Combined Financial Statements
and Required Supplementary Information

2021

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

June 30, 2021

Strothman+Co

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and Required Supplementary Information

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

June 30, 2021

Strothman and Company
Certified Public Accountants and Advisors
1600 Waterfront Plaza
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Strothman+Co

Independent Auditors' Report

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

Report on the Financial Statements

We have audited the accompanying combined financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the Kentucky Higher Education Assistance Authority and the Kentucky Higher Education Student Loan Corporation (the "Authority/Corporation"), component units of the Commonwealth of Kentucky, as of and for the year ended June 30, 2021, and the related notes to the combined financial statements, which collectively comprise the Authority/Corporation's combined financial statements as listed in the accompanying table of contents.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

Our responsibility is to express opinions on these combined financial statements based on our audit. We did not audit the financial statements of Kentucky Education Savings Plan Trust, which statements reflect total assets of $259,643,076 as of June 30, 2021, and an increase to fiduciary net position of $43,074,840 for the year ended June 30, 2021. Those financial statements were audited by other auditors whose reports have been furnished to us, and our opinion, insofar as it relates to the amounts included for Kentucky Education Savings Plan Trust, is solely based on the reports of the other auditors. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the combined financial statements are free from material misstatement.

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

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

Opinions

In our opinion, based on our audit and the report of other auditors, the combined financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the Authority/Corporation as of June 30, 2021, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis (unaudited) on pages 3 through 13 and the required supplemental information on pages 76 through 81 be presented to supplement the basic combined financial statements. Such information, although not a part of the basic combined financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the combined financial statements in an appropriate operational, economic, or historical context. We and other auditors have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic combined financial statements, and other knowledge we obtained during our audit of the basic combined financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued a report dated September 28, 2021, on our consideration of the Authority/Corporation's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Authority/Corporation's internal control over financial reporting and compliance.

STROTHMAN AND COMPANY

Louisville, Kentucky
September 28, 2021

Description of the Business

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

The Authority/Corporation maintains the following operations:

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

<u>Student Aid</u> – Student Aid operations provide some or all levels of administration of fifteen student aid programs.

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

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

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

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

<u>Loan Finance</u> – The Loan Finance operation refinances existing long-term debt, issues new debt, originates and acquires private supplemental student loans, and acquires rehabilitated FFELP loans,

other FFELP loan portfolios and certain other FFELP loans required to be repurchased by the Higher Education Act.

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

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

Industry Update

The Health Care and Education Reconciliation Act ("HCERA") of 2010 (H.R.4872/Public Law 111-152) was signed into law on March 30, 2010. HCERA eliminated the origination and/or guarantee of FFELP loans, effective July 1, 2010. In accordance with HCERA, the Authority/Corporation continues to provide guarantee services on $1.9 billion of FFELP loans. This amount includes loan guarantees transferred to the Authority/Corporation on January 1, 2020 from the New Jersey Higher Education Student Assistance Authority as part of Federal Student Aid's ("FSA") designation of KHEAA as the guarantor for the State of New Jersey. The Authority/Corporation also continues to own and/or service $935 million of FFELP loans and other education loans. The Authority/Corporation can no longer originate, guarantee or fund any newly originated FFELP loans; however, the Authority/Corporation does continue to look for opportunities to mitigate the impact of the runoff of the FFELP legacy loan portfolio through Advantage Loan Program growth and through the acquisition of FFELP (rehabilitation) loans and additional FFELP guarantees.

The Authority/Corporation originally planned to leverage its experience collecting defaulted FFELP and Direct Loans to become one of the Private Collection Agencies ("PCA") selected by the U.S. Department of Education ("USDE") as part of future PCA Request for Proposal processes. The Authority/Corporation sought and received state legislative approval from the Commonwealth of Kentucky to create the Asset Resolution Corporation ("ARC") as the entity that would contract with USDE to become a PCA. ARC was created by the Kentucky General Assembly effective July 12, 2012. See Note A.

On December 26, 2013, former President Obama signed into law the Bipartisan Budget Act of 2013 (the "2013 Budget"). Section 502 of the 2013 Budget reduced the amount that the Authority/Corporation and other guaranty agencies are permitted to retain on rehabilitated defaulted student loans. Under the old rules, guaranty agencies were permitted to retain 18.5% of the principal balance of the rehabilitated loan and 100% of accrued interest, and could charge the borrower up to another 18.5% of the principal balance and accrued interest at the time of loan sale and retain such amount to defray collection costs. For rehabilitated loan sales on and after July 1, 2014, the 2013 Budget required that the guaranty agency pay ED 100% of the principal balance of the loan at the time of sale (multiplied by the reinsurance percentage in effect when payment under the guaranty agreement was made). In addition, the guaranty agency can charge to the borrower an amount not to exceed 16% of the outstanding principal and interest at the time of the loan sale in order to defray collection costs. These allowable charges have been temporarily superseded by the provisions of Dear Colleague Letter GEN-21-03 released in May 2021. See Note Q.

As it relates to currently known facts, decisions or conditions that have, could have or are expected to have a significant effect on financial position or results of operations, there are three items worthy of disclosure. First, as noted in Note M and Note N, House Bill 8 ("HB8") was passed into law on March 23, 2021. HB8 allows KHESLC to remain in the Retirement System under the (signed into law) provisions of HB8 and, effective July 1, 2021, continue contributing a normal cost times the payroll of KHESLC employees earning benefits in KERS plus an allocated portion of the Retirement System's annual amortization cost. The present value of 30-year payments under this option is estimated to be $105,666,670, which was less than any of the other possible options that could have occurred.

Second, the Authority/Corporation continue to monitor the financial and operational impact of the novel coronavirus ("COVID-19") pandemic. The United States Congress has enacted several COVID-19-related bills that authorize numerous measures in response to the economic effects of the COVID-19 Pandemic. Such measures include the scheduled payment of federally owned education loans, including federally owned FFELP Loans and loans originated under the Federal Direct Student Loan Program, and from certain other federal higher education aid requirements. The original six-month suspension, without interest, of student loan payments for federally owned education loans was extended multiple times, most recently until January 31, 2022. In addition, in May 2021 Dear Colleague Letter GEN-21-03 was released that formalized the expansion of the pause on federal student loan interest and collections to all defaulted loans in the FFEL program. See Note Q. Certain other legislation has been proposed as well, some of which would directly affect the payment performance of privately held portfolios of FFELP Loans and numerous other provisions that might indirectly affect such performance and the administrative and servicing costs and revenues associated with FFELP loans and other post-secondary education loans. There can be no assurance as to whether any proposed legislation will become law or, if it does become law, as to the nature of any changes to its current provisions or as to the timing of its enactment or implementation. In addition, there can also be no assurance as to the likelihood that any one or more of currently proposed provisions may not become law, in their current or in a modified form, by operation of other legislation. See Note S.

Third, despite certain rating surveillance challenges associated with the student loan sector since 2015, the Authority/Corporation's Loan Finance operation has remained very active with recent financings that closed in July 2018, April 2019, August 2019, November 2020 and March 2021. Many of the Authority/Corporation's bonds have been downgraded since 2015 due primarily to the concern by some rating agencies that certain FFELP Asset-Backed Security tranches will not fully pay down by their scheduled final maturity dates. This concern has been driven by an increase in the number of borrowers opting for extended repayment plans. The most widely available extended repayment plan is the Income-Based Repayment ("IBR") plan that caps borrower payments based on income and family size. The downgrades do not impact the cost of funds of the bonds. In addition, spreads have been reasonable since the large widening of spreads immediately subsequent to the 2015 actions. Although the cost of funds and spreads are stable, the Authority/Corporation has responded to the challenges these downgrades and other factors might present to some investors in its LIBOR floating rate notes. The most notable mitigating response included the November 2020 and March 2021 financings that successfully redeemed several of the bonds that had been downgraded since 2015.

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

June 30, 2021

Overview of Financial Statements

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

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

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

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

The Trust publishes separate financial statements and footnotes.

To obtain a copy of the combined financial statements and footnotes, please contact the Authority/Corporation at (502) 696-7440.

The following is a condensed summary of financial information for the years ended June 30, 2021 and 2020, respectively.

Management's Discussion and Analysis (Unaudited)

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

June 30, 2021

	Governmental Fund		Proprietary Funds	
	2021	2020	2021	2020
Net Position Information				
Capital assets			$ 5,598,065	$ 5,946,828
Other assets	$ 72,976,040	$52,792,503	1,211,424,266	1,204,682,756
Total Assets	72,976,040	52,792,503	1,217,022,331	1,210,629,584
Deferred Outflows of Resources:				
Deferred Amount on Debt Refunding			1,440,067	
Deferred OPEB expense			5,295,652	4,128,805
Deferred pension expense			7,785,852	10,708,875
Total Assets and Deferred Outflows of Resources	72,976,040	52,792,503	1,231,543,902	1,225,467,264
Long-term liabilities			1,013,927,637	969,223,777
Other liabilities	64,960	85,296	45,977,843	96,585,366
Deferred pension expense			5,524,355	6,103,287
Deferred OPEB expense			4,009,731	4,787,790
Deferred gain on debt retirements, net			10,056,631	11,133,705
Total Liabilities and Deferred Inflows of Resources	64,960	85,296	1,079,496,197	1,087,833,925
Invested in capital assets, net of expended debt proceeds			5,598,065	5,946,828
Unrestricted			(66,378,230)	(121,922,872)
Restricted, other			90,336,499	149,546,236
Restricted for program benefits	72,911,080	52,707,207		
Restricted for student aid and related activities			122,491,371	104,063,147
Total Net Positon	$ 72,911,080	$52,707,207	$ 152,047,705	$ 137,633,339
Activity Information				
Interest and investment income fund	$ 296,724	$ 85,301	$ 693,636	$ 5,865,891
Student aid & advancement fund revenue	291,579,600	254,585,343		
Unclaimed lottery revenue	7,500,000	11,000,000		
Contributions from Agency Operating Fund	2,357,727	2,482,333		
Federal funds revenue	38,630			
Servicing Fees from external sources			30,199	131,863
Servicing Fees from Education Finance Funds			5,018,481	5,547,037
Debt recovery commission			15,137,186	18,235,667
Reimbursement for lost revenue			16,421,673	
Federal fees earned			1,339,269	1,160,979
Default aversion fee income			183,796	57,642
Interest income on loans			13,686,152	14,524,949
Amortization of deferred gain on debt retirements			1,077,074	1,679,454
Gain on the sale of loans			1,991,642	900,817
Late payment penalties			494,026	683,011
School Services			888,559	951,518
Other income	435,668	1,188,325	617,626	379,185
Total Revenue	302,208,349	269,341,302	57,579,319	50,118,013
Kentucky Tuition Grant	35,711,194	35,934,126		
College Access Program Grant	90,023,444	91,831,748		
Early Graduation Scholarship	354,576	317,581		
Early Childhood Development Scholarship	539,754	691,665		
Kentucky National Guard Tuition Award Program	8,148,871	7,436,818		
Kentucky Educational Excellence Scholarship	119,091,051	119,087,406		
Teacher Scholarship	444,996	279,056		
Osteopathic Medicine Scholarship	1,856,202	592,260		
Optometry Scholarship Program	933,530			
Veterinary Contract Spaces Program	5,320,706			
Coal County Scholarship Program for Pharmacy Students	321,846	503,947		
Dual Credit Scholarship	9,524,977	5,592,524		
Work Ready Scholarship	9,487,687	11,417,784		
Kentucky Coal County College Completion Scholarship		731,067		
John R. Justice Grant	245,642			
Loan guarantee operations			1,767,095	2,195,527
Default collections			6,091,379	5,887,474
Loan finance and servicing activities			26,171,552	29,750,236
Outreach			3,363,312	3,446,536
Student aid administration			2,357,727	2,482,333
School services			3,020,231	3,047,300
Other activities			393,657	239,693
Total Expenditures	282,004,476	274,415,982	43,164,953	47,049,099
Change in Net Position	$ 20,203,873	$ (5,074,680)	$ 14,414,366	$ 3,068,914

Financial Analysis – Governmental and Proprietary Funds

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

This section of the annual financial report presents a discussion and analysis of the Authority/Corporation's government-wide performance for the fiscal year ended June 30, 2021. Please read it in conjunction with the Authority/Corporation's combined financial statements and notes to the combined financial statements, which follow this section.

Financial Overview

- The Authority/Corporation's proprietary fund total assets and deferred outflows increased approximately $6 million (.50%), from $1.225 billion to $1.231 billion. The net change was relatively small but was comprised of several offsetting increases and decreases in cash and cash equivalents, investments, loans and the receivable from FSLRF for reimbursement for lost revenue (see Note Q).

- The Authority/Corporation's proprietary fund liabilities and deferred inflows decreased $8 million (.77%) from $1.088 billion to $1.080 billion. The overall decrease in liabilities and deferred inflows was attributable to the net of various decreases and increases year over year. The decrease in other liabilities relates primarily to a $55.3 million direct borrowings decrease associated with the 2020-1 and 2021-1 financings, net of a $3.3 million increase in short-term bonds payable and a $2.2 million increase in the payable to USDE. The increase in long-term liabilities is also primarily related to the 2020-1 and 2021-1 financings that helped result in a year over year increase to noncurrent bonds payable of $124.6 million offset by an $80.2 million decrease in direct placements.

- The Authority/Corporation's proprietary fund revenues increased $7.5 million which is comprised of several increases and decreases in revenues including a $16.4 million increase to the newly created reimbursement for lost revenue (see Note Q), a $1.1 million increase from gain on sale of loans related to the 2020-1 and 2021-1 financings, offset by decreases of $5.2 million in interest and investment income and $3.1 million in debt recovery commissions. See the condensed financial information schedule for Governmental Fund and Proprietary Funds for the detail of these and other revenue variances year over year.

- The Authority/Corporation's total proprietary fund expenditures decreased approximately $3.9 million (8.3%), $3.6 million of which is related to a decrease in loan finance and servicing related expense. The $3.6 million decrease is related largely to lower expense from the change in Net Pension and Net OPEB liabilities. See the condensed financial information schedule for Governmental Fund and Proprietary Funds for a detailed side by side comparison of expenditures for each business-type activity.

- The Authority/Corporation's governmental fund assets increased by approximately $20.2 million due primarily to a $19.6 million increase in accounts receivable.

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

- The Authority/Corporation's governmental fund revenues increased approximately $32.9 million (12.2%), resulting primarily from an increase in student aid revenue of $37 million offset by decreases in unclaimed lottery revenue and other income of $3.5 million and $753,000, respectively.

- The Authority/Corporation's governmental fund expenditures increased approximately $7.6 million (2.8%) resulting largely from increases in several student aid programs including, but not limited to, the following: $712,000 for Kentucky National Guard, $3.9 million for Dual Credit Scholarship, $1.3 million for Osteopathic Medicine Scholarship and $5.3 million and $934,000 for the new Veterinary Contract Spaces and Optometry Scholarship Programs, respectively. These increases were offset primarily by a $1.8 million decrease in College Access Program Grant, a $1.9 million decrease in Work Ready Scholarship and a $731,000 decrease in the Coal County College Completion Scholarship. See the condensed financial information schedule for Governmental Fund and Proprietary Funds for a detailed side by side comparison of Governmental Fund expenditures.

Combined Statement of Net Position – Governmental Fund and Proprietary Funds

Total governmental net position increased from $52.7 million to $72.9 million. Total proprietary fund net position increased $14.4 million comprised of a $25.5 million increase from default collection operations (compared to a $12.3 million increase in prior year), $519,000 increase from loan guarantee operations (compared to $3.3 million increase in prior year), $3.4 million contribution for outreach activities (compared to $3.4 million contribution in prior year), $2.4 million contribution for student aid administration (compared to $2.4 million in prior year), $3.7 million loss in loan finance and servicing activities (compared to $4.5 million loss in prior year), and $2.1 million contribution for school services (compared to $2.1 million in prior year).

Certain highlights related to the combined statement of net position as of June 30, 2021, are as follows:

- The Authority/Corporation maintained $1.9 billion of FFELP guarantees outstanding.

- The Authority/Corporation owned and serviced $935 million of FFELP loans and education loans.

- The Authority/Corporation maintained $422 million of defaulted loan principal in its collection portfolio.

- Unrestricted net position is presented as a negative amount reflecting the overall decrease to the Corporation's Operating Fund net position due to GASB 68 and 75.

- Net position, restricted other, decreased from $149.5 million to $90.3 million due primarily to the 2020-1 and 2021-1 financings.

- Net position restricted for student aid and related activities increased from $104.1 million to $122.5 million.

Combined Statement of Revenues, Expenses and Changes in Net Position

The $14.4 million increase in proprietary fund net position during fiscal year 2021 was $11.3 million more than the $3.1 million increase during fiscal year 2020. The overall increase in proprietary fund net position was attributable to the net of an $18.1 million increase for the Authority and a $3.7 million decrease for the Corporation. The Authority’s increase of $18.1 million was approximately $10.5 million more than the prior year increase due largely to a full year of collecting the new New Jersey portfolio of defaulted loans added during FY2020. This increase manifested itself through the reimbursement for lost revenue provision described in Note Q. The Corporation’s loss was largely related to financing fees associated with the 2020-1 and 2021-1 financings and other activities. Another critical highlight related to the combined statement of revenues, expenses and changes in net position for the year ended June 30, 2021 is the $8.8 million of program benefits provided by the Authority/Corporation. The majority of these program benefits directly benefited the citizens of the Commonwealth of Kentucky.

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

June 30, 2021

	Federal Student Loan Reserve Fund		Kentucky's Affordable Prepaid Tuition		Kentucky Education Savings Plan Trust	
	2021	2020	2021	2020	2021	2020
Net Position Information						
Other assets	$ 28,410,974	$ 26,030,943	$ 33,179,368	$ 44,835,035	$ 259,643,076	$ 217,021,725
Total Assets	28,410,974	26,030,943	33,179,368	44,835,035	259,643,076	217,021,725
Total Liabilities	18,436,397	545,995	63,026,944	78,804,442	207,927	661,416
Restricted net position (deficit)	9,974,577	25,484,948	(29,847,576)	(33,969,407)	259,435,149	216,360,309
Total Net Position	**$ 9,974,577**	**$ 25,484,948**	**$ (29,847,576)**	**$ (33,969,407)**	**$ 259,435,149**	**$ 216,360,309**
Changes in Fiduciary Net Position Information						
Federal reinsurance	$ 73,452,518	$ 93,909,566				
Contributions			$ 16,009	$ 91,778	$ 24,989,205	$ 19,049,833
Investment revenue	4,000	192,466	3,396,230	2,112,620	40,379,783	4,637,673
Other income	922,068	1,278,268				
Total Additions	74,378,586	95,380,300	3,412,239	2,204,398	65,368,988	23,687,506
Administrative expenses			260,281	263,955	990,540	879,529
Refunds			2,995,222	2,187,352		
Trustee expense			76,975	99,478		
Tuition benefits expense (savings), net			(4,042,070)	(4,114,000)		
Loan claims	73,283,488	93,763,776				
Withdrawals					21,303,608	22,420,833
Default aversion	183,796	57,642				
Expenses for reimbursement of lost revenue	16,421,673					
Total Deductions	89,888,957	93,821,418	(709,592)	(1,563,215)	22,294,148	23,300,362
Change in Net Position	**$ (15,510,371)**	**$ 1,558,882**	**$ 4,121,831**	**$ 3,767,613**	**$ 43,074,840**	**$ 387,144**

Financial Analysis – Fiduciary Funds

This section of the annual financial report presents a discussion and analysis of the Authority/Corporation's fiduciary fund performance for the fiscal year ended June 30, 2021. Please read it in conjunction with the Authority/Corporation's combined financial statements and notes to the combined financial statements, which follow this section.

Financial Overview

- Federal reinsurance and loan claims paid balances typically approximate the other each year. Both decreased by approximately $20.5 million in FY2021 due primarily to Covid-19 and lender responses to Covid-19. In addition, approximately $16.4 million of expense for reimbursement for lost revenue was recognized in FY2021. See the Statement of Fiduciary Net Position explanation below and Note Q for more detail describing the nature of this expense for FY2021.

- The Plan noted a decrease in the Net Deficit of approximately $4.1 million in fiscal year 2021, due primarily to the net of several different factors including the following: gains due to favorable tuition inflation and investment experience, certain changes in program assumptions, other program experience during FY 2021 and interest on the deficit at an assumed rate of return.

Statement of Fiduciary Net Position (Deficit)

The Federal Student Loan Reserve Fund ("FSLRF") net position decreased $15.5 million over ending net position in the prior year. Assets increased by approximately $2.4 million while liabilities increased $17.9 million. On December 18, 2015, the Consolidated Appropriations Act, 2016, was signed into law and amended the maximum reinsurance rate within Section 428(c)(1) of the Higher Education Act by striking 95% and inserting 100% (see Notes E and S). Therefore, the Authority/Corporation has not recorded a reserve at June 30, 2021 for losses on federal reinsurance. The reinsurance complement to the FSLRF for collections of defaulted student loans has subsequently resulted in year over year increases to the FSLRF net position. However, this year's net decrease is largely attributable to USDE's expansion of the pause on federal student loan interest and collections to all defaulted loans in the FFEL program. See Note Q for Dear Colleague Letter ("DCL") guidance issued in the spring of 2021 describing required actions of the Authority. Those provisions include an allowance for the reimbursement of lost revenue for FFEL guaranty agencies. As of June 30, 2021, the FSLRF maintained a payable to the agency operating fund for $16,421,673 of reimbursement for lost revenue in accordance with the provisions of the DCL.

The Plan's total assets decreased $11.6 million, from $44.8 million as of June 30, 2020 to $33.2 million as of June 30, 2021. Total liabilities decreased $15.8 million from $78.8 million to $63 million. Detail related to tuition and investment return assumptions, as applicable, include the following:

- 2021-thereafter – The investment yield assumption is based on estimates of the yields that will be available on the investment portfolio and cash and cash equivalents. The gross investment yield assumption utilized in the calculation of the tuition benefit payable is based on an investment glide path approach for the Plan. The investments in the Plan will change over time to asset allocations that will reduce equity exposure and try to preserve investment gains. A glide path approach should better match projected payouts as the value of the Plan's assets continues to move closer to its depletion date.

- As of June 30, 2021, the tuition for the 2021-2022 academic year will be the same as the previous school year for the Value Plan and a 1% increase to the tuition payout values for the Standard Plan and Premium Plan. The Standard Plan and the Premium Plan tuition payout value assumption increase for the 2022-2023 academic year is 3.00%. The tuition increase assumption for each year thereafter through 2028, when all current participant standard utilization periods expire, is 4.25%.

The Trust is an Internal Revenue Code Section 529 plan managed by the Authority and administered on behalf of the Authority by Ascensus College Savings Recordkeeping Services, LLC. Trust assets are entirely comprised of cash and pooled investments. Total net position increased approximately $43.1 million during the year due primarily to investment revenues but also with some increase in contributions net of withdrawals. See the condensed financial information schedule for Fiduciary Funds on page 11 for a detailed side by side comparison of the Trust's revenues and expenses.

Statement of Changes in Fiduciary Net Position (Deficit)

The FSLRF net position decreased approximately $15.5 million over ending net position in the prior year. This decrease in net position is comprised of the net of a $17.9 million increase in liabilities and a $2.4 million decrease in assets. See the Statement of Fiduciary Net Position explanation above and Note Q for more detail describing the change in the FSLRF balance during FY2021.

The Plan noted a decrease in the Net Deficit of approximately $4.1 million in fiscal year 2021, due primarily to the net of several different factors including the following: gains due to favorable tuition inflation and investment experience, certain changes in program assumptions, other program experience during FY 2021 and interest on the deficit at an assumed rate of return.

Combined Government-Wide Statement of Net Position

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

June 30, 2021

ASSETS	Governmental Activities	Business-Type Activities	Total
Current:			
Cash and cash equivalents	$ 8,001,160	$ 68,825,633	$ 76,826,793
Investments		3,053,724	3,053,724
Accounts receivable and prepaid expenses	57,649,234	1,119,274	58,768,508
Accrued interest income		28,645,600	28,645,600
Receivable from U.S. Department of Education		320,000	320,000
Receivable from FSLRF for reimbursement for lost revenue		16,421,673	16,421,673
Loans, net		121,445,332	121,445,332
Scholarship conversion loans receivable	450,000		450,000
Total Current Assets	66,100,394	239,831,236	305,931,630
Noncurrent:			
Restricted cash and cash equivalents		76,739,685	76,739,685
Investments		96,842,607	96,842,607
Fixed assets, net		5,598,065	5,598,065
Loans, net		789,508,050	789,508,050
Accrued interest income, net		8,502,688	8,502,688
Scholarship conversion loans receivable, net	3,445,081		3,445,081
Scholarship advances receivable	3,430,565		3,430,565
Total Noncurrent Assets	6,875,646	977,191,095	984,066,741
Total Assets	72,976,040	1,217,022,331	1,289,998,371
Deferred Outflows of Resources:			
Deferred amount on debt refunding		1,440,067	1,440,067
Deferred OPEB expense		5,295,652	5,295,652
Deferred pension expense		7,785,852	7,785,852
Total Assets and Deferred Outflows of Resources	72,976,040	1,231,543,902	1,304,519,942
LIABILITIES			
Current:			
Accounts payable and accrued expenses	64,960	6,690,058	6,755,018
Accrued interest expense		785,240	785,240
Payable to U.S. Department of Education		7,790,111	7,790,111
Direct borrowing		17,190,541	17,190,541
Lease Payable		131,893	131,893
Bonds payable		13,390,000	13,390,000
Total Current Liabilities	64,960	45,977,843	46,042,803
Noncurrent:			
Net OPEB liability		21,718,987	21,718,987
Net pension liability		121,170,958	121,170,958
Allowance for arbitrage liabilities		458,189	458,189
Direct placements		185,993,000	185,993,000
Lease payable		131,893	131,893
Payable to Federal Student Loan Reserve Fund		889,303	889,303
Bonds payable, net		683,565,307	683,565,307
Total Noncurrent Liabilities		1,013,927,637	1,013,927,637
Total Liabilities	64,960	1,059,905,480	1,059,970,440
Deferred Inflows of Resources:			
Deferred pension expense		5,524,355	5,524,355
Deferred OPEB expense		4,009,731	4,009,731
Deferred gain on debt retirements, net		10,056,631	10,056,631
Total Liabilities and Deferred Inflows of Resources	64,960	1,079,496,197	1,079,561,157
NET POSITION			
Invested in capital assets, net of expended debt proceeds		5,598,065	5,598,065
Restricted, other		90,336,499	90,336,499
Restricted for program benefits	72,911,080		72,911,080
Restricted for student aid and related activities		122,491,371	122,491,371
Unrestricted		(66,378,230)	(66,378,230)
Total Net Position	$ 72,911,080	$ 152,047,705	$ 224,958,785

Combined Government-Wide Statement of Activities

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

For the Year Ended June 30, 2021

			Program Revenue		Net (Expenses) Revenues and Changes in Net Position		
	Direct Expenses	**Indirect Expenses**	**Charges for Services**	**Operating Grants and Contributions**	**Governmental Activities**	**Business-Type Activities**	**Total**
Governmental Activities:							
Kentucky Tuition Grant	$ 35,542,902	$ 168,292		$ 45,295,521	$ 9,584,327		$ 9,584,327
College Access Program Grant	89,855,653	167,791		98,949,986	8,926,542		8,926,542
Early Graduation Scholarship	186,000	168,576		354,576			
Early Childhood Development Scholarship	371,313	168,441		175,627	(364,127)		(364,127)
Kentucky National Guard Tuition Award Program	7,980,430	168,441		7,588,929	(559,942)		(559,942)
Kentucky Educational Excellence Scholarship	118,922,893	168,158		121,511,155	2,420,104		2,420,104
Teacher Scholarship	276,554	168,442		214,117	(230,879)		(230,879)
Dual Credit Scholarship Program	9,356,686	168,291		11,416,582	1,891,605		1,891,605
Osteopathic Medicine Scholarship	1,687,761	168,441		369,645	(1,486,557)		(1,486,557)
Work Ready Scholarship	9,319,396	168,291		9,525,573	37,886		37,886
Veterinary Contract Spaces Program	5,152,000	168,706		5,416,706	96,000		96,000
Optometry Scholarship Program	764,824	168,706		964,306	30,776		30,776
Coal County Scholarship Program for Pharmacy Students	153,271	168,575		218,420	(103,426)		(103,426)
John R. Justice Grant	77,066	168,576		207,206	(38,436)		(38,436)
Total Governmental Activities	279,646,749	2,357,727		302,208,349	20,203,873		20,203,873
Business-Type Activities:							
Loan guarantee operations	1,767,095		$ 2,286,173			$ 519,078	519,078
Default collections	6,091,379		31,558,859			25,467,480	25,467,480
Loan finance and servicing activities	26,171,552		22,452,071			(3,719,481)	(3,719,481)
Outreach	3,363,312					(3,363,312)	(3,363,312)
Student aid administration	2,357,727					(2,357,727)	(2,357,727)
School services	3,020,231		888,559			(2,131,672)	(2,131,672)
Other activities	393,657		393,657				
Total Business-Type Activities	43,164,953		57,579,319			14,414,366	14,414,366
Total Activities	$ 322,811,702	$ 2,357,727	$ 57,579,319	$ 302,208,349	20,203,873	14,414,366	34,618,239
Net Position, July 1, 2020					52,707,207	137,633,339	190,340,546
Net Position, June 30, 2021					$ 72,911,080	$ 152,047,705	$ 224,958,785

Combined Statement of Net Position - Proprietary Funds

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

June 30, 2021

	Authority			Corporation			Combined
	Internal Service Fund	Agency Operating Fund	Authority Total	Education Finance Funds	Operating Fund	Corporation Total	Total
ASSETS							
Current:							
Cash and cash equivalents	$ 2,682,388	$ 24,162,894	$ 26,845,282		$ 41,980,351	$ 41,980,351	$ 68,825,633
Investments		3,053,724	3,053,724				3,053,724
Accounts receivable and prepaid expenses	333,508	230,481	563,989		555,285	555,285	1,119,274
Accrued interest income		362,856	362,856	$ 26,815,852	1,466,892	28,282,744	28,645,600
Receivable from U.S. Department of Education		320,000	320,000				320,000
Receivable from FSLRF for reimbursement for lost revenue		16,421,673	16,421,673				16,421,673
Loans, net				117,179,610	4,265,722	121,445,332	121,445,332
Total Current Assets	3,015,896	44,551,628	47,567,524	143,995,462	48,268,250	192,263,712	239,831,236
Noncurrent:							
Restricted cash and cash equivalents				76,739,685		76,739,685	76,739,685
Investments		87,498,160	87,498,160		9,344,447	9,344,447	96,842,607
Fixed assets, net		5,367,250	5,367,250		230,815	230,815	5,598,065
Loans, net				755,413,431	34,094,619	789,508,050	789,508,050
Accrued interest income, net				7,524,013	978,675	8,502,688	8,502,688
Total Noncurrent Assets		92,865,410	92,865,410	839,677,129	44,648,556	884,325,685	977,191,095
Total Assets	3,015,896	137,417,038	140,432,934	983,672,591	92,916,806	1,076,589,397	1,217,022,331
Deferred Outflows of Resources:							
Deferred Amount on Debt Refunding				1,440,067		1,440,067	1,440,067
Deferred OPEB expense		350,648	350,648		4,945,004	4,945,004	5,295,652
Deferred pension expense		725,075	725,075		7,060,777	7,060,777	7,785,852
Total Deferred Outflows		1,075,723	1,075,723	1,440,067	12,005,781	13,445,848	14,521,571
Total Assets and Deferred Outflows of Resources	3,015,896	138,492,761	141,508,657	985,112,658	104,922,587	1,090,035,245	1,231,543,902

Combined Statement of Net Position - Proprietary Funds

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

June 30, 2021

	Authority			Corporation			Combined
	Internal Service Fund	**Agency Operating Fund**	**Authority Total**	**Education Finance Funds**	**Operating Fund**	**Corporation Total**	**Total**
LIABILITIES							
Current:							
Accounts payable and accrued expenses	1,007,814	1,321,425	2,329,239	279,949	4,080,870	4,360,819	6,690,058
Interfund payable (receivable)	2,008,082	(2,073,709)	(65,627)	(775,582)	841,209	65,627	
Accrued interest expense				762,265	22,975	785,240	785,240
Payable to U.S. Department of Education				6,978,539	811,572	7,790,111	7,790,111
Direct borrowing					17,190,541	17,190,541	17,190,541
Lease Payable		131,893	131,893				131,893
Bond Payable				13,390,000		13,390,000	13,390,000
Total Current Liabilities	3,015,896	(620,391)	2,395,505	20,635,171	22,947,167	43,582,338	45,977,843
Noncurrent:							
Net OPEB liability		1,391,626	1,391,626		20,327,361	20,327,361	21,718,987
Net pension liability		7,763,930	7,763,930		113,407,028	113,407,028	121,170,958
Allowance for arbitrage liabilities				458,189		458,189	458,189
Direct placements				185,993,000		185,993,000	185,993,000
Lease Payable		131,893	131,893				131,893
Payable to Federal Student Loan Reserve Fund		889,303	889,303				889,303
Bonds payable, net				683,565,307		683,565,307	683,565,307
Total Noncurrent Liabilities		10,176,752	10,176,752	870,016,496	133,734,389	1,003,750,885	1,013,927,637
Total Liabilities	3,015,896	9,556,361	12,572,257	890,651,667	156,681,556	1,047,333,223	1,059,905,480
Deferred Inflows of Resources:							
Deferred pension expense		578,398	578,398		4,945,957	4,945,957	5,524,355
Deferred OPEB expense		499,381	499,381		3,510,350	3,510,350	4,009,731
Deferred gain on debt retirements, net				10,056,631		10,056,631	10,056,631
Total Liabilities and Deferred Inflows of Resources	3,015,896	10,634,140	13,650,036	900,708,298	165,137,863	1,065,846,161	1,079,496,197
NET POSITION							
Invested in capital assets, net		5,367,250	5,367,250		230,815	230,815	5,598,065
Restricted, other				84,404,360	5,932,139	90,336,499	90,336,499
Restricted for student aid and related activities		122,491,371	122,491,371				122,491,371
Unrestricted					(66,378,230)	(66,378,230)	(66,378,230)
Total Net Position	$	$ 127,858,621	$ 127,858,621	$ 84,404,360	$ (60,215,276)	$ 24,189,084	$ 152,047,705

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

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

For the Year Ended June 30, 2021

	Authority			Corporation			Combined
	Internal Service Fund	**Agency Operating Fund**	**Authority Total**	**Education Finance Funds**	**Operating Fund**	**Corporation Total**	**Total**
Operating Revenues:							
Interest Revenues:							
Interest on loans				$ 26,441,137	$ 2,013,373	$ 28,454,510	$ 28,454,510
Interest and investment income		$ 612,625	$ 612,625	29,720	51,291	81,011	693,636
Amortization of deferred gain on debt retirements				1,077,074		1,077,074	1,077,074
Interest expense on bonds				(13,924,546)	(843,812)	(14,768,358)	(14,768,358)
Total Net Interest Revenues		612,625	612,625	13,623,385	1,220,852	14,844,237	15,456,862
Financing Expenses:							
Provision for arbitrage				(19,933)		(19,933)	(19,933)
Provision for loan losses				792,356	(231,416)	560,940	560,940
Debt issuance costs				5,122,623		5,122,623	5,122,623
Long-term debt credit facility and remarketing fees				484,498	123,561	608,059	608,059
Total Financing Expenses				6,379,544	(107,855)	6,271,689	6,271,689
Interest Revenues Net of Financing Expenses		612,625	612,625	7,243,841	1,328,707	8,572,548	9,185,173
Other Operating Revenues:							
Servicing fees from external sources					30,199	30,199	30,199
Servicing fees from Education Finance Funds					5,018,481	5,018,481	5,018,481
Debt recovery commission		15,137,186	15,137,186				15,137,186
Reimbursement for lost revenue		16,421,673	16,421,673				16,421,673
Federal fees earned		1,339,269	1,339,269				1,339,269
Default aversion fee income		183,796	183,796				183,796
Gain on sale/purchase of loans				563,436	1,428,206	1,991,642	1,991,642
Late payment penalties				503,893	(9,867)	494,026	494,026
School services		888,559	888,559				888,559
Other income	$ 393,657	150,483	544,140		73,486	73,486	617,626
Total Operating Revenues	393,657	34,733,591	35,127,248	8,311,170	7,869,212	16,180,382	51,307,630

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

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

For the Year Ended June 30, 2021

	Authority			Corporation			Combined
	Internal Service Fund	**Agency Operating Fund**	**Authority Total**	**Education Finance Funds**	**Operating Fund**	**Corporation Total**	**Total**
Operating Expenses:							
Administrative expenses	393,657	7,244,992	7,638,649		13,809,236	13,809,236	21,447,885
Servicing fees for Operating Fund				5,018,481		5,018,481	5,018,481
Depreciation and amortization		385,986	385,986		173,403	173,403	559,389
Other expenses		227,496	227,496	385,297	438,631	823,928	1,051,424
Total Operating Expenses	393,657	7,858,474	8,252,131	5,403,778	14,421,270	19,825,048	28,077,179
Net Operating Income (Loss) Before Program Benefits		26,875,117	26,875,117	2,907,392	(6,552,058)	(3,644,666)	23,230,451
Program Benefits:							
Principal and interest benefits				74,775	40	74,815	74,815
School service		3,020,231	3,020,231				3,020,231
Outreach		3,363,312	3,363,312				3,363,312
Student aid administration		2,357,727	2,357,727				2,357,727
Total Program Benefits		8,741,270	8,741,270	74,775	40	74,815	8,816,085
Operating Income (Loss) Before Transfers		18,133,847	18,133,847	2,832,617	(6,552,098)	(3,719,481)	14,414,366
Transfers (to) from Other Funds							
Interfund transfers				(62,306,665)	62,306,665		
Increase (Decrease) in Net Position After Transfers		18,133,847	18,133,847	(59,474,048)	55,754,567	(3,719,481)	14,414,366
Net Position, July 1, 2020		109,724,774	109,724,774	143,878,408	(115,969,843)	27,908,565	137,633,339
Net Position, June 30, 2021		$ 127,858,621	$ 127,858,621	$ 84,404,360	$ (60,215,276)	$ 24,189,084	$ 152,047,705

Combined Statement of Cash Flows - Proprietary Funds

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

For the Year Ended June 30, 2021

	Authority			Corporation			Combined
	Internal Service Fund	Agency Operating Fund	Authority Total	Education Finance Funds	Operating Fund	Corporation Total	Total
Cash Flows from Operating Activities:							
Principal received on loans				$ 138,925,456	$ 12,460,298	$ 151,385,754	$ 151,385,754
Interest received on loans				22,372,514	5,088,814	27,461,328	27,461,328
Special allowance paid				(15,125,065)	(864,415)	(15,989,480)	(15,989,480)
Servicing fees received, internal sources	$ (393,657)	$ 289,149	$ (104,508)	(5,018,481)	5,018,481		(104,508)
School services fees received		888,559	888,559				888,559
Servicing fees received, external sources					30,173	30,173	30,173
Debt recovery commission received		15,137,186	15,137,186				15,137,186
Reimburement for lost revenue		16,421,673	16,421,673				16,421,673
Federal fees received		1,339,269	1,339,269				1,339,269
Default aversion fees received		183,796	183,796				183,796
Outreach		(3,363,312)	(3,363,312)				(3,363,312)
School services		(3,020,231)	(3,020,231)				(3,020,231)
Internal activity-payments to other funds	51,564	(51,564)		5,179,903	(5,179,903)		
Loans originated, including costs				(3,589,705)	(26,563,779)	(30,153,484)	(30,153,484)
Administrative expenses paid		(15,351,404)	(15,351,404)	(2,818,304)	(12,085,205)	(14,903,509)	(30,254,913)
Credit facility fees paid				(484,498)	(106,605)	(591,103)	(591,103)
Loans purchased, including premiums				(1,417,742)	(45,416,591)	(46,834,333)	(46,834,333)
Student aid administration		(2,357,727)	(2,357,727)				(2,357,727)
Interfund loan sales and purchases				(97,359,248)	97,359,248		
Client loan receipts					653,112	653,112	653,112
Loan receipts remitted to clients					(647,588)	(647,588)	(647,588)
Net Cash Provided By (Used In) Operating Activities	(342,093)	10,115,394	9,773,301	40,664,830	29,746,040	70,410,870	80,184,171
Cash Paid from Noncapital Financing Activities:							
Proceeds from debt issued				557,855,894	41,597,902	599,453,796	599,453,796
Debt principal payments				(511,052,490)	(96,917,961)	(607,970,451)	(607,970,451)
Interest on debt				(14,768,250)	(870,686)	(15,638,936)	(15,638,936)
Deferred Amount on Debt Refunding				(204,039)		(204,039)	(204,039)
Debt Issuance Costs				(5,122,623)		(5,122,623)	(5,122,623)
Interfund transfers				(62,306,665)	62,306,665		
Borrowing from the Authority					(8,173,360)	(8,173,360)	(8,173,360)
Net Cash Used In Noncapital Financing Activities				(35,598,173)	(2,057,440)	(37,655,613)	(37,655,613)
Cash Flows From Capital and Related Financing Activities:							
Capital expenditures		(453,783)	(453,783)		(119,017)	(119,017)	(572,800)
Lease payments		263,786	263,786				263,786
Net Cash Used In Capital and Related Financing Activities		(189,997)	(189,997)		(119,017)	(119,017)	(309,014)
Cash Flows From Investing Activities:							
Proceeds from sales/maturities of investments		67,018,069	67,018,069		6,705,683	6,705,683	73,723,752
Purchases of investments		(67,835,112)	(67,835,112)		(6,907,702)	(6,907,702)	(74,742,814)
Investment income		236,344	236,344	35,752	242,375	278,127	514,471
Net Cash Provided By (Used In) Investing Activities		(580,699)	(580,699)	35,752	40,356	76,108	(504,591)
Net Increase (Decrease) in Cash and Cash Equivalents	(342,093)	9,344,698	9,002,605	5,102,409	27,609,939	32,712,348	41,714,953
Cash and Cash Equivalents, July 1, 2020	3,024,481	14,818,196	17,842,677	71,637,276	14,370,412	86,007,688	103,850,365
Cash and Cash Equivalents, June 30, 2021	$ 2,682,388	$ 24,162,894	$ 26,845,282	$ 76,739,685	$ 41,980,351	$ 118,720,036	$ 145,565,318

Combined Statement of Cash Flows - Proprietary Funds

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

For the Year Ended June 30, 2021

	Authority			Corporation			Combined
	Internal Service Fund	Agency Operating Fund	Authority Total	Education Finance Funds	Operating Fund	Corporation Total	Total
Reconciliation of Operating Income to Net Cash Provided By (Used In) Operating Activities							
Operating income (loss) before transfers		$ 18,133,847	$ 18,133,847	$ 2,832,617	$ (6,552,098)	$ (3,719,481)	$ 14,414,366
Adjustments to reconcile operating income to net cash provided by (used in) operating activities:							
Investment income		(612,625)	(612,625)	(35,752)	(54,667)	(90,419)	(703,044)
Depreciation and amortization		748,160	748,160		173,403	173,403	921,563
Amortization of deferred gain on debt retirements				(1,077,074)		(1,077,074)	(1,077,074)
Amortization, expense and write-off of debt issuance costs				5,122,623		5,122,623	5,122,623
Interest expense				13,924,546	843,812	14,768,358	14,768,358
Provision for loan losses				792,356	(231,416)	560,940	560,940
Borrower interest converted to principal				(19,323,194)	(2,371,002)	(21,694,196)	(21,694,196)
Loan forgiveness				74,775	40	74,815	74,815
Pension expense		(1,216,408)	(1,216,408)		589,749	589,749	(626,659)
OPEB expense					367,419	367,419	367,419
(Increases) decreases in assets:							
Accounts receivables and prepaid expenses	$ (333,508)	337,833	4,325		234,184	234,184	238,509
Receivable from the FSLRF for reimbursement of lost revenue		(16,421,673)	(16,421,673)				(16,421,673)
Accrued interest receivable		(48,684)	(48,684)	(4,844,118)	4,029,649	(814,469)	(863,153)
Principal received on loans				138,925,456	12,460,298	151,385,754	151,385,754
Loans purchased, including premiums				(1,417,742)	(45,416,591)	(46,834,333)	(46,834,333)
Loans originated, including costs				(3,589,705)	(26,563,779)	(30,153,484)	(30,153,484)
Interfund loan sales and purchases				(97,359,248)	97,359,248		
Increases (decreases) in liabilities:							
Accounts payable and accrued expenses	143,749	1,046,978	1,190,727	(298,093)	(356,221)	(654,314)	536,413
Payable to U.S. Department of Education				1,777,413	413,915	2,191,328	2,191,328
Interfund receivable/payable	(152,334)	8,147,966	7,995,632	5,179,903	(5,179,903)		7,995,632
Allowance for arbitrage liabilities				(19,933)		(19,933)	(19,933)
Net Cash Provided By (Used In) Operating Activities	$ (342,093)	$ 10,115,394	$ 9,773,301	$ 40,664,830	$ 29,746,040	$ 70,410,870	$ 80,184,171

Balance Sheet - Governmental Fund

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

June 30, 2021

	Governmental Fund Student Aid
ASSETS	
Current:	
Cash and cash equivalents	$ 8,001,160
Accounts receivable	57,649,234
Scholarship conversion loans receivable	450,000
Total Current Assets	66,100,394
Noncurrent:	
Scholarship conversion loans receivable, net of allowance of $3,410,000	3,445,081
Scholarship advances receivable	3,430,565
Total Noncurrent Assets	6,875,646
Total Assets	72,976,040
LIABILITIES	
Current:	
Accounts payable	64,960
Total Liabilities	64,960
FUND BALANCE	
Restricted for program benefits	$ 72,911,080

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

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

For the Year Ended June 30, 2021

	Governmental Fund
	Student Aid
Revenues:	
Interest and investment income fund	$ 296,724
Unclaimed lottery revenue	7,500,000
State General Fund revenue	291,579,600
Federal funds revenue	38,630
Other income	435,668
Contribution from Agency Operating Fund	2,357,727
Total Revenues	302,208,349
Expenditures:	
Kentucky Tuition Grant	35,711,194
College Access Program Grant	90,023,444
Early Graduation Scholarship	354,576
Early Childhood Development Scholarship	539,754
Kentucky National Guard Tuition Award Program	8,148,871
Kentucky Educational Excellence Scholarship	119,091,051
Teacher Scholarship	444,996
Osteopathic Medicine Scholarship	1,856,202
Coal County Scholarship Program for Pharmacy Students	321,846
Optometry Scholarship Program	933,530
Veterinary Contract Spaces Program	5,320,706
Dual Credit Scholarship Program	9,524,977
Work Ready Scholarship	9,487,687
John R. Justice Grant	245,642
Total Expenditures	282,004,476
Net Change in Fund Balance	20,203,873
Fund Balance, July 1, 2020	52,707,207
Fund Balance, June 30, 2021	$ 72,911,080

Statement of Fiduciary Net Position (Deficit)

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

June 30, 2021

ASSETS	Federal Student Loan Reserve Fund	Kentucky's Affordable Prepaid Tuition	Kentucky Education Savings Plan Trust
Current:			
Cash and cash equivalents	$ 24,063,850	$ 9,955,153	$ 158,935
Contributions receivable		29,806	
Fees receivable		2,308	
Receivable from U.S. Department of Education	1,534,818		
Investments		23,187,217	259,464,326
Other current assets			19,815
Total Current Assets	25,598,668	33,174,484	259,643,076
Noncurrent:			
Default aversion fees receivable	2,812,306		
Contributions receivable		4,884	
Total Noncurrent Assets	2,812,306	4,884	
Total Assets	28,410,974	33,179,368	259,643,076
LIABILITIES			
Current:			
Accounts payable	91,721	20,703	118,409
Accrued expenses			89,518
Tuition benefits payable		13,291,204	
Payable to AOF for reimbursement of lost revenue	16,421,673		
Payable to Agency Operating Fund	1,923,003		
Total Current Liabilities	18,436,397	13,311,907	207,927
Noncurrent:			
Tuition benefits payable		49,715,037	
Total Liabilities	18,436,397	63,026,944	207,927
NET POSITION (DEFICIT)			
Restricted for program benefits		(29,847,576)	259,435,149
Restricted for other purposes	9,974,577		
Total Net Position (Deficit)	$ 9,974,577	$ (29,847,576)	$ 259,435,149

Statement of Changes in Fiduciary Net Position (Deficit)

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

For the Year Ended June 30, 2021

	Federal Student Loan Reserve Fund	Kentucky's Affordable Prepaid Tuition	Kentucky Education Savings Plan Trust
Additions:			
Federal reinsurance	$ 73,452,518		
Contract income, net		$ 16,009	
Contributions			$ 24,989,205
Investment Revenues:			
Net increase (decrease) in fair value of investments		(6,272,992)	36,293,586
Interest and investment income	4,000	9,669,222	4,086,197
Other income	922,068		
Total Additions	74,378,586	3,412,239	65,368,988
Deductions:			
Program benefits:			
Loan claims	73,283,488		
Default aversion fee expense	183,796		
Withdrawals			21,303,608
Administrative expenses		47,031	990,540
Personnel and professional expenses		213,250	
Expenses for reimbursement of lost revenue	16,421,673		
Refunds		2,995,222	
Trustee fee expense		76,975	
Tuition benefits expense, net		(4,042,070)	
Total Deductions	89,888,957	(709,592)	22,294,148
Change in Net Position	(15,510,371)	4,121,831	43,074,840
Net Position (Deficit), July 1, 2020	25,484,948	(33,969,407)	216,360,309
Net Position (Deficit), June 30, 2021	$ 9,974,577	$ (29,847,576)	$ 259,435,149

Note A--Description of Business

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

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

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

Note A--Description of Business--Continued

Outreach Programs

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

Student Aid Programs

Student Aid – During FY2021, the Authority/Corporation provided some or all levels of administration of sixteen student aid programs: (1) Kentucky Educational Excellence Scholarship, (2) College Access Program Grant ("CAP"), (3) Kentucky Tuition Grant ("KTG"), (4) Teacher Scholarship, (5) Osteopathic Medicine Scholarship, (6) Veterinary Contract Spaces Program, (7) Early Childhood Development Scholarship, (8) Optometry Scholarship Program, (9) Work Ready Kentucky Scholarship, (10) John R. Justice Grant, (11) Kentucky National Guard Tuition Award Program, (12) Early Graduation Scholarship, (13) Minority Educator Recruitment and Retention Scholarship, (14) Dual Credit Scholarship Program, (15) Kentucky Academy for Equity in Teaching Program and (16) Coal County Scholarship Program for Pharmacy Students.

Kentucky Educational Savings Plan Trust

The Trust was formed on July 15, 1988, by Kentucky law, to help families save for the costs of higher education. The Trust is administered by the Authority/Corporation's Board of Directors. The Authority had a contract with TIAA-CREF Tuition Financing, Inc. ("TFI"), a wholly-owned subsidiary of Teachers Insurance and Annuity Association of America ("TIAA") from July 1, 2018 through February 22, 2019. On February 22, 2019, program administration of the Trust converted from TIAA to Ascensus College Savings Recordkeeping Services, LLC. The Trust is operated in a manner such that it is exempt from registration as an investment company under the Investment Company Act of 1940. The Trust offers certain federal and state tax advantages to account owners.

Note A--Description of Business--Continued

An individual or entity participating in the Trust establishes an account in the name of a Beneficiary. Effective February 25, 2019, investment contributions with Ascensus as Program Manager consist of the following six options offered by eleven different investment companies: the Managed Allocation Option (eight different enrollment bands), the Active Bond Option, the Equity Index Option, the Active Equity Option, the Capital Preservation Option and the Guaranteed Option. The Guaranteed Option is open only to those in the program as of the February 22, 2019 conversion date.

Contributions in the current Ascensus Managed Allocation Option are allocated among eight school enrollment bands within an open architecture investment approach. Open architecture helps avoid the conflict of interest that would exist if the administrator only recommended its own products. Each age band invests in varying percentages within the six investment options and investment choices include the following eleven new investment companies: American Funds, Dimensional Fund Advisors ("DFA"), Cohen & Steers, Baird, Blackrock, iShares, Schwab, Vanguard, PGIM, NexBank High Yield Savings and TIAA-CREF Funding Agreement.

All investment allocation percentages are determined by the Authority/Corporation's Board of Directors and reviewed annually. The assets of the Guaranteed Option and a percentage of the assets of the five upper level enrollment bands in Managed Allocation are allocated to a funding agreement issued by TIAA-CREF Life Insurance Company, a subsidiary of TIAA, which offers a guarantee of principal and a minimum rate of return to the Trust. The current Ascensus Equity Options are distributed over eighteen offerings from eight different investment companies specializing in equity management. The Guaranteed Option is contractually obligated to pay a minimum rate of return of 1%. For fiscal year 2021, the Guaranteed investment rate was 1.38%. The NexBank High Yield Savings offered within the Capital Preservation Option had an Annual Percentage Yield of .77% as of June 30, 2021.

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

Prepaid Tuition Plan

The Authority/Corporation also administers the Plan, which was created by the 2000 Kentucky General Assembly and is governed under Kentucky Revised Statutes ("KRS") 164A.700-709.

On July 1, 2005, governance of the Plan permanently transferred to the Authority/Corporation. The Plan was established to provide families with an opportunity to save for future postsecondary education expenses. The Plan's investment policy goal is to earn rates of return that closely match or exceed anticipated tuition inflation rates and remain sufficiently liquid to meet the Plan's benefit payments in a timely manner. The Plan offered enrollment periods in fiscal years 2002, 2003 and 2005, for purchasers to buy prepaid tuition contracts. The Plan offers certain federal and state tax advantages to purchasers. There have been no enrollment periods since fiscal year 2005 as the Plan currently maintains an accumulated net deficit of approximately $29.8 million.

Participants purchased annual tuition units at then current tuition levels, or tuition levels at the time of purchase, plus a premium, and receive benefits equal to tuition rates in place at the time that the student attends a qualified postsecondary education institution. The Plan offered three tuition plans –

Note A--Description of Business--Continued

the Value Plan, the Standard Plan and the Premium Plan. In the Value Plan, participants purchased tuition units and receive benefits indexed to the tuition rate of the Kentucky Community and Technical College System. The Standard Plan offers tuition units and benefits indexed to the tuition rate of Kentucky's most expensive public university. The Premium Plan offers tuition units at the then current average tuition cost of Kentucky's private colleges and universities and guarantees a return on a participant's investment equal to the tuition inflation rate for the University of Kentucky.

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

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

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

As of June 30, 2021, the Plan maintained a present value fund deficit of $29.8 million. This represents a $4.1 million decrease over the previous year's deficit. Based on actuarial estimates, the Plan's assets will be exhausted in fiscal year 2025, at which time the liability of the Plan becomes a General Obligation of the Commonwealth of Kentucky. Per KRS 164A.708, once a real liability is expected to accrue, the General Assembly shall appropriate the necessary funds to meet the liability. Over the remaining estimated life of the program, through fiscal year 2030, actuarial estimates show the Commonwealth of Kentucky will need to transfer approximately $33.7 million.

Note A--Description of Business--Continued

Loan Guarantee Operations

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

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

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

Other sources of revenues to the FSLRF include the federal complement on collections of defaulted loans and investment income. All of the other sources and uses of funds not related to the FSLRF are recorded in the AOF. The AOF assets and earnings on those assets are the property of the Authority/Corporation and are restricted for financial aid related activities including guaranty agency activities.

Note A--Description of Business--Continued

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

Advantage Loan Program Operations

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

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

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

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

Note A--Description of Business--Continued

School Services Operations

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

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

Loan Finance, Servicing and Collection Operations

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

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

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

Note A--Description of Business—Continued

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

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

As of June 30, 2021, the Authority/Corporation held and/or serviced approximately $935 million of FFELP and other education loans. $877 million of loans were pledged pursuant to the 2014 Indenture, the 2017 Indenture, the 2018 Indenture, the 2019 indenture, the 2020 Indenture and 2021 Indenture. The remaining $56 million of loans held were funded by the Corporation's Operating Fund. Also, the Authority/Corporation services approximately $1.5 million of FFELP and other education loans on behalf of other holders. The majority of such education loans are serviced by the Authority/Corporation pursuant to servicing agreements which do not provide for the acquisition by the Authority/Corporation of the education loans serviced. As a servicer of FFELP and other education loans, the Authority/Corporation collects student loan remittances and subsequently disburses these remittances to the appropriate lending entities. The Authority/Corporation's obligations pursuant to such servicing and collection agreements are without recourse to assets pledged to collateralize any Authority/Corporation financings.

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

Note B--Summary of Significant Accounting Policies

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

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

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

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

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

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

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

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

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

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

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

The Plan maintains a separate investment policy. In May 2020, a change to the target asset allocation was approved and later implemented on July 31, 2020. The target asset allocations in effect as of July 1, 2020 and from July 31, 2020 to current were and are as follows:

	Effective July 1, 2020	Effective July 31, 2020
Large Cap U.S. Equities	24%	12%
Mid Cap U.S. Equities	3%	2%
Small Cap U.S. Equities	3%	2%
Non-U.S. Equities	6%	3%
Total Equity	36%	19%
Inflation Indexed Bonds	6%	0%
Domestic Fixed Income	33%	11%
Short Duration U.S. Fixed Income	15%	40%
Cash	10%	30%
Total Fixed Income	64%	81%

To decrease overall investment risk, the following restrictions apply to the Plan's investments:

i. No more than 5% of the total amount of the equity portion of the investment account in the securities of any one issuer;

ii. No more than 15% of the total amount of the equity portion of the investment account in any one industry, as defined by Standard & Poor's;

iii. For portfolios invested in major-market countries, no more than 10% of the total amount of the equity portion of the investment account in any one country with the exception of those countries whose weighting in the Europe, Australia, and Far East ("EAFE") index is greater than 15%, where a maximum weight of the current country weight in the EAFE benchmark plus 5% is permitted;

iv. For portfolios invested in emerging markets, no more than 10% of the equity portion of the investment account shall be invested in one country;

v. A minimum of five countries shall be represented in each investment account; and

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

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

Under Kentucky Revised Statutes, the Authority/Corporation's Board of Directors is charged with selecting the various options in which the participants of the Trust can invest their funds. An individual participating in the Trust establishes an account in the name of a Beneficiary. See Kentucky Educational Savings Plan Trust description in Note A for a better understanding of investment options during fiscal year 2021.

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

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

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

Fixed Assets, Net - Fixed assets are stated at cost, less accumulated depreciation. Fixed assets are depreciated beginning when the assets are placed in service and continuing over the estimated useful lives of the respective asset using the straight-line method.

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

Allowance for Uncollectible Loans - As discussed in Note A, most FFELP loans held by the Authority/Corporation are insured by guarantee agencies and the ED. Management of the Authority/Corporation believes that all of its respective guaranty agencies and the ED will be able to honor all loan claims submitted. However, the Authority/Corporation records a provision for loan losses based upon its expected default claims with respect to 98% and 97% insured loans and for loans with certain loan servicing violations. The allowance for loan loss on all loans funded through normal operations was $6 million for loan principal and $746,000 for accrued interest as of June 30, 2021. Furthermore, the Authority/Corporation is required to purchase loans owned by third party customers with certain loan servicing violations. As of June 30, 2021, the allowance for third party servicing loan losses for loans that have been purchased was $1.3 million for loan principal and $855,000 for accrued interest. In July 2015, the Authority/Corporation purchased an uninsured loan portfolio at a substantial discount. As of June 30, 2021, the allowance for the loans purchased at a discount was $15.2 million for loan principal and $7.3 million for accrued interest. In addition, the

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

Authority/Corporation records a provision for loan loss related to Teacher, Osteopathic Medicine and Pharmacy advances that have converted to loans. As of June 30, 2021, the allowance for advances converted to loans was $3.4 million.

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

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

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

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

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

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

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

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

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

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

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

Program-specific operating grants and contributions include revenues from mandatory and voluntary non-exchange transactions with other governments and organizations that are restricted for use in a particular program. Program-specific operating grant and contribution services include the interest earned on scholarship loans.

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

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

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

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

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

Unrestricted Net Position - Unrestricted net position is comprised of net position available to be used in operations or transfers of the Authority/Corporation. As of June 30, 2021, the Authority/Corporation's unrestricted net position is ($66,378,230).

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

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

Note C--Cash and Investments

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

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

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

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

Note C--Cash and Investments--Continued

As of June 30, 2021, the Authority/Corporation's Proprietary Funds, Governmental Fund and Fiduciary Funds maintained cash on deposit as follows:

	Governmental Fund Bank Balance	Proprietary Fund Bank Balance	Fiduciary Fund Bank Balance
Insured (FDIC)		$ 65,196	$ 769,815
Uncollateralized		171,614	
Collateralized by pledging securities held by the financial institution		12,151,454	2,744,246
Money market securities		127,840,315	30,515,551
Cash deposited with Kentucky State Treasurer	$ 8,001,160	2,682,385	9,106
	$ 8,001,160	$ 142,910,964	$ 34,038,718

Of the $142.9 million of cash and cash equivalents maintained in the Proprietary Funds, $26.8 million was held for guarantee operations and the remaining $116.1 million was held for loan finance and servicing activities.

Of the $34 million of cash and cash equivalents maintained in the Fiduciary Funds, $24 million was related to the FSLRF and the remaining $10 million was associated with the Plan and the Trust.

As of June 30, 2021, all Proprietary Fund investments were registered in the Authority/Corporation's name and maintained by an external trustee or investment manager, as applicable. The investment balances as of June 30, 2021 are summarized as follows:

	Fair Value	Weighted Average Maturity (in years)
Corporate bonds	$ 47,918,705	2.61
U.S. Treasury and government agency securities	37,555,275	2.02
Collateralized mortgage obligations	14,422,351	9.15
	$ 99,896,331	

Note C--Cash and Investments--Continued

As of June 30, 2021, Trust investments of $259.5 million comprised primarily of mutual funds were held by Ascensus.

As of June 30, 2021, Plan investments of $23.2 million comprised primarily of mutual funds were held by State Street Global Advisors.

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

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

Credit Risk - The Authority/Corporation's investment policy limits the credit risk for securities. Securities must have a credit rating of BBB by a nationally recognized credit rating agency. Money Market Securities must be rated A-1 or P-1 or better at the time of purchase. The investment manager is allowed to hold up to 5% in aggregate market value securities that have been downgraded below BBB, but must maintain an average rating of A for the total portfolio. The following table summarizes the Standard & Poor's / Moody's rating (as applicable) for all corporate bonds held by the Authority/Corporation's Proprietary Funds as of June 30, 2021:

Rating	Fair Value
AAA / Aaa	$ 13,046,418
AA / Aa	1,902,571
A / A	19,019,768
BAA / Baa	13,949,948
	$ 47,918,705

The Plan maintains an investment policy that limits the credit risk for fixed income securities and short-term commercial paper. No more than 10% of the total amount of fixed-income portion of the investment account shall be committed to the securities of any one issuer at the time of purchase, with the exception of securities issued or guaranteed by the full faith and credit of the United States or AAA-rated securities issued by government agencies as to which there is no limit. The Plan may invest in short-term commercial paper of any domestic issuer, maturing within 9 months, with a minimum rating of A-1 by Standard & Poor's or Prime 1 by Moody's. As previously noted, at June 30, 2021, the Plan primarily invested in mutual funds.

Note C--Cash and Investments--Continued

Fair Value Measurement

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

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

Fair Value on a Recurring Basis

The Authority/Corporation has the following recurring fair value measurements as of June 30, 2021:

Money Market Securities of $127,840,315 are valued using quoted market prices. (Level 1 Inputs).

Corporate bonds, U.S. Treasury and government agency securities, and collateralized mortgage obligations of $99,896,331 were based on Level 2 inputs.

As of June 30, 2021, 100% of the value of the Trust and Plan investments was based on Level 1 inputs.

Note D--Fixed Assets

A summary of fixed assets follows:

	Beginning Balance July 1, 2020	Additions	Disposals	Ending Balance June 30, 2021
Proprietary fund:				
Furniture and equipment	$ 14,274,700	$ 573,542	$ 84,748	$ 14,763,494
Building	12,075,048			12,075,048
System development	55,955			55,955
Student loan servicing	541,131			541,131
Debt recovery system	81,047			81,047
Accumulated depreciation and amortization	(21,081,053)	(921,563)	(84,006)	(21,918,610)
	$ 5,946,828	$ (348,021)	$ 742	$ 5,598,065
Fiduciary Fund:				
Furniture and equipment	$ 66,604			$ 66,604
Accumulated depreciation	(66,604)			(66,604)
	$	$	$	$

Depreciation and amortization expense totaled $921,563 for the year ended June 30, 2021, of which $809,828 was allocated to business-type activities and $111,735 allocated to governmental activities.

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

Loan guarantee operations	$ 242,927
Outreach	199,006
School services	43,984
Default collections	143,059
Loan finance and servicing	173,403
Other activites	7,449
	$ 809,828

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

Pursuant to FFELP, the loan guarantee operating unit of the Authority/Corporation insures eligible student loans for losses incurred from the default, death, disability, or bankruptcy and also insures for other losses such as school closures and false certifications. As of June 30, 2021, the outstanding balance of aggregate insured student loans was approximately $1.9 billion.

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

The Authority/Corporation's annual default claims rate is within the 5%, which allows for reimbursement rates at the highest level. On December 18, 2015, the Consolidated Appropriations Act, 2016, was signed into law and amended the maximum reinsurance rate within Section 428(c)(1) of the Higher Education Act by striking 95% and inserting 100%. Therefore, the Authority/Corporation has not recorded a reserve at June 30, 2021 for losses on federal reinsurance. See Note S.

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

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

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

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

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

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

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

Note F--Loans (Finance and Servicing Operations)

The Authority/Corporation originates private supplemental loans, purchases loans and holds various types of student loans as described in Note A. The terms of these loans, which vary on an individual basis depending upon loan type and the date the loan was originated, generally provide for repayment in monthly installments of principal and interest over a period of generally ten years with most FFELP consolidation loans and many Advantage refinance loans having longer repayment terms. The repayment period begins after a grace period of six months following graduation or loss of qualified student status for the Subsidized and Unsubsidized Stafford loans. The repayment period for Consolidation, SLS and PLUS loans begins within 60 days from the date the loan is fully disbursed. Statutory interest rates on student loans ranged from 1.83% to 12% for the fiscal year ended June 30, 2021 depending upon the type and date of origination of the individual loan. Actual rates may be lower due to interest rate reductions associated with payments via electronic funds transfer or for other reasons such as borrowers making a specified number of consecutive on-time payments.

Loans consist of the following at June 30, 2021:

Stafford - Subsidized	$ 207,975,505
Stafford - Unsubsidized	245,278,474
PLUS/SLS	15,568,754
Consolidation	283,814,783
Supplemental	170,380,558
Other	10,730,533
Total gross loans	933,748,607
Allowance for loan losses	(22,516,592)
Unamortized discount on purchase of loans	(278,633)
Loans, net	910,953,382
Less amount shown as current assets	121,445,332
Noncurrent loans, net	$ 789,508,050

All principal and accrued interest on FFELP student loans is insured against borrower death, disability, bankruptcy or default, as long as the Authority/Corporation performs all required loan servicing due diligence activities. In July 2015, the Authority/Corporation purchased an uninsured loan portfolio at a substantial discount. As of June 30, 2021, the allowance for the loan principal purchased at a discount was $15.2 million. In addition, $2,192,698 of student loan principal was no longer insured due to violations of due diligence requirements.

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

Note G--Special Allowance

The Higher Education Act of 1965 provides for quarterly Special Allowance Payments to be made by ED to holders of student loans to the extent necessary to ensure that they receive at least specified market interest rates of return. Certain FFELP loans disbursed during the period from January 1, 2000 through June 30, 2010 received special allowance at a rate based upon the average of the bond equivalent rates of the three-month commercial paper rate as reported by the U.S. Federal Reserve through March 31, 2012. Pursuant to a December 23, 2011, amendment to the Higher Education Act, the Authority/Corporation elected to change the index for special allowance calculations on its FFELP loans disbursed after January 1, 2000, from the three-month commercial paper (“CP”) rate to the one-month LIBOR index beginning on April 1, 2012. Other eligible loans receive special allowance based on the 91-day Treasury bill rates. The special allowance is accrued as either earned or payable, as applicable.

Note H--Loan and Other Forgiveness

During fiscal year 2021, the Authority/Corporation forgave approximately $941,360 in loan principal and accrued interest for teachers funded by ED. Also, during fiscal year 2021, the Authority/Corporation provided additional loan forgiveness of $74,815.

Note I--Revenue Bonds Payable

As of June 30, 2021, the Authority/Corporation had bonds payable outstanding across four separate indentures of trust. Both the 2014 and 2018 indentures of trust are master indentures that permit additional bonds to be issued under that same master indenture. The 2014 master indenture includes bond issuances in 2014, 2017 and 2019 whereas the 2018 master indenture has only had the one issuance in 2018. Both the 2020-1 and 2021-1 indentures of trust are closed indentures that only allowed for the one issuance and do not permit any future issuances under the same indentures of trust. These four indentures of trust and supporting supplemental indentures of trust within each of the four, among other things, require the Authority/Corporation to comply with various covenants, such as annual financial statements and investor reporting. Each of the six issuances with bonds payable outstanding as of June 30, 2021 under the aforementioned four indentures of trust have supporting official statements or offering memorandums, as applicable, that include certain summarized provisions of the indenture that list and describe the different events that constitute events of defaults. Reference can be made to such events and to the remedies on default through review of these statements and memorandums that can also be accessed through registration at www.munios.com.

Notes to Combined Financial Statements--Continued

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

June 30, 2021

Note I--Revenue Bonds Payable--Continued

The balance of revenue bonds and notes payable at June 30, 2021 and the related activity for the year ended June 30, 2021 is as follows:

Series		Scheduled Maturity	Interest	Beginning Balance July 1, 2020	Bond Refundings / Redemptions	New Issues	Amortization of Premium / (Discount) June 30, 2021	Ending Balance June 30, 2021
2010 Indenture								
2010 A-1	*	May 1, 2020	Quarterly					
2010 A-2	*	May 1, 2034	Quarterly	$ 66,130,000	$ (66,130,000)			
				66,130,000	(66,130,000)			
2013-1 Indenture								
2013-1		June 1, 2026	Monthly	143,240,000	(143,240,000)			
2013-2 Indenture								
2013-2		June 1, 2028	Monthly	118,743,003	(118,786,656)		$ 43,653	
2014 Indenture								
2014 A	*	June 1, 2031	Fixed	6,700,277	(3,140,000)		(35,035)	$ 3,525,242
2017 A	*	June 1, 2034	Fixed	29,655,201	(6,400,000)		(168,906)	23,086,295
2019 A1-B1	*	June 1, 2036	Fixed	37,927,314			(453,544)	37,473,770
2019 A2		June 1, 2034	Fixed	52,205,000	(10,700,000)			41,505,000
				126,487,792	(20,240,000)		(657,485)	105,590,307
2015-1 Indenture								
2015-1		December 1, 2031	Monthly	55,361,000	(55,361,000)			
2018 Indenture								
2018-1A		June 1, 2036	Fixed	49,260,000	(5,100,000)			44,160,000
2018-1B		June 1, 2036	Fixed	9,840,000				9,840,000
				59,100,000	(5,100,000)			54,000,000
2020-1 Indenture								
2020-1 A-1A		November 25, 2050	Monthly		(4,955,974)	$ 107,820,000		102,864,026
2020-1 A-1B		November 25, 2050	Monthly		(14,149,026)	307,820,000		293,670,974
2020-1B		November 25, 2050	Monthly			7,000,000		7,000,000
					(19,105,000)	422,640,000		403,535,000
2021-1 Indenture								
2021-1 A-1A		March 25, 2051	Monthly		(338,308)	30,575,000		30,236,692
2021-1 A-1B		March 25, 2051	Monthly		(1,136,692)	102,730,000		101,593,308
2021-1B		March 25, 2051	Monthly			2,000,000		2,000,000
					(1,475,000)	135,305,000		133,830,000
				$ 569,061,795	$ (429,437,656)	$ 557,945,000	$ (613,832)	$ 696,955,307

* This bond series is tax exempt

Note I--Revenue Bonds Payable--Continued

The Authority/Corporation's revenue bonds include fixed and variable rates of interest based on various index rates. Those fixed rates and variable index rates ranged from 1.14% to 4.18% as of June 30, 2021. Debt service requirements to maturity or redemption date, assuming interest rates based on fixed rates and variable index rates at June 30, 2021, are as follows:

	Principal Repayment Amount (Thousands)				
	2014	2018-1	2020-1	2021-1	Total
Year Ending June 30, 2022	$ 6,990	$ 6,400			$ 13,390
Year Ending June 30, 2023	7,290	6,900			14,190
Year Ending June 30, 2024	8,640	7,000			15,640
Year Ending June 30, 2025	9,455	6,500			15,955
Year Ending June 30, 2026	11,215	5,500			16,715
5 Years Ending June 30, 2031	28,200	5,700			33,900
5 Years Ending June 30, 2036	30,480	16,000			46,480
5 Years Ending June 30, 2041					
5 Years Ending June 30, 2046					
5 Years Ending June 30, 2051			$ 403,535	$ 133,830	537,365
	$ 102,270	$ 54,000	$ 403,535	$ 133,830	$ 693,635

	Interest Repayment Amount (Thousands)				
	2014	2018-1	2020-1	2021-1	Total
Year Ending June 30, 2022	$ 4,358	$ 2,288	$ 4,939	$ 1,625	$ 13,210
Year Ending June 30, 2023	4,070	2,058	4,939	1,625	12,692
Year Ending June 30, 2024	3,761	1,804	4,939	1,625	12,129
Year Ending June 30, 2025	3,385	1,540	4,938	1,625	11,488
Year Ending June 30, 2026	3,001	1,289	4,938	1,625	10,853
5 Years Ending June 30, 2031	9,629	4,556	24,693	8,124	47,002
5 Years Ending June 30, 2036	5,861	4,219	24,693	8,124	42,897
5 Years Ending June 30, 2041			24,693	8,124	32,817
5 Years Ending June 30, 2046			24,692	8,124	32,816
5 Years Ending June 30, 2051			19,754	8,124	27,878
	$ 34,065	$ 17,754	$ 143,218	$ 48,745	$ 243,782

All assets of the 2014 Indenture, the 2018 Indenture, the 2020 indenture and the 2021 Indenture are pledged for repayment of the specific bond or note issues under each resolution or program.

Note J--Direct Placements and Direct Borrowings

The Authority/Corporation closed its $89,500,000 Direct Purchase Series 2016-1, its $171,068,000 Direct Purchase Series 2017-1 and its $104,965,000 Direct Purchase Series 2019-1 student loan backed notes on June 23, 2016, December 21, 2017 and August 15, 2019, respectively. The Direct Purchase Series 2016-1 notes were optionally redeemed on April 1, 2021 in part with proceeds from the Series 2021-1 bonds. On July 29, 2020, the Authority/Corporation executed a new Warehouse Loan and Security Agreement and Amendment to Loan Documents with a commercial bank (the “Bank”) to provide up to $25,000,000 of new Line of Credit draws and a renewal of an existing $75,000,000 revolving Line of Credit. The revolving Line of Credit has a two-year term period. The second $25,000,000 Line of Credit is a multi-draw term loan (“Credit Facility”) with a 12-month period for advances on the Credit Facility that also matures at the end of the 12-month period.

The balance of direct purchase notes payable and direct borrowings under lines of credit agreements at June 30, 2021 and the related activity for the year then ended June 30, 2021 is as follows:

Series		Scheduled Maturity	Interest Rate	Beginning Balance July 1, 2020	Bond Refundings / Redemptions	New Issues	Ending Balance June 30, 2021
Direct Placements							
2016-1 Indenture							
2016-1-1-A & B	*	June 1, 2026	Monthly	$ 29,116,180	$ (29,116,180)		
2016-1-2-A & B		June 1, 2026	Monthly	19,156,310	(19,156,310)		
				48,272,490	(48,272,490)		
2017-1 Indenture							
2017-1	*	December 1, 2037	Monthly	123,613,000	(14,045,000)		$ 109,568,000
2019-1 Indenture							
2019-1	*	August 1, 2039	Monthly	53,935,000	(9,910,000)		44,025,000
2019-1		August 1, 2039	Monthly	40,405,000	(8,005,000)		32,400,000
				94,340,000	(17,915,000)		76,425,000
				$ 266,225,490	$ (80,232,490)		$ 185,993,000
Direct Borrowings							
2020 FFELP Line of Credit		July 28, 2021	Monthly		$ (20,560,581)	$ 20,647,902	$ 87,321
2020 Revolver Line of Credit		July 28, 2022	Monthly	$ 72,510,600	(76,357,380)	20,950,000	17,103,220
				$ 72,510,600	$ (96,917,961)	$ 41,597,902	$ 17,190,541

* This bond series is tax exempt

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

The Authority/Corporation's direct purchase notes include variable rates of interest based on daily one-month LIBOR. Those variable rates ranged from 0.67% to 0.75% as of June 30, 2021.

Debt service requirements to maturity or redemption date, assuming interest rates based on the daily one-month LIBOR at June 30, 2021, are as follows:

	Principal Repayment Amount (Thousands)		
	2017-1	2019-1	Total
Year Ending June 30, 2022			
Year Ending June 30, 2023			
Year Ending June 30, 2024			
Year Ending June 30, 2025			
Year Ending June 30, 2026			
5 Years Ending June 30, 2031			
5 Years Ending June 30, 2036			
3 Years Ending June 30, 2039	$ 109,568	$ 76,425	$ 185,993
	$ 109,568	$ 76,425	$ 185,993

	Interest Repayment Amount (Thousands)		
	2017-1	2019-1	Total
Year Ending June 30, 2022	$ 758	$ 472	$ 1,230
Year Ending June 30, 2023	758	472	1,230
Year Ending June 30, 2024	758	472	1,230
Year Ending June 30, 2025	758	472	1,230
Year Ending June 30, 2026	759	472	1,231
5 Years Ending June 30, 2031	3,792	2,361	6,153
5 Years Ending June 30, 2036	3,792	2,361	6,153
3 Years Ending June 30, 2039	759	1,416	2,175
	$ 12,134	$ 8,498	$ 20,632

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

The collateral for the notes directly placed with an investor is defined in the respective Continuing Covenant Agreements ("CCA") between the Corporation and the Investor as "the Trust Estate other than the moneys and investments held in the Department Rebate Fund and the Treasury Rebate Fund." The student loans backing the direct purchase notes are loans made under the FFEL program. Cash and marketable securities of the Operating Funds of the Authority/Corporation are pledged as collateral against any outstanding balance on the $75,000,000 Line of Credit. The $25,000,000 Credit Facility executed on July 29, 2020 is restricted to the acquisition of loans made through FFELP and is collateralized by the loans financed with funds advanced by the Bank. In addition, both Lines of Credit are also cross-collateralized. The amount of unused revolving line of credit as of June 30, 2021 was approximately $57.8 million.

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

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

Note K--Allowance for Arbitrage Liabilities

Certain of the Authority/Corporation's tax-exempt bond issues are subject to potential arbitrage liabilities under U.S. tax law. Arbitrage liabilities, under current federal income tax law regarding tax-exempt bond issues, may be satisfied in three ways (1) yield adjustment payments with respect to (a) non-purpose obligations allocated to bonds issued on a variable rate basis, and (b) purpose obligations that were acquired after July 18, 2016 or that were acquired prior to such date if allocated to tax exempt bonds bearing interest on a variable rate basis or to tax exempt bonds issued primarily to finance Federal Family Education Loan Program loans, (2) loan forgiveness, and (3) arbitrage rebate. At June 30, 2021, the Authority/Corporation is reporting liabilities for excess yield on acquired purpose and non-purpose investments of $458,189.

Note K--Allowance for Arbitrage Liabilities--Continued

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

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

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

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

Note L--Deferred Gain on Retirement of Debt

In fiscal year 2010, the Authority/Corporation purchased $1.198 billion of its own auction rate securities and retired the debt. The resulting $80.2 million of gain was deferred and is being amortized over the life of the new debt. In addition in fiscal year 2014, the Authority/Corporation purchased $358.65 million of its own auction rate securities and retired the debt. This resulted in an additional $7.2 million of gain which was deferred and is being amortized over the remaining life of the old debt. The Authority/Corporation recognized a gain of approximately $1.1 million for the year ended June 30, 2021. As of June 30, 2021, there is approximately $10.1 million of gain remaining to be amortized.

Note M--Net Pension Liability

Plan Description. Employees of the Authority/Corporation participate in Kentucky Employees Retirement systems ("KERS"), a cost-sharing multiple-employer defined benefit pension plan administered by Kentucky Retirement Systems ("KRS"). KRS is governed by Kentucky Revised Statutes 61.510 through 61.705 and can only be modified by the state legislature. Effective April 1, 2021, KRS has changed its name to the Kentucky Public Pensions Authority ("KPPA").

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

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

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

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

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

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

The employer and each employee contribute a percentage of the employee's creditable compensation. Creditable compensation consists of all wages includable on the employee's Federal Form W-2, Wage and Tax statement, under the heading "Wages, Tips, and Other Compensation". There are two exceptions of payment of wages not included in creditable compensation: (1) the lump-sum compensatory leave payments to employees in Tier 2 and 3 and (2) vacation payout at termination. The Authority employer total contribution rate for FY21 was 84.43% comprised of 73.28% for pension contributions and 11.15% for insurance contributions. The Authority employer total contribution rate for FY20 was 83.43% comprised of 71.03% for pension contributions and 12.40% for insurance contributions. The Corporation employer total contribution rates for FY21 and FY20 were 49.47% comprised of 41.06% for pension contributions and 8.41% for insurance contributions. The employee's contribution rates are as follows: Tier 1 - 5%, Tier 2 and 3 - 6%.

Note M--Net Pension Liability--Continued

The contributions for the employer and employee are as follows:

	FY21	FY20
Authority: Employer	$ 564,856	$ 561,412
Authority: Employee	37,731	39,143
	$ 602,587	$ 600,555
Corporation: Employer	$ 4,720,457	$ 4,798,556
Corporation: Employee	605,803	607,572
	$ 5,326,260	$ 5,406,128
Total: Employer	$ 5,285,313	$ 5,359,968
Total: Employee	643,534	646,715
	$ 5,928,847	$ 6,006,683

The employer is responsible for additional contributions if pension spiking occurs. Pension spiking may be deemed to have occurred for certain large compensation increases in the five years immediately preceding retirement. Kentucky Revised Statute 61.598 requires the last participating employer, for employees retiring on or after January 1, 2014 to June 1, 2017, to pay for any additional actuarial costs resulting from annual increases in an employee's creditable compensation greater than ten percent over the employee's last five fiscal years of employment that are not a direct result of a bona fide promotion or career advancement. For employees retiring January 1, 2018 and thereafter, the employees' retirement benefit will be reduced for the pension spiking and the employer is no longer liable.

Note M--Net Pension Liability--Continued

Pension Costs. At June 30, 2021, the Authority/Corporation reported a net pension liability of $121,170,958 for its proportionate share of the KERS's collective net pension liability. The Authority's portion is $7,763,930 and the Corporation's is $113,407,028. The net pension liability was measured as of June 30, 2020, and the total pension liability used to calculate the net pension liability was determined by the actuarial valuation as of that date. Therefore, the accounting impact of the provisions of House Bill 8 ("HB8") that were passed into law on March 23, 2021 will not appear in the Authority/Corporation's financial statements until June 30, 2022. Effective July 1, 2021, the provisions of HB8 will change retirement contributions from a percentage of payroll to the sum of (1) a normal cost times the payroll of the Authority/Corporation employees earning benefits in KERS, and (2) an allocated portion of the Retirement System's annual amortization cost. Although these FY2021 financial statements represent the final year of reporting the Authority/Corporation's estimated unfunded net pension liability under the "by payroll" method, it is important to understand the material accounting implications of HB8 on the valuation of the net pension and net OPEB liabilities. To illustrate, the Corporation's June 30, 2020 combined net pension and net OPEB liabilities were reported last year as $134,020,183 based on the June 30, 2019 measurement date. The actuarial analysis supporting HB8 also used the same June 30, 2019 data and reported the Corporation's combined estimated net pension and net OPEB liabilities as $81,896,904. The Authority's net pension and net OPEB liabilities were not reported separately in the actuarial analysis as its liabilities were lumped into one classification titled Executive Branch Agencies.

The Authority/Corporation's estimated proportionate share of the collective net pension liability was based on a projection of the Authority/Corporation's long-term share of contributions to the pension plan relative to the projected contributions of all employer participants, as actuarially determined. The Authority's contributions during the measurement period as provided by KRS were $555,099 with a proportionate share percentage of .054812%. The Corporation's contributions during the measurement period as provided by KRS were $4,687,079 with a proportionate share percentage of .800634%.

For the year ended June 30, 2021, the Authority/Corporation recognized pension expense of $4,773,286 for its proportionate share of KERS's pension expense. The Authority's portion was $(536,920) and the Corporation's was $5,310,206.

Note M--Net Pension Liability--Continued

At June 30, 2021, the Authority reported its proportionate share of KERS's deferred outflows of resources and deferred inflows of resources, and its contributions subsequent to the measurement date, from the following sources:

Authority	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between expected and actual experience	$ 44,106	
Net difference between projected and actual investment earnings on pension plan investments	28,653	$ 20,669
Changes in assumptions	87,461	
Changes in proportion and differences between employer contributions and proportionate share of contributions		557,729
Authority's contributions to KERS subsequent to the measurement date	564,855	
	$ 725,075	$ 578,398

$564,855 reported as deferred outflows of resources related to pensions resulting from the Authority's contributions to KERS subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2022. Other amounts reported as deferred outflows and inflows of resources related to KERS pensions will be recognized in pension expense as follows:

Year Ending June 30:	
2022	$ (390,906)
2023	(41,152)
2024	6,717
2025	7,163

Note M--Net Pension Liability--Continued

At June 30, 2021, the Corporation reported its proportionate share of KERS's deferred outflows of resources and deferred inflows of resources, and its contributions subsequent to the measurement date, from the following sources:

Corporation	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between expected and actual experience	$ 644,259	
Net difference between projected and actual investment earnings on pension plan investments	418,528	$ 301,911
Changes in assumptions	1,277,533	
Changes in proportion and differences between employer contributions and proportionate share of contributions		4,644,046
Corporation's contributions to KERS subsequent to the measurement date	4,720,457	
	$ 7,060,777	$ 4,945,957

$4,720,457 reported as deferred outflows of resources related to pensions resulting from the Corporation's contributions to KERS subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2022. Other amounts reported as deferred outflows and inflows of resources related to KERS pensions will be recognized in pension expense as follows:

Year Ending June 30:	
2022	$ (2,308,717)
2023	(499,666)
2024	98,114
2025	104,632

Note M--Net Pension Liability--Continued

Actuarial Assumptions. The total pension liability was determined by an actuarial valuation as of June 30, 2020, using the entry age normal cost method and the following actuarial assumptions:

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

Salary increases were based on a service-related table.

The mortality table used for pre-retirement members is PUB-2010 General Mortality table projected with the ultimate rates from the MP-2014 mortality improvement scale using a base year of 2010. For non-disabled post-retirement members, the mortality table used is the system-specific mortality table based on mortality experience from 2013-2018, projected with the ultimate rates from MP-2014 mortality improvement scale using a base year of 2019. For disabled post-retirement members, the mortality table used is the PUB-2010 Disabled Mortality table, with a 4-year set-forward for both male and female rates, projected with the ultimate rates from the MP-2014 mortality improvement scale using a base year of 2010.

The actuarial assumptions used in the June 30, 2020 valuation was based on the results of an actuarial experience study for the period July 1, 2013 - June 30, 2018. The long-term expected rate of return was determined by using a building-block method in which best-estimate ranges of expected future real rate of returns are developed for each asset class. The ranges are combined by weighting the expected future real rate of return by the target asset allocation percentage.

Note M--Net Pension Liability--Continued

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

Asset Class	Long Term Expected Real Rate of Return	Target Allocation
Growth		
US Equity	4.50%	15.75%
Non US Equity	5.25%	15.75%
Private Equity	5.15%	7.00%
Specialty Credit/High Yield	3.90%	15.00%
Liquidity		
Core Bonds	-0.25%	20.50%
Cash	-0.75%	3.00%
Diversifying Strategies		
Real Estate	5.30%	5.00%
Opportunistic/Absolute Return	2.25%	3.00%
Real Return	3.95%	15.00%
		100.00%

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

Discount Rate. The discount rate used to measure the total pension liability was 5.25%. The projection of cash flows used to determine the discount rate assumed employers would contribute the actuarially determined contribution rate of projected compensation over the remaining 23 year amortization period of the unfunded actuarial accrued liability.

Note M--Net Pension Liability--Continued

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

	1% Decrease in Discount Rate	Discount Rate	1% Increase in Discount Rate
KRS Discount Rate	4.25%	5.25%	6.25%
Authority's proportionate share of net pension liability	$ 8,892,550	$ 7,763,930	$ 6,836,417
Corporation's proportionate share of net pension liability	$ 129,892,691	$ 113,407,028	$ 99,858,936

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

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

Plan Description. Employees of the Authority/Corporation participate in Kentucky Employees Retirement systems ("KERS"), a cost-sharing multiple-employer defined benefit retiree healthcare plan (Insurance Fund) administered by Kentucky Retirement Systems ("KRS"). KRS is governed by Kentucky Revised Statutes 61.510 through 61.705 and can only be modified by the state legislature. Effective April 1, 2021, KRS has changed its name to the Kentucky Public Pensions Authority ("KPPA").

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

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

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

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

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

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

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

Contributions. Contribution percentages are established in state statutes by the Kentucky Legislature. The contribution is a percentage of the employee's creditable compensation. The Authority employer total contribution rate for FY21 was 84.43% comprised of 73.28% for pension contributions and 11.15% for insurance contributions. The Authority employer total contribution rate for FY20 was 83.43% comprised of 71.03% for pension contributions and 12.40% for insurance contributions. The Corporation employer total contribution rates for FY21 and FY20 were 49.47% comprised of 41.06% for pension contributions and 8.41% for insurance contributions. Employees participating on or after September 1, 2008 are required to pay an additional 1% of their credible compensation for health insurance benefits. The contributions for the employer and additional 1% are as follows:

	FY21	FY20
Authority: Employer	$ 85,975	$ 97,987
Authority: Employee 1%		
	$ 85,975	$ 97,987
Corporation: Employer	$ 966,841	$ 982,837
Corporation: Employee 1%	39,668	38,733
	$ 1,006,509	$ 1,021,570
Total: Employer	$ 1,052,816	$ 1,080,824
Total: Employee	39,668	38,733
	$ 1,092,484	$ 1,119,557

OPEB Liabilities, OPEB Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB. At June 30, 2021, the Authority/Corporation reported a liability of $21,718,987 for its proportionate share of the KERS's collective net OPEB liability. The Authority's portion is $1,391,626 and the Corporation's is $20,237,361. The net OPEB liability was measured as of June 30, 2020, and the total OPEB liability used to calculate the net OPEB liability was determined by the actuarial valuation as of that date. Therefore, the accounting impact of the provisions of House Bill 8 ("HB8") that were passed into law on March 23, 2021 will not appear in the Authority/Corporation's financial statements until June 30, 2022. Effective July 1, 2021, the provisions of HB8 will change retirement contributions from a percentage of payroll to the sum of (1) a normal cost times the payroll of the Authority/Corporation employees earning benefits in KERS, and (2) an allocated portion of the Retirement System's annual amortization cost. Although these FY2021 financial statements represent the final year of reporting the Authority/Corporation's estimated unfunded net pension liability under

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

the "by payroll" method, it is important to understand the material accounting implications of HB8 on the valuation of the net pension and net OPEB liabilities. To illustrate, the Corporation's June 30, 2020 combined net pension and net OPEB liabilities were reported last year as $134,020,183 based on the June 30, 2019 measurement date. The actuarial analysis supporting HB8 also used the same June 30, 2019 data and reported the Corporation's combined estimated net pension and net OPEB liabilities as $81,896,904. The Authority's net pension and net OPEB liabilities were not reported separately in the actuarial analysis as its liabilities were lumped into one classification titled Executive Branch Agencies.

The Authority/Corporation's proportionate share of the net OPEB liability was determined using the employers' actual contributions for FY20. The Authority's contributions during the measurement period as provided by KRS were $96,906 with a proportionate share percentage of .054812%. The Corporation's contributions during the measurement period as provided by KRS were $960,018 with a proportionate share percentage of .800634%.

For the year ended June 30, 2021, the Authority/Corporation recognized OPEB expense of $1,305,602 for its proportionate share of KERS's OPEB expense. The Authority's portion was $(28,658) and the Corporation's was $1,334,260.

The fully-insured premiums KRS pays for KERS Insurance Fund are blended rates based on the combined experience of active and retired members. Because the average cost of providing health care benefits to retirees under age 65 is higher than the average cost of providing health care benefits to active employees, there is an implicit employer subsidy for the non-Medicare eligible retirees. The Authority/Corporation is required to include the liability associated with this implicit subsidy in the deferred outflows and calculation of the total OPEB liability. At June 30, 2021, the Authority/Corporation reported as part of the deferred outflow an implicit subsidy of $326,901. The Authority's portion is $20,946 and the Corporation's is $305,955. At June 30, 2020, the Authority/Corporation reported as part of the OPEB expense an implicit subsidy of $235,319. The Authority's portion is $15,620 and the Corporation's is $219,699.

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

At June 30, 2021, the Authority reported its proportionate share of KERS's deferred outflows of resources and deferred inflows of resources related to OPEB, and its contributions subsequent to the measurement date, from the following sources:

Authority	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between expected and actual experience	$ 115,172	$ 138,200
Net difference between projected and actual investment earnings on pension plan investments	26,695	7,268
Changes in assumptions	101,860	2,418
Changes in proportion and differences between employer contributions and proportionate share of contributions		351,495
Authority's implicit subsidy to KERS subsequent to the measurement date	20,946	
Authority's contributions to KERS subsequent to the measurement date	85,975	
	$ 350,648	$ 499,381

$85,975 reported as deferred outflows of resources related to OPEB resulting from the Authority's contributions to KERS subsequent to the measurement date will be recognized as a reduction of the net OPEB liability in the year ended June 30, 2022. Amounts reported as deferred outflows and inflows of resources related to OPEB will be recognized in OPEB expense as follows:

Year Ending June 30:	
2022	$ (99,487)
2023	(129,821)
2024	(32,053)
2025	5,706

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

At June 30, 2021, the Corporation reported its proportionate share of KERS's deferred outflows of resources and deferred inflows of resources related to OPEB, and its contributions subsequent to the measurement date, from the following sources:

Corporation	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between expected and actual experience	$ 1,682,314	$ 2,018,669
Net difference between projected and actual investment earnings on pension plan investments	389,927	106,167
Changes in assumptions	1,487,855	35,324
Changes in proportion and differences between employer contributions and proportionate share of contributions	112,112	1,350,190
Corporation's implicit subsidy to KERS subsequent to the measurement date	305,955	
Corporation's contributions to KERS subsequent to the measurement date	966,841	
	$ 4,945,004	$ 3,510,350

$966,841 reported as deferred outflows of resources related to OPEB resulting from the Corporation's contributions to KERS subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2022. Other amounts reported as deferred outflows and inflows of resources related to KERS OPEB will be recognized in OPEB expense as follows:

Year Ending June 30:	
2022	$ 301,111
2023	(228,783)
2024	6,181
2025	83,349

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

Actuarial Assumptions. The total OPEB liability was determined by an actuarial valuation as of June 30, 2020, using the entry age normal cost method and the following actuarial assumptions:

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

The mortality table used for pre-retirement members is PUB-2010 General Mortality table projected with the ultimate rates from the MP-2014 mortality improvement scale using a base year of 2010. For non-disabled post-retirement members, the mortality table used is the system-specific mortality table based on mortality experience from 2013-2018, projected with the ultimate rates from MP-2014 mortality improvement scale using a base year of 2019. For disabled post-retirement members, the mortality table used is the PUB-2010 Disabled Mortality table, with a 4-year set-forward for both male and female rates, projected with the ultimate rates from the MP-2014 mortality improvement scale using a base year of 2010.

The actuarial assumptions used in the June 30, 2020, valuation was based on the results of an actuarial experience study for the period July 1, 2013 - June 30, 2018.

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

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

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

Asset Class	Long Term Expected Real Rate of Return	Target Allocation
Growth		
US Equity	4.50%	18.75%
Non US Equity	5.25%	18.75%
Private Equity	6.65%	10.00%
Specialty Credit/High Yield	3.90%	15.00%
Liquidity		
Core Bonds	-0.25%	13.50%
Cash	-0.75%	1.00%
Diversifying Strategies		
Real Estate	5.30%	5.00%
Opportunistic	2.25%	3.00%
Real Return	3.95%	15.00%
		100.00%

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

Discount Rate. The discount rate used to measure the total OPEB liability was 5.43%. This rate is based on the expected rate of return on OPEB plan investments of 6.25% and a municipal bond rate of 2.45%, as reported in Fidelity Index's 20-Year Municipal GO AA Index as of June 30, 2020. The projection of cash flows used to determine the discount rate assumed employers would contribute the actuarially determined contribution rate of projected compensation over the remaining 23 year amortization period of the unfunded actuarial accrued liability.

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

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

	1% Decrease	Discount Rate	1% Increase
KRS Discount Rate	4.43%	5.43%	6.43%
Authority's proportionate share of net OPEB liability	$ 1,658,668	$ 1,391,626	$ 1,172,440
Corporation's proportionate share of net OPEB liability	$ 24,228,009	$ 20,327,361	$ 17,125,730

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

	1% Decrease	Healthcare Cost Trend Rate	1% Increase
Authority's proportionate share of net OPEB liability	$ 1,171,285	$ 1,391,626	$ 1,658,512
Corporation's proportionate share of net OPEB liability	$ 17,108,859	$ 20,327,361	$ 24,225,739

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

Payable to the OPEB Plan. At June 30, 2021, the Authority/Corporation reported a payable of $79,859 for the outstanding amount of contributions to the Insurance Plan required for the year ended June 30, 2021. The Authority's portion is $6,525 and the Corporation's is $73,334.

Note O--Tuition Benefits Payable

The following assumptions provided by management were used in the actuarial valuation of tuition benefits payable as of June 30, 2021. These assumptions are based on national and state specific economic data, contractual provisions, previous program actuarial valuation reports, historical state general fund appropriations to the University of Kentucky and KCTCS and actual tuition increases from previous years (2002-2020).

Investment Rates - The investment yield assumption is based on estimates of the yields that will be available on the investment portfolio and cash and cash equivalents. The gross investment yield assumption utilized in the calculation of the tuition benefit payable is based on an investment glide path approach for the Plan. The investments in the Plan continue to change over time to asset allocations that reduce equity exposure to help preserve investment gains. A glide path approach better matches projected payouts as the value of the Plan's assets continues to move closer to its expected depletion date that is currently expected to occur during FY2025.

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

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

- The tuition increases for the 2002-2003 academic year were 32.4% for the Value Plan and 6.4% for the Standard Plan and the Premium Plan.
- The tuition increases for the 2003-2004 academic year were 23.4% for the Value Plan and 14.4% for the Standard Plan and the Premium Plan.
- The tuition increases for the 2004-2005 academic year were 24.3% for the Value Plan and 16.9% for the Standard Plan and the Premium Plan.
- The tuition increases for the 2005-2006 academic year were 6.5% for the Value Plan and 12.5% for the Standard Plan and the Premium Plan.
- The tuition increases for the 2006-2007 academic year were 11.2% for the Value Plan and 12% for the Standard Plan and the Premium Plan.
- The tuition increases for the 2007-2008 academic year were 5.5% for the Value Plan and 9.0% for the Standard Plan and the Premium Plan.
- The tuition increases for the 2008-2009 academic year were 5.2% for the Value Plan and 9.0% for the Standard Plan and the Premium Plan.
- The tuition increases for the 2009-2010 academic year were 3.3% for the Value Plan and 5.0% for the Standard Plan and the Premium Plan.

Note O--Tuition Benefits Payable--Continued

- The tuition increases for the 2010-2011 academic year were 4.0% for the Value Plan and 6.0% for the Standard Plan and the Premium Plan.
- The tuition increases for the 2011-2012 academic year were 3.8% for the Value Plan and 6.0% for the Standard Plan and the Premium Plan.
- The tuition increases for the 2012-2013 academic year were 3.8% for the Value Plan and 6.0% for the Standard Plan and the Premium Plan.
- The tuition increases for the 2013-2014 academic year were 2.9% for the Value Plan and 3.0% for the Standard Plan and the Premium Plan.
- The tuition increases for the 2014-2015 academic year were 2.1% for the Value Plan and 5.0% for the Standard Plan and the Premium Plan.
- The tuition increases for the 2015-2016 academic year were 2.0% for the Value Plan and 3.0% for the Standard Plan and the Premium Plan.
- The tuition increases for the 2016-2017 academic year were 4.0% for the Value Plan and 5.0% for the Standard Plan and the Premium Plan.
- The tuition increases for the 2017-2018 academic year were 9.0% for the Value Plan and 4.0% for the Standard Plan and the Premium Plan.
- The tuition increases for the 2018-2019 academic year were 4.1% for the Value Plan and 2.5% for the Standard Plan and the Premium Plan.
- The tuition increases for the 2019-2020 academic year were 2.8% for the Value Plan and negative 0.5% for the Standard Plan and the Premium Plan.
- The tuition increases for the 2020-2021 academic year were 2.7% for the Value Plan and 1% for the Standard Plan and the Premium Plan.
- As of June 30, 2021, the tuition for the 2021-2022 academic year will be the same as the previous school year for the Value Plan and a 1% increase to the tuition payout values for the Standard Plan and Premium Plan. The Standard Plan and the Premium Plan tuition payout value assumption increase for the 2022-2023 academic year is 3.00%. The tuition increase assumption for each year thereafter through 2028, when all current participant standard utilization periods expire, is 4.25%.

For the period from inception to June 30, 2021, the annualized tuition increase for the highest-priced Kentucky public university, as applicable to the tuition benefits payout rate of Kentucky's Affordable Prepaid Tuition Standard and Premium Plans, which represents 95.4% of the Plan's enrollments, has been 6.4%. For the Kentucky Community and Technical College System ("KCTCS"), as applicable to

Note O--Tuition Benefits Payable--Continued

the tuition benefits payout rate of the Value Plan, the average annualized tuition increase from inception to June 30, 2021, has been 7.4%.

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

Note P--Restricted Net Position

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

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

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

c. **Education Finance Funds:** Net position is restricted as required by the 2014 Indenture, the 2015 Indenture, the 2017 Indenture, the 2018 indenture, the 2019 indenture, the 2020 indenture and the 2021 indenture.

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

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

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

Note Q--Reimbursement for Lost Revenue

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

Note Q--Reimbursement for Lost Revenue--Continued

The Letter requires Guaranty Agencies ("GA") like the Authority to take a number of actions on three primary different groups of loans. The first group of loans include all outstanding loans on which a default claim was paid prior to March 13, 2020, that are not subject to an active bankruptcy filing, and were still in default as of the date of the Letter. The actions required for this first group of loans include the following: set interest rates to 0% effective March 13, 2020 through the end of the pause which is currently scheduled for January 31, 2022; refund all involuntary borrower payments received through Administrative Wage Garnishment ("AWG"), the Treasury Offset Program ("TOP"), and other forms of involuntary collection from March 13, 2020; provide all borrowers who made voluntary payments during this time frame with the option for a refund of those payments; suspend all forms of involuntary collection; cease all collection attempts, including billings; and, notify borrowers with active rehabilitation agreements they are not required to make further payments to receive credit toward rehabilitation.

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

The actions required to be taken for these three groups of loans materially impact the Authority's human capital resources necessary to administer the provisions of the Letter. A significant amount of pre and post June 30, 2021 development, programming, testing and corrections has occurred and continues to occur related to these actions. The Authority's financial resources have also been materially impacted by the Letter. KHEAA's FSLRF fund will be reimbursed for the cash necessary to process both (1) the refunds applicable to groups one and two, and (2) the financial adjustments for the third group. These refunds and adjustments must include any collection costs charged to the borrower. However, a number of these suspension actions, especially the special mandatory assignment of the group two loans, have significantly lowered the Authority's revenues from debt recovery commissions. DCL GEN-21-03's provision for the "Reimbursement of Lost Revenue" authorizes a GA to reimburse itself from the FSLRF for lost revenue that it will realize because of these actions. GAs may reimburse themselves for this lost revenue from the FSLRF on a quarterly basis based on their good-faith estimates, and without the requirement for prior approval from Federal Student Aid as to lost revenue. USDE is not setting specific requirements for the GA's estimate of its lost collection revenues for the purposes of seeking reimbursement from the Federal Fund, but the estimate must be made in good faith and supported by the GA's records. The Authority has made a good faith estimate supported by its records for Reimbursement for Lost Revenue of $16,421,673 through June 30, 2021.

Note Q--Reimbursement for Lost Revenue--Continued

Management estimates that its good faith estimate of Reimbursement for Lost Revenue for the period July 1, 2021 through September 30, 2021 will not be able to be transferred in its entirety in order that the Authority maintain compliance with the Minimum Reserve Ratio of the FSLRF as of January 31, 2022, which is the currently scheduled end of the required pause on collections. The limitation on the expected transfer for the period July 1, 2021 through September 30, 2021 also means that management believes that none of the good faith estimate for the period October 1, 2021 through January 31, 2022 is currently expected to be transferred to the Authority's Agency Operating Fund from the FSLRF.

Note R--Operating Leases

The Authority/Corporation leases office space and equipment under agreements through 2025. Rental and space utilization expense was $1,898,959 for the year ended June 30, 2021. Minimum future rental payments for real estate and equipment, including common area maintenance commitments, at June 30, 2021 are as follows:

Year Ending June 30:	
2022	$ 1,751,998
2023	42,496
2024	14,601
2025	11,422
	$ 1,820,517

Note S--Commitments and Contingencies

The FSLRF is contingently liable for loans made by financial institutions that qualify for guarantee. The default ratio for loans guaranteed by the Authority/Corporation's loan guarantee operations is below 5% for the fiscal year ended June 30, 2021. Prior to December 1, 2015, the federal government's reinsurance rate for defaults was 100% for loans made prior to October 1, 1993, 98% for loans made on or after October 1993 to September 30, 1998, and 95% for loans made after September 30, 1998. Effective December 1, 2015, the maximum reinsurance rate was amended from 95% to 100%. In the event of future adverse default experience, the FSLRF could be liable for 25% of defaulted loans for a default ratio in excess of 9%. The liability for a default ratio over 5% and up to 9% is 15%. At the beginning of each federal fiscal year, the reinsurance rate returns to applicable baseline; management does not expect that all guaranteed loans could default in one year.

While management believes the FSLRF's expected maximum contingent liability is less than 25% of outstanding guaranteed loans, the maximum contingent liability at June 30, 2021 is calculated as follows:

Note S--Commitments and Contingencies--Continued

Amount of guaranteed student loans outstanding at lenders	$	1,922,106,128
Less minimum federal government share - 75%		1,441,579,596
	$	480,526,532

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

The finding was titled "Untimely Requests for Reinsurance" and stated that KHEAA did not timely submit claims for reinsurance for 5,133 loans. The report referenced the requirement that "under 34 CFR section 682.406(a)(9), a guaranty agency may make a claim payment from the Federal Fund and receive a reinsurance payment on a loan only if the agency submitted a request for the payment on a form required by the Secretary no later than 30 days following payment of a default claim to the lender." FSA quantified the total reinsurance payment amount for the 5,133 loans that were paid for claims filed between 3 and 19 days after the 30-day period. The amount was quantified to be $24,300,484.

KHEAA submitted its response to FSA on June 30, 2020. KHEAA included in its response its belief that KHEAA's failure to timely submit claims for reinsurance for 5,133 loans did not result in any injury or damage to FSA or the federal fiscal interest. In addition, KHEAA estimated that as of June 2020, collections totaling approximately 85.58% of the $24,300,484 ineligible reinsurance payments had been received by KHEAA. These collections totaled $20,795,407, of which $9,135,016 was from loan rehabilitations that assisted 545 borrowers in resolving their defaults. KHEAA does not believe that any amount is due FSA. KHEAA currently believes that any ultimate enforcement would be in the form of a possible penalty. Although it is possible that a penalty could be assessed in lieu of enforcement of the total finding, KHEAA believes that such amount, though not estimable, would be immaterial to the financial statements as a whole.

The COVID-19 pandemic has had a negative effect on the U.S. economy and has brought about new and proposed law and other authoritative guidance changes related to student loans. See Note Q for Dear Colleague Letter guidance issued in the spring of 2021 describing required actions of the Authority. Management of the Authority/Corporation continues to monitor and respond to the effect of the pandemic on its operations and business model including its liquidity and change in net position. These responses include the regular assessment of (1) the level of Corporation cash receipts from borrower, claim and consolidation payments in order to satisfy ongoing debt service requirements and (2) the ongoing impact the actions described in Note Q will have on the Authority's debt recovery commissions. The full impact of the pandemic remains uncertain and cannot be reasonably estimated as events are still developing.

Note T--Recent Pronouncements

The GASB has issued several standards that will become effective for the fiscal year 2022 and fiscal year 2023 financial statements, including Statement No. 87, *Leases*, and Statement No. 93, *Replacement of Interbank Offered Rates*. The Authority/Corporation is currently evaluating the impact that will result from adopting these GASB standards and is not yet prepared to disclose the impact that adopting these standards will have on the Authority/Corporation's financial position and the results of its operations when the standards are adopted.

REQUIRED SUPPLEMENTARY INFORMATION

Schedule of Proportionate Share of the Net Pension Liability and Related Ratios
June 30, 2020

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

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

	FY 2020	FY 2019	FY 2018	FY 2017	FY 2016	FY 2015	FY 2014
Corporation's proportion of the net pension liability	0.800634%	0.819901%	0.850042%	0.833570%	0.819117%	0.839524%	0.796208%
Corporation's proportionate share of the net pension liability	$ 113,407,028	$ 115,794,636	$ 115,637,803	$ 111,601,157	$ 93,375,171	$ 84,220,102	$ 71,434,000
Corporation's covered-employee payroll	$ 11,415,195	$ 11,992,554	$ 12,982,294	$ 12,888,303	$ 13,627,623	$ 14,071,702	$ 13,672,643
Corporation's proportionate share of the net pension liability as a percentage of its covered-employee payroll	993.47%	965.55%	890.73%	865.91%	685.19%	598.51%	522.46%
Plan fiduciary net position as a percentage of the total pension liability	14.01%	13.66%	12.84%	13.30%	14.87%	18.83%	22.32%
Total collective net pension liability for the Kentucky Employees Retirement System (KERS) non-hazardous employees	$ 14,164,653,000	$ 14,123,002,000	$ 13,603,775,000	$ 13,388,336,000	$ 11,399,489,047	$ 10,031,891,000	$ 8,971,820,000
KERS' non-hazardous employees total fiduciary net position	$ 2,308,080,000	$ 2,233,672,000	$ 2,004,446,000	$ 2,056,870,000	$ 1,980,292,118	$ 2,327,782,000	$ 2,578,290,000
KERS' non-hazardous employees total pension liability	$ 16,472,733,000	$ 16,356,674,000	$ 15,608,221,000	$ 15,445,206,000	$ 13,379,781,165	$ 12,359,673,000	$ 11,550,110,000

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

Schedule of Required Contributions-Pension
June 30, 2020

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

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

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

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

Note to the Required Supplemental Information-Pension
June 30, 2020

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

Actuarial valuation date	June 30, 2017
Actuarial cost method	Entry age normal
Amortization method	Level percent of pay
Remaining amortization period	23 years
Asset valuation method	20% of the difference between the market value of assets and the expected actuarial value of assets is recognized
Inflation	2.30%
Payroll growth	0.00%
Investment rate of return	5.25%

Schedule of Proportionate Share of the Net OPEB Liability and Related Ratios
June 30, 2020

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

	FY 2020	FY 2019	FY 2018	FY 2017
Authority's proportion of the net OPEB liability	0.054812%	0.058291%	0.069214%	0.085192%
Authority's proportionate share of the net OPEB liability	$ 1,391,626	$ 1,295,748	$ 1,641,003	$ 2,160,437
Authority's covered-employee payroll	$ 781,500	$ 852,612	$ 1,057,832	$ 1,317,197
Authority's proportionate share of the net OPEB liability as a percentage of its covered-employee payroll	178.07%	151.97%	155.13%	164.02%
Plan fiduciary net position as a percentage of the total OPEB liability	29.47%	30.92%	27.32%	24.40%

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

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

Schedule of Required Contributions-OPEB
June 30, 2020

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

	FY 2020	FY 2019	FY 2018	FY 2017
Authority's contractually required contribution	$ 96,906	$ 105,724	$ 88,978	$ 110,776
Authority's contributions in relation to the contractually required contribution	(96,906)	(105,724)	(88,978)	(109,986)
Authority's contribution deficiency	$ -	$ -	$ -	$ 790
Authority's covered-employee payroll	$ 781,500	$ 852,612	$ 1,057,832	$ 1,317,197
Authority's contributions as a percentage of covered-employee payroll	12.40%	12.40%	8.41%	8.35%

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

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

Kentucky Higher Education Assistance Authority/
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Actuarial valuation date	June 30, 2017
Actuarial cost method	Entry age normal
Amortization method	Level percent of pay
Remaining amortization period	23 years
Asset valuation method	20% of the difference between the market value of assets and the expected actuarial value of assets is recognized
Inflation	2.30%
Payroll growth	0.00%
Investment rate of return	6.25%
Healthcare Trend Rates Pre-65	Initial trend starting at 7.25% at January 1, 2019 and gradually decreasing to an ultimate trend rate of 4.05% over a period of 13 years
Healthcare Trend Rates Post-65	Initial trend starting at 5.10% at January 1, 2019 and gradually decreasing to an ultimate trend rate of 4.05% over a period of 11 years