Combined Financial Statements
and Required Supplementary Information

2022

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

June 30, 2022

Strothman+Co

Combined Financial Statements
and Required Supplementary Information

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

June 30, 2022

Strothman and Company
Certified Public Accountants and Advisors
1600 Waterfront Plaza
325 West Main Street
Louisville, KY 40202
502 585 1600

Independent Auditors' Report

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

Opinions

We have audited the accompanying combined financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the Kentucky Higher Education Assistance Authority and the Kentucky Higher Education Student Loan Corporation (the "Authority/Corporation"), component units of the Commonwealth of Kentucky, as of and for the year ended June 30, 2022, and the related notes to the combined financial statements, which collectively comprise the Authority/Corporation's combined financial statements as listed in the accompanying table of contents.

In our opinion, based on our audit and the report of other auditors, the combined financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the Authority/Corporation as of June 30, 2022, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinions

We did not audit the financial statements of Kentucky Education Savings Plan Trust, which statements reflect total assets of $236,120,728 as of June 30, 2022, and a decrease to fiduciary net position of $23,537,974 for the year ended June 30, 2022. Those financial statements were audited by other auditors whose reports have been furnished to us, and our opinion, insofar as it relates to the amounts included for Kentucky Education Savings Plan Trust, is solely based on the reports of the other auditors. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Authority/Corporation and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Change in Accounting Principle – Adoption of Statement of Governmental Standards

As discussed in Note U to the combined financial statements, the Authority/Corporation adopted the requirements of Statement of Governmental Accounting Standards No. 87, *Leases.* Our opinion is not modified with respect to this matter.

Responsibilities of Management for the Combined Financial Statements

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

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

Auditors' Responsibilities for the Audit of the Combined Financial Statements

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

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

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the combined financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the combined financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Authority/Corporation's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the combined financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Authority/Corporation's ability to continue as a going concern for a reasonable period of time.

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

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis (unaudited) on pages 4 through 14 and the required supplemental information on pages 79 through 84 be presented to supplement the basic combined financial statements. Such information is the responsibility of management and, although not a part of the basic combined financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic combined financial statements in an appropriate operational, economic, or historical context. We and other auditors have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic combined financial statements, and other knowledge we obtained during our audit of the basic combined financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued a report dated September 27, 2022, on our consideration of the Authority/Corporation's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Authority/Corporation's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Authority/Corporation's internal control over financial reporting and compliance.

STROTHMAN AND COMPANY

Louisville, Kentucky
September 27, 2022

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

June 30, 2022

Description of the Business

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

The Authority/Corporation maintains the following operations:

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

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

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

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

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

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

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

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

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

Industry Update

The Health Care and Education Reconciliation Act ("HCERA") of 2010 (H.R.4872/Public Law 111-152) was signed into law on March 30, 2010. HCERA eliminated the origination and/or guarantee of FFELP loans, effective July 1, 2010. In accordance with HCERA, the Authority/Corporation continues to provide guarantee services on $1.7 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 $864 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" or "ED") 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 two primary items worthy of disclosure, the second of which encompasses several subsets of items outlined in Note T. First, as noted in Note M and Note N, House Bill 8 ("HB8") was passed into law on March 23, 2021. HB8 allows KHESLC to remain in the Retirement System under the (signed into law) provisions of HB8. Effective July 1, 2021, the provisions of HB8 changed retirement contributions from a percentage of payroll to the sum of (1) a normal cost times the payroll of the Authority/Corporation employees earning benefits in the Kentucky Employees Retirement System ("KERS"), and (2) an allocated portion of the Retirement System's annual amortization cost. Nearly all of the FY2022 material decrease in the Authority/Corporation retirement liabilities will be recognized over a two-year period in the Proprietary Fund Combined Statement of Revenues, Expenditures and Changes in Net Position in FY2022 and FY2023.

Second, the Authority/Corporation continues 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 has been extended multiple times, most recently until December 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 several related disclosures of subsequent events in Note T.

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 15 and 16 of this report. The combined fund financial statements can be found on pages 17 through 24 of this report. See Note A for additional information regarding ARC as a blended component unit of the Corporation's proprietary fund.

Kentucky Higher Education Assistance Authority/
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June 30, 2022

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 25 and 26 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, 2022 and 2021, respectively.

Management's Discussion and Analysis (Unaudited)

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

June 30, 2022

	Governmental Fund		Proprietary Funds	
	2022	2021	2022	2021
Net Position Information				
Capital assets			$ 4,852,350	$ 5,598,065
Other assets	$ 75,468,950	$72,976,040	1,200,569,660	1,211,424,266
Total Assets	75,468,950	72,976,040	1,205,422,010	1,217,022,331
Deferred Outflows of Resources:				
Deferred Amount on Debt Refunding			1,239,127	1,440,067
Deferred OPEB expense			3,928,221	5,295,652
Deferred pension expense			5,259,250	7,785,852
Total Assets and Deferred Outflows of Resources	75,468,950	72,976,040	1,215,848,608	1,231,543,902
Long-term liabilities			893,246,700	1,013,927,637
Other liabilities	26,765	64,960	91,933,667	45,977,843
Deferred pension expense			27,063,960	5,524,355
Deferred OPEB expense			8,431,396	4,009,731
Deferred gain on debt retirements, net			8,979,556	10,056,631
Total Liabilities and Deferred Inflows of Resources	26,765	64,960	1,029,655,279	1,079,496,197
Invested in capital assets, net of expended debt proceeds			4,852,350	5,598,065
Unrestricted			(44,779,868)	(66,378,230)
Restricted, other			93,661,196	90,336,499
Restricted for program benefits	75,442,185	72,911,080		
Restricted for student aid and related activities			132,459,651	122,491,371
Total Net Positon	$ 75,442,185	$72,911,080	$ 186,193,329	$ 152,047,705
Activity Information				
Interest and investment income fund	$ 255,425	$ 296,724	$ (3,265,065)	$ 693,636
Student aid & advancement fund revenue	296,865,894	291,579,600		
Unclaimed lottery revenue		7,500,000		
Contributions from Agency Operating Fund	2,240,663	2,357,727		
Federal funds revenue	812,640	38,630		
Servicing Fees from external sources			30,314	30,199
Servicing Fees from Education Finance Funds			5,059,298	5,018,481
Debt recovery commission			(6,829,574)	15,137,186
Reimbursement for lost revenue			33,564,298	16,421,673
Federal fees earned			1,183,894	1,339,269
Default aversion fee income			(83,818)	183,796
Interest income on loans			12,999,031	13,686,152
Amortization of deferred gain on debt retirements			1,077,075	1,077,074
Gain on the sale of loans			108,596	1,991,642
Late payment penalties			648,326	494,026
School Services			749,178	888,559
Other income	432,626	435,668	339,062	617,626
Total Revenue	300,607,248	302,208,349	45,580,615	57,579,319
Kentucky Tuition Grant	34,027,716	35,711,194		
College Access Program Grant	106,765,016	90,023,444		
Early Graduation Scholarship	260,035	354,576		
Early Childhood Development Scholarship	2,190,681	539,754		
Kentucky National Guard Tuition Award Program	7,782,265	8,148,871		
Kentucky Educational Excellence Scholarship	114,291,727	119,091,051		
Teacher Scholarship	333,348	444,996		
Osteopathic Medicine Scholarship	1,015,369	1,856,202		
Optometry Scholarship Program	948,606	933,530		
Veterinary Contract Spaces Program	5,520,032	5,320,706		
Coal County Scholarship Program for Pharmacy Students	608,513	321,846		
Dual Credit Scholarship	11,429,239	9,524,977		
Work Ready Scholarship	10,645,045	9,487,687		
Shot at a Million	2,063,494			
John R. Justice Grant	195,057	245,642		
Loan guarantee operations			1,937,844	1,767,095
Default collections			5,694,125	6,091,379
Loan finance and servicing activities			(4,952,436)	26,171,552
Outreach			3,396,130	3,363,312
Student aid administration			2,240,663	2,357,727
School services			2,957,147	3,020,231
Other activities			161,518	393,657
Total Expenditures	298,076,143	282,004,476	11,434,991	43,164,953
Change in Net Position	$ 2,531,105	$20,203,873	$ 34,145,624	$ 14,414,366

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, 2022. Please read it in conjunction with the Authority/Corporation's combined financial statements and notes to the combined financial statements, which follow this section.

Financial Overview

- The Authority/Corporation's proprietary fund total assets and deferred outflows decreased approximately $15.7 million (1.3%), from $1.232 billion to $1.216 billion. The net change was comprised of several offsetting increases and decreases in cash and cash equivalents, investments, loans and the receivable from FSLRF for reimbursement for lost revenue (see Note Q) and deferred OPEB expense.

- The Authority/Corporation's proprietary fund liabilities and deferred inflows decreased $50 million (4.62%) from $1.080 billion to $1.030 billion. The overall decrease in liabilities and deferred inflows was attributable to the net of various decreases and increases year over year. The increase in other liabilities relates primarily to a $32.8 million direct borrowings increase associated with new direct borrowings on the revolver line of credit and a $12.6 million increase in accounts payable of the Authority related to Population 3 adjustments to be processed in FY2023 (see Note Q). The $120.7 million decrease in long-term liabilities is related primarily to a $58.1 million decrease in retirement liabilities and a combined $64 million decrease in direct placements and bonds payable resulting from an overall greater amount of debt payments than new bonds issued. Those two decreases were offset slightly by an increase in lease liability related to the adoption of GASB No. 87.

- The Authority/Corporation's proprietary fund revenues decreased $12 million which is comprised of several increases and decreases in revenues including a net decrease of $4.8 million for the combined debt recovery commissions and reimbursement for lost revenues line items (see Note Q), $4 million less in interest and investment income due to bond market conditions and $1.9 million less on gains from loan sales. 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 $31.7 million (73.5%), $31.1 million of which is related to a decrease in loan finance and servicing related expense. $28.3 million of the $31.1 million relates directly to the decrease in retirement 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.

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June 30, 2022

- The Authority/Corporation's governmental fund assets increased by approximately $2.5 million due primarily to the net of a $962k decrease in cash, a $4.2 million increase in accounts receivable and a $704k decrease in noncurrent assets.

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

- The Authority/Corporation's governmental fund revenues decreased approximately $1.6 million which is representative of only one-half of one percent of a decrease compared to the prior year revenues.

- The Authority/Corporation's governmental fund expenditures increased approximately $16.1 million (5.7%) resulting largely from increases in several student aid programs including, but not limited to, the following: $16.7 million for College Access Program Grant, $1.7 million for Early Childhood Development Scholarship, $1.9 million for Dual Credit Scholarship, $1.2 million for Work Ready Scholarship and $2.1 million for the new Shot at a Million vaccination incentive program. These increases were offset primarily by a $1.7 million decrease in the Kentucky Tuition Grant and a $4.8 million decrease in the Kentucky Educational Excellence 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 $72.9 million to $75.4 million. Total proprietary fund net position increased $34.1 million comprised of a $21 million increase from default collection operations (compared to a $25.5 million increase in prior year), $3.8 decrease from loan guarantee operations (compared to $519,000 increase in prior year), $3.4 million contribution for outreach activities (compared to $3.4 million contribution in prior year), $2.2 million contribution for student aid administration (compared to $2.4 million in prior year), $24.8 million increase in loan finance and servicing activities (compared to $3.7 million decrease in prior year), and $2.2 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, 2022, are as follows:

- The Authority/Corporation maintained $1.7 billion of FFELP guarantees outstanding.

- The Authority/Corporation owned and serviced $864 million of FFELP loans and education loans.

- The decrease in proprietary fund net position connected with loan guarantee operations was primarily related to the mark to market loss reflected in interest and investment income that resulted from a very challenging bond market during the year.

- The Authority/Corporation maintained $431 million of defaulted loan principal in its collection portfolio.

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

- Unrestricted net position increased from ($66.4) million to ($44.8) million due primarily to the aforementioned decrease in retirement liabilities.

- Net position restricted for student aid and related activities increased from $122.5 million to $132.5 million.

Combined Statement of Revenues, Expenses and Changes in Net Position

The $34.1 million increase in proprietary fund net position during fiscal year 2022 was $19.7 million more than the $14.4 million increase during fiscal year 2021. The overall increase in proprietary fund net position was attributable to a $9.3 million increase for the Authority and a $24.8 million increase for the Corporation. The Authority's increase of $9.3 million reflects the continued recognition of reimbursement for lost revenue, described in Note Q, to a debt recovery portfolio of loans that increased significantly during FY2020 due to the New Jersey portfolio addition. The Corporation's increase was largely related to the decrease in retirement liabilities discussed in more detail at the top of page six. Another critical highlight related to the combined statement of revenues, expenses and changes in net position for the year ended June 30, 2022 is the $8.7 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, 2022

	Federal Student Loan Reserve Fund		Kentucky's Affordable Prepaid Tuition		Kentucky Education Savings Plan Trust	
	2022	2021	2022	2021	2022	2021
Net Position Information						
Other assets	$ 35,958,595	$ 28,410,974	$ 19,085,957	$ 33,179,368	$ 236,120,728	$ 259,643,076
Total Assets	35,958,595	28,410,974	19,085,957	33,179,368	236,120,728	259,643,076
Total Liabilities	30,412,045	18,436,397	53,542,115	63,026,944	223,553	207,927
Restricted net position (deficit)	5,546,550	9,974,577	(34,456,158)	(29,847,576)	235,897,175	259,435,149
Total Net Position	**$ 5,546,550**	**$ 9,974,577**	**$ (34,456,158)**	**$ (29,847,576)**	**$ 235,897,175**	**$ 259,435,149**
Changes in Fiduciary Net Position Information						
Federal reinsurance	$ 95,774,669	$ 73,452,518				
Contributions			$ 32,200	$ 16,009	$ 27,421,673	$ 24,989,205
Federal minimum reserve ratio transfer	28,309,154					
Investment revenue	8,995	4,000	(849,255)	3,396,230	(24,604,378)	40,379,783
Other income	595,993	922,068				
Total Additions	124,688,811	74,378,586	(817,055)	3,412,239	2,817,295	65,368,988
Administrative expenses			268,149	260,281	1,073,898	990,540
Refunds			2,706,087	2,995,222		
Trustee expense			36,145	76,975		
Tuition benefits expense (savings), net			781,146	(4,042,070)		
Loan claims	95,636,358	73,283,488				
Withdrawals					25,281,371	21,303,608
Default aversion	(83,818)	183,796				
Expenses for reimbursement of lost revenue	33,564,298	16,421,673				
Total Deductions	129,116,838	89,888,957	3,791,527	(709,592)	26,355,269	22,294,148
Change in Net Position	**$ (4,428,027)**	**$ (15,510,371)**	**$ (4,608,582)**	**$ 4,121,831**	**$ (23,537,974)**	**$ 43,074,840**

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, 2022. Please read it in conjunction with the Authority/Corporation's combined financial statements and notes to the combined financial statements, which follow this section.

Financial Overview

- Federal reinsurance and loan claims paid balances typically approximate the other each fiscal year. Both balances increased by approximately $22.3 million in FY2022 due primarily to an apparent reduced impact that Covid-19 is having on lower FFEL delinquencies and defaults. The FY2022 increases brought these two balances slightly higher than the FY2020 balances. This seems to reflect a Covid-19 impact for the last quarter of FY2020 and throughout FY2021. In addition, approximately $28.3 million and $33.6 million of federal minimum reserve ratio transfers in and expenses for reimbursement for lost revenue, respectively, were recognized in FY2022. See the Statement of Fiduciary Net Position explanation below and Note Q for more detail describing the nature of this addition and expense, respectively, for FY2022.

- The Plan noted an increase in the Net Deficit of approximately $4.6 million in fiscal year 2022, due primarily to the net of several different factors including the following: favorable tuition inflation, unfavorable investment experience, change in program expense assumptions, certain changes in future program assumptions and other program experience during FY 2022.

- At June 30, 2022 and 2021, the Trust's fiduciary net position totaled $235.9 million and $259.4 million, respectively. Fiduciary net position decreased $23.5 million, or 9.1%, from June 30, 2021, to June 30, 2022.

Statement of Fiduciary Net Position (Deficit)

The Federal Student Loan Reserve Fund ("FSLRF") net position decreased $4.4 million over ending net position in the prior year. Assets increased by approximately $7.6 million while liabilities increased $12 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, 2022 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 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. In addition, during FY2022, USDE began subsidizing the shortfall in the FSLRF and, as disclosed in Note T, ED will continue to use that same formulation through the December 31, 2022 scheduled end of the payment pause. The subsidy is the federal minimum reserve ratio transfer. As of June 30, 2022, the

FSLRF maintained a payable to the agency operating fund of $28.4 million for reimbursement for lost revenue and also a $1.7 million receivable from USDE for the minimum reserve ratio.

The Plan's total assets decreased $14.1 million, from $33.2 million as of June 30, 2021 to $19.1 million as of June 30, 2022. Total liabilities decreased $9.5 million from $63 million to $53.5 million. Detail related to tuition and investment return assumptions, as applicable, include the following:

- 2022-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 continue to change over time to asset allocations that reduce equity exposure to help preserve investment gains. A glide path approach better matches projected payouts as the value of the Plan's assets continues to move closer to its expected depletion date that is currently expected to occur during FY2024. See Note B for the target asset allocation changes that fully replaced all remaining equity investments with cash equivalents and fixed income investments.

- As of June 30, 2022, the tuition for the 2022-2023 academic year will increase 1.6% for the Value Plan and a 2% 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 2023-2024 academic year is 4.00%. The tuition increase assumption for each year thereafter through 2028, when all current participant standard utilization periods expire, is also 4.00%.

The Trust is an Internal Revenue Code Section 529 plan managed by the Authority and administered on behalf of the Authority by Ascensus College Savings Recordkeeping Services, LLC. Trust assets are entirely comprised of cash and pooled investments. Total net position decreased approximately $23.5 million during the year due primarily to net investment loss of $24.6. See the condensed financial information schedule for Fiduciary Funds on page 12 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 $4.4 million over ending net position in the prior year. This decrease in net position is comprised of the net of a $12 million increase in liabilities and a $7.6 million increase 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 FY2022.

As noted above, the Plan experienced an increase in the Net Deficit of approximately $4.6 million in fiscal year 2022. For the year ended June 30, 2022, the Trust experienced a net investment loss of $24.6 million whereas for the year ended June 30, 2021, the Trust experienced net investment income of $40.4 million.

Combined Government-Wide Statement of Net Position

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

June 30, 2022

ASSETS	Governmental Activities	Business-Type Activities	Total
Current:			
Cash and cash equivalents	$ 7,039,481	$ 56,515,662	$ 63,555,143
Investments		6,494,439	6,494,439
Accounts receivable and prepaid expenses	61,808,088	1,279,260	63,087,348
Accrued interest income		26,597,555	26,597,555
Receivable from U.S. Department of Education		280,850	280,850
Receivable from FSLRF for reimbursement for lost revenue		28,419,672	28,419,672
Loans, net		109,307,439	109,307,439
Scholarship conversion loans receivable	450,000		450,000
Total Current Assets	69,297,569	228,894,877	298,192,446
Noncurrent:			
Restricted cash and cash equivalents		144,159,134	144,159,134
Investments		90,162,629	90,162,629
Fixed assets, net		4,852,350	4,852,350
Lease assets, net		1,952,844	1,952,844
Loans, net		727,282,602	727,282,602
Accrued interest income, net		8,117,574	8,117,574
Scholarship conversion loans receivable, net	3,242,646		3,242,646
Scholarship advances receivable	2,928,735		2,928,735
Total Noncurrent Assets	6,171,381	976,527,133	982,698,514
Total Assets	75,468,950	1,205,422,010	1,280,890,960
Deferred Outflows of Resources:			
Deferred amount on debt refunding		1,239,127	1,239,127
Deferred OPEB expense		3,928,221	3,928,221
Deferred pension expense		5,259,250	5,259,250
Total Assets and Deferred Outflows of Resources	75,468,950	1,215,848,608	1,291,317,558
LIABILITIES			
Current:			
Accounts payable and accrued expenses	26,765	19,629,898	19,656,663
Accrued interest expense		1,030,740	1,030,740
Payable to U.S. Department of Education		5,701,869	5,701,869
Direct borrowing		50,019,391	50,019,391
Lease liability		361,769	361,769
Bonds payable		15,190,000	15,190,000
Total Current Liabilities	26,765	91,933,667	91,960,432
Noncurrent:			
Net OPEB liability		13,495,736	13,495,736
Net pension liability		71,261,384	71,261,384
Allowance for arbitrage liabilities		437,568	437,568
Direct placements		160,488,000	160,488,000
Lease liability		1,590,818	1,590,818
Payable to Federal Student Loan Reserve Fund		949,791	949,791
Bonds payable, net		645,023,403	645,023,403
Total Noncurrent Liabilities		893,246,700	893,246,700
Total Liabilities	26,765	985,180,367	985,207,132
Deferred Inflows of Resources:			
Deferred pension expense		27,063,960	27,063,960
Deferred OPEB expense		8,431,396	8,431,396
Deferred gain on debt retirements, net		8,979,556	8,979,556
Total Liabilities and Deferred Inflows of Resources	26,765	1,029,655,279	1,029,682,044
NET POSITION			
Invested in capital assets, net of expended debt proceeds		4,852,350	4,852,350
Restricted, other		93,661,196	93,661,196
Restricted for program benefits	75,442,185		75,442,185
Restricted for student aid and related activities		132,459,651	132,459,651
Unrestricted		(44,779,868)	(44,779,868)
Total Net Position	$ 75,442,185	$ 186,193,329	$ 261,635,514

Combined Government-Wide Statement of Activities

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

For the Year Ended June 30, 2022

			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	$ 33,867,684	$ 160,032		$ 45,271,527	$ 11,243,811		$ 11,243,811
College Access Program Grant	106,604,984	160,032		98,096,423	(8,668,593)		(8,668,593)
Early Graduation Scholarship	100,000	160,035		260,035			
Early Childhood Development Scholarship	2,030,649	160,032		899,211	(1,291,470)		(1,291,470)
Kentucky National Guard Tuition Award Program	7,622,233	160,032		7,628,508	(153,757)		(153,757)
Kentucky Educational Excellence Scholarship	114,131,483	160,244		116,355,249	2,063,522		2,063,522
Teacher Scholarship	173,316	160,032		1,161,512	828,164		828,164
Dual Credit Scholarship Program	11,269,207	160,032		10,908,864	(520,375)		(520,375)
Osteopathic Medicine Scholarship	855,337	160,032		343,960	(671,409)		(671,409)
Work Ready Scholarship	10,485,013	160,032		10,530,979	(114,066)		(114,066)
Veterinary Contract Spaces Program	5,360,000	160,032		5,654,032	134,000		134,000
Optometry Scholarship Program	788,574	160,032		968,432	19,826		19,826
Coal County Scholarship Program for Pharmacy Students	448,481	160,032		231,529	(376,984)		(376,984)
Shot at a Million	2,063,494			2,063,494			
John R. Justice Grant	35,025	160,032		233,493	38,436		38,436
Total Governmental Activities	295,835,480	2,240,663		300,607,248	2,531,105		2,531,105
Business-Type Activities:							
Loan guarantee operations	1,937,844		$ (1,909,523)			$ (3,847,367)	(3,847,367)
Default collections	5,694,125		26,734,724			21,040,599	21,040,599
Loan finance and servicing activities	(4,952,436)		19,844,718			24,797,154	24,797,154
Outreach	3,396,130					(3,396,130)	(3,396,130)
Student aid administration	2,240,663					(2,240,663)	(2,240,663)
School services	2,957,147		749,178			(2,207,969)	(2,207,969)
Other activities	161,518		161,518				
Total Business-Type Activities	11,434,991		45,580,615			34,145,624	34,145,624
Total Activities	$ 307,270,471	$ 2,240,663	$ 45,580,615	$ 300,607,248	2,531,105	34,145,624	36,676,729
Net Position, July 1, 2021					72,911,080	152,047,705	224,958,785
Net Position, June 30, 2022					$ 75,442,185	$ 186,193,329	$ 261,635,514

Combined Statement of Net Position - Proprietary Funds

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

June 30, 2022

	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	$ 3,188,854	$ 37,441,470	$ 40,630,324		$ 15,885,338	$ 15,885,338	$ 56,515,662
Investments		6,494,439	6,494,439				6,494,439
Accounts receivable and prepaid expenses	506,756	168,726	675,482	$ 89,834	513,944	603,778	1,279,260
Accrued interest income		396,256	396,256	22,689,382	3,511,917	26,201,299	26,597,555
Receivable from U.S. Department of Education		280,850	280,850				280,850
Receivable from FSLRF for reimbursement for lost revenue		28,419,672	28,419,672				28,419,672
Loans, net				94,906,732	14,400,707	109,307,439	109,307,439
Total Current Assets	3,695,610	73,201,413	76,897,023	117,685,948	34,311,906	151,997,854	228,894,877
Noncurrent:							
Restricted cash and cash equivalents				144,159,134		144,159,134	144,159,134
Investments		81,143,119	81,143,119		9,019,510	9,019,510	90,162,629
Lease asset, net					1,952,844	1,952,844	1,952,844
Fixed assets, net		4,747,440	4,747,440		104,910	104,910	4,852,350
Loans, net				654,224,509	73,058,093	727,282,602	727,282,602
Accrued interest income, net				6,626,823	1,490,751	8,117,574	8,117,574
Total Noncurrent Assets		85,890,559	85,890,559	805,010,466	85,626,108	890,636,574	976,527,133
Total Assets	3,695,610	159,091,972	162,787,582	922,696,414	119,938,014	1,042,634,428	1,205,422,010
Deferred Outflows of Resources:							
Deferred Amount on Debt Refunding				1,239,127		1,239,127	1,239,127
Deferred OPEB expense		344,248	344,248		3,583,973	3,583,973	3,928,221
Deferred pension expense		628,861	628,861		4,630,389	4,630,389	5,259,250
Total Deferred Outflows		973,109	973,109	1,239,127	8,214,362	9,453,489	10,426,598
Total Assets and Deferred Outflows of Resources	3,695,610	160,065,081	163,760,691	923,935,541	128,152,376	1,052,087,917	1,215,848,608

Combined Statement of Net Position - Proprietary Funds

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

June 30, 2022

	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	1,224,391	14,386,603	15,610,994	457,234	3,561,670	4,018,904	19,629,898
Interfund payable (receivable)	2,471,219	(2,262,298)	208,921	(691,170)	482,249	(208,921)	
Accrued interest expense				961,323	69,417	1,030,740	1,030,740
Payable to U.S. Department of Education				5,291,613	410,256	5,701,869	5,701,869
Direct borrowing					50,019,391	50,019,391	50,019,391
Lease liability					361,769	361,769	361,769
Bond payable				15,190,000		15,190,000	15,190,000
Total Current Liabilities	3,695,610	12,124,305	15,819,915	21,209,000	54,904,752	76,113,752	91,933,667
Noncurrent:							
Net OPEB liability		1,313,394	1,313,394		12,182,342	12,182,342	13,495,736
Net pension liability		7,715,735	7,715,735		63,545,649	63,545,649	71,261,384
Allowance for arbitrage liabilities				437,568		437,568	437,568
Direct placements				160,488,000		160,488,000	160,488,000
Lease liability					1,590,818	1,590,818	1,590,818
Payable to Federal Student Loan Reserve Fund		949,791	949,791				949,791
Bonds payable, net				645,023,403		645,023,403	645,023,403
Total Noncurrent Liabilities		9,978,920	9,978,920	805,948,971	77,318,809	883,267,780	893,246,700
Total Liabilities	3,695,610	22,103,225	25,798,835	827,157,971	132,223,561	959,381,532	985,180,367
Deferred Inflows of Resources:							
Deferred pension expense		277,146	277,146		26,786,814	26,786,814	27,063,960
Deferred OPEB expense		477,619	477,619		7,953,777	7,953,777	8,431,396
Deferred gain on debt retirements, net				8,979,556		8,979,556	8,979,556
Total Liabilities and Deferred Inflows of Resources	3,695,610	22,857,990	26,553,600	836,137,527	166,964,152	1,003,101,679	1,029,655,279
NET POSITION							
Invested in capital assets, net		4,747,440	4,747,440		104,910	104,910	4,852,350
Restricted, other				87,798,014	5,863,182	93,661,196	93,661,196
Restricted for student aid and related activities		132,459,651	132,459,651				132,459,651
Unrestricted					(44,779,868)	(44,779,868)	(44,779,868)
Total Net Position	$	$ 137,207,091	$ 137,207,091	$ 87,798,014	$ (38,811,776)	$ 48,986,238	$ 186,193,329

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, 2022

	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				$ 25,879,921	$ 2,768,133	$ 28,648,054	$ 28,648,054
Interest and investment income		$ (3,176,191)	$ (3,176,191)	248,944	(337,818)	(88,874)	(3,265,065)
Amortization of deferred gain on debt retirements				1,077,075		1,077,075	1,077,075
Interest expense on bonds				(15,061,067)	(587,956)	(15,649,023)	(15,649,023)
Total Net Interest Revenues		(3,176,191)	(3,176,191)	12,144,873	1,842,359	13,987,232	10,811,041
Financing Expenses:							
Long-term debt credit facility and remarketing fees				111,840	135,456	247,296	247,296
Provision for loan losses				2,880,995	949,085	3,830,080	3,830,080
Provision for arbitrage				(20,622)		(20,622)	(20,622)
Debt issuance costs				970,442		970,442	970,442
Total Financing Expenses				3,942,655	1,084,541	5,027,196	5,027,196
Interest Revenues Net of Financing Expenses		(3,176,191)	(3,176,191)	8,202,218	757,818	8,960,036	5,783,845
Other Operating Revenues:							
Servicing fees from external sources					30,314	30,314	30,314
Servicing fees from Education Finance Funds					5,059,298	5,059,298	5,059,298
Conversion fees							
Debt recovery commission		(6,829,574)	(6,829,574)				(6,829,574)
Reimbursement for lost revenue, net		33,564,298	33,564,298				33,564,298
Federal fees earned		1,183,894	1,183,894				1,183,894
Default aversion fee income		(83,818)	(83,818)				(83,818)
Gain on sale/purchase of loans				38,062	70,534	108,596	108,596
Late payment penalties				606,102	42,224	648,326	648,326
School services		749,178	749,178				749,178
Other income	$ 161,518	166,592	328,110		10,952	10,952	339,062
Total Operating Revenues	161,518	25,574,379	25,735,897	8,846,382	5,971,140	14,817,522	40,553,419

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, 2022

	Authority			Corporation			Combined
	Internal Service Fund	Agency Operating Fund	Authority Total	Education Finance Funds	Operating Fund	Corporation Total	Total
Operating Expenses:							
Administrative expenses	161,518	7,548,032	7,709,550		11,884,685	11,884,685	19,594,235
Servicing fees for Operating Fund				5,059,298		5,059,298	5,059,298
Depreciation and amortization		351,876	351,876		170,552	170,552	522,428
Other expenses		78,888	78,888	237,014	528,708	765,722	844,610
Total Operating Expenses	161,518	7,978,796	8,140,314	5,296,312	12,583,945	17,880,257	26,020,571
Net Changes to Retirement Liabilities/Deferred Resources		346,827	346,827		27,930,695	27,930,695	28,277,522
Net Operating Income Before Program Benefits		17,942,410	17,942,410	3,550,070	21,317,890	24,867,960	42,810,370
Program Benefits:							
Principal and interest benefits				70,806		70,806	70,806
School service		2,957,147	2,957,147				2,957,147
Outreach		3,396,130	3,396,130				3,396,130
Student aid administration		2,240,663	2,240,663				2,240,663
Total Program Benefits		8,593,940	8,593,940	70,806		70,806	8,664,746
Operating Income Before Transfers		9,348,470	9,348,470	3,479,264	21,317,890	24,797,154	34,145,624
Transfers (to) from Other Funds							
Interfund transfers				(85,610)	85,610		
Increase in Net Position After Transfers		9,348,470	9,348,470	3,393,654	21,403,500	24,797,154	34,145,624
Net Position, July 1, 2021		127,858,621	127,858,621	84,404,360	(60,215,276)	24,189,084	152,047,705
Net Position, June 30, 2022		$ 137,207,091	$ 137,207,091	$ 87,798,014	$ (38,811,776)	$ 48,986,238	$ 186,193,329

Combined Statement of Cash Flows - Proprietary Funds

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

For the Year Ended June 30, 2022

	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				$ 152,923,263	$ 11,974,131	$ 164,897,394	$ 164,897,394
Interest received on loans				28,875,111	(1,006,014)	27,869,097	27,869,097
Special allowance paid				(15,897,230)	(1,344,149)	(17,241,379)	(17,241,379)
Servicing fees received, internal sources	$ (161,518)	$ 100,905	$ (60,613)	(5,059,298)	5,059,298		(60,613)
School services fees received		749,178	749,178				749,178
Servicing fees received, external sources					29,048	29,048	29,048
Debt recovery commission received		(6,829,574)	(6,829,574)				(6,829,574)
Reimbursement for lost revenue		33,564,298	33,564,298				33,564,298
Federal fees received		1,183,894	1,183,894				1,183,894
Default aversion fees received		(83,818)	(83,818)				(83,818)
Outreach		(3,396,130)	(3,396,130)				(3,396,130)
School services		(2,957,147)	(2,957,147)				(2,957,147)
Internal activity-payments to other funds	667,984	(667,984)		84,412	(84,412)		
Loans originated, including costs				17,757	(28,355,774)	(28,338,017)	(28,338,017)
Administrative expenses paid		(5,746,921)	(5,746,921)	(2,856,993)	(13,278,497)	(16,135,490)	(21,882,411)
Interfund loan sales and purchases				(12,432,866)	12,432,866		
Credit facility fees paid				(111,840)	(152,491)	(264,331)	(264,331)
Loans purchased, including premiums				(297,898)	(43,672,085)	(43,969,983)	(43,969,983)
Student aid administration		(2,240,663)	(2,240,663)				(2,240,663)
Client loan receipts					566,875	566,875	566,875
Loan receipts remitted to clients					(574,306)	(574,306)	(574,306)
Net Cash Provided By (Used In) Operating Activities	506,466	13,676,038	14,182,504	145,244,418	(58,405,510)	86,838,908	101,021,412
Cash Paid from Noncapital Financing Activities:							
Proceeds from debt issued				60,148,787	46,679,094	106,827,881	106,827,881
Debt principal payments				(121,640,000)	(13,850,244)	(135,490,244)	(135,490,244)
Interest on debt				(15,416,760)	(541,514)	(15,958,274)	(15,958,274)
Debt issuance costs				(970,442)		(970,442)	(970,442)
Interfund transfers				(85,610)	85,610		
Net Cash Provided by (Used In) Noncapital Financing Activities				(77,964,025)	32,372,946	(45,591,079)	(45,591,079)
Cash Flows From Capital and Related Financing Activities:							
Capital expenditures		(102,197)	(102,197)		(12,244)	(12,244)	(114,441)
Lease liability					(33,356)	(33,356)	(33,356)
Net Cash Used In Capital and Related Financing Activities		(102,197)	(102,197)		(45,600)	(45,600)	(147,797)
Cash Flows From Investing Activities:							
Proceeds from sales/maturities of investments		62,218,392	62,218,392		5,937,376	5,937,376	68,155,768
Purchases of investments		(60,549,139)	(60,549,139)		(6,005,879)	(6,005,879)	(66,555,018)
Investment income		(1,964,518)	(1,964,518)	139,056	51,654	190,710	(1,773,808)
Net Cash Provided By (Used In) Investing Activities		(295,265)	(295,265)	139,056	(16,849)	122,207	(173,058)
Net Increase (Decrease) in Cash and Cash Equivalents	506,466	13,278,576	13,785,042	67,419,449	(26,095,013)	41,324,436	55,109,478
Cash and Cash Equivalents, July 1, 2021	2,682,388	24,162,894	26,845,282	76,739,685	41,980,351	118,720,036	145,565,318
Cash and Cash Equivalents, June 30, 2022	$ 3,188,854	$ 37,441,470	$ 40,630,324	$ 144,159,134	$ 15,885,338	$ 160,044,472	$ 200,674,796

Combined Statement of Cash Flows - Proprietary Funds

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

For the Year Ended June 30, 2022

	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 before transfers		$ 9,348,470	$ 9,348,470	$ 3,479,264	$ 21,317,890	$ 24,797,154	$ 34,145,624
Adjustments to reconcile operating income to net cash provided by (used in) operating activities:							
Investment income (loss)		3,176,191	3,176,191	(139,056)	341,786	202,730	3,378,921
Depreciation and amortization		722,007	722,007		170,552	170,552	892,559
Amortization, expense and write-off of debt issuance costs				970,442		970,442	970,442
Amortization of deferred gain on debt retirements				(1,077,075)		(1,077,075)	(1,077,075)
Interest expense				15,061,067	587,956	15,649,023	15,649,023
Provision for loan losses				2,880,995	949,085	3,830,080	3,830,080
Borrower interest converted to principal				(19,700,257)	(2,426,682)	(22,126,939)	(22,126,939)
Loan forgiveness				70,806		70,806	70,806
Pension expense		(286,339)	(286,339)		(25,590,134)	(25,590,134)	(25,876,473)
OPEB expense					(2,340,561)	(2,340,561)	(2,340,561)
Loss on equipment disposal					696	696	696
(Increases) decreases in assets:							
Accounts receivables and prepaid expenses	$ (173,248)	(64,388)	(237,636)	(89,834)	(167,580)	(257,414)	(495,050)
Receivable from the FSLRF for reimbursement of lost revenue		(11,997,999)	(11,997,999)				(11,997,999)
Accrued interest receivable		33,400	33,400	5,023,660	(2,557,101)	2,466,559	2,499,959
Principal received on loans				152,923,263	11,974,131	164,897,394	164,897,394
Loans purchased, including premiums				(297,898)	(43,672,085)	(43,969,983)	(43,969,983)
Loans originated, including costs				17,757	(28,355,774)	(28,338,017)	(28,338,017)
Interfund loan sales and purchases				(12,432,866)	12,432,866		
Increases (decreases) in liabilities:							
Accounts payable and accrued expenses	216,577	12,933,285	13,149,862	177,285	(584,827)	(407,542)	12,742,320
Payable to U.S. Department of Education				(1,686,926)	(401,316)	(2,088,242)	(2,088,242)
Allowance for arbitrage liabilities				(20,621)		(20,621)	(20,621)
Interfund receivable/payable	463,137	(188,589)	274,548	84,412	(84,412)		274,548
Net Cash Provided By (Used In) Operating Activities	$ 506,466	$ 13,676,038	$ 14,182,504	$ 145,244,418	$ (58,405,510)	$ 86,838,908	$ 101,021,412

Balance Sheet - Governmental Fund

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

June 30, 2022

ASSETS	**Governmental Fund** **Student Aid**
Current:	
Cash and cash equivalents	$ 7,039,481
Accounts receivable	61,808,088
Scholarship conversion loans receivable	450,000
Total Current Assets	69,297,569
Noncurrent:	
Scholarship conversion loans receivable, net of allowance of $2,752,000	3,242,646
Scholarship advances receivable	2,928,735
Total Noncurrent Assets	6,171,381
Total Assets	75,468,950
LIABILITIES	
Current:	
Accounts payable	26,765
Total Liabilities	26,765
FUND BALANCE	
Restricted for program benefits	$ 75,442,185

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, 2022

	Governmental Fund
	Student Aid
Revenues:	
Interest and investment income fund	$ 255,425
State General Fund revenue	296,865,894
Federal funds revenue	812,640
Other income	432,626
Contribution from Agency Operating Fund	2,240,663
Total Revenues	300,607,248
Expenditures:	
Kentucky Tuition Grant	34,027,716
College Access Program Grant	106,765,016
Early Graduation Scholarship	260,035
Early Childhood Development Scholarship	2,190,681
Kentucky National Guard Tuition Award Program	7,782,265
Kentucky Educational Excellence Scholarship	114,291,727
Teacher Scholarship	333,348
Osteopathic Medicine Scholarship	1,015,369
Coal County Scholarship Program for Pharmacy Students	608,513
Optometry Scholarship Program	948,606
Veterinary Contract Spaces Program	5,520,032
Dual Credit Scholarship Program	11,429,239
Work Ready Scholarship	10,645,045
Shot at a Million	2,063,494
John R. Justice Grant	195,057
Total Expenditures	298,076,143
Net Change in Fund Balance	2,531,105
Fund Balance, July 1, 2021	72,911,080
Fund Balance, June 30, 2022	$ 75,442,185

Statement of Fiduciary Net Position (Deficit)

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

June 30, 2022

ASSETS	Federal Student Loan Reserve Fund	Kentucky's Affordable Prepaid Tuition	Kentucky Education Savings Plan Trust
Current:			
Cash and cash equivalents	$ 23,545,558	$ 10,331,805	$ 161,299
Contributions receivable		3,819	
Fees receivable		2,315	
Receivable from U.S. Department of Education, minimun reserve ratio	1,671,408		
Receivable from U.S. Department of Education	7,883,756		
Investments		8,748,018	235,839,253
Other current assets	2,074		120,176
Total Current Assets	33,102,796	19,085,957	236,120,728
Noncurrent:			
Default aversion fees receivable	2,855,799		
Total Noncurrent Assets	2,855,799		
Total Assets	35,958,595	19,085,957	236,120,728
LIABILITIES			
Current:			
Accounts payable	86,365	20,475	141,161
Accrued expenses			82,392
Tuition benefits payable		10,415,361	
Payable to AOF for reimbursement of lost revenue	28,419,672		
Payable to Agency Operating Fund	1,906,008		
Total Current Liabilities	30,412,045	10,435,836	223,553
Noncurrent:			
Tuition benefits payable		43,106,279	
Total Liabilities	30,412,045	53,542,115	223,553
NET POSITION (DEFICIT)			
Restricted for program benefits		(34,456,158)	235,897,175
Restricted for other purposes	5,546,550		
Total Net Position (Deficit)	$ 5,546,550	$ (34,456,158)	$ 235,897,175

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, 2022

	Federal Student Loan Reserve Fund	Kentucky's Affordable Prepaid Tuition	Kentucky Education Savings Plan Trust
Additions:			
Federal reinsurance	$ 95,774,669		
Federal minimum reserve ratio transfer	28,309,154		
Contract income, net		$ 32,200	
Contributions			$ 27,421,673
Investment Revenues:			
Net decrease in fair value of investments		(1,915,483)	(30,350,494)
Interest and investment income	8,995	1,066,228	5,746,116
Other income	595,993		
Total Additions	124,688,811	(817,055)	2,817,295
Deductions:			
Program benefits:			
Loan claims	95,636,358		
Default aversion fee expense	(83,818)		
Withdrawals			25,281,371
Administrative expenses		37,399	1,073,898
Personnel and professional expenses		230,750	
Expenses for reimbursement of lost revenue	33,564,298		
Refunds		2,706,087	
Trustee fee expense		36,145	
Tuition benefits expense, net		781,146	
Total Deductions	129,116,838	3,791,527	26,355,269
Change in Net Position	(4,428,027)	(4,608,582)	(23,537,974)
Net Position (Deficit), July 1, 2021	9,974,577	(29,847,576)	259,435,149
Net Position (Deficit), June 30, 2022	$ 5,546,550	$ (34,456,158)	$ 235,897,175

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; FAFSA for the Win Challenge, which supports and incentivizes schools and students in the FAFSA completion process; College Decision Day, which celebrates and recognizes seniors for making educational plans beyond high school; and the Kentucky College Coaches Program, in which recent college graduates serve as coaches to students in schools with predominantly first-generation, low-income students.

Student Aid Programs

Student Aid – During FY2022, 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 seven 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 Bond Index 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 seven investment options and investment choices include the following eleven new investment companies: American Funds, Dimensional Fund Advisors ("DFA"), Cohen & Steers Capital Management, Inc. ("Cohen & Steers"), Baird Advisors, BlackRock, State Street Global Advisors ("SSGA"), Charles Schwab Investment Management, Inc. ("Schwab"), Vanguard, PGIM Investments LLC ("PGIM Investments"), NexBank, and TIAA-CREF Life Insurance Company.

All investment allocation percentages are determined by the Authority/Corporation's Board of Directors and reviewed annually. The assets of the Guaranteed Option 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 Guaranteed Option is contractually obligated to pay a minimum rate of return of 1%. For fiscal year 2022, the Guaranteed investment rate was 1.10%. The NexBank High Yield Savings offered within the Capital Preservation Option had an Annual Percentage Yield of .63% as of June 30, 2022.

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 $34.5 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, 2022, the Plan maintained a present value fund deficit of $34.5 million. This represents a $4.7 million increase over the previous year's deficit. Based on actuarial estimates, the Plan's assets will be exhausted in fiscal year 2024, at which time the liability of the Plan becomes a General Obligation of the Commonwealth of Kentucky. Per KRS 164A.708, once a real liability is expected to accrue, the General Assembly shall appropriate the necessary funds to meet the liability. Over the remaining estimated life of the program, through fiscal year 2030, actuarial estimates show the Commonwealth of Kentucky will need to transfer approximately $37 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 the United States Department of Education (“USDE” or “ED”) as a pre-HCERA means of making loans available to students attending colleges, universities and vocational institutions. FFELP provides for the Authority/Corporation’s loan guarantee operations to guarantee the repayment of principal and accrued interest to lenders for each eligible student loan. The Authority/Corporation’s loan guarantee operation is responsible for maintaining loan guarantees, providing default aversion assistance to lenders for delinquent loans, reporting loan information to the National Student Loan Data System (“NSLDS”), paying lender claims for loans in default, paying lender specialty claims such as death, disability or bankruptcy and collecting loans on which default claims have been paid. The Authority/Corporation also educates lenders about FFELP requirements and regulatory changes.

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

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

Other sources of revenues to the FSLRF include the federal complement on collections of defaulted loans 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 collects education loans and issues bonds and notes not to exceed $5 billion in order to carry out its corporate powers and duties.

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

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

Note A--Description of Business--Continued

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

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

As of June 30, 2022, the Authority/Corporation held and/or serviced approximately $864 million of FFELP and other education loans. $756 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 $107 million of loans held were funded by the Corporation's Operating Fund. Also, the Authority/Corporation services approximately $1 million of FFELP and other education loans on behalf of other holders. The majority of such education loans are serviced by the Authority/Corporation pursuant to servicing agreements which do not provide for the acquisition by the Authority/Corporation of the education loans serviced. As a servicer of FFELP and other education loans, the Authority/Corporation collects student loan remittances and subsequently disburses these remittances to the appropriate lending entities. The Authority/Corporation's obligations pursuant to such servicing and collection agreements are without recourse to assets pledged to collateralize any Authority/Corporation financings.

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

Note B--Summary of Significant Accounting Policies

Basis of Presentation - The Authority/Corporation reports its financial information in accordance with the Government Accounting Standard Board ("GASB") Statement No. 34, *Basic Financial Statements and Management's Discussion and Analysis – for State and Local Governments* as amended by GASB No. 37 and modified by GASB No. 38, *Certain Financial Statement Disclosures*, (collectively "GASB No. 34"). The Authority/Corporation's basic financial statements are prepared in accordance with GASB No. 34 and are comprised of the following three components: 1) combined government-wide financial statements; 2) combined fund financial statements, and 3) notes to combined financial statements. The government-wide financial statements are comprised of a statement of net position and a statement of activities. Prepared using the economic resources measurement focus and the accrual basis of accounting, these statements reflect all of the assets, liabilities, deferred inflows of resources, deferred outflows of resources, revenues, expenses, gains and losses of the combined Authority/Corporation's governmental and business-type activities. The Authority/Corporation's governmental activities reflect the activities of administering the various student 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 2022, a change to the target asset allocation was approved and later implemented on June 30, 2022. The FY2022 target asset allocations in effect as of July 1, 2021 and from June 30, 2022 to current were and are as follows:

	Effective July 1, 2021	Effective June 30, 2022
Large Cap U.S. Equities	12%	0%
Mid Cap U.S. Equities	2%	0%
Small Cap U.S. Equities	2%	0%
Non-U.S. Equities	3%	0%
Total Equity	19%	0%
Inflation Indexed Bonds	0%	0%
Domestic Fixed Income	11%	0%
Short Duration U.S. Fixed Income	40%	50%
Cash	30%	50%
Total Fixed Income	81%	100%

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

Under Kentucky Revised Statutes, the Authority/Corporation's Board of Directors is charged with selecting the various options in which the participants of the Trust can invest their funds. An individual participating in the Trust establishes an account in the name of a Beneficiary. See Kentucky Educational Savings Plan Trust description in Note A for a better understanding of investment options during fiscal year 2022.

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

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

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

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

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

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

Allowance for Uncollectible Loans - As discussed in Note A, most FFELP loans held by the Authority/Corporation are insured by guarantee agencies and the ED. Management of the Authority/Corporation believes that all of its respective guaranty agencies and the ED will be able to honor all loan claims submitted. However, the Authority/Corporation records a provision for loan losses based upon its expected default claims with respect to 98% and 97% insured loans and for loans with certain loan servicing violations. The allowance for loan loss on all loans funded through normal operations was $8.7 million for loan principal and $772,000 for accrued interest as of June 30, 2022. Furthermore, the Authority/Corporation is required to purchase loans owned by third party customers with certain loan servicing violations. As of June 30, 2022, the allowance for third party servicing loan losses for loans that have been purchased was $1.3 million for loan principal and $892,000 for accrued interest. In July 2015, the Authority/Corporation purchased an uninsured loan portfolio at a substantial discount. As of June 30, 2022, the allowance for the loans purchased at a discount was $15.2 million for loan principal and $8.1 million for accrued interest. In addition, the Authority/Corporation records a provision for loan loss related to Teacher, Osteopathic Medicine and Pharmacy advances that have converted to loans. As of June 30, 2022, the allowance for advances converted to loans was $2.8 million.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Unrestricted Net Position - Unrestricted net position is comprised of net position available to be used in operations or transfers of the Authority/Corporation. As of June 30, 2022, the Authority/Corporation's unrestricted net position is ($44,779,868).

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. See Note T.

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, 2022, 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)		$ 50,462	$ 911,299
Uncollateralized		372,128	
Collateralized by pledging securities held by the financial institution		20,155,772	3,881,524
Money market securities		177,732,930	29,134,203
Cash deposited with Kentucky State Treasurer	$ 7,039,481	3,188,860	110,122
	$ 7,039,481	$ 201,500,152	$ 34,037,148

Of the $201.5 million of cash and cash equivalents maintained in the Proprietary Funds, $40.6 million was held for guarantee operations and the remaining $160.9 million was held for loan finance and servicing activities.

Of the $34 million of cash and cash equivalents maintained in the Fiduciary Funds, $23.5 million was related to the FSLRF and the remaining $10.5 million was associated with the Plan and the Trust.

As of June 30, 2022, 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, 2022 are summarized as follows:

	Fair Value	Weighted Average Maturity (in years)
Corporate bonds	$ 45,265,630	2.88
U.S. Treasury and government agency securities	45,496,576	1.82
Collateralized mortgage obligations	5,894,862	8.31
	$ 96,657,068	

Note C--Cash and Investments--Continued

As of June 30, 2022, Trust investments of $235.8 million comprised primarily of mutual funds were held by Ascensus.

As of June 30, 2022, Plan investments of $8.7 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, 2022:

Rating	Fair Value
AAA / Aaa	$ 14,170,714
AA / Aa	733,534
A / A	15,916,194
BAA / Baa	14,445,188
	$ 45,265,630

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

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, 2022:

Money Market Securities of $177,732,930 are valued using quoted market prices. (Level 1 Inputs).

Corporate bonds, U.S. Treasury and government agency securities, and collateralized mortgage obligations of $96,657,068 were based on Level 2 inputs.

As of June 30, 2022, 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, 2021	Additions	Disposals	Ending Balance June 30, 2022
Proprietary fund:				
Furniture and equipment	$ 14,763,494	$ 118,452	$ 676,527	$ 14,205,419
Building	12,075,048			12,075,048
System development	55,955			55,955
Student loan servicing system	541,131			541,131
Debt recovery system	81,047			81,047
Accumulated depreciation and amortization	(21,918,610)	(862,593)	(674,953)	(22,106,250)
Fixed Assets, Net	$ 5,598,065	$ (744,141)	$ 1,574	$ 4,852,350
Fiduciary Fund:				
Furniture and equipment	$ 66,604			$ 66,604
Accumulated depreciation	(66,604)			(66,604)
	$	$	$	$

Depreciation and amortization expense totaled $895,692 for the year ended June 30, 2022, of which $760,730 was allocated to business-type activities and $134,962 allocated to governmental activities.

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

Loan guarantee operations	$ 225,633
Outreach	177,456
School services	51,142
Default collections	126,243
Loan finance and servicing	170,552
Other activites	9,704
	$ 760,730

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, 2022, the outstanding balance of aggregate insured student loans was approximately $1.7 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, 2022 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 1.72% to 12% for the fiscal year ended June 30, 2022 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, 2022:

Stafford - Subsidized	$ 190,725,421
Stafford - Unsubsidized	226,540,697
PLUS/SLS	14,518,096
Consolidation	256,398,166
Supplemental	163,706,295
Other	10,693,107
Total gross loans	862,581,782
Allowance for loan losses	(25,198,795)
Unamortized discount on purchase of loans	(792,946)
Loans, net	836,590,041
Less amount shown as current assets	109,307,439
Noncurrent loans, net	$ 727,282,602

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, 2022, the allowance for the loan principal purchased at a discount was $15.2 million. In addition, $2,160,746 of student loan principal was no longer insured due to violations of due diligence requirements.

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

Note G--Special Allowance

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

The approaching phase-out of LIBOR has created uncertainty as to how SAP payments will be calculated after one-month USD LIBOR is no longer published or deemed reliable. The Adjustable Interest Rate "LIBOR Act" was signed into law on March 15, 2022. The LIBOR Act provides a clear and uniform federal solution for transitioning legacy contracts that either lack or contain insufficient contractual provisions addressing the permanent cessation of LIBOR by providing for the transition from LIBOR to a replacement rate. For FFELP loans, the LIBOR Act amends the Higher Education Act of 1965 to allow the LIBOR rate for special allowance payments to be substituted by the Secured Overnight Financing Rate ("SOFR") plus a spread. The new rate will apply following certain notifications, by holders like the Corporation, to the Secretary of Education. If such notification does not occur by June 30, 2023, or another date upon which the Federal Reserve determines that one-month USD LIBOR will cease to be published or to be representative, the SOFR-based formula will become applicable by operation of law on the first London banking day after June 30, 2023. See Note T describing certain details of a Federal Student Aid ("FSA") letter issued subsequent to June 30, 2022 that details the transition to SOFR.

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 2022, the Authority/Corporation forgave $955,401 in loan principal and accrued interest for teachers funded by ED. Also, during fiscal year 2022, the Authority/Corporation provided additional loan forgiveness of $70,806.

Note I--Revenue Bonds Payable

As of June 30, 2022, 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, 2019, and 2021 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 seven issuances with bonds payable outstanding as of June 30, 2022 under the aforementioned five indentures of trust have supporting official statements or offering memorandums, as applicable, that include certain summarized provisions of the indenture that list and describe the different events that constitute events of defaults. Reference can be made to such events and to the remedies on default through review of these statements and memorandums that can also be accessed through registration at www.munios.com.

Note I--Revenue Bonds Payable--Continued

The balance of revenue bonds and notes payable at June 30, 2022 and the related activity for the year ended June 30, 2022 is as follows:

Series		Scheduled Maturity	Interest	Beginning Balance July 1, 2021	Bond Refundings	New Issues	Amortization of Premium / (Discount)	Ending Balance June 30, 2022
2014 Indenture								
2014 A	*	June 1, 2031	Fixed	$ 3,525,242	$ (1,000,000)		$ (28,380)	$ 2,496,862
2017 A	*	June 1, 2034	Fixed	23,086,295	(6,010,000)		(123,453)	16,952,842
2019 A1-B1	*	June 1, 2036	Fixed	37,473,770	(700,000)		(450,962)	36,322,808
2019 A2		June 1, 2034	Fixed	41,505,000	(9,660,000)			31,845,000
2021A-1	*	June 1, 2033	Fixed			$ 10,950,000	1,545,891	12,495,891
2021A-2		June 1, 2035	Fixed			47,500,000		47,500,000
				105,590,307	(17,370,000)	58,450,000	943,096	147,613,403
2018 Indenture								
2018-1A		June 1, 2036	Monthly	44,160,000	(6,400,000)			37,760,000
2018-1B		June 1, 2036	Monthly	9,840,000				9,840,000
				54,000,000	(6,400,000)			47,600,000
2020-1 Indenture								
2020-1A-1A		November 25, 2050	Monthly	102,864,026	(14,066,354)			88,797,672
2020-1A-1b		November 25, 2050	Monthly	293,670,974	(40,158,646)			253,512,328
2020-1B		November 25, 2050	Monthly	7,000,000				7,000,000
				403,535,000	(54,225,000)			349,310,000
2021-1 Indenture								
2021-1A-1A		March 25, 2051	Monthly	30,236,692	(4,160,614)			26,076,078
2021-1A-1B		March 25, 2051	Monthly	101,593,308	(13,979,386)			87,613,922
2021-1B		March 25, 2051	Monthly	2,000,000				2,000,000
				133,830,000	(18,140,000)			115,690,000
				$ 696,955,307	$ (96,135,000)	$ 58,450,000	$ 943,096	$ 660,213,403

* 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 1.21% to 4.24% as of June 30, 2022. Debt service requirements to maturity or redemption date, assuming interest rates based on fixed rates and variable index rates at June 30, 2022, are as follows:

	Principal Repayment Amount (Thousands)				
	2014	2018-1	2020-1	2021-1	Total
Year Ending June 30, 2023	$ 8,290	$ 6,900			$ 15,190
Year Ending June 30, 2024	10,140	7,000			17,140
Year Ending June 30, 2025	11,205	6,500			17,705
Year Ending June 30, 2026	13,665	5,500			19,165
Year Ending June 30, 2027	13,485	3,000			16,485
5 Years Ending June 30, 2032	34,095	2,700			36,795
5 Years Ending June 30, 2037	52,470	16,000			68,470
3 Years Ending June 30, 2042					
5 Years Ending June 30, 2047					
5 Years Ending June 30, 2052			$ 349,310	$ 115,690	465,000
	$ 143,350	$ 47,600	$ 349,310	$ 115,690	$ 655,950

	Interest Repayment Amount (Thousands)				
	2014	2018-1	2020-1	2021-1	Total
Year Ending June 30, 2023	$ 5,298	$ 2,058	$ 8,273	$ 2,599	$ 18,228
Year Ending June 30, 2024	4,978	1,803	8,273	2,599	17,653
Year Ending June 30, 2025	4,565	1,540	8,273	2,599	16,977
Year Ending June 30, 2026	4,124	1,289	8,273	2,599	16,285
Year Ending June 30, 2027	3,580	1,073	8,273	2,598	15,524
5 Years Ending June 30, 2032	12,063	4,328	41,365	12,993	70,749
5 Years Ending June 30, 2037	6,063	3,375	41,365	12,993	63,796
3 Years Ending June 30, 2042			41,365	12,993	54,358
5 Years Ending June 30, 2047			41,365	12,992	54,357
5 Years Ending June 30, 2052			24,820	10,394	35,214
	$ 40,671	$ 15,466	$ 231,645	$ 75,359	$ 363,141

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. As it relates to the 2020 and 2021

Note I--Revenue Bonds Payable--Continued

indentures, the Authority/Corporation anticipates that it will endeavor either during FY2023, or shortly thereafter, to activate each indenture's allowable transition from a LIBOR-based index. It is currently expected that such endeavor would occur in conjunction with the transition of applicable FFELP loan assets from LIBOR-based SAP to SOFR-based SAP as referenced in both Note G and Note T.

Note J--Direct Placements and Direct Borrowings

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

The balance of direct purchase notes payable and direct borrowings under lines of credit agreements at June 30, 2022 and the related activity for the year then ended June 30, 2022 is as follows:

Series		Scheduled Maturity	Interest Rate	Beginning Balance July 1, 2021	Bond Refundings	New Issues	Ending Balance June 30, 2022
Direct Placements							
2017-1 Indenture							
2017-1	*	December 1, 2037	Monthly	$ 109,568,000	$ (15,430,000)		$ 94,138,000
2019-1 Indenture							
2019-1	*	August 1, 2039	Monthly	44,025,000	(5,925,000)		38,100,000
2019-1		August 1, 2039	Monthly	32,400,000	(4,150,000)		28,250,000
				76,425,000	(10,075,000)		66,350,000
				$ 185,993,000	$ (25,505,000)		$ 160,488,000
Direct Borrowings							
2020 PNC Line of Credit		July 28, 2021	Monthly	$ 87,321	$ (87,321)		
2020 PNC Line of Credit		May 16, 2025	Monthly	17,103,220	(13,762,923)	$ 46,679,094	$ 50,019,391
				$ 17,190,541	$ (13,850,244)	$ 46,679,094	$ 50,019,391

* 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 .8% to .874% as of June 30, 2022.

Debt service requirements to maturity or redemption date, assuming interest rates based on the daily one-month LIBOR at June 30, 2022, are as follows:

	Principal Repayment Amount (Thousands)		
	2017-1	**2019-1**	**Total**
Year Ending June 30, 2023			
Year Ending June 30, 2024			
Year Ending June 30, 2025			
Year Ending June 30, 2026			
Year Ending June 30, 2027			
5 Years Ending June 30, 2032			
5 Years Ending June 30, 2037			
3 Years Ending June 30, 2042	$ 94,138	$ 66,350	$ 160,488
	$ 94,138	$ 66,350	$ 160,488

	Interest Repayment Amount (Thousands)		
	2017-1	**2019-1**	**Total**
Year Ending June 30, 2023	$ 2,178	$ 1,486	$ 3,664
Year Ending June 30, 2024	2,178	1,486	3,664
Year Ending June 30, 2025	2,178	1,486	3,664
Year Ending June 30, 2026	2,178	1,486	3,664
Year Ending June 30, 2027	2,177	1,486	3,663
5 Years Ending June 30, 2032	10,887	7,432	18,319
5 Years Ending June 30, 2037	10,887	7,432	18,319
3 Years Ending June 30, 2042		2,972	2,972
	$ 32,663	$ 25,266	$ 57,929

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

The collateral for the notes directly placed with an investor is defined in the respective Continuing Covenant Agreements (“CCA”) between the Corporation and the Investor as “the Trust Estate other than the moneys and investments held in the Department Rebate Fund and the Treasury Rebate Fund.” The student loans backing the direct purchase notes are loans made under the FFEL program. Cash and marketable securities of the Operating Funds of the Authority/Corporation are pledged as collateral against any outstanding balance on the $75,000,000 Line of Credit. The amount of unused revolving line of credit as of June 30, 2022 was approximately $50.02 million.

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

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

The Authority/Corporation anticipates either during FY2023 or shortly thereafter that it will transition applicable FFELP loan assets from LIBOR-based SAP to SOFR-based SAP as referenced in both Note G and Note T. The new Revolving Line of Credit renewal was structured with a SOFR-based interest rate whereas the 2017 and 2019 indentures remain open for transition from LIBOR.

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, 2022, the Authority/Corporation is reporting liabilities for excess yield on acquired purpose investments of $437,568.

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, 2022. As of June 30, 2022, there is approximately $9 million of gain remaining to be amortized.

Note M--Net Pension Liability

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

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

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

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

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

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

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

The employer and each employee contribute a percentage of the employee's creditable compensation. Creditable compensation consists of all wages includable on the employee's Federal Form W-2, Wage and Tax statement, under the heading "Wages, Tips, and Other Compensation". There are two exceptions of payment of wages not included in creditable compensation: (1) the lump-sum compensatory leave payments to employees in Tier 2 and 3 and (2) vacation payout at termination. Effective July 1, 2021, the provisions of HB8 changed retirement contributions from a percentage of payroll to the sum of (1) a normal cost times the payroll of the Authority/Corporation employees earning benefits in KERS, and (2) an allocated portion of the Retirement System's annual amortization cost. The Authority employer total contribution rate for FY22 was 83.97% comprised of the normal cost contribution of 10.10% and the actuarially accrued liability contribution of 73.87%. The normal cost contribution of 10.10% comprised of 7.90% for pension contribution and 2.20% for insurance contributions. 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 Corporation employer total normal cost contribution rate for FY22 was 10.10% comprised of 7.90% for pension contributions and 2.20% for insurance contributions. The Corporation's FY22 total allocated annual amortized cost for retirement liabilities was $4,452,228. The Corporation employer total contribution rate for FY21

Note M--Net Pension Liability--Continued

was 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%.

The contributions for the employer and employee are as follows:

	FY22	FY21
Authority: Employer	$ 423,009	$ 564,856
Authority: Employee	27,248	37,731
	$ 450,257	$ 602,587
Corporation: Employer	$ 4,379,893	$ 4,720,457
Corporation: Employee	569,885	605,803
	$ 4,949,778	$ 5,326,260
Total: Employer	$ 4,802,902	$ 5,285,313
Total: Employee	597,133	643,534
	$ 5,400,035	$ 5,928,847

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pension. At June 30, 2022, the Authority/Corporation reported a net pension liability of $71,261,384 for its proportionate share of the KERS's collective net pension liability. The Authority's portion is $7,715,735 and the Corporation's is $63,545,649. The net pension liability was measured as of June 30, 2021, 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 appear for the first time in these June 30, 2022 Authority/Corporation financial statements. These FY22 financial statements demonstrate the material accounting implications of HB8 on the valuation of the Authority/Corporation's combined total net pension liability.

Note M--Net Pension Liability--Continued

The Authority/Corporation's estimated proportionate share of the collective net pension liability was based on a projection of the Authority/Corporation's long-term share of contributions to the pension plan relative to the projected contributions of all employer participants, as actuarially determined. The Authority's contributions during the measurement period as provided by KPPA were $552,883 with a proportionate share percentage of .057939%. The Corporation's contributions during the measurement period as provided by KRS were $4,631,602 with a proportionate share percentage of .477177%.

For the year ended June 30, 2022, the Authority/Corporation recognized pension expense of $(21,040,465) for its proportionate share of KERS's pension expense. The Authority's portion was $169,776 and the Corporation's was $(21,210,241).

At June 30, 2022, 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	$ 7,700	$ 40,042
Net difference between projected and actual investment earnings on pension plan investments	22,716	186,563
Changes in proportion and differences between employer contributions and proportionate share of contributions	175,436	50,541
Authority's contributions to KERS subsequent to the measurement date	423,009	
	$ 628,861	$ 277,146

$423,009 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, 2023. 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:	
2023	$ 34,015
2024	(22,510)
2025	(37,614)
2026	(45,185)

Note M--Net Pension Liability--Continued

At June 30, 2022, 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	$ 63,414	$ 329,777
Net difference between projected and actual investment earnings on pension plan investments	187,082	1,536,509
Changes in proportion and differences between employer contributions and proportionate share of contributions		24,920,528
Corporation's contributions to KERS subsequent to the measurement date	4,379,893	
	$ 4,630,389	$ 26,786,814

$4,379,893 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, 2023. 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:	
2023	$(22,709,074)
2024	(3,145,312)
2025	(309,786)
2026	(372,146)

Note M--Net Pension Liability--Continued

Actuarial Assumptions. The total pension liability was determined by an actuarial valuation as of June 30, 2021, 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, 2021 valuation was based on the results of an actuarial experience study for the period July 1, 2013 - June 30, 2018. The long-term expected rate of return was determined by using a building-block method in which best-estimate ranges of expected future real rate of returns are developed for each asset class. The ranges were combined by weighting the expected future real rate of return by the target asset allocation percentage.

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	5.70%	16.25%
Non US Equity	6.35%	16.25%
Private Equity	9.70%	7.00%
Specialty Credit/High Yield	2.80%	15.00%
Liquidity		
Core Bonds	0.00%	20.50%
Cash	-0.60%	5.00%
Diversifying Strategies		
Real Estate	5.40%	10.00%
Real Return	4.55%	10.00%
		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 projections of cash flows used to determine the discount rate must include an assumption regarding actual employer contributions made each future year. Future contributions are projected assuming that each participating employer in KERS contributes the actuarially determined employer contribution each future year calculated in accordance with the current funding policy, as most recently revised by House Bill 8, passed during the 2021 Legislative Session.

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

	1% Decrease in Discount Rate	Discount Rate	1% Increase in Discount Rate
KERS Discount Rate	4.25%	5.25%	6.25%
Authority's proportionate share of net pension liability	$ 8,888,183	$ 7,715,735	$ 6,751,718
Corporation's proportionate share of net pension liability	$ 73,201,756	$ 63,545,649	$ 55,606,150

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

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

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

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

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

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

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

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

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

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

Contributions. Contribution percentages are established in state statutes by the Kentucky Legislature. The contribution is a percentage of the employee's creditable compensation. Effective July 1, 2021, the provisions of HB8 changed retirement contributions from a percentage of payroll to the sum of (1) a normal cost times the payroll of the Authority/Corporation employees earning benefits in KERS, and (2) an allocated portion of the Retirement System's annual amortization cost. The Authority employer total contribution rate for FY22 was 83.97% comprised of the normal cost contribution of 10.10% and the actuarially accrued liability contribution of 73.87%. The normal cost contribution of 10.10% comprised of 7.90% for pension contribution and 2.20% for insurance contributions. 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 Corporation employer total normal cost contribution rate for FY22 was 10.10% comprised of 7.90% for pension contributions and 2.20% for insurance contributions. The Corporation's FY22 total allocated annual amortized cost for retirement liabilities was $4,452,228. The Corporation employer total contribution rate for FY21 was 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:

	FY22	FY21
Authority: Employer	$ 64,385	$ 85,975
Authority: Employee 1%		
	$ 64,385	$ 85,975
Corporation: Employer	$ 1,219,561	$ 966,841
Corporation: Employee 1%	38,212	39,668
	$ 1,257,773	$ 1,006,509
Total: Employer	$ 1,283,946	$ 1,052,816
Total: Employee	38,212	39,668
	$ 1,322,158	$ 1,092,484

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

OPEB Liabilities, OPEB Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB. At June 30, 2022, the Authority/Corporation reported a liability of $13,495,736 for its proportionate share of the KERS's collective net OPEB liability. The Authority's portion is $1,313,394 and the Corporation's is $12,182,342. The net OPEB liability was measured as of June 30, 2021, 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 appear for the first time in these June 30, 2022 Authority/Corporation financial statements. These FY22 financial statements demonstrate the material accounting implications of HB8 on the valuation of the Authority/Corporation's combined total net OPEB liability.

The Authority/Corporation's proportionate share of the net OPEB liability was determined using the employers' actual contributions for FY21. The Authority's contributions during the measurement period as provided by KPPA were $84,125 with a proportionate share percentage of .057622%. The Corporation's contributions during the measurement period as provided by KPPA were $948,655 with a proportionate share percentage of .534471%.

For the year ended June 30, 2022, the Authority/Corporation recognized OPEB expense of $(1,150,209) for its proportionate share of KERS's OPEB expense. The Authority's portion was $(29,209) and the Corporation's was $(1,121,000).

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

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

At June 30, 2022, 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	$ 76,067	$ 181,920
Net difference between projected and actual investment earnings on pension plan investments	20,708	94,468
Changes in assumptions	129,185	1,232
Changes in proportion and differences between employer contributions and proportionate share of contributions	30,810	199,999
Authority's implicit subsidy to KERS subsequent to the measurement date	23,093	
Authority's contributions to KERS subsequent to the measurement date	64,385	
	$ 344,248	$ 477,619

$64,385 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, 2023. Amounts reported as deferred outflows and inflows of resources related to OPEB will be recognized in OPEB expense as follows:

Year Ending June 30:	
2023	$ (142,080)
2024	(43,726)
2025	(11,790)
2026	(23,253)

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

At June 30, 2022, 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	$ 705,556	$ 1,687,398
Net difference between projected and actual investment earnings on pension plan investments	192,080	876,230
Changes in assumptions	1,198,251	11,426
Changes in proportion and differences between employer contributions and proportionate share of contributions	54,322	5,378,723
Corporation's implicit subsidy to KERS subsequent to the measurement date	214,203	
Corporation's contributions to KERS subsequent to the measurement date	1,219,561	
	$ 3,583,973	$ 7,953,777

$1,219,561 reported as deferred outflows of resources related to OPEB resulting from the Corporation's contributions to KERS subsequent to the measurement date will be recognized as a reduction of the net OPEB liability in the year ended June 30, 2023. 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:	
2023	$ (2,323,013)
2024	(2,143,554)
2025	(1,121,320)
2026	(215,681)

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, 2021, 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, 2021, 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	5.70%	21.75%
Non US Equity	6.35%	21.75%
Private Equity	9.70%	10.00%
Specialty Credit/High Yield	2.80%	15.00%
Liquidity		
Core Bonds	0.00%	10.00%
Cash	-0.60%	1.50%
Diversifying Strategies		
Real Estate	5.40%	10.00%
Real Return	4.55%	10.00%
		100.00%

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

Discount Rate. The discount rate used to measure the total OPEB liability was 5.26%. This rate is based on the expected rate of return on OPEB plan investments of 6.25% and a municipal bond rate of 1.92%, as reported in Fidelity Index's 20-Year Municipal GO AA Index as of June 30, 2021. The projection of cash flows used to determine the discount rate must include an assumption regarding actual employer contributions made each future year. Future contributions are projected assuming that each participating employer contributes the actuarially determined employer contribution each future year calculated in accordance with the current funding policy.

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

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

	1% Decrease	Discount Rate	1% Increase
KERS Discount Rate	4.26%	5.26%	6.26%
Authority's proportionate share of net OPEB liability	$ 1,603,936	$ 1,313,394	$ 1,075,189
Corporation's proportionate share of net OPEB liability	$ 14,877,253	$ 12,182,342	$ 9,972,879

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

	1% Decrease	Healthcare Cost Trend Rate	1% Increase
Authority's proportionate share of net OPEB liability	$ 1,084,998	$ 1,313,394	$ 1,588,467
Corporation's proportionate share of net OPEB liability	$ 10,063,861	$ 12,182,342	$ 14,733,773

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, 2022, the Authority/Corporation reported a payable of $19,141 for the outstanding amount of contributions to the Insurance Plan required for the year ended June 30, 2022. The Authority's portion is $1,931 and the Corporation's is $17,210.

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, 2022. 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 (2002-2021).

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

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

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

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

Note O--Tuition Benefits Payable--Continued

- The tuition increases for the 2009-2010 academic year were 3.3% for the Value Plan and 5.0% for the Standard Plan and the Premium Plan.

- The tuition increases for the 2010-2011 academic year were 4.0% for the Value Plan and 6.0% for the Standard Plan and the Premium Plan.

- The tuition increases for the 2011-2012 academic year were 3.8% for the Value Plan and 6.0% for the Standard Plan and the Premium Plan.

- The tuition increases for the 2012-2013 academic year were 3.8% for the Value Plan and 6.0% for the Standard Plan and the Premium Plan.

- The tuition increases for the 2013-2014 academic year were 2.9% for the Value Plan and 3.0% for the Standard Plan and the Premium Plan.

- The tuition increases for the 2014-2015 academic year were 2.1% for the Value Plan and 5.0% for the Standard Plan and the Premium Plan.

- The tuition increases for the 2015-2016 academic year were 2.0% for the Value Plan and 3.0% for the Standard Plan and the Premium Plan.

- The tuition increases for the 2016-2017 academic year were 4.0% for the Value Plan and 5.0% for the Standard Plan and the Premium Plan.

- The tuition increases for the 2017-2018 academic year were 9.0% for the Value Plan and 4.0% for the Standard Plan and the Premium Plan.

- The tuition increases for the 2018-2019 academic year were 4.1% for the Value Plan and 2.5% for the Standard Plan and the Premium Plan.

- The tuition increases for the 2019-2020 academic year were 2.8% for the Value Plan and negative 0.5% for the Standard Plan and the Premium Plan.

- The tuition increases for the 2020-2021 academic year were 2.7% for the Value Plan and 1% for the Standard Plan and the Premium Plan.

As of June 30, 2022, the tuition for the 2022-2023 academic year will increase 1.6% for the Value Plan and a 2% 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 2023-2024 academic year is 4.00%. The tuition increase assumption for each year thereafter through 2028, when all current participant standard utilization periods expire, is also 4.00%. For the period from inception to June 30, 2022, the annualized tuition increase for the highest-priced Kentucky public university, as applicable to the tuition benefits payout rate of Kentucky's Affordable

Note O--Tuition Benefits Payable--Continued

Prepaid Tuition Standard and Premium Plans, which represents 95.4% of the Plan's enrollments, has been 6.2%. For the Kentucky Community and Technical College System ("KCTCS"), as applicable to

the tuition benefits payout rate of the Value Plan, the average annualized tuition increase from inception to June 30, 2022, 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 and reimbursement for lost revenue.

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

c. **Education Finance Funds:** Net position is restricted as required by the 2014 Indenture, the 2017 Indenture, the 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, USDE made an announcement titled "*March 30, 2021 U.S. Department of Education Announcement Expanding Covid-19 Emergency Flexibilities to Additional Federal Student Loans in Default*." That announcement expanded the pause on federal student loan interest and collections to all defaulted loans in the FFEL program. Although USDE's announcement on March 30, 2021 was a formal announcement, Dear Colleague Letter ("DCL" or the "Letter") GEN-21-03 was released on May 12, 2021 and updated on May 24, 2021. DCL GEN-21-03 is titled "Expansion of Collections Pause to Defaulted FFEL Program Loans Managed by Guaranty Agencies (Updated May 24, 2021)." DCL GEN-21-03 provided official activation and implementation guidance of the March 30, 2021 announcement and can be read in its entirety at this link: https://fsapartners.ed.gov/knowledge-center/library/dear-colleague-letters/2021-05-12/expansion-collections-pause-defaulted-ffel-program-loans-managed-guaranty-agencies-updated-may-24-2021.

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 December 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 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 has been and will continue to 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 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 did not set specific requirements for the GA's estimate of its lost collection revenues for the purposes of seeking reimbursement from the Federal Fund, but the estimate must be made in good faith and supported by the GA's records. During FY2022, the Authority continued utilizing the same model to calculate and record good faith reimbursement for lost revenue estimates supported by its records.

Note Q--Reimbursement for Lost Revenue--Continued

During FY2022 the source of funds eligible to pay reimbursement for lost revenue was expanded by ED. The Authority/Corporation and other guarantors shared with FSA the insufficiency of FSLRF funds available to perform all actions required by DCL GEN-21-03 while also maintaining compliance with the minimum reserve ratio ("MRR"). Subsequently, ED has been subsidizing the shortfall in the FSLRF and, as disclosed in Note T, ED will continue to use that same formulation through the end of the payment pause. Two disbursements from ED were transferred directly to the FSLRF totaling $26.64 million during FY2022. These transfers were based on estimated reimbursement for lost revenue through May 1, 2022. Approximately $12.59 million of these transfers pertain to Population 3 adjustments that remain in program development for subsequent processing during FY2023. The $12.59 million was not only included in the total reimbursement for lost revenue but was also included in accounts payable that will be paid when processed during FY2023. The offset of that payable was to debt recovery commissions which created a negative debt recovery commissions balance on the face of the combined statement of net position – proprietary funds. $10.83 million of the $12.59 million is directly related to rehabilitation loans consummated between KHEAA and KHESLC. The $10.83 million is included in the total $12.59 million accounts payable to borrowers through servicers. In addition, the Authority/Corporation has recorded a $1.67 million receivable in the FSLRF from ED as of June 30, 2022 that represents an estimate of the additional amount of MRR transfer earned but not yet received.

Note R--Leases

The Authority/Corporation, as a lessee, entered into a five-year lease agreement for office space effective June 1, 2022. The previous office space lease that expired May 31, 2022 was not required to be restated in connection with the adoption of GASB No. 87 due to the remaining low-value of the lease term as of July 1, 2021. The interest rate provision included in the Authority/Corporation's May 2022 renewal of its revolving Line of Credit disclosed in Note J was assumed for the lease asset and liability calculations.

The total of the Authority/Corporation's lease asset is recorded at a cost of $1,985,943, less accumulated amortization of $33,099.

A summary of lease asset activity during the year ended June 30, 2022 is as follows:

	Beginning Balance July 1, 2021	Additions	Remeasure-ments	Deductions	Ending Balance June 30, 2022
Lease Asset: Office space	$	$ 1,985,943	$	$	$ 1,985,943
Accumulated amortization: Office space		(33,099)			(33,099)
	$	$ 1,952,844	$	$	$ 1,952,844

Note R--Leases--Continued

A summary of the changes in the lease liability during the year ended June 30, 2022 is as follows:

	Beginning Balance July 1, 2021	Additions	Remeasure-ments	Deductions	Ending Balance June 30, 2022	Amounts Due Within One Year
Lease Liability: Office space	$	$ 1,985,943	$	$ (33,356)	$ 1,952,587	$ 361,769

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

Year Ending June 30:	Principal	Interest	Total
2023	$ 361,769	$ 39,332	$ 401,101
2024	379,878	31,191	411,069
2025	398,470	22,646	421,116
2026	415,907	13,704	429,611
2027	396,563	4,376	400,939
	$ 1,952,587	$ 111,249	$ 2,063,836

In addition, the Authority/Corporation recorded other low-value lease expenses in the proprietary fund combined statement of revenues, expenditures and changes in net position of $270,750 during the year.

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, 2022. 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.

Note S--Commitments and Contingencies--Continued

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, 2022 is calculated as follows:

Amount of guaranteed student loans outstanding at lenders	$	1,737,346,748
Less minimum federal government share - 75%		1,303,010,061
	$	434,336,687

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. See also Note T for other related events subsequent to June 30, 2022. 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 Notes Q and T will have on the Authority's operations. The full impact of the pandemic remains uncertain and cannot be reasonably estimated as events are still developing.

Note T--Subsequent Events

DCL GEN-22-12

On August 9, 2022, an office of ED, FSA, published DCL GEN-22-12 *Replacement of London Interbank Offered Rate (LIBOR) Based Special Allowance Payment (SAP) with Secured Overnight Financing Rate (SOFR) Under the Adjustable Interest Rate (LIBOR) Act.* This DCL addresses the reporting changes to the quarterly Lender's Interest and Special Allowance Request and Report ("LaRS") that will be required due to the approaching phase-out of LIBOR described in Note G—Special Allowance. The letter states that lenders who currently bill using LIBOR are required to request special allowance calculated using SOFR and must transition to the SOFR-based SAP calculation by July 1, 2023 as a condition of continued participation in the FFEL program. However, as indicated in Note G, the LIBOR Act specifically states that if the notification to the Secretary of Education does not occur before the first of either (1) the first London banking day after June 30, 2023, (2) the date LIBOR ceases to be published or (3) the date LIBOR ceases to be representative, the SOFR-based formula will become applicable by operation of law on the first London banking day after June 30, 2023. Receipt of the waiver notification as a condition of continued participation in FFELP is not provided for under current law nor is it included in the LIBOR Act.

The letter also states that in order for the Authority/Corporation to transition to SOFR by July 1, 2023, the following procedural election requirements and approvals must occur on or before June 30, 2023:

1. Submission of either a CEO Authorizing Statement or Incumbency Certificate.
2. The SOFR Election Form.
3. ED's approval of the Authority/Corporation's transition to SOFR.

The CEO Authorizing Statement, Incumbency Certificate, and SOFR Election Forms will be made available in a subsequent announcement once the SOFR Election Forms have completed OMB clearance.

Electronic Announcement GEN-22-58

On August 17, 2022, FSA published Electronic Announcement ("EA") GEN-22-58 *Information About Restored Aid Eligibility Under Fresh Start Initiative.* The EA included a five-page fact sheet titled "*A Fresh Start for Borrowers with Federal Student Loans in Default."* The fact sheet provides details of an initiative called "Fresh Start" that is intended to "*eliminate the negative effects for borrowers with defaulted federal student loans.*" Page two of the sheet lists the loans eligible for Fresh Start and included both ED-held and commercial-held defaulted FFELP loans. It also explains that for one year after student loan payments resume, borrowers with Fresh Start eligible defaulted federal student loans will not be subject to any collection efforts, including involuntary collection tools like wage garnishment and offset of certain government payments. In addition, the fact sheet states that ED will not charge collection costs during the Fresh Start initiative.

Note T--Subsequent Events--Continued

Extension of the Collections Pause Outlined in DCL GEN-21-03

On August 24, 2022, ED announced an extension of the August 31, 2022 end date of the pause on student loan repayment, interest, and collections to and through December 31, 2022. The extension also means that the Authority/Corporation will continue to receive reimbursement for lost revenue through the new payment pause end date. FSA has shared with the FFEL Guaranty Agency community that the same formulation used to compensate guarantors for lost revenues for the COVID-19 payment pause will be used to compensate guarantors for lost revenues through August 31, 2022 and any further payment pause extensions.

Targeted Student Debt Cancellation

The August 24, 2022 announcement of the final student loan pause extension through December 31, 2022 also included an announcement that ED will provide targeted student debt cancellation to borrowers with loans held by ED. Borrowers with annual income during the pandemic of under $125,000 (for individuals) or under $250,000 (for married couples or heads of households) who received a Pell Grant in college will be eligible for up to $20,000 in debt cancellation. Borrowers who met those income standards but did not receive a Pell Grant will be eligible for up to $10,000 in relief. Certain FFEL lenders and servicers received an electronic communication from FSA on the day of the announcement sharing the following two critical clarifications concerning the announcement's impact on commercially-held FFEL loans: *(1) the discharge initiative will include defaulted Federal Family Education Loans (FFEL) held by guaranty agencies, and (2) non-defaulted FFEL loans are not eligible for the loan discharge initiative at this time.* ED will be announcing further details on how borrowers can claim the relief described in the August 24, 2022 announcement in the weeks ahead. They are assessing whether to provide relief to commercially-held FFEL loans. If ED's assessment does not conclude the loans are eligible for the one-time student loan debt relief, then those borrowers may choose to consolidate their FFEL loans into Direct Loans. As of September 27, 2022, the announcement's full impact on the Authority/Corporation remains uncertain. Regardless, the August 24, 2022 announcement will have a material impact to the Authority/Corporation's cash flows from servicing, guaranty activities, interest income, and operating margins.

Note U--Recent Pronouncements

The GASB has issued several standards that became effective for adoption during the current year. Statement No. 87, *Leases,* is to better meet the information needs of financial statement users by improving accounting and financial reporting for leases by governments. The Statement was adopted during the current year. Statement No. 93, *Replacement of Interbank Offered Rates,* requires the removal of LIBOR as an appropriate benchmark interest rate. See Note R for disclosures related to Statement No. 87 and Notes G, I, J and T for related references and disclosures connected to LIBOR as a benchmark. In addition, certain other GASB Statements were adopted during the current year that did not have an impact on the financial statements. The Authority/Corporation is also currently evaluating the impact that will result from adopting prospective GASB standards and is not yet prepared to disclose the impact that adopting those standards will have on the Authority/Corporation's financial position and the results of its operations when the standards are adopted.

REQUIRED SUPPLEMENTARY INFORMATION

Schedule of Proportionate Share of the Net Pension Liability and Related Ratios
June 30, 2021

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

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

	FY 2021	FY 2020	FY 2019	FY 2018	FY 2017	FY 2016	FY 2015	FY 2014
Corporation's proportion of the net pension liability	0.477177%	0.800634%	0.819901%	0.850042%	0.833570%	0.819117%	0.839524%	0.796208%
Corporation's proportionate share of the net pension liability	$ 63,545,649	$ 113,407,028	$ 115,794,636	$ 115,637,803	$ 111,601,157	$ 93,375,171	$ 84,220,102	$ 71,434,000
Corporation's covered-employee payroll	$ 11,280,083	$ 11,415,195	$ 11,992,554	$ 12,982,294	$ 12,888,303	$ 13,627,623	$ 14,071,702	$ 13,672,643
Corporation's proportionate share of the net pension liability as a percentage of its covered-employee payroll	563.34%	993.47%	965.55%	890.73%	865.91%	685.19%	598.51%	522.46%
Plan fiduciary net position as a percentage of the total pension liability	18.48%	14.01%	13.66%	12.84%	13.30%	14.87%	18.83%	22.32%
Total collective net pension liability for the Kentucky Employees Retirement System (KERS) non-hazardous employees	$ 13,316,997,000	$ 14,164,653,000	$ 14,123,002,000	$ 13,603,775,000	$ 13,388,336,000	$ 11,399,489,047	$ 10,031,891,000	$ 8,971,820,000
KERS' non-hazardous employees total fiduciary net position	$ 3,018,660,000	$ 2,308,080,000	$ 2,233,672,000	$ 2,004,446,000	$ 2,056,870,000	$ 1,980,292,118	$ 2,327,782,000	$ 2,578,290,000
KERS' non-hazardous employees total pension liability	$ 16,335,657,000	$ 16,472,733,000	$ 16,356,674,000	$ 15,608,221,000	$ 15,445,206,000	$ 13,379,781,165	$ 12,359,673,000	$ 11,550,110,000

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

Schedule of Required Contributions-Pension
June 30, 2021

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

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

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

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

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

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

Schedule of Proportionate Share of the Net OPEB Liability and Related Ratios
June 30, 2021

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

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

	FY 2021	FY 2020	FY 2019	FY 2018	FY 2017
Corporation's proportion of the net OPEB liability	0.534471%	0.800634%	0.819901%	0.849297%	0.833570%
Corporation's proportionate share of the net OPEB liability	$ 12,182,342	$ 20,327,361	$ 18,225,547	$ 20,136,083	$ 21,139,020
Corporation's covered-employee payroll	$ 11,280,083	$ 11,415,195	$ 11,992,554	$ 12,982,294	$ 12,888,303
Corporation's proportionate share of the net OPEB liability as a percentage of its covered employee payroll	108.00%	178.07%	151.97%	155.10%	164.02%
Plan fiduciary net position as a percentage of the total OPEB liability	38.38%	29.47%	30.92%	27.32%	24.40%

Total collective net OPEB liability for the Kentucky Employees Retirement System (KERS) non-hazardous employees	$ 2,279,327,000	$ 2,538,908,000	$ 2,222,896,000	$ 2,370,912,000	$ 2,535,962,000
KERS' non-hazardous employees total fiduciary net position	$ 1,419,477,000	$ 1,060,649,000	$ 995,089,000	$ 891,205,000	$ 817,370,000
KERS' non-hazardous employees total OPEB liability	$ 3,698,804,000	$ 3,599,557,000	$ 3,217,985,000	$ 3,262,117,000	$ 3,353,332,000

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

Schedule of Required Contributions-OPEB
June 30, 2021

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

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

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

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

Note to the Required Supplemental Information-OPEB
June 30, 2021

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

Actuarial valuation date	June 30, 2019
Actuarial cost method	Entry age normal
Amortization method	Level percent of pay
Amortization period	30-year closed period at June 30, 2019, Gains/losses incurring after 2019 will be amortized over separate closed 20-year amortization bases
Asset valuation method	20% of the difference between the market value of assets and the expected actuarial value of assets is recognized
Inflation	2.30%
Payroll growth	0.00%
Investment rate of return	6.25%
Healthcare Trend Rates Pre-65	Initial trend starting at 6.25% at January 1, 2021 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 5.50% at January 1, 2021 and gradually decreasing to an ultimate trend rate of 4.05% over a period of 14 years