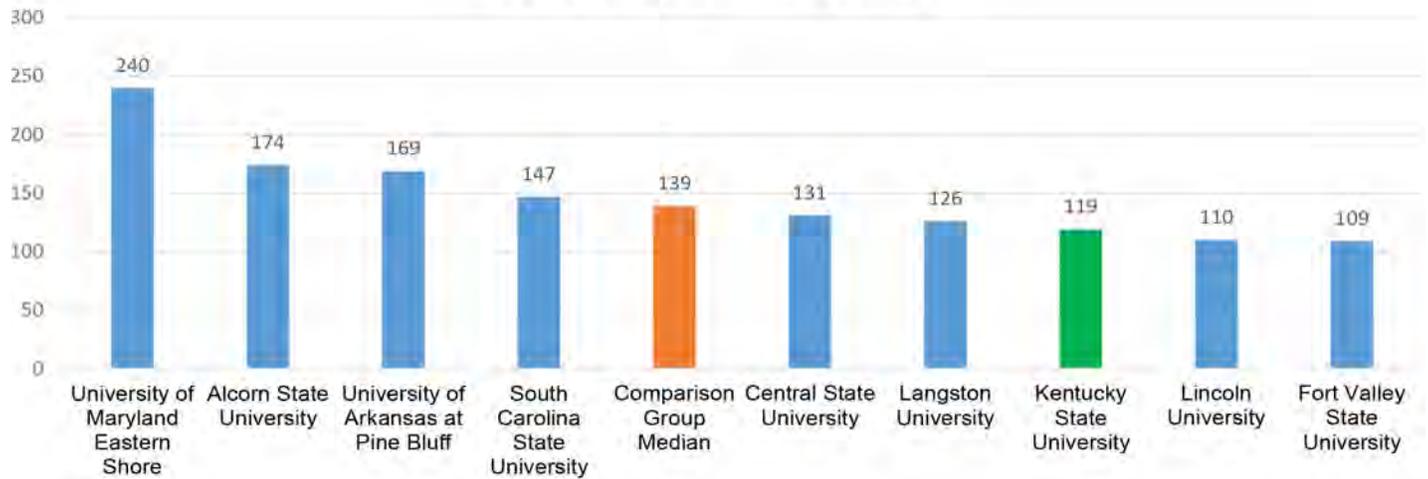
NOTE: Instructional, research and public service FTE is the sum of instructional, research, and public service FTE:

Instructional Staff- An occupational category that consists of the following two functions: 1) "Instruction" only and 2) "Instruction combined with research and/or public service.

Research - An occupational category used to classify persons whose specific assignments customarily are made for the purpose of conducting research. Regardless of title, academic rank, or tenure status, these employees formally spend the majority of their time conducting research.

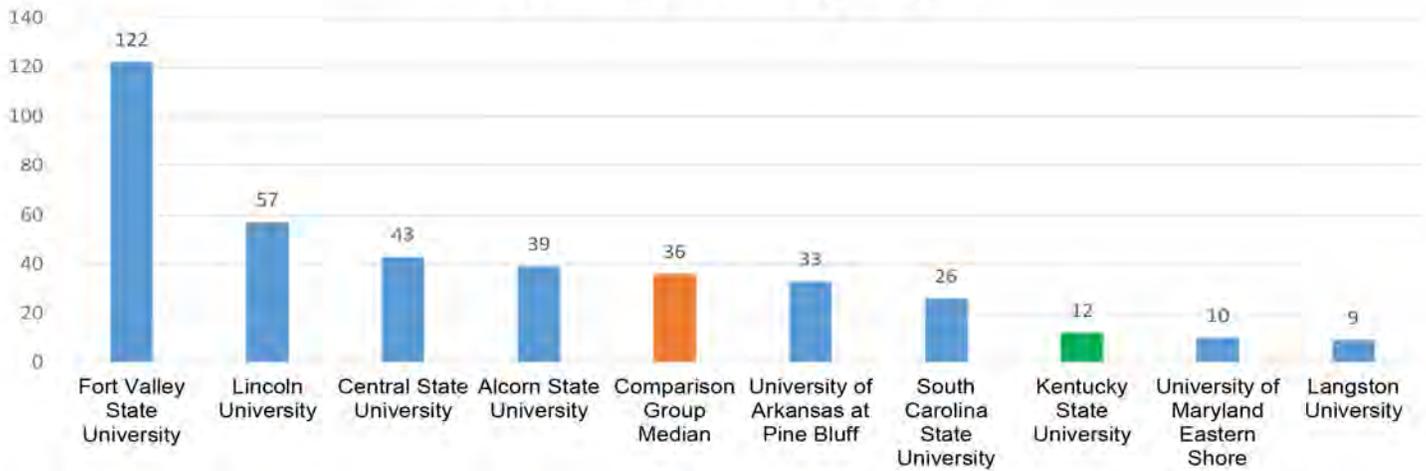
Public Service - An occupational category used to classify persons whose specific assignments customarily are made for the purpose of carrying out public service activities such as agricultural extension services, clinical services, or continuing education. Regardless of title, academic rank, or tenure status, these employees formally spend the majority of their time carrying out public service activities. (This category includes employees with a public service assignment regardless of the location of the assignment (e.g., in the field rather than on campus).

**Full-time equivalent staff, instructional  
Fall 2020 (Preliminary Data)**



SOURCE: U.S. Department of Education, National Center for Education Statistics, Integrated Postsecondary Education Data System (IPEDS): Spring 2021, Human Resources component.

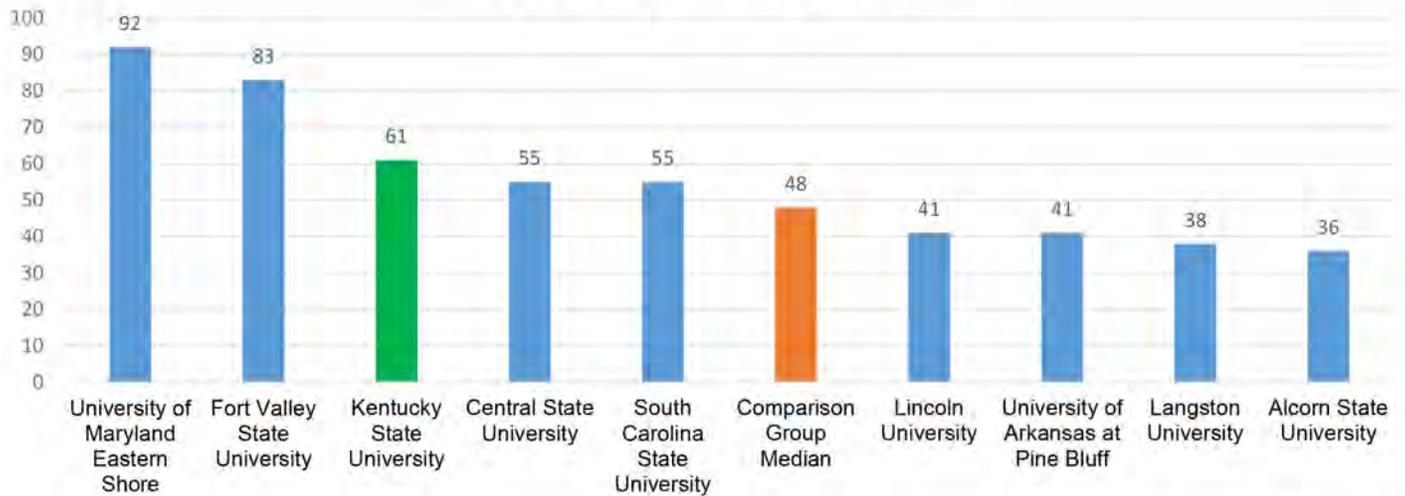
**Full-time equivalent staff, instructional support  
Fall 2020 (Preliminary Data)**



SOURCE: U.S. Department of Education, National Center for Education Statistics, Integrated Postsecondary Education Data System (IPEDS): Spring 2021, Human Resources component.

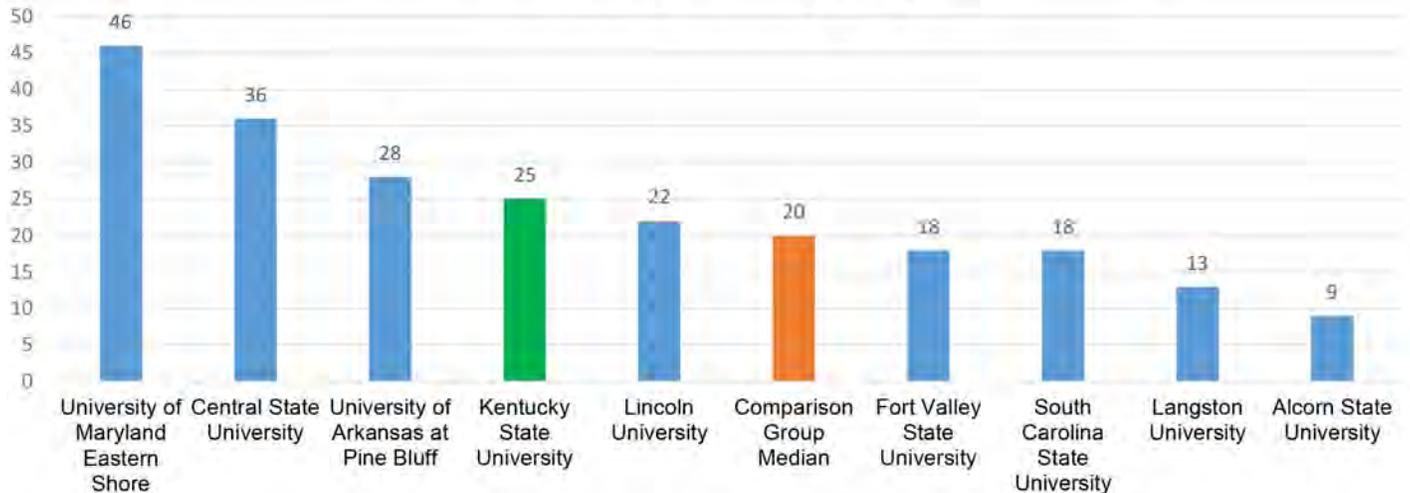
NOTE: Instructional support occupations include archivists, curators, and museum technicians; librarians and media collections specialists; librarian technicians; student and academic affairs and other education services occupations.

**Full-time equivalent staff, management  
Fall 2020 (Preliminary Data)**



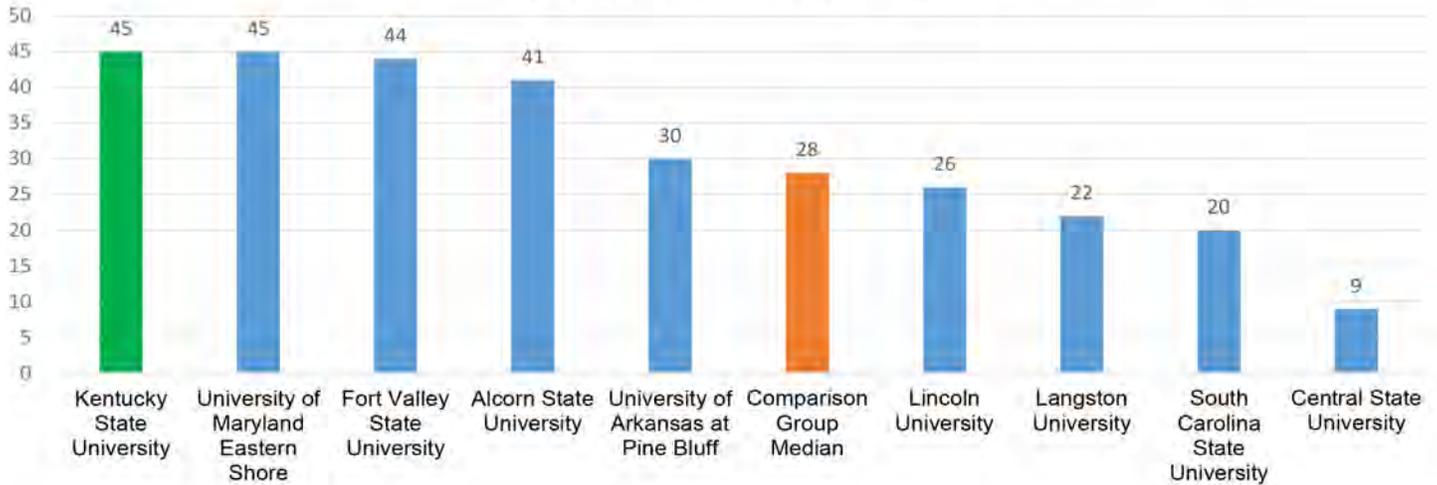
SOURCE: U.S. Department of Education, National Center for Education Statistics, Integrated Postsecondary Education Data System (IPEDS): Spring 2021, Human Resources component.

**Full-time equivalent staff, business and financial operations  
Fall 2020 (Preliminary Data)**



SOURCE: U.S. Department of Education, National Center for Education Statistics, Integrated Postsecondary Education Data System (IPEDS): Spring 2021, Human Resources component.

**Full-time equivalent staff, computer, engineering and science  
Fall 2020 (Preliminary Data)**

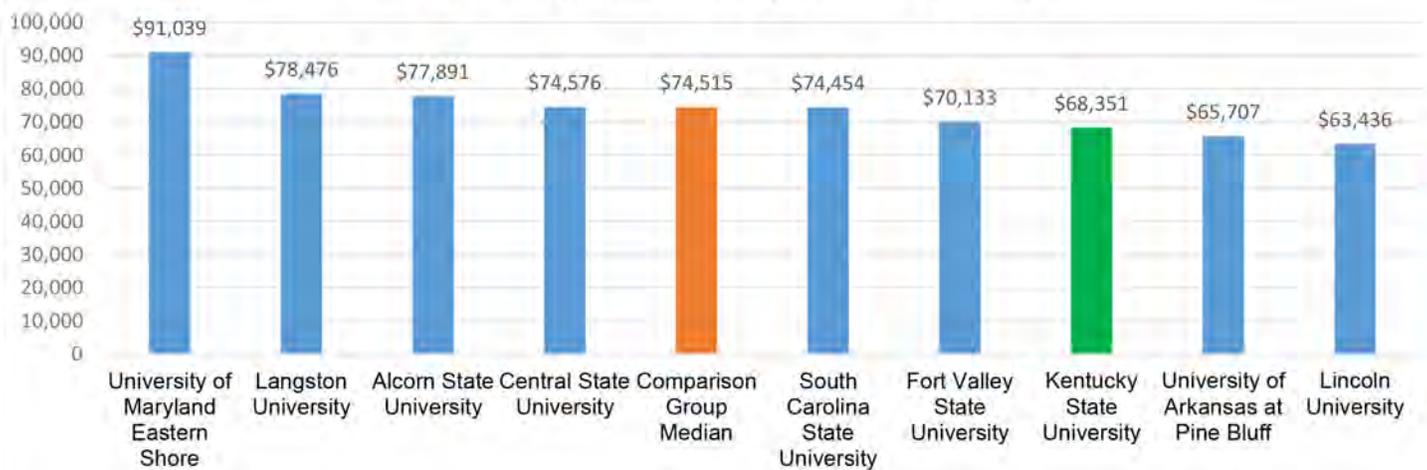


SOURCE: U.S. Department of Education, National Center for Education Statistics, Integrated Postsecondary Education Data System (IPEDS): Spring 2021, Human Resources component.

NOTE: Instructional support occupations include archivists, curators, and museum technicians; librarians and media collections specialists; librarian technicians; student and academic affairs and other education services occupations.

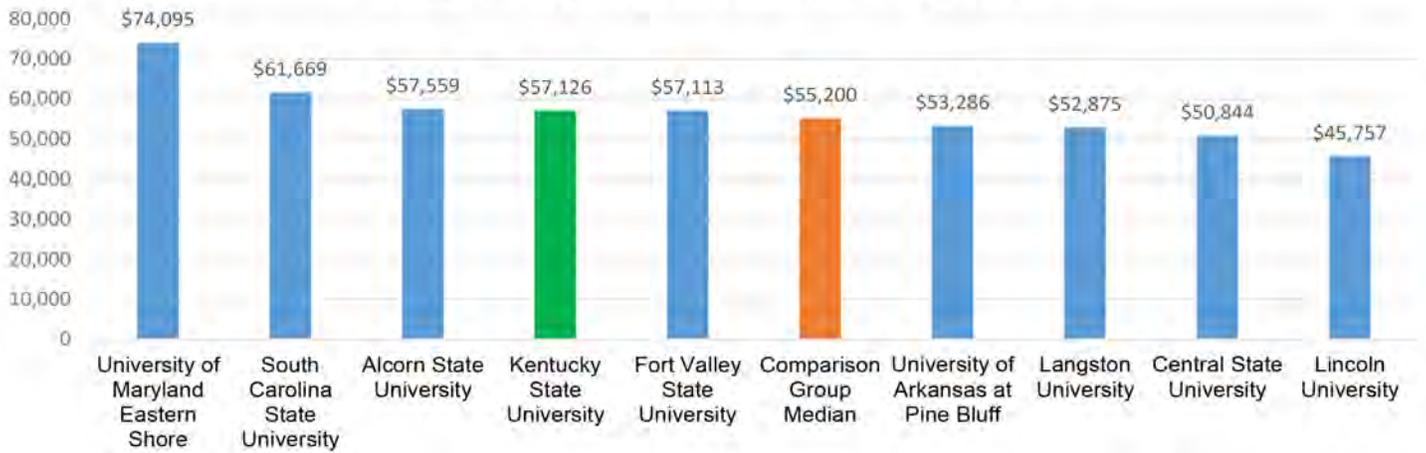
**Compensation**

**Average salaries of full-time instructional non-medical staff equated to 9-months worked, professor  
Academic year 2020-21 (Preliminary Data)**



SOURCE: U.S. Department of Education, National Center for Education Statistics, Integrated Postsecondary Education Data System (IPEDS): Spring 2021, Human Resources component.

**Average salaries of full-time instructional non-medical staff equated to 9-months worked, assistant professor  
Academic year 2020-21 (Preliminary Data)**

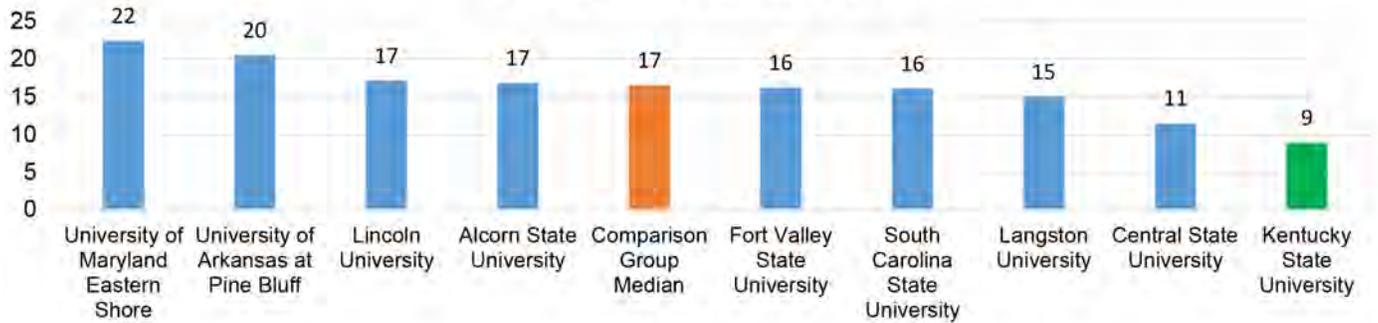


SOURCE: U.S. Department of Education, National Center for Education Statistics, Integrated Postsecondary Education Data System (IPEDS): Spring 2021, Human Resources component.

Productivity

**Bachelor's degrees awarded per 100 reported FTE undergraduate enrollment**

**Academic Year 2019-20**

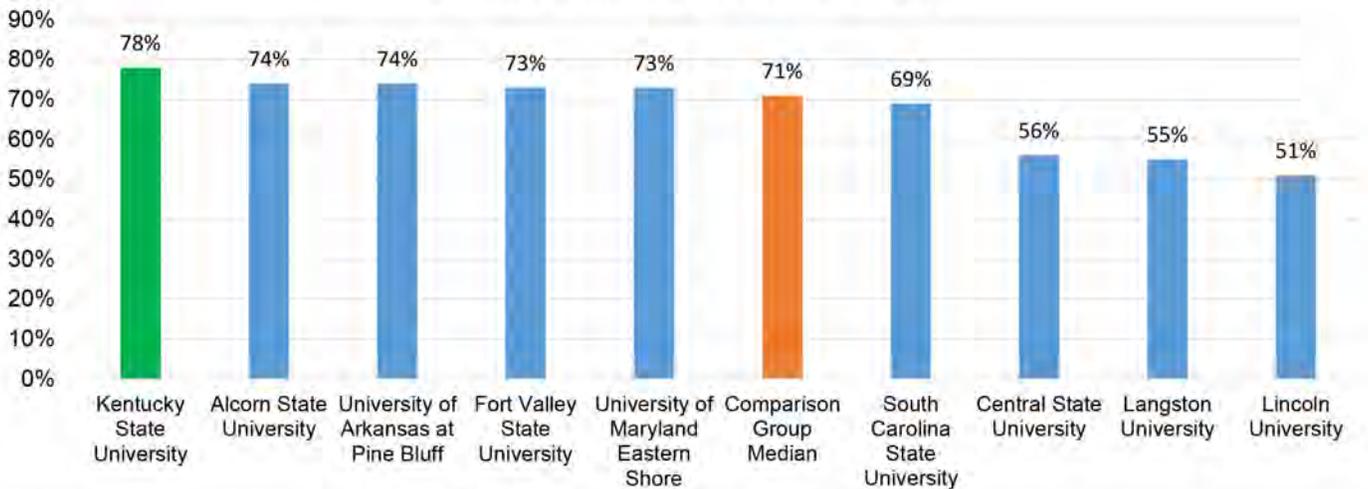


SOURCE: U.S. Department of Education, National Center for Education Statistics, Integrated Postsecondary Education Data System (IPEDS): Fall 2020, 12-month Enrollment and Completions components.

Student Outcomes

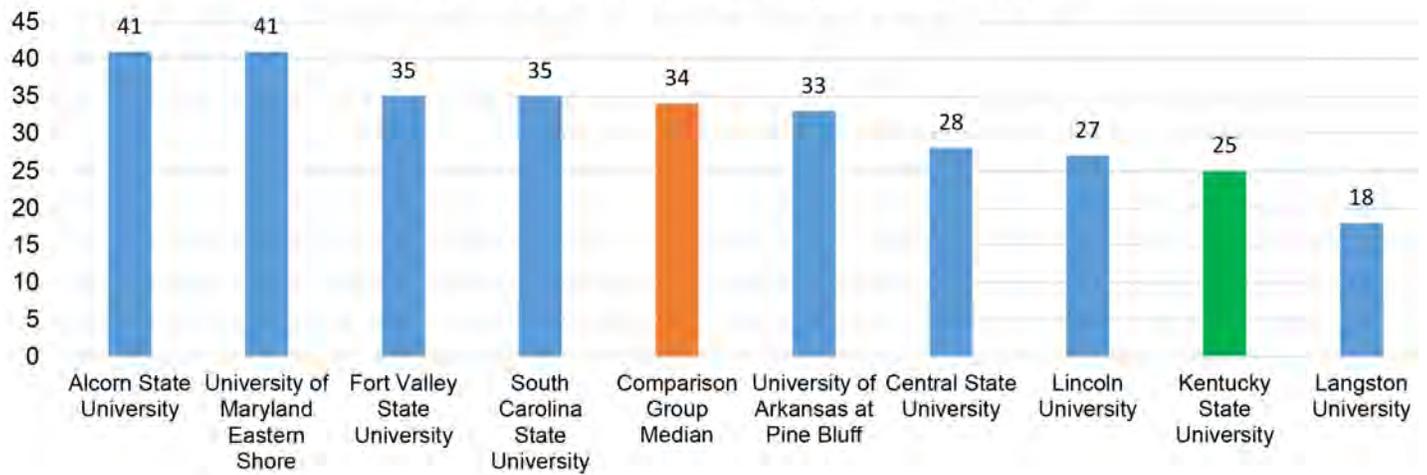
**Full-time Retention rates of first-time bachelor's degree seeking students, by attendance status**

**Fall 2019 cohort (Preliminary Data)**



SOURCE: U.S. Department of Education, National Center for Education Statistics, Integrated Postsecondary Education Data System (IPEDS): Spring 2021, Fall Enrollment component.

**Graduation and transfer-out rates of full-time, first-time degree/certificate-seeking undergraduates within 150% of normal time to program completion**  
**Overall Graduation Rate; 2013 cohort**



SOURCE: U.S. Department of Education, National Center for Education Statistics, Integrated Postsecondary Education Data System (IPEDS): Winter 2019-20, Graduation Rates component.





 KYCPE  CPENews  [cpe.ky.gov](http://cpe.ky.gov)

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November 2021

The Council does not discriminate on the basis of race, color, national origin, sex, religion, age, or disability in employment or the provision of services, and provides, upon request, reasonable accommodation, including auxiliary aids and services necessary to afford individuals with disabilities an equal opportunity to participate in all programs and activities.

**TITLE:** Kentucky State University – Presidential Search Update

**DESCRIPTION:** Staff will provide an update on the presidential search process for Kentucky State University.

**PRESENTERS:** Dr. Aaron Thompson, President  
Travis Powell, Vice President and General Counsel

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### **SUPPORTING INFORMATION**

On July 20, 2021, Governor Beshear signed Executive Order 2021-504 that provided several directives, of which item number four stated:

CPE shall make recommendations to the KSU Board of Regents concerning the KSU administrative structure and leadership.

At its meeting on October 19, 2021, upon recommendation of CPE staff after consultation with KSU leadership, the KSU Board of Regents took action to create a presidential search committee and charged it with providing at least two, but no more than three candidates for president. The make-up of the search committee and its charge are outlined below.

#### The Kentucky State University Presidential Search Committee Composition

The Presidential Search Committee shall be composed of eleven (11) members:

- (a) One (1)-Representative from the Council on Postsecondary Education selected by the CPE President; and will serve as chairperson of the search committee;
- (b) Two (2)-Kentucky State University Students, elected by the Student Government Association;
- (c) Two (2)-Kentucky State University Faculty Members, elected by the Faculty Senate;
- (d) Two (2)-Kentucky State University Staff Members, elected by the Staff Senate;
- (e) Two (2)-Kentucky State University Alumni, elected by the KSU Alumni Association;
- (f) Two (2)-Frankfort Community Members, selected by the CPE President;
  - a. One (1)-Frankfort Community At- large Representative
  - b. One (1)-Frankfort K-12 Representative

Selected or elected presidential search committee members shall not be current members of the Kentucky State University Board of Regents.

The identified groups shall submit the selected/elected presidential search committee members' names and contact information to the presidential search committee chair no later than Tuesday, November 9, 2021 by 2pm.

#### The Kentucky State University Presidential Search Committee Charge

The Kentucky State University Presidential Search Committee shall conduct a search process to identify finalists for the Kentucky State University presidency.

The Search Committee shall prepare a report for the Board of Regents that will provide a summary of the search process.

The Committee shall identify and evaluate candidates for president that will include the strengths and areas of concern of each of the finalist candidates in an unranked format and make a recommendation to the Board of Regents of no more than three (3) but not less than two (2) finalists.

### **COUNCIL REPRESENTATION**

President Thompson has named Vice President and General Counsel Travis Powell as the Council representative on the search committee.

**TITLE:** Kentucky State University – Management and Improvement Plan Areas

**RECOMMENDATION:** Council staff recommends the Council approve the subject matter areas for the Kentucky State University Management and Improvement Plan.

**PRESENTERS:** Dr. Aaron Thompson, President  
Travis Powell, Vice President and General Counsel

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### **SUPPORTING INFORMATION**

On July 20, 2021, Governor Beshear signed Executive Order 2021-504 that provided several directives.

On that order, item #3 states the following:

CPE shall assist the KSU Board of Regents in developing a management and improvement plan with goals and measurable metrics, which shall be subject to the approval of CPE. The management and improvement plan shall be designed to assist with organizational and financial stability. The management and improvement plan shall provide for continuing oversight by, and reporting to, CPE concerning implementation of the plan.

Item #4 of the Executive Order states the following:

CPE shall make recommendations to the KSU Board of Regents concerning the KSU administrative structure and leadership.

At its meeting on October 19, 2021, upon recommendation of CPE staff after consultation with KSU leadership, the KSU Board of Regents adopted the following initial list of subject matter areas for the Management and Improvement Plan.

1. Comprehensive Cataloging and Review of University Policies and Procedures to Ensure Efficiency and compliance with state and federal law.

2. Guidelines for Salary Ranges and Benefits for all Faculty, Staff, and Administrators.
3. Board Member Training and Development, including but not limited to financial oversight and effective committee structure.
4. Organizational Structure and Development of Human Infrastructure.
5. Academic Program Offerings, Course Offerings, and Faculty Productivity Guidelines.
6. Accounting and Fiscal Reporting Systems, Collections, Budget, and Internal Controls Over Expenditures and Financial Reporting
7. Student Success and Enrollment Management Strategies

Council staff recommends approval of the Management and Improvement Plan subject matter areas outlined above.

**TITLE:** 2022-24 Postsecondary Education Budget Recommendation  
Special Appropriation Request

**DESCRIPTION:** The Finance Committee recommends that the Council approve the proposed 2022-24 Special Appropriation Request for Kentucky State University.

**PRESENTER:** Lucas Mentzer, Chair of the Finance Committee

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### **COMMITTEE REVIEW & APPROVAL**

The Finance Committee reviewed and approved the proposed staff recommendation at its October 28, 2021 meeting.

### **SUPPORTING INFORMATION**

In July 2021, Kentucky State University staff members alerted the KSU Board of Regents about a number of financial concerns. The KSU Board then informed the Kentucky Council on Postsecondary Education and the Governor's Office. Those financial concerns led to a transition in leadership at the university on July 20, 2021.

That same day, Governor Andy Beshear issued Executive Order 2021-504, which directed CPE to provide an assessment of the current financial status of KSU, and provide a report to the Governor detailing its assessment prior to providing recommendations concerning appropriations for the next biennial budget.

KSU financial statements indicate that the university's cash position began to deteriorate in fiscal 2017-18. Prior to 2017-18, cash as reported in the financial statements remained stable at a level between \$18 and \$20 million before declining to \$14 million in fiscal year 2017-18. Cash then declined precipitously to between \$2 and \$3 million in fiscal years 2018-19 and 2019-20. Audited financial data are not available for fiscal year 2020-21, but a review of year-end bank balances and unpaid invoices indicate that the cash position will likely show a further decline.

During the period that cash declined, current liabilities (accounts payable, lines of credit, accrued absences, current portion of long-term debt) increased significantly as well. Current liabilities averaged approximately \$8 million per year until fiscal year 2018-19

when they increased to \$12.3 million and then to \$18.3 million in fiscal year 2019-20. For fiscal 2020-21, current liabilities will remain in the \$15 to \$19 million range, pending completion of audited financial statements.

The combination of declining cash balances and increasing current liabilities have resulted in a significant liquidity crisis for KSU, with the university increasingly relying on lines of credit, beginning in the third quarter of fiscal 2019-20. By the third week of July 2021, only \$2.8 million in cash was available for use, with no significant revenue anticipated until September. Further complicating the problem, approximately \$3 to \$4 million was owed to vendors, \$5.2 million was owed to the state, with payroll averaging \$3 million per month.

To manage this crisis, the university worked with the CPE and the Office of the State Budget Director to advance the university's fourth quarter General Fund allotment of \$5.4 million. The university also implemented a debt forgiveness plan using CARES Act funding, essentially paying \$2.5 million in outstanding student balances. This one-time action also provided much needed liquidity during this period.

KSU employed a number of measures prior to the close of fiscal year 2020-21 to meet expenses. CPE's report on the financial status of KSU will go into greater detail, but some of these measures are listed below:

- **Delaying payment to vendors.**
- **Failure to reimburse state construction accounts.** Beginning in 2019, the university stopped providing reimbursements to the state, and apparently used the cash from the drawn down federal funds for working capital.
- **Inappropriate draws from the university endowment.** The university maintains in its investment account, the university endowment, which was originally funded from various sources. The university does not have a full set of donor agreements on file or clear information about the requirements of those endowment accounts in all cases. However, beginning in 2019, the university drew down approximately \$1 million in earnings per year, ostensibly for scholarship support. However, only approximately 43% of endowment earnings can be used to support scholarships.
- **Draws from Revenue Anticipation Notes.** While revenue anticipation notes are a legitimate way to provide short term liquidity for entities that receive cash revenues sporadically throughout the year, KSU did not close and settle these

notes as required by year-end for several years. The balance on the note grew over those three years, reaching \$5 million before it is was settled in July 2021.

As a result of the liquidity situation described above, the university has very little left in reserves. Expenditures have exceeded revenues by over \$35 million over the past four years and have depleted both the unrestricted university fund balance and unrestricted asset balances.

In July and August, the university operated with approximately 13 days cash on hand. This has improved in September to approximately 24 days cash, though most experts would consider 90 days cash on hand to be the minimum level of cash reserves required for a university, with 180 days more typical. Current projections indicate that all cash reserves will be depleted by the end of March 2022.

The use of a revenue anticipation note would allow the university to operate late into April, but at that point, no remaining sources of cash other than an additional appropriation from the General Assembly, would be available. Without a special appropriation, KSU will have a cash deficit \$23.0 million by June 30, 2022. Listed below is a snapshot of KSU’s current financial status that was verified and presented to the KSU Board of Regents by CPE staff on October 19, 2021.

Deficit construction accounts with State Finance Cabinet	\$ 5.2 million
Prior year invoices paid in FY 2022	4.3 million
Asset Preservation Fee Receipts Not Reserved (2019-21)	1.2 million
July Repayment of prior year Revenue Anticipation Note	<u>5.0 million</u>
FY 2022 Cash Shortfall due to prior year deficits	\$15.7 million
Structural Imbalance in FY 2022 University Budget	<u>7.3 million</u>
<b>FY 2022 Total Projected Cash Shortfall</b>	<b>\$23.0 million</b>

- *Council staff recommends a nonrecurring General Fund appropriation of \$23,000,000 in fiscal year 2021-22 and recurring appropriations of \$1,000,000 each year of the 2022-24 biennium to provide ongoing financial stability and support targeted strategic initiatives at Kentucky State University.*
- *CPE staff further recommends that any authorized funding be placed in a newly created funding program, requiring Council approval for funds to be accessed and expended by KSU.*

As can be seen in Table 1, staff recommends that the Council’s Special Appropriation request include two components for Kentucky State University: (1) a financial

stabilization fund; and (2) strategic operating funds. The stabilization fund is necessary to address a current-year structural deficit and allow the university to pay vendors, reduce debt, and achieve financial stability. The request for strategic operating funds will support the expansion of teacher education and public administration programs at KSU, which is well aligned with state student success goals and with objectives and strategies of the Council’s *2016-2021 Strategic Agenda for Postsecondary Education*. Additional information about these request components is provided below.

**Table 1: Components of 2022-24 Special Appropriation Request**

Funding Component	Fiscal Year 2021-22	Fiscal Year 2022-23	Fiscal Year 2023-24
Additional Budget Requests:			
Financial Stabilization Fund (NR)	\$23,000,000	\$0	\$0
Strategic Operating Funds	0	1,000,000	1,000,000
<b>Total Additional Requests</b>	<b>\$23,000,000</b>	<b>\$1,000,000</b>	<b>\$1,000,000</b>

NR = Nonrecurring funds

Financial Stabilization Fund

The financial stabilization fund will be used to manage KSU through fiscal 2021-22, and will allow the institution to pay vendors promptly and reimburse the state’s construction account. CPE will ask that these funds be placed in a newly created Funding Program for KSU and be released to the university only after CPE verifies that proper financial controls are in place, as outlined in a new Management and Improvement Plan.

Strategic Operating Funds

The strategic operating funds requested will provide KSU with resources of \$1.0 million in each year of the upcoming biennium to expand and improve two of its signature programs: Education and Public Administration. As a primarily liberal arts institution and a historically black college or university (HBCU), KSU is well positioned to help the Commonwealth meet its needs for a more diverse K-12 teacher corps, which is necessary to educate students in an increasingly diverse school environment and world. KSU’s location in the state capital also makes investment in public administration programs a worthy pursuit. As will be detailed in the Management and Improvement Plan, KSU will submit annual reports to CPE detailing the uses of these funds and the results of the investment.



# Kentucky State University Financial Assessment Report

Aaron Thompson, President

Travis Powell, Vice President and General Counsel

Kentucky Council on Postsecondary Education

November 4, 2021

# Overview

- Executive Order
- Cash Reserves and Working Capital Analysis
- Financial Health Assessment
- Peer Group Comparisons
- Validation of Financial Information
- Review of Controls over Financial Management and Reporting
- Recommendations and Key Takeaways

# Background

## *Governor's Executive Order Regarding KSU*

On July 20, 2021, the Governor signed an Executive Order requiring CPE to:

- **Assess KSU's current financial status** and provide a report to the Governor detailing recommendations prior to the next biennial budget
- Assist the KSU Board of Regents in developing a management and improvement plan with identifiable goals and measurable metrics
- The plan shall provide for continuing oversight by CPE concerning the implementation of the plan
- Make recommendations to the KSU Board of Regents concerning administrative structure and leadership





# Cash Flow and Working Capital Analysis

# Cash Flow and Working Capital Analysis

## *Research Questions*

- What are the major cash inflows and outflows for KSU?
- When did the liquidity crisis begin for KSU?
- What cash/working capital management strategies did KSU utilize to manage the liquidity crisis?
- What is the current and projected cash position?

# Cash Flow and Working Capital Analysis

## *Methodology*

- CPE performed the following to review cash reserves and working capital:
  - Worked with the KSU CFO to assess the historical and current situation
  - Reviewed audited financial statements and accounting records
  - Reviewed related financial institution statements and reports from the Commonwealth of KY
  - Interviewed Finance & Administration staff members

# Cash Flow and Working Capital Analysis

## *Preliminary Findings*

### MAJOR CASH INFLOWS

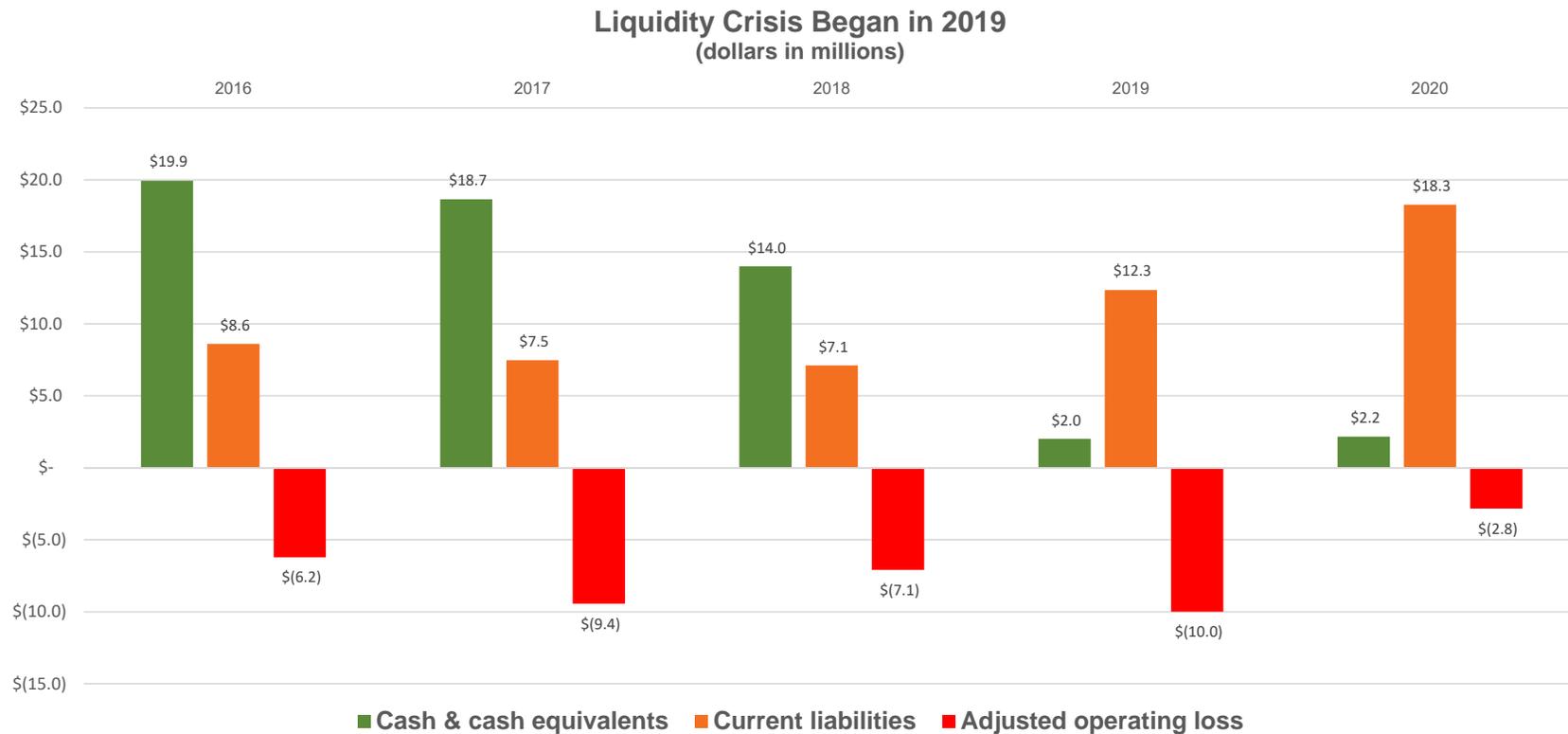
- Tuition & fees
- State appropriations
- Federal/State grants and contracts
- Housing and Dining/Other Auxiliaries
- Draws on Revenue Anticipation Note

### MAJOR CASH OUTFLOWS

- Payments to employees
- Payments to suppliers/service providers
- Payments to students
- Purchases of capital assets/capital improvements
- Payments for debt service
- Payments on Revenue Anticipation Note

# Cash Flow and Working Capital Analysis

## *Preliminary Findings*



Note1: Adjusted operating loss includes state appropriations.

Note2: 2020 cash & cash equivalents excludes endowment cash held by ARG I Investment Services.

# Cash Flow and Working Capital Analysis

## *Preliminary Findings*

- Inappropriate cash/working capital management techniques utilized
  - Failure to pay vendors in a timely manner
  - Failure to reimburse state construction accounts
  - Draws from Revenue Anticipation Note
  - Asset preservation fee receipts used for operations
  - Failure to follow the Institution's policies related to collection of student receivables
  - Draws from the endowment with incomplete accounting
- Known impact of above is \$15.7 million of prior year expenses carried forward to FY 2022
- Projected current year shortfall up to \$7 million due to structural imbalance of university budget in FY 2022

# Cash Flow and Working Capital Analysis

## *Preliminary Findings*

- 9/30/21 cash position of \$4.34 million was temporarily relieved by:
  - Advancement of fourth quarter allotment from the State (\$5.4 million)
  - CARES Act debt forgiveness (\$2.5 million)
- Current projections indicates cash reserves will be depleted by March 2022 and the \$5 million Revenue Anticipation Note will be utilized for April operations
- An additional non-recurring appropriation from the General Assembly is needed for continued operations beyond April

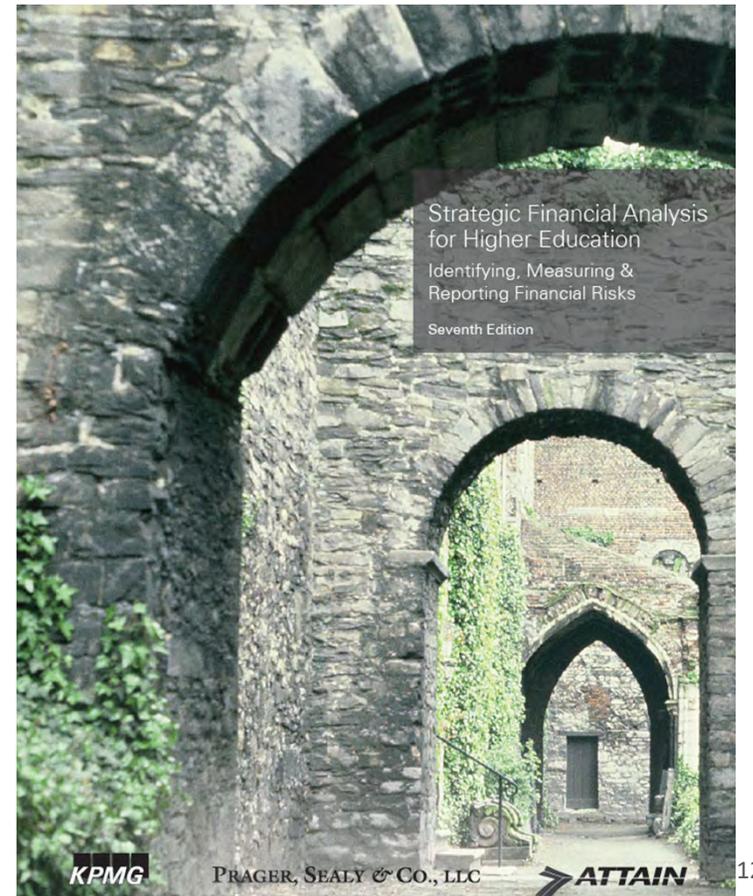


# Financial Health Assessment

# Financial Health Assessment

## *Best Practices Approach*

- CPE used a widely recognized best practices approach to assess the financial health of Kentucky State University (NACUBO; SHEEO)
- KPMG first published *Strategic Financial Analysis for Higher Education* in 1980, it is now in its 7<sup>th</sup> Edition
- CPE staff adapted guidelines and methods from this publication to assess the financial health of private institutions in Kentucky



# Financial Health Assessment

## *Research Questions*

- Does KSU have sufficient liquidity to meet its short and intermediate term obligations?
- Does KSU have sufficient resources and are they flexible enough to support the university's mission?
- Is KSU strategically managing its resources (including debt) to advance the university's mission?
- Does KSU's asset performance and management support the university's strategic direction?
- Do KSU's operating results indicate that the university is living within available resources?

# Financial Health Assessment

## *Methodology*

- CPE staff calculated four **Primary Ratios**:
  - 1) Primary Reserve
  - 2) Net Operating Revenues
  - 3) Return on Net Assets
  - 4) Viability
- These ratios were weighted and combined to create a **Composite Financial Index (CFI)**
- Audited financial statements were used to compute the ratios
  - Adjusted to remove impact of pensions/OPEB
- These measures are intended for the evaluation of a single institution over time, rather than comparisons across institutions

# Financial Health Assessment Methodology (Cont'd)

- The four primary ratios measure the relative financial strengths and weaknesses of an institution
- CPE staff combined KSU's four primary ratios into a single composite score, using designated weights for each ratio
- The values were assessed using a range from -4 to 10
- This holistic approach allows weakness or strength in one ratio to be offset by results of other ratios

## Weighting Scheme

RATIO	INSTITUTION WITH LONG-TERM DEBT	INSTITUTION WITH NO (OR MINIMAL) LONG-TERM DEBT
Primary Reserve	35%	55%
Net Operating Revenues	10%	15%
Return on Net Assets	20%	30%
Viability	35%	-

## CFI Score Interpretation



# Financial Health Assessment

## *Preliminary Findings – Primary Reserve Ratio*

- From 2015-16 to 2017-18 the ratio was relatively financially healthy
- In 2018-19, operating expenses increased significantly without a corresponding increase in revenues
- In 2019-20, despite a reduction, expenses exceeded revenues again and further exacerbated the ratio's decline

Industry Standard	
Expendable Net Assets	$>$ 0.40
Total Expenses	

- **Beginning in 2018-19, operating expenses exceeded operating revenues. The structural deficit was financed using available reserves.**

Fiscal Year	2015-16	2016-17	2017-18	2018-19	2019-20
Expendable Net Assets (Reserves)	\$32,650,988	\$30,827,476	\$33,746,076	\$18,957,252	\$7,292,103
Total Expenses	\$62,867,192	\$71,351,849	\$74,556,167	\$82,867,309	\$76,155,413
<b>Ratio</b>	0.52	0.43	0.45	0.23	0.10
<b>Days of Expenses Covered By Reserves</b>	190	158	165	83	35

# Financial Health Assessment

## *Preliminary Findings – Viability Ratio*

- From 2015-16 to 2018-19 the ratio was financially healthy due to:
  - Low levels of plant-related debt
  - High levels of reserves
- In 2019-20, the ratio declined to a financially stressed level due to:
  - An addition of \$13.2 million of plant-related debt
  - A reduction of \$11.7 million in expendable net assets (reserves) from 2018-19

Industry Standard	
Expendable Net Assets	$> 1.0$
Plant-related Debt	

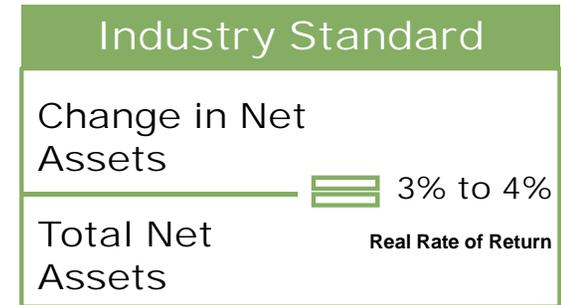
➤ **The use of reserves to finance day-to-day operations of the university has limited resource flexibility and ability to meet debt obligations should there be adverse conditions**

Fiscal Year	2015-16	2016-17	2017-18	2018-19	2019-20
Expendable Net Assets (Reserves)	\$32,650,988	\$30,827,476	\$33,746,076	\$18,957,252	\$7,292,103
Plant-related Debt	\$5,863,231	\$5,111,791	\$4,257,692	\$3,423,306	\$16,141,582
Ratio	5.57	6.03	7.93	5.54	0.45

# Financial Health Assessment

## *Preliminary Findings – Return on Net Assets Ratio*

- From 2015-16 to 2017-18, there were normal variations in the ratio
- In 2018-19, there was a significant decline in net assets
  - Includes a reduction of \$12,376,886 in unrestricted net assets of the institution
- In 2019-20, net assets declined substantially again
  - This would have been larger, but federal operating grants and contracts increased by \$3,396,633 in the year



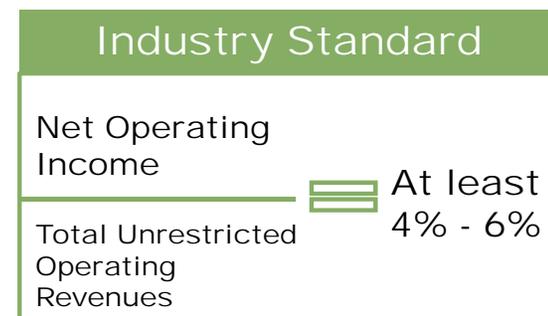
➤ **The university's repeated negative results indicate that investments made using net assets (reserves) were not obtaining the necessary return**

Fiscal Year	2015-16	2016-17	2017-18	2018-19	2019-20
Change in Net Assets (Reserves)	<b>\$(3,010,998)</b>	<b>\$1,739,491</b>	<b>\$(2,164,769)</b>	<b>\$(15,358,611)</b>	<b>\$(4,346,095)</b>
Total Net Assets (Beginning of the Year)	<b>\$117,220,814</b>	<b>\$114,209,816</b>	<b>\$115,949,307</b>	<b>\$113,784,538</b>	<b>\$98,425,927</b>
Ratio	-2.57%	1.52%	-1.87%	-13.50%	-4.42%

# Financial Health Assessment

## *Preliminary Findings – Net Operating Revenues Ratio*

- From 2015-16 to 2019-20, there were no positive scores
- From 2015-16 to 2018-19, net operating losses increased with the most dramatic loss occurring in 2018-19
- In 2019-20, the net operating loss decreased largely due to:
  - A substantial increase of \$3,396,633 in federal operating grants and contracts
  - An increase in tuition and fee, residence hall, and dining revenues of \$1,509,332 total



➤ **The university's consistent and large negative results indicate that revenue and expense streams are unsustainable and need to be restructured**

Fiscal Year	2015-16	2016-17	2017-18	2018-19	2019-20
Net Operating Income	<b>\$(2,188,457)</b>	<b>\$(3,273,507)</b>	<b>\$(5,931,127)</b>	<b>\$(16,367,071)</b>	<b>\$(4,173,409)</b>
Total Unrestricted Operating Revenues	<b>\$60,888,579</b>	<b>\$68,078,342</b>	<b>\$68,618,378</b>	<b>\$66,500,238</b>	<b>\$71,982,004</b>
Ratio	-3.59%	-4.81%	-8.64%	-24.61%	-5.80%

# Financial Health Assessment

## *Preliminary Findings – Composite Financial Index*

- Each of the primary ratios are converted to a score and weighted as follows:
  - Primary Reserve (35%), Net Operating Revenues (10%), Return on Net Assets (20%), Viability (35%)
- From 2015-16 to 2017-18, the CFI shows the university is relatively financially healthy
- In 2018-19, the CFI drops below the relatively financially healthy level
- In 2019-20, the CFI shows a rapid decline from financially stressed to unhealthy
- Results vary significantly from what was previously reported per HB 303 (2016)
- **KSU’s descent into a financially unhealthy condition was driven by poor performance in the Primary Reserve and Viability Ratios, which make up 70% of the score**
- **The Net Operating Revenues Ratio shows the structural imbalances causing the institution to finance operations with reserves, negatively affecting all three of the other ratios**



Fiscal Year	2015-16	2016-17	2017-18	2018-19	2019-20
CFI Score Previously Reported	4.08	8.35	8.90	5.72	3.94
CFI Score Computed by CPE	4.33	4.42	4.10	2.90	-0.21



# Peer Group Comparisons

# Peer Group Comparisons

## *Research Questions*

- How does KSU compare to other HBCUs on affordability metrics?
- To what extent does KSU differ from benchmark peers in terms of sources of core revenue and expenditures by function?
- How does KSU compare to other HBCUs in terms of staffing levels by occupational type?
- To what extent does KSU differ from benchmark peers in terms of faculty and administrator compensation?
- How does KSU compare to other HBCUs on key productivity and student success metrics?

# Peer Group Comparisons

## *Methodology*

CPE staff worked with KSU officials to identify criteria for developing a customized comparison group, using the *IPEDS Data Feedback Report*

Selection criteria:

- HBCU
- land-grant institution
- located in continental United States
- public four-year
- degree granting, baccalaureate and above
- enrollment between 1,000 and 3,600

The resulting comparison group included eight institutions

### **KSU Comparison Group Institutions**

- Alcorn State University (Alcorn State, MS)
- Central State University (Wilberforce, OH)
- Fort Valley State University (Fort Valley, GA)
- Langston University (Langston, OK)
- Lincoln University (Jefferson City, MO)
- South Carolina State University (Orangeburg, SC)
- University of Arkansas at Pine Bluff (Pine Bluff, AR)
- University of Maryland Eastern Shore (Princess Anne, MD)

# Peer Group Comparisons

## *Preliminary Findings – Affordability*

- **KSU's published in-state sticker price is above the peer median**
  - In 2021, resident undergraduate tuition and fees at KSU ranked 2<sup>nd</sup> highest out of nine HBCUs and were 113% of the comparison group median
  - Between 2017 and 2021, published in-state prices grew more slowly at KSU (+13%) than the group median (+16%)
- **KSU's net price is considerably lower than that of peer institutions**
  - In 2019, KSU had the lowest average net price of college attendance (i.e., ranked 9<sup>th</sup>) of any peer institution, registering 60% of the group median
  - Between 2017 and 2019, KSU's net price decreased from \$9,561 to \$7,363 or by 23%, while the group median decreased by 1%

# Peer Group Comparisons

## *Preliminary Findings – Sources of Core Revenue*

- **A higher proportion of KSU's core revenue comes from tuition and fees, state appropriations, and governmental grants and contracts than at peer institutions**
  - In 2020, KSU's tuition and fees as a percent of total revenue ranked 2<sup>nd</sup> highest and were 3 percentage points above the group median, its state appropriations percent ranked 2<sup>nd</sup> highest and were 9 points above the median, and its government grants and contracts ranked 2<sup>nd</sup> highest, 5 points above the median
  
- **KSU's tuition and fee, state appropriations, and government grants and contracts revenue per student are higher than group medians**
  - In 2020, KSU's tuition and fee revenue per student ranked 2<sup>nd</sup> highest and was 155% of the group median, its state appropriations per student ranked 2<sup>nd</sup> highest and were 156% of the median, and its governmental grants and contracts per student ranked 1<sup>st</sup> (highest) and were 144% of the median

# Peer Group Comparisons

## *Preliminary Findings – Expenditures by Function*

- **As a percent of total expenses, KSU spends more on research, public service, and institutional support than peer institutions**
  - In 2019, research accounted for 14 percent of KSU's total core expenses, compared to 11 percent for the peer group median
  - Public service expenditures were 17 percent of total spending at KSU versus 9 percent for the group median
  - Institutional support expenditures (administrative overhead) were 25 percent of total expenses at KSU and 16 percent at the median
  
- **Conversely, KSU spends proportionately less on instruction, academic support, and other expenses than its counterparts**
  - In 2019, KSU's spending on instruction was 18 percent of total core expenses and 28 percent of the median institution's spending level

# Peer Group Comparisons

## *Preliminary Findings – Staffing Levels*

- **Compared to its peers, KSU employs fewer postsecondary teachers and instructional support staff...**
  - During fall 2020, the number of postsecondary teachers and staff employed by KSU ranked 8<sup>th</sup> lowest out of nine HBCUs and was 75% of the group median
  - The number of staff employed by KSU in instructional support occupations ranked 7<sup>th</sup> lowest and was 33% of the comparison group median
- **and more management and business and financial operations staff**
  - That same semester, the number of management staff employed by KSU ranked 3<sup>rd</sup> highest and was 127% of the group median
  - The number of staff employed by KSU in business and financial operations ranked 4<sup>th</sup> highest and was 125% of the group median

# Peer Group Comparisons

## *Preliminary Findings – Staffing Levels (Cont'd)*

- **Compared to its peers, KSU employs more computer, engineering, and science staff...**
  - During fall 2020, the number of computer, engineering, and science staff employed by KSU ranked 1<sup>st</sup> (highest) out of nine HBCUs and was 161% of the comparison group median
  
- **and more community service, legal, arts, and media staff**
  - The number of staff employed by KSU in community service, legal, arts, and media occupations ranked 3<sup>rd</sup> highest and was 153% of the group median

# Peer Group Comparisons

## *Preliminary Findings – Faculty Compensation*

- **For the most part, average salaries of faculty employed by KSU are either at, or slightly above, the median of peer institutions**
  - During academic year 2020-21, the average nine-month equivalent salary of **Associate Professors** employed by KSU ranked 5<sup>th</sup> out of nine HBCUs and was 100% of the comparison group median
  - The average salary of **Assistant Professors** employed by KSU ranked 4<sup>th</sup> highest and was 103% of the group median
  - The average salary of **Instructors** ranked 5<sup>th</sup> and was 102% of the group median
- **The average salary of full professors at KSU is below the peer median**
  - In 2020-21, the average salary of **Full Professors** employed by KSU ranked 7<sup>th</sup> lowest and was 92% of the peer group median

# Peer Group Comparisons

## *Preliminary Findings – Student Success*

- **KSU's retention rate is the highest among peer institutions...**
  - For the fall 2019 cohort, KSU's retention rate among first-time, full-time bachelor's degree seeking students was the highest (ranked 1<sup>st</sup>) out of nine HBCUs and was seven percentage points above the group median (KSU 78%; median 71%)
- **and showed the most improvement over a three-year period**
  - Between 2017 and 2019, KSU's full-time retention rate increased from 56% to 78%, or by 22 percentage points, compared to an 8 point increase
- **KSU's graduation rate is below the peer median**
  - For the 2013 cohort, KSU's graduation rate among first-time, full-time degree seeking students within 150% of normal time was nine percentage points below the comparison group median (KSU 25%; median 34%)



# Validation of Financial Information

# Validation of Financial Information

## *Research Question, Methodology, Preliminary Findings*

- Research question: Is the KSU financial information communicated to key stakeholders accurate?
- Methodology: Validate all financial information presented by the KSU CFO to the KSU Board of Regents and external parties
  - Verified to audited financial statements and other information from:
    - Financial institutions
    - Commonwealth of KY
    - Federal agencies (Department of Education and USDA)
    - Accounting system/Argos report-writer linked to Banner
    - Internal accounting analysis
- Findings: All information communicated externally since the issuance of the Executive Order has been accurate.



# Review of Controls over Financial Management and Reporting

## Review of Controls over Financial Management and Reporting

### *Research Questions*

- Are KSU's controls over financial management adequate for a high functioning and financially responsible public university?
- Does KSU's current financial reporting system and structure meet the needs of the Board of Regents to ensure sufficient financial oversight?

# Review of Controls over Financial Management and Reporting

## *Methodology*

- Reviewed key financial functions and related policies, procedures and internal controls
  - Accounting System and Related Reporting
  - Internal Audit
  - Treasury Management (encompasses Debt, Endowment, Long-Range Planning)
  - Student Accounts Receivable/Collections
  - Budget Management and Interim Financial Reporting
  - Enterprise Risk Management
- Reviewed historical audited financial statements including OMB Uniform Guidance reports and other items (ex. HB 303 (2016) Reports, Gold Book)
- Invited KSU Finance & Administration staff members to share information or concerns related to KSU operations

# Review of Controls over Financial Management and Reporting

## *Preliminary Findings*

- Banner accounting system and related Argos reporting tool is inadequate
  - Formal upgrade and training is needed, including a financial reporting module to produce GAAP statements
- Internal audit function was non-existent for approximately 3 years and the KSU “Tip Line” was discontinued in 2017 and has yet to be reinstated
- Current internal audit function, beginning in early 2020 and comprised of 1 FTE, has been ineffective in providing a comprehensive, risk-based audit approach with regular communication to the Board of Regents
- No written policies related to treasury management, with exception of an endowment investment policy (last updated in 2012)
  - Formal endowment spending policy should also be incorporated

# Review of Controls over Financial Management and Reporting

## *Preliminary Findings*

- No long range financial planning function exists. Institutions typically forecast at least 5 years
- Failure to follow policies related to collection of student receivables
- Lack of sufficient budgetary controls and failure to follow existing policies
- Inadequate interim financial reporting (i.e. quarterly GAAP statements and budget to actual comparisons, dashboards, etc.)
- No enterprise risk management function exists
- The financial health ratios and resulting CFI scores presented by KSU senior leadership in its HB 303 (2016) reports were inconsistent with CPE staff calculations and reflected a more favorable financial position.
- Numerous external financial audit findings and consistently missed audited financial statement deadlines

# Recommendation for Board Approval

## Budget Request to Cover FY 2022 Projected Cash Shortfall and Strategic Initiatives

Deficit construction accounts with State Finance Cabinet	\$5.2 million
Prior year invoices paid in FY 2022	\$4.3 million
Asset Preservation Fee Receipts Not Reserved (2019-21)	\$1.2 million
July Repayment of prior year Revenue Anticipation Note	<u>\$5.0 million</u>
FY 2022 Cash Shortfall due to prior year deficits	\$15.7 million
Structural Imbalance in FY 2022 University Budget	<u>≈\$7.0 million</u>
<b>FY 2021-22 Total Projected Cash Shortfall</b>	<b>\$23.0 million</b>
<b>2022-2024 Biennium Strategic Initiatives</b>	<b>\$1.0 million/yr</b>

# Recommendations

- Cultivate a culture of accountability, transparency, and compliance (established by the tone at the top)
- Improve budgetary controls and provide a quarterly budget to actual report to the Board of Regents
- Improve the accounting and reporting system and internal controls over financial reporting; provide quarterly GAAP statements and other financial information to the Board of Regents
- Outsource or co-source the Internal Audit function and reinstate the externally managed tip line
- Implement a formal accounting and reporting framework for endowment distributions
- Improve collection of student accounts receivable, including implementation of a formal Statement of Financial Responsibility and utilization of external collection agencies, including Kentucky's Department of Revenue
- Complete a comprehensive review of expenses to ensure expenses are charged to the correct functional area and that costs are appropriately allocated to grants and auxiliary units

# Recommendations

- Complete a review of academic programs and establish appropriate faculty productivity metrics
- Implement a long-range planning process to support the strategic and capital investment decision-making process
- Implement an enterprise risk management process to identify, evaluate and mitigate key risks facing the institution and higher education industry, including strategic, operational, financial and compliance risks
- Develop appropriate policies and procedures governing the key functions of treasury management including cash management, operating investment management, debt management, and internal loans.
- Review and update the Endowment Investment Policy and incorporate a formal spending policy within the investment policy.
- Implement quarterly reporting to the Board of Regents the President's travel, entertainment, and discretionary expenses.

# Key Takeaways

- Significant operating deficits in recent years (especially 2019 forward) have resulted in the depletion of KSU's cash reserves
  - Current structural deficit is unsustainable
- Poor leadership over financial management
  - Inadequate budgetary controls
  - Inadequate internal and external financial reporting
  - Inadequate internal audit function
- KSU compares very favorably to its peers in state appropriations, government grants and contracts, and tuition and fee revenue per student

# Questions?



Twitter: CPENews and CPEPres



Website: <http://cpe.ky.gov>



Facebook: KYCPE



Table 1 - Postsecondary Institution Request Components

Component	Fiscal 2022-23	Fiscal 2023-24	Biennial Total
<b>Operating Funds</b>			
Performance Funding	\$67,500,000	\$90,000,000	\$157,500,000
Pension Relief Funds	2,209,900	4,419,800	6,629,700
KSU Land-Grant Program	671,500	671,500	1,343,000
<b>Capital Investment</b>			
New Construction	\$0	\$0	\$0
Asset Preservation	350,000,000	350,000,000	700,000,000
– Debt Service	25,217,000	50,434,000	75,651,000
Technology Infrastructure	0	0	0
<b>Trust Funds</b>			
Endowment Match Program	\$30,000,000	\$30,000,000	\$60,000,000
– Debt Service	2,418,000	4,836,000	7,254,000
Competitive Workforce Initiative	2,225,000	4,450,000	6,675,000

### Operating Funds

- Performance Funding** - Additional operating funds that will provide incentives for institutions to increase student success and course completion outcomes. If authorized, these funds will help Council and campus officials maintain affordability and access for Kentucky citizens and provide resources necessary for institutions to continue making progress toward the state's student success goals. The request represents increases of **7.4%** and **9.9%**, respectively, above the current year net General Fund base.
- Pension Relief Funds** - In 2021-22, Kentucky comprehensive universities (except for NKU) and KCTCS transitioned to a fixed-dollar allocation method of determining employer pension contributions. Based on actuarial calculations, the General Assembly provided appropriations in the 2021-22 budget bill (HB 192), which were intended to cover 100% of the costs associated with that transition. Beginning in 2022-23, Section 7(6)(b) of HB 8 calls for a reduction of 10% per year over five years of the pension subsidies provided in 2021-22. The additional operating funds contained in this request would maintain the pension subsidy at each institution at the 2021-22 funding level.
- KSU Land-Grant Program** - Additional operating funds to meet federal matching requirements for KSU's land-grant program each year of the upcoming biennium. Also included in the request, but not shown in the table above, is a \$671,500 current-year appropriation to meet the match in 2021-22. If authorized by the General Assembly, these funds would be added to \$8,210,400 in state provided land-grant funding already contained in KSU's 2021-22 operating appropriation and the resulting **\$8,881,900** mandated program total would be excluded from the performance funding model. These funds will help sustain the effectiveness and impact of outreach, service, and applied research of KSU's land-grant program.

### *Capital Investment*

- **New Construction** - A request for state bond funds (or cash) to support new and expanded space is not included in CPE staff's recommended, and the Finance Committee's endorsed, budget request. However, institutions are free to submit to the Governor and General Assembly their own requests for new capital construction projects.
- **Asset Preservation** - Debt service for a **\$700 million** bond issue (i.e., \$350 million each year) to finance renovation and renewal capital projects at the postsecondary institutions during the upcoming biennium (or that amount could be cash funded). If requested bond funds are authorized, CPE staff recommends that they be **matched fifty cents on the dollar** by receiving institutions. It is estimated that the combined **\$1.05 billion** total, state bonds and campus matching funds, would address about **15%** of a total asset preservation need estimated to exceed **\$7.0 billion**.
- **Technology Infrastructure** - A request for state bond funds (or cash) to support technology infrastructure projects is not included in CPE staff's recommended, and the Finance Committee's endorsed, budget request. Compared to other funding components, technology infrastructure was a relatively low priority among campus presidents and CBOs and CPE Executive Leadership. However, institutions are free to submit to the Governor and General Assembly their own requests for information technology and equipment projects.

### *Trust Funds*

- **Endowment Match Program** - Debt service for a **\$60 million** bond issue (i.e., \$30 million each year) to support a fifth round of funding for Bucks for Brains (or that amount could be cash funded). If authorized, the state funds would be **matched dollar-for-dollar** with institutional funds generated from external sources. State and campus matching funds would either be endowed, with investment proceeds available for expenditure in perpetuity on research related activities, or expended on eligible capital projects as permitted by Council guidelines. Investment proceeds would be used to support endowed chairs, professorships, research staff and infrastructure, and student fellowships and scholarships.
- **Competitive Workforce Initiative** - Additional operating funds that will be used to help Kentucky reestablish a competitive workforce through expanded educational and training opportunities (credit and noncredit) at KCTCS institutions. If authorized, these funds will be used to increase degree and credential production capacity at all levels (i.e., certificate, diploma, and associate degree) at every KCTCS institution and address worker skills and supply gaps in targeted industry sectors. KCTCS estimates that targeted workforce program expansion will cost \$17.8 million. It is anticipated that three-fourths of that cost will be covered by added tuition revenue, operating efficiencies, or other fund sources.

## 2022-2030 Statewide Strategic Agenda for Kentucky Postsecondary Education

### VISION

Kentucky will be a national leader in building a strong, sustainable and equitable economy through increased educational attainment and affordable, high-quality postsecondary programs.

### MISSION

Kentucky's postsecondary education system drives innovation, enhances public health and well-being, breaks cycles of generational poverty and improves quality of life by preparing students to be lifelong learners and excel in a diverse, knowledge-based economy.

### VALUES

- Inclusion, equity and diversity
- Quality and excellence
- Affordability and accessibility
- Innovation
- Business and community partnerships
- Transparency and accountability
- Institutional collaboration
- Comprehensive student support

### OVERARCHING GOAL

Educational Attainment - Increase the percentage of Kentucky's adult population (25-64) with a high-quality postsecondary credential to 60% by 2030.

### CROSS-CUTTING PRIORITY

Equity - Ensure all students have equitable opportunity and access to higher education and the tools needed to progress in and complete their programs prepared for life and work.

Strategic Priority	Objective	Strategies	Key Performance Indicators and Context Metrics	State Level	Campus Level
<b>AFFORDABILITY</b> Ensure postsecondary education is affordable for all Kentuckians.	<u>Objective 1:</u> Reduce financial barriers to college enrollment and completion.	1a. Work with campuses, stakeholders and other state leaders to increase access to grants and scholarships for low- and middle-income students. 1b. Moderate increases in tuition and mandatory fees at Kentucky's public colleges and universities. 1c. Increase opportunities for institutional collaboration to reduce campus expenditures and limit increases in college costs.	Unmet Financial Need Time to Degree FAFSA Completion  – <i>Direct Cost: tuition and mandatory Fees</i> – <i>Cumulative undergraduate Debt</i>	X X X	X X
	<u>Objective 2:</u> Improve the public's understanding of how to pay for college.	2a. Provide informational resources and advising strategies for counselors, teachers and community partners on paying for college. 2b. Coordinate and support efforts to increase the number of Kentuckians who complete the Free Application for Federal Student Aid (FAFSA). 2c. Establish state-level networks for high school counselors and other college access professionals to share effective practices, build expertise and develop common outreach and messaging for Kentucky students.			
<b>TRANSITIONS</b> Ensure more students successfully transition to college prepared to succeed.	<u>Objective 3:</u> Increase students' readiness to enter postsecondary education.	3a. Expand access to high-quality early postsecondary opportunities. 3b. Develop digital resources to help students explore career interests and college options. 3c. Partner with public K-12 schools and postsecondary institutions to provide outreach to students to help them prepare and plan for college.	Undergraduate Enrollment College-Going Rate  – <i>Gateway course completion</i> – <i>Dual credit hours earned</i> – <i>Percent of HS seniors with early college experience</i>	X X	X
	<u>Objective 4:</u> Increase enrollment in postsecondary education.	4a. Enhance college recruitment strategies through partnerships with postsecondary institutions and other stakeholders, with attention to underrepresented minority, adult and low-income students. 4b. Work with education providers to streamline and simplify postsecondary admission processes.			

