Combined Financial Statements
and Required Supplementary Information

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

June 30, 2024

LBMC

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LBMC

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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, 2024, 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, 2024, 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 ("GAAP").

Basis for Opinions

We did not audit the financial statements of Kentucky Education Savings Plan Trust, which statements reflect total assets of $279,465,641 as of June 30, 2024, and an increase to fiduciary net position of $27,000,518 for the year ended June 30, 2024. 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 ("GAAS") and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Authority/Corporation and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Responsibilities of Management for the Combined Financial Statements

Management is responsible for the preparation and fair presentation of these combined financial statements in accordance with GAAP; 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 GAAS 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 GAAS, 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

GAAP requires that the management's discussion and analysis (unaudited) on pages 4 through 13 and the required supplemental information on pages 74 through 79 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 GAAS, 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 26, 2024, 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.

LBMC, PC

Louisville, Kentucky
September 26, 2024

Description of the Business

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

The Authority/Corporation maintains the following operations:

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

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

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

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

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

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

<u>Loan Finance</u> – The Loan Finance operation refinances existing long-term debt, issues new debt, originates and acquires private supplemental student loans, and acquires certain 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 some 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 $1.2 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 $716 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 and create opportunities to mitigate the impact of the runoff of the FFELP legacy loan portfolio through (1) Advantage Loan Program growth, (2)the acquisition of certain FFELP and other loans and (3) other business opportunities.

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, the Authority/Corporation continues to monitor the financial and operational impact of the end of the student loan payment pause discussed in Notes Q and U. Some of the Authority/Corporation's borrowers are also borrowers under the federal programs impacted by the payment pause. Therefore, changes to the effective payment requirements applicable to federal Higher Education Act loans may affect the demand for and performance of some of the Authority/Corporation's loans. The net impact of these and other possible prospective changes in general federal Higher Education Act loan administration and of general federal and state higher education funding policies upon the rate of amortization of, or security for, the Authority/Corporation's direct placements, direct borrowings and revenue bonds payable cannot be projected with certainty at this time. Nonetheless, the Authority/Corporation did endeavor to consider these factors in its FY2023 and FY2024 provision for loan loss estimates.

Overview of Financial Statements

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

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

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

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

The Trust publishes separate financial statements and footnotes.

To obtain a copy of the combined financial statements and footnotes, please contact the Authority/Corporation at (502) 329-7092.

The following page is a condensed summary of financial information for the years ended June 30, 2024 and 2023, respectively.

Management's Discussion and Analysis (Unaudited)

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

June 30, 2024

	Governmental Fund		Proprietary Funds	
	2024	2023	2024	2023
Net Position Information				
Capital assets			$ 4,211,143	$ 4,300,162
Other assets	$ 24,047,207	$ 55,792,053	1,032,216,381	1,111,292,152
Deferred Amount on Debt Refunding			837,248	1,038,188
Deferred OPEB expense			4,395,958	7,077,987
Deferred pension expense			6,274,995	6,098,680
Total Assets and Deferred Outflows of Resources	24,047,207	55,792,053	1,047,935,725	1,129,807,169
Long-term liabilities			724,975,435	815,025,110
Other liabilities	45,456	104,558	29,374,985	55,889,916
Deferred pension expense			4,086,390	5,820,599
Deferred OPEB expense			11,251,753	6,819,197
Deferred gain on debt retirements, net			6,825,408	7,902,481
Total Liabilities and Deferred Inflows of Resources	45,456	104,558	776,513,971	891,457,303
Invested in capital assets, net of expended debt proceeds			4,211,143	4,300,162
Restricted, other			94,012,013	109,042,808
Restricted for program benefits	24,001,751	55,687,495		
Restricted for student aid and related activities			175,242,053	155,198,009
Unrestricted			(2,043,455)	(30,191,113)
Total Net Position	$ 24,001,751	$ 55,687,495	$ 271,421,754	$ 238,349,866
Activity Information				
Interest and investment income fund	$ 270,440	$ 319,729	$ 15,271,879	$ 6,537,484
Student aid & advancement fund revenue	346,162,810	333,309,349		
Unclaimed lottery revenue	9,749,803	15,987,400		
Federal funds revenue	2,156,910	1,727,960		
Contributions from Agency Operating Fund	2,429,993	2,312,780		
Servicing Fees from external sources			32,553	31,046
Servicing Fees from Education Finance Funds			4,235,915	4,434,289
Debt recovery commission			2,398,570	5,443,490
State General Fund revenue			6,000,000	9,077,000
Reimbursement for lost revenue			13,886,379	21,524,563
Federal fees earned			816,872	962,878
Default aversion fee income			250,096	(468,540)
Interest income on loans			14,660,175	14,854,390
Amortization of deferred gain on debt retirements			1,077,073	1,077,075
Gain on the sale of loans			580,514	716,453
Late payment penalties			708,960	677,518
School Services			603,447	798,663
Other income	1,541,998	937,753	1,483,409	602,969
Total Revenue	362,311,954	354,594,971	62,005,842	66,269,278
Kentucky Tuition Grant	38,119,547	35,097,279		
College Access Program Grant	183,139,789	171,823,426		
Early Graduation Scholarship	344,700	248,143		
Early Childhood Development Scholarship	2,298,033	1,781,131		
Kentucky National Guard Tuition Award Program	6,726,093	8,129,893		
Kentucky Educational Excellence Scholarship	114,017,519	111,570,112		
Teacher Scholarship	(319,785)	1,089,270		
Osteopathic Medicine Scholarship	271,967	(156,166)		
Dual Credit Scholarship Program	23,861,921	20,659,092		
Work Ready Scholarship	12,789,019	13,640,689		
Veterinary Contract Spaces Program	5,493,023	5,448,893		
Optometry Scholarship Program	991,572	1,015,145		
Coal County Scholarship Program for Pharmacy Students	110,285	508,332		
Innovative Scholarship Pilot Program	5,906,029	3,304,851		
John R. Justice Grant	247,986	189,571		
Loan guarantee operations			957,754	1,525,693
Default collections			3,989,726	4,249,429
Loan finance and servicing activities			13,159,026	(1,193,969)
Outreach			4,982,786	4,412,126
Student aid administration			2,429,993	2,312,780
School services			3,104,894	2,358,259
Other activities			309,775	448,423
Total Expenditures	393,997,698	374,349,661	28,933,954	14,112,741
Change in Net Position	$ (31,685,744)	$ (19,754,690)	$ 33,071,888	$ 52,156,537

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, 2024. 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 $81.9 million from $1.13 billion to $1.05 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 $115 million from $892 million to $777 million. The overall decrease in liabilities and deferred inflows was attributable to the net of various decreases and increases year over year. The decrease in other liabilities relates primarily to a $28.2 million decrease in direct borrowings due primarily to a decrease in a line of credit outstanding resulting from the December 2023 bond issuance. This decrease was offset by a $2.3 million increase in current bonds payable. The $90 million decrease in long-term liabilities is related to several large variances year over year. The net OPEB and pension liabilities decreased by $11.6 and $7.6 million, respectively. Direct placements decreased by $131 million due to the December financing that refunded both the 2017-1 and 2019-1 direct purchase note transactions. That financing also informs the $60 million increase in noncurrent bonds payable since the new financing is reported in the financial statements as bonds instead of direct placements.

- The Authority/Corporation's proprietary fund revenues decreased $4.3 million. See the condensed financial information schedule for Governmental Fund and Proprietary Funds for the detail of the revenue variances year over year. These variances are comprised of several increases and several decreases in revenue some of which are described below. Interest and investment income increased $8.6 million year over year due to a combination of both volume and rates. Debt recovery commissions and reimbursement for lost revenue decreased by a combined $10.7 million due to the end of the student loan payment pause. General Fund revenue decreased by the $3.1 million one-time appropriation in FY2023 for the HVAC and roof repair project. Other income increased by approximately $1 million due primarily to the FAFSA Grant discussed in Note R.

The Authority/Corporation's total proprietary fund expenditures increased approximately $14.8 million. The overall increase is generally the net of the following increases and decreases: $14.4 million increase associated with loan finance and servicing related expense, $260,000 decrease in default collections expense, $568,000 decrease in loan guarantee operations expense, $571,000 increase in outreach expense, $117,000 increase in student aid administration, $747,000 increase in school services expense and $140,000 decrease in other activities. See the condensed financial information schedule for Governmental Fund and Proprietary Funds for a detailed side by side comparison of expenditures.

- The Authority/Corporation's governmental fund assets decreased by approximately $31.8 million due primarily to the net of a $7.3 million decrease in cash and cash equivalents and a $25.8 million decrease in accounts receivable offset by other increases of $1.3 million. The decrease in cash and receivables is reflective of an overall increase in the utilization of College Access Program ("CAP") and Kentucky Tuition Grant ("KTG") continuing appropriations.

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

- The Authority/Corporation's governmental fund revenues increased approximately $7.7 million comprised primarily of the net of a $12.9 million increase in state general fund revenue, a $6.2 million decrease and a net increase of $1 million related to four other line items. See the condensed financial information schedule for Governmental Fund and Proprietary Funds for a detailed side by side comparison of Governmental Fund revenues.

- The Authority/Corporation's governmental fund expenditures increased approximately $19.6 million as a result of various increases and decreases in several student aid program expenditures including the following: $3 million increase for Kentucky Tuition Grants, $11.3 million increase for College Access Program Grants, $517,000 increase for Early Childhood Development Scholarships, $2.4 million increase for Kentucky Educational Excellence Scholarships, $1.4 million decrease in Teacher Scholarships, $428,000 increase in Osteopathic Medicine Scholarships, $3.2 million increase for Dual Credit Scholarships, $852,000 decrease for Work Ready Scholarships and $2.6 million increase for the Innovative Scholarship Pilot Program. See the condensed financial information schedule for Governmental Fund and Proprietary Funds for a detailed side by side comparison of Governmental Fund expenditures.

Combined Statement of Net Position – Governmental Fund and Proprietary Funds

Total governmental net position decreased from $55.7 million to $24 million. Total proprietary fund net position increased $33.1 million comprised of a $12.3 million increase from default collection operations (compared to a $23.3 million increase in prior year), $8.4 million increase from loan guarantee operations (compared to $2.1 million increase in prior year), $405,000 contribution (including General Fund revenue) for outreach activities (compared to $702,000 benefit contribution in prior year), $0 contribution (including General Fund revenue) for student aid administration (compared to $0 contribution in prior year), $15.3 million increase in loan finance and servicing activities (compared to $27.5 million increase in prior year), and $2.5 million contribution for school services (compared to $1.4 million in prior year).

Certain highlights related to the combined statement of net position as of June 30, 2024, are as follows:

- The Authority/Corporation maintained $1.2 billion of FFELP guarantees outstanding.

- The Authority/Corporation owned and serviced $716 million of FFELP loans and education loans.

- The change in proprietary fund net position connected with outreach and student aid administration was primarily informed by the one-time FY2023 appropriation for the HVAC and roof repair project and the one-time FY2024 FAFSA Student Support Strategy Award. The inclusion of $6 million of Commonwealth of Kentucky General Fund revenue allocated to these two business-type activities was applicable to both years.

- The Authority/Corporation maintained $333 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 ($30.2) million to ($2) million due primarily to a combination of transfers from the Corporation's Education Finance Funds related to a December 2023 bond transaction (see Note I) and income before transfers due to increases from retirement liability and deferred resource changes.

- Net position restricted for student aid and related activities increased from $155.2 million to $175.2 million. Net position restricted other decreased from $109 million to approximately $94 million. Approximately $13.6 million of that decrease is connected with the transfers from the Corporation's Education Finance Funds noted above with an additional $1.9 million decrease from HVAC and roof repair project expenses of the Authority.

Combined Statement of Revenues, Expenses and Changes in Net Position

The $33.1 million increase in proprietary fund net position during fiscal year 2024 was $19.1 million less than the $52.2 million increase during fiscal year 2023. The overall increase in proprietary fund net position was attributable to a $17.8 million increase for the Authority and a $15.3 million increase for the Corporation. The Authority's increase of $17.8 million reflects the continued Dear Colleague Letter ("DCL") accounting and recognition of both reimbursement for lost revenue / special account maintenance fee ("SAMF") (see Note Q) and debt recovery commissions, $6 million of General Fund revenue for outreach and student aid activities, $1 million of grant revenue and increases in interest and investment income. The Corporation's net increase was largely related to the a continued decrease in retirement liabilities and increases in the activity in the Education Finance Funds. Another critical highlight related to the combined statement of revenues, expenses and changes in net position for the year ended June 30, 2024 is the $10.5 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, 2024

	Federal Student Loan Reserve Fund		Kentucky's Affordable Prepaid Tuition		Kentucky Education Savings Plan Trust	
	2024	2023	2024	2023	2024	2023
Net Position Information						
Other assets	$ 8,512,260	$ 22,194,601	$ 2,659,371	$ 7,974,778	$ 279,465,641	$ 251,844,195
Total Assets	8,512,260	22,194,601	2,659,371	7,974,778	279,465,641	251,844,195
Total Liabilities	4,980,200	17,145,157	32,166,663	40,897,741	851,345	230,417
Restricted net position (deficit)	3,532,060	5,049,444	(29,507,292)	(32,922,963)	278,614,296	251,613,778
Total Net Position	**$ 3,532,060**	**$ 5,049,444**	**$ (29,507,292)**	**$ (32,922,963)**	**$ 278,614,296**	**$ 251,613,778**
Changes in Fiduciary Net Position Information						
Federal reinsurance	$ 98,198,128	$ 107,908,370				
State General Fund revenue			$ 3,700,000			
Contributions				$ 3,206	$ 25,499,196	$ 23,176,239
Federal minimum reserve ratio transfer	3,471,864	19,821,203				
Investment revenue	402,902	584,719	148,934	190,077	28,811,715	20,343,017
Other income	18,626	60,010				
Total Additions	102,091,520	128,374,302	3,848,934	193,283	54,310,911	43,519,256
Administrative expenses			420,097	420,097	1,105,410	1,001,710
Refunds			1,665,685	1,706,073		
Trustee fee expense			14,437	29,588		
Tuition benefits expense, net			(1,666,956)	(3,495,670)		
Loan claims	98,065,674	107,815,385				
Withdrawals					26,204,983	26,800,943
Default aversion fee expense	250,096	(468,540)				
Expenses for reimbursement of lost revenue	5,293,134	21,524,563				
Total Deductions	103,608,904	128,871,408	433,263	(1,339,912)	27,310,393	27,802,653
Change in Net Position	**$ (1,517,384)**	**$ (497,106)**	**$ 3,415,671**	**$ 1,533,195**	**$ 27,000,518**	**$ 15,716,603**

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, 2024. 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 decreased by approximately $9.7 million in FY2024 due primarily to the continued decrease of outstanding loan guarantees starting to contribute to an overall lower volume of claim filings. In addition, approximately $3.5 million and $5.3 million of federal minimum reserve ratio ("MRR") transfers in and expenses for reimbursement for lost revenue, respectively, were recognized in FY2024. 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 FY2024.

- The Plan noted a decrease in the Net Deficit of approximately $3.4 million in fiscal year 2024, due primarily to the net of several different factors including the following: favorable tuition inflation, Commonwealth contributions (see Note A), change in program expense assumptions, certain changes in future program assumptions, other program experience during FY2024 and interest on the deficit at a prior assumed rate.

- At June 30, 2024 and 2023, the Trust's fiduciary net position totaled $278.6 million and $251.6 million, respectively. Fiduciary net position increased $27 million, or 10.7%, from June 30, 2023, to June 30, 2024.

Statement of Fiduciary Net Position (Deficit)

The Federal Student Loan Reserve Fund ("FSLRF") net position decreased approximately $1.5 million over ending net position in the prior year. Assets decreased by approximately $13.7 million while liabilities decreased $12.2 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 T). Therefore, the Authority/Corporation has not recorded a reserve at June 30, 2024 for losses on federal reinsurance. Subsequently, the reinsurance complement to the FSLRF for collections of defaulted student loans has generally resulted in year over year increases to the FSLRF net position. However, the DCL guidance issued in the spring of 2021 has resulted in a material decrease in the Net Position of the FSLRF over the last few years. See Note Q for DCL guidance describing required actions of the Authority. Those provisions include reimbursement of lost revenue and SAMF for FFEL guaranty agencies. In addition, beginning in FY2022, USDE subsidized the shortfall in the FSLRF and continued to use that same formulation through the end of the collections pause in August 2023. The subsidy is the federal minimum reserve ratio transfer.

The Plan's total assets decreased $5.3 million, from $8 million as of June 30, 2023 to $2.7 million as of June 30, 2024. Total liabilities decreased $8.7 million from $40.9 million to $32.2 million. Detail related to tuition and investment return assumptions, as applicable, include the following:

- 2024-thereafter – The investment yield assumption is based on estimates of the yields that will be available on the cash and cash equivalents. The gross investment yield assumption utilized in the calculation of the tuition benefit payable is based upon the Yield Curve for Treasury Nominal Coupon Issues (TNC yield curve) published monthly by the U.S. Department of the Treasury as of June 2024. See Note B for a description of a change during the year to the target asset allocation. The change resulted in 100% of all assets invested in cash equivalents.

- As of June 30, 2024, the tuition for the 2024-2025 academic year will increase 1.6% for the Value Plan while tuition payout values for the Standard Plan and Premium Plan increased by 2.2%. The Standard Plan and the Premium Plan tuition payout value assumption increase for the 2024-2025 academic year is 4.00%. The tuition increase assumption for each year thereafter through 2028, when all current participant standard utilization periods expire, is also 4.00%.

The Trust is an Internal Revenue Code Section 529 plan managed by the Authority and administered on behalf of the Authority by Ascensus College Savings Recordkeeping Services, LLC. Trust assets are entirely comprised of cash and pooled investments. Total net position increased approximately $27 million during the year due primarily to investment revenue of $28.8 million offset by $706,000 and $1.1 million in net withdrawals and administrative expenses, respectively. See the condensed financial information schedule for Fiduciary Funds on page 11 for a detailed side by side comparison of the Trust's revenues and expenses.

Statement of Changes in Fiduciary Net Position (Deficit)

The FSLRF net position decreased approximately $1.5 million over ending net position in the prior year. This decrease in net position is primarily comprised of certain differences relative to the provisions of the aforementioned DCL including the processing of DCL "population three" provisions and federal MRR transfers. See the Statement of Fiduciary Net Position explanation above and Note Q for more detail describing the change in the FSLRF balance during FY2024.

As noted above, the Plan experienced a decrease in the Net Deficit of approximately $3.4 million in fiscal year 2024. For the year ended June 30, 2024, the Trust experienced net investment income of $28.8 million whereas for the year ended June 30, 2023, the Trust experienced net investment income of $20.3 million.

Combined Government-Wide Statement of Net Position

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

June 30, 2024

ASSETS	Governmental Activities	Business-Type Activities	Total
Current:			
Cash and cash equivalents	$ 7,957,334	$ 118,331,923	$ 126,289,257
Investments		4,252,133	4,252,133
Accounts receivable and prepaid expenses	8,741,057	1,152,124	9,893,181
Accrued interest income		23,048,176	23,048,176
Receivable from U.S. Department of Education		3,035,572	3,035,572
Receivable from FSLRF for reimbursement for lost revenue		2,557,014	2,557,014
Loans, net		116,391,173	116,391,173
Scholarship conversion loans receivable	450,000		450,000
Total Current Assets	17,148,391	268,768,115	285,916,506
Noncurrent:			
Restricted cash and cash equivalents		74,761,544	74,761,544
Investments		107,771,668	107,771,668
Lease assets, net		1,158,468	1,158,468
Capital assets, net		4,211,143	4,211,143
Loans, net		566,871,902	566,871,902
Receivable from Federal Student Loan Reserve Fund		1,635,574	1,635,574
Accrued interest income, net		11,249,110	11,249,110
Scholarship conversion loans receivable, net	2,949,782		2,949,782
Scholarship advances receivable	3,949,034		3,949,034
Total Noncurrent Assets	6,898,816	767,659,409	774,558,225
Total Assets	24,047,207	1,036,427,524	1,060,474,731
Deferred Outflows of Resources:			
Deferred amount on debt refunding		837,248	837,248
Deferred OPEB expense		4,395,958	4,395,958
Deferred pension expense		6,274,995	6,274,995
Total Assets and Deferred Outflows of Resources	24,047,207	1,047,935,725	1,071,982,932
LIABILITIES			
Current:			
Accounts payable and accrued expenses	45,456	5,706,780	5,752,236
Accrued interest expense		1,603,851	1,603,851
Direct borrowing		9,195,884	9,195,884
Lease liability		398,470	398,470
Bonds payable, net		12,470,000	12,470,000
Total Current Liabilities	45,456	29,374,985	29,420,441
Noncurrent:			
Net OPEB liability		5,221,879	5,221,879
Net pension liability		60,535,087	60,535,087
Allowance for arbitrage liabilities		915,767	915,767
Lease liability		812,470	812,470
Bonds payable, net		657,490,232	657,490,232
Total Noncurrent Liabilities		724,975,435	724,975,435
Total Liabilities	45,456	754,350,420	754,395,876
Deferred Inflows of Resources:			
Deferred pension expense		4,086,390	4,086,390
Deferred OPEB expense		11,251,753	11,251,753
Deferred gain on debt retirements, net		6,825,408	6,825,408
Total Liabilities and Deferred Inflows of Resources	45,456	776,513,971	776,559,427
NET POSITION			
Invested in capital assets, net of expended debt proceeds		4,211,143	4,211,143
Restricted, other		94,012,013	94,012,013
Restricted for program benefits	24,001,751		24,001,751
Restricted for student aid and related activities		175,242,053	175,242,053
Unrestricted		(2,043,455)	(2,043,455)
Total Net Position	$ 24,001,751	$ 271,421,754	$ 295,423,505

Combined Government-Wide Statement of Activities

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

For the Year Ended June 30, 2024

			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	$ 37,957,547	$ 162,000		$ 38,651,676	$ 532,129		$ 532,129
College Access Program Grant	182,977,789	162,000		163,708,423	(19,431,366)		(19,431,366)
Early Graduation Scholarship	182,700	162,000		342,710	(1,990)		(1,990)
Early Childhood Development Scholarship	2,136,033	162,000		2,929,936	631,903		631,903
Kentucky National Guard Tuition Award Program	6,564,093	162,000		6,690,051	(36,042)		(36,042)
Kentucky Educational Excellence Scholarship	113,855,519	162,000		108,231,437	(5,786,082)		(5,786,082)
Teacher Scholarship	(481,785)	162,000		1,395,622	1,715,407		1,715,407
Osteopathic Medicine Scholarship	109,967	162,000		365,049	93,082		93,082
Dual Credit Scholarship Program	23,699,921	162,000		21,820,600	(2,041,321)		(2,041,321)
Work Ready Scholarship	12,627,019	162,000		10,705,673	(2,083,346)		(2,083,346)
Veterinary Contract Spaces Program	5,331,023	162,000		5,821,000	327,977		327,977
Optometry Scholarship Program	829,572	162,000		1,010,400	18,828		18,828
Coal County Scholarship Program for Pharmacy Students	(51,715)	162,000		229,391	119,106		119,106
Innovative Scholarship Pilot Program	5,744,029	162,000		162,000	(5,744,029)		(5,744,029)
John R. Justice Grant	85,993	161,993		247,986			
Total Governmental Activities	391,567,705	2,429,993		362,311,954	(31,685,744)		(31,685,744)
Business-Type Activities:							
Loan guarantee operations	957,754		$ 9,377,056			$ 8,419,302	8,419,302
Default collections	3,989,726		16,284,949			12,295,223	12,295,223
Loan finance and servicing activities	13,159,026		28,423,115			15,264,089	15,264,089
Outreach	4,982,786			4,577,507		(405,279)	(405,279)
Student aid administration	2,429,993			2,429,993			
School services	3,104,894		603,447			(2,501,447)	(2,501,447)
Other activities	309,775		309,775				
Total Business-Type Activities	28,933,954		54,998,342	7,007,500		33,071,888	33,071,888
Total Activities	$ 420,501,659	$ 2,429,993	$ 54,998,342	$ 369,319,454	(31,685,744)	33,071,888	1,386,144
Net Position, July 1, 2023					55,687,495	238,349,866	294,037,361
Net Position, June 30, 2024					$ 24,001,751	$ 271,421,754	$ 295,423,505

Combined Statement of Net Position - Proprietary Funds

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

June 30, 2024

	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	$ 1,527,488	$ 72,675,967	$ 74,203,455		$ 44,128,468	$ 44,128,468	$ 118,331,923
Investments		4,252,133	4,252,133				4,252,133
Accounts receivable and prepaid expenses	192,594	129,661	322,255	$ 167,587	662,282	829,869	1,152,124
Accrued interest income		957,736	957,736	21,212,217	878,223	22,090,440	23,048,176
Receivable from U.S. Department of Education		188,000	188,000	2,711,143	136,429	2,847,572	3,035,572
Receivable from FSLRF for reimbursement for lost revenue		2,557,014	2,557,014				2,557,014
Loans, net				112,647,895	3,743,278	116,391,173	116,391,173
Total Current Assets	1,720,082	80,760,511	82,480,593	136,738,842	49,548,680	186,287,522	268,768,115
Noncurrent:							
Restricted cash and cash equivalents				74,761,544		74,761,544	74,761,544
Investments		98,250,256	98,250,256		9,521,412	9,521,412	107,771,668
Lease assets, net					1,158,468	1,158,468	1,158,468
Capital assets, net		3,875,144	3,875,144		335,999	335,999	4,211,143
Loans, net				544,190,063	22,681,839	566,871,902	566,871,902
Receivable from Federal Student Loan Reserve Fund		1,635,574	1,635,574				1,635,574
Accrued interest income, net				10,775,779	473,331	11,249,110	11,249,110
Total Noncurrent Assets		103,760,974	103,760,974	629,727,386	34,171,049	663,898,435	767,659,409
Total Assets	1,720,082	184,521,485	186,241,567	766,466,228	83,719,729	850,185,957	1,036,427,524
Deferred Outflows of Resources:							
Deferred Amount on Debt Refunding				837,248		837,248	837,248
Deferred OPEB expense		127,863	127,863		4,268,095	4,268,095	4,395,958
Deferred pension expense		315,815	315,815		5,959,180	5,959,180	6,274,995
Total Deferred Outflows		443,678	443,678	837,248	10,227,275	11,064,523	11,508,201
Total Assets and Deferred Outflows of Resources	1,720,082	184,965,163	186,685,245	767,303,476	93,947,004	861,250,480	1,047,935,725

Combined Statement of Net Position - Proprietary Funds

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

June 30, 2024

	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	731,019	367,673	1,098,692	482,826	4,125,262	4,608,088	5,706,780
Interfund payable (receivable)	989,063	(759,296)	229,767	(766,124)	536,357	(229,767)	
Accrued interest expense				1,562,982	40,869	1,603,851	1,603,851
Direct borrowing					9,195,884	9,195,884	9,195,884
Lease liability					398,470	398,470	398,470
Bonds payable, net				12,470,000		12,470,000	12,470,000
Total Current Liabilities	1,720,082	(391,623)	1,328,459	13,749,684	14,296,842	28,046,526	29,374,985
Noncurrent:							
Net OPEB liability		230,340	230,340		4,991,539	4,991,539	5,221,879
Net pension liability		3,777,045	3,777,045		56,758,042	56,758,042	60,535,087
Interfund payable (receivable)							
Allowance for arbitrage liabilities				915,767		915,767	915,767
Lease liability					812,470	812,470	812,470
Bonds payable, net				657,490,232		657,490,232	657,490,232
Total Noncurrent Liabilities		4,007,385	4,007,385	658,405,999	62,562,051	720,968,050	724,975,435
Total Liabilities	1,720,082	3,615,762	5,335,844	672,155,683	76,858,893	749,014,576	754,350,420
Deferred Inflows of Resources:							
Deferred pension expense		945,116	945,116		3,141,274	3,141,274	4,086,390
Deferred OPEB expense		729,398	729,398		10,522,355	10,522,355	11,251,753
Deferred gain on debt retirements, net				6,825,408		6,825,408	6,825,408
Total Liabilities and Deferred Inflows of Resources	1,720,082	5,290,276	7,010,358	678,981,091	90,522,522	769,503,613	776,513,971
NET POSITION							
Invested in capital assets, net		3,875,144	3,875,144		335,999	335,999	4,211,143
Restricted, other		557,690	557,690	88,322,385	5,131,938	93,454,323	94,012,013
Restricted for student aid and related activities		175,242,053	175,242,053				175,242,053
Unrestricted					(2,043,455)	(2,043,455)	(2,043,455)
Total Net Position		$ 179,674,887	$ 179,674,887	$ 88,322,385	$ 3,424,482	$ 91,746,867	$ 271,421,754

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, 2024

	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				$ 48,540,017	$ 2,838,247	$ 51,378,264	$ 51,378,264
Interest and investment income		$ 8,143,954	$ 8,143,954	5,241,215	1,886,710	7,127,925	15,271,879
Amortization of deferred gain on debt retirements				1,077,073		1,077,073	1,077,073
Interest expense on bonds				(35,179,446)	(1,538,643)	(36,718,089)	(36,718,089)
Total Net Interest Revenues		8,143,954	8,143,954	19,678,859	3,186,314	22,865,173	31,009,127
Financing Expenses:							
Long-term debt credit facility and remarketing fees				750,439	75,174	825,613	825,613
Provision for loan losses				2,921,064	887,143	3,808,207	3,808,207
Provision for arbitrage				781,213		781,213	781,213
Debt issuance costs				1,498,506		1,498,506	1,498,506
Total Financing Expenses				5,951,222	962,317	6,913,539	6,913,539
Interest Revenues Net of Financing Expenses		8,143,954	8,143,954	13,727,637	2,223,997	15,951,634	24,095,588
Other Operating Revenues:							
Servicing fees from external sources					32,553	32,553	32,553
Servicing fees from Education Finance Funds					4,235,915	4,235,915	4,235,915
State General Fund revenue		6,000,000	6,000,000				6,000,000
Debt recovery commission		2,398,570	2,398,570				2,398,570
Reimbursement for lost revenue / SAMF		13,886,379	13,886,379				13,886,379
Federal fees earned		816,872	816,872				816,872
Default aversion fee income		250,096	250,096				250,096
Gain on sale/purchase of loans					580,514	580,514	580,514
Late payment penalties				667,086	41,874	708,960	708,960
School services		603,447	603,447				603,447
Other income	$ 309,775	1,173,634	1,483,409				1,483,409
Total Operating Revenues	309,775	33,272,952	33,582,727	14,394,723	7,114,853	21,509,576	55,092,303

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, 2024

	Authority			Corporation			Combined
	Internal Service Fund	**Agency Operating Fund**	**Authority Total**	**Education Finance Funds**	**Operating Fund**	**Corporation Total**	**Total**
Operating Expenses:							
Administrative expenses	309,775	6,816,111	7,125,886		11,932,185	11,932,185	19,058,071
Servicing fees for Operating Fund				4,235,915		4,235,915	4,235,915
Depreciation and amortization		283,357	283,357		504,683	504,683	788,040
Other expenses		173,649	173,649	380,137	753,473	1,133,610	1,307,259
Total Operating Expenses	309,775	7,273,117	7,582,892	4,616,052	13,190,341	17,806,393	25,389,285
Net Changes to Retirement Liabilities/Deferred Resources		2,325,637	2,325,637		11,586,741	11,586,741	13,912,378
Net Operating Income Before Program Benefits		28,325,472	28,325,472	9,778,671	5,511,253	15,289,924	43,615,396
Program Benefits:							
Principal and interest benefits				25,835		25,835	25,835
School service		3,104,894	3,104,894				3,104,894
Outreach		4,982,786	4,982,786				4,982,786
Student aid administration		2,429,993	2,429,993				2,429,993
Total Program Benefits		10,517,673	10,517,673	25,835		25,835	10,543,508
Operating Income Before Transfers		17,807,799	17,807,799	9,752,836	5,511,253	15,264,089	33,071,888
Transfers (to) from Other Funds							
Interfund transfers				(23,324,736)	23,324,736		
Increase in Net Position After Transfers		17,807,799	17,807,799	(13,571,900)	28,835,989	15,264,089	33,071,888
Net Position, July 1, 2023		161,867,088	161,867,088	101,894,285	(25,411,507)	76,482,778	238,349,866
Net Position, June 30, 2024		$ 179,674,887	$ 179,674,887	$ 88,322,385	$ 3,424,482	$ 91,746,867	$ 271,421,754

Combined Statement of Cash Flows - Proprietary Funds

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

For the Year Ended June 30, 2024

	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				$ 131,280,040	$ 15,902,895	$ 147,182,935	$ 147,182,935
Interest received on loans				27,555,155	3,845,129	31,400,284	31,400,284
Special allowance paid				9,378,503	693,701	10,072,204	10,072,204
Servicing fees received, internal sources	$ (309,775)	$ 273,088	$ (36,687)	(4,235,915)	4,235,915		(36,687)
School services fees received		603,447	603,447				603,447
Servicing fees received, external sources					24,621	24,621	24,621
Debt recovery commission received		2,398,570	2,398,570				2,398,570
Reimbursement for lost revenue		13,886,379	13,886,379				13,886,379
Federal fees received		816,872	816,872				816,872
State General Fund revenue received		6,000,000	6,000,000				6,000,000
Default aversion fees received		250,096	250,096				250,096
Outreach		(4,982,786)	(4,982,786)				(4,982,786)
School services		(3,104,894)	(3,104,894)				(3,104,894)
Internal activity-payments to other funds	(3,873,100)	3,873,100		(329,276)	329,276		
Loans originated, including costs				(13,336,861)	(41,110,752)	(54,447,613)	(54,447,613)
Administrative expenses paid		5,195,177	5,195,177	(2,337,455)	(12,060,670)	(14,398,125)	(9,202,948)
Interfund loan sales and purchases				(64,168,688)	64,168,688		
Credit facility fees paid				(712,991)	(72,525)	(785,516)	(785,516)
Loans purchased, including premiums				23,099	(4,396,093)	(4,372,994)	(4,372,994)
Student aid administration		(2,429,993)	(2,429,993)				(2,429,993)
Client loan receipts					278,028	278,028	278,028
Loan receipts remitted to clients					(281,276)	(281,276)	(281,276)
Net Cash Provided by (Used In) Operating Activities	(4,182,875)	22,779,056	18,596,181	83,115,611	31,556,937	114,672,548	133,268,729
Cash Paid from Noncapital Financing Activities:							
Proceeds from debt issued				160,615,000	32,570,000	193,185,000	193,185,000
Debt principal payments				(228,748,000)	(60,791,980)	(289,539,980)	(289,539,980)
Interest on debt				(36,018,250)	(1,686,423)	(37,704,673)	(37,704,673)
Increase in Federal Student Loan Reserve receivable		(1,455,832)	(1,455,832)				(1,455,832)
Debt issuance costs				(1,498,506)		(1,498,506)	(1,498,506)
Interfund transfers				(23,324,736)	23,324,736		
Net Cash Provided by (Used In) Noncapital Financing Activities		(1,455,832)	(1,455,832)	(128,974,492)	(6,583,667)	(135,558,159)	(137,013,991)
Cash Flows From Capital and Related Financing Activities:							
Capital expenditures		(286,601)	(286,601)		(346,734)	(346,734)	(633,335)
Lease liability					(379,878)	(379,878)	(379,878)
Net Cash Used In Capital and Related Financing Activities		(286,601)	(286,601)		(726,612)	(726,612)	(1,013,213)
Cash Flows From Investing Activities:							
Proceeds from sales/maturities of investments		52,660,127	52,660,127	63,388,000	6,197,328	69,585,328	122,245,455
Purchases of investments		(67,388,191)	(67,388,191)	(7,916,000)	(6,389,817)	(14,305,817)	(81,694,008)
Investment income		8,377,698	8,377,698	4,059,633	1,512,273	5,571,906	13,949,604
Net Cash Provided By (Used In) Investing Activities		(6,350,366)	(6,350,366)	59,531,633	1,319,784	60,851,417	54,501,051
Net Increase (Decrease) in Cash and Cash Equivalents	(4,182,875)	14,686,257	10,503,382	13,672,752	25,566,442	39,239,194	49,742,576
Cash and Cash Equivalents, July 1, 2023	5,710,363	57,989,710	63,700,073	61,088,792	18,562,026	79,650,818	143,350,891
Cash and Cash Equivalents, June 30, 2024	$ 1,527,488	$ 72,675,967	$ 74,203,455	$ 74,761,544	$ 44,128,468	$ 118,890,012	$ 193,093,467

Combined Statement of Cash Flows - Proprietary Funds

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

For the Year Ended June 30, 2024

	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		$ 17,807,799	$ 17,807,799	$ 9,752,836	$ 5,511,253	$ 15,264,089	$ 33,071,888
Adjustments to reconcile operating income to net cash provided by (Used In) operating activities:							
Investment income (loss)		(8,143,954)	(8,143,954)	(5,139,061)	(1,764,854)	(6,903,915)	(15,047,869)
Depreciation and amortization		610,069	610,069		504,683	504,683	1,114,752
Amortization, expense and write-off of debt issuance costs				1,498,506		1,498,506	1,498,506
Amortization of deferred gain on debt retirements				(1,077,073)		(1,077,073)	(1,077,073)
Interest expense				35,179,446	1,538,643	36,718,089	36,718,089
Provision for loan losses				2,921,064	887,143	3,808,207	3,808,207
Borrower interest converted to principal				(14,511,122)	(882,560)	(15,393,682)	(15,393,682)
Loan forgiveness				25,835		25,835	25,835
Gain on equipment disposal					4,790	4,790	4,790
Pension expense		(2,325,637)	(2,325,637)		(11,586,741)	(11,586,741)	(13,912,378)
(Increases) decreases in assets:							
Accounts receivables and prepaid expenses	$ (17,594)	(55,400)	(72,994)	(41,424)	4,471	(36,953)	(109,947)
Receivable from the FSLRF for reimbursement of lost revenue		10,992,666	10,992,666				10,992,666
Accrued interest receivable		328,488	328,488	(605,964)	2,033,007	1,427,043	1,755,531
Principal received on loans				131,280,040	15,902,895	147,182,935	147,182,935
Loans purchased, including premiums				23,099	(4,396,093)	(4,372,994)	(4,372,994)
Loans originated, including costs				(13,336,861)	(41,110,752)	(54,447,613)	(54,447,613)
Interfund loan sales and purchases				(64,168,688)	64,168,688		
Increases (decreases) in liabilities:							
Accounts payable and accrued expenses	(383,532)	(210,202)	(593,734)	297,996	146,047	444,043	(149,691)
Payable to U.S. Department of Education				722,352	260,519	982,871	982,871
Allowance for arbitrage liabilities				623,906		623,906	623,906
Interfund receivable/payable	(3,781,749)	3,775,227	(6,522)	(329,276)	335,798	6,522	
Net Cash Provided By (Used In) Operating Activities	$ (4,182,875)	$ 22,779,056	$ 18,596,181	$ 83,115,611	$ 31,556,937	$ 114,672,548	$ 133,268,729

Balance Sheet - Governmental Fund

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

June 30, 2024

ASSETS	Governmental Fund Student Aid
Current:	
Cash and cash equivalents	$ 7,957,334
Accounts receivable	8,741,057
Scholarship conversion loans receivable	450,000
Total Current Assets	17,148,391
Noncurrent:	
Scholarship conversion loans receivable, net of allowance of $1,750,000	2,949,782
Scholarship advances receivable	3,949,034
Total Noncurrent Assets	6,898,816
Total Assets	24,047,207
LIABILITIES	
Current:	
Accounts payable	45,456
Total Liabilities	45,456
FUND BALANCE	
Restricted for program benefits	$ 24,001,751

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, 2024

	Governmental Fund
	Student Aid
Revenues:	
Interest and investment income fund	$ 270,440
Unclaimed lottery revenue	9,749,803
State General Fund revenue	346,162,810
Federal funds revenue	2,156,910
Other income	1,541,998
Contribution from Agency Operating Fund	2,429,993
Total Revenues	362,311,954
Expenditures:	
Kentucky Tuition Grant	38,119,547
College Access Program Grant	183,139,789
Early Graduation Scholarship	344,700
Early Childhood Development Scholarship	2,298,033
Kentucky National Guard Tuition Award Program	6,726,093
Kentucky Educational Excellence Scholarship	114,017,519
Teacher Scholarship	(319,785)
Osteopathic Medicine Scholarship	271,967
Dual Credit Scholarship Program	23,861,921
Work Ready Scholarship	12,789,019
Veterinary Contract Spaces Program	5,493,023
Optometry Scholarship Program	991,572
Coal County Scholarship Program for Pharmacy Students	110,285
Innovative Scholarship Pilot Program	5,906,029
John R. Justice Grant	247,986
Total Expenditures	393,997,698
Net Change in Fund Balance	(31,685,744)
Fund Balance, July 1, 2023	55,687,495
Fund Balance, June 30, 2024	$ 24,001,751

Statement of Fiduciary Net Position (Deficit)

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

June 30, 2024

ASSETS	**Federal Student Loan Reserve Fund**	**Kentucky's Affordable Prepaid Tuition**	**Kentucky Education Savings Plan Trust**
Current:			
Cash and cash equivalents	$ 6,385,560	$ 2,659,371	$ 160,248
Investments			279,294,679
Other current assets			10,714
Total Current Assets	6,385,560	2,659,371	279,465,641
Noncurrent:			
Default aversion fees receivable	2,126,700		
Total Noncurrent Assets	2,126,700		
Total Assets	8,512,260	2,659,371	279,465,641
LIABILITIES			
Current:			
Accounts payable	13,656		753,928
Accrued expenses			97,417
Tuition benefits payable		7,614,662	
Payable to Agency Operating Fund	4,966,544		
Total Current Liabilities	4,980,200	7,614,662	851,345
Noncurrent:			
Tuition benefits payable		24,552,001	
Total Liabilities	4,980,200	32,166,663	851,345
NET POSITION (DEFICIT)			
Restricted for program benefits		(29,507,292)	278,614,296
Restricted for other purposes	3,532,060		
Total Net Position (Deficit)	$ 3,532,060	$ (29,507,292)	$ 278,614,296

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, 2024

	Federal Student Loan Reserve Fund	Kentucky's Affordable Prepaid Tuition	Kentucky Education Savings Plan Trust
Additions:			
Federal reinsurance	$ 98,198,128		
Federal minimum reserve ratio transfer	3,471,864		
State General Fund revenue		$ 3,700,000	
Contract income, net			
Contributions			$ 25,499,196
Investment Revenues:			
Net increase in fair value of investments		779,799	19,695,416
Interest and investment income	402,902	(630,865)	9,116,299
Other income	18,626		
Total Additions	102,091,520	3,848,934	54,310,911
Deductions:			
Program benefits:			
Loan claims	98,065,674		
Default aversion fee expense	250,096		
Withdrawals			26,204,983
Administrative expenses		39,017	1,105,410
Personnel and professional expenses		381,080	
Expenses for reimbursement of lost revenue	5,293,134		
Refunds		1,665,685	
Trustee fee expense		14,437	
Tuition benefits expense, net		(1,666,956)	
Total Deductions	103,608,904	433,263	27,310,393
Change in Net Position	(1,517,384)	3,415,671	27,000,518
Net Position (Deficit), July 1, 2023	5,049,444	(32,922,963)	251,613,778
Net Position (Deficit), June 30, 2024	$ 3,532,060	$ (29,507,292)	$ 278,614,296

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 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 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 legislative session. The legislation established ARC as an independent de jure municipal corporation and political subdivision of the Commonwealth. Additional ARC-related legislation was signed into law on March 14, 2024 that included the removal of all references to administration by KHESLC. ARC is reported as a blended component unit of KHESLC for purposes of the Authority/Corporation’s combined financial statements. However, ARC is a separate legal entity governed, managed, and administered as a distinct instrumentality of the Commonwealth. Therefore, separate stand-alone ARC financial statements are also issued. KHEAA contracts with ARC to perform the aforementioned collection activities on eligible FFELP loans at cost. KHESLC transitioned the servicing of its student loans to ARC Servicing, a division of ARC, effective January 16, 2024. ARC and KHESLC contract to utilize KHESLC employees in the servicing and collection activities related to these loans.

Note A--Description of Business--Continued

To request a copy of the ARC financial statements and footnotes, please contact KHESLC at (502) 329-7079.

Outreach Programs

Outreach - Outreach operations provide critical informational resources to make higher education accessible to Kentucky's current and future generations. Outreach counselors at the Authority/Corporation are available year-round to provide free college planning and financial aid assistance to students and families, school counselors, adult education programs and other community contacts. They conduct scholarship and other funding searches, help students with the admissions and financial aid application processes and increase motivation for at-risk students. Outreach services are offered through classroom presentations, financial aid nights, career fairs, college nights, adult education classes, Free Application for Federal Student Aid ("FAFSA") workshops, financial literacy workshops, professional development/staff training and other programs and camps. In addition, since March 2020 a greater percentage of these Outreach services have also been offered through social media, virtual counseling and webinars. Programs and services also include a mobile college-planning classroom, a one-stop Web portal, near-peer college coaches and targeted publications for students of all ages. Other Outreach initiatives include Kentucky College Application Campaign, which provides participating seniors with hands-on assistance in applying to college or technical school; FAFSA Completion 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 FY2024, the Authority/Corporation provided some or all levels of administration of seventeen student aid programs: (1) Kentucky Educational Excellence Scholarship, (2) College Access Program Grant ("CAP"), (3) Kentucky Tuition Grant ("KTG"), (4) Teacher Scholarship, (5) Osteopathic Medicine Scholarship, (6) Veterinary Contract Spaces Program, (7) Early Childhood Development Scholarship, (8) Optometry Scholarship Program, (9) Work Ready Kentucky Scholarship, (10) John R. Justice Grant, (11) Kentucky National Guard Tuition Award Program, (12) Early Graduation Scholarship, (13) Minority Educator Recruitment and Retention Scholarship, (14) Dual Credit Scholarship Program, (15) Kentucky Academy for Equity in Teaching Program, (16) Coal County Scholarship Program for Pharmacy Students and (17) Kentucky Innovative Scholarship Pilot Project.

Kentucky Educational Savings Plan Trust

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

Note A--Description of Business--Continued

An individual or entity participating in the Trust establishes an account in the name of a Beneficiary. During FY2024, investment contributions with Ascensus as Program Manager consisted of the following six options offered by nine 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 and the Capital Preservation Option.

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 remaining five investment options and investment choices include the following nine investment companies: American Funds, Dimensional Fund Advisors ("DFA"), Cohen & Steers Capital Management, Inc. ("Cohen & Steers"), Baird Advisors, BlackRock, Schwab Investment Management, Inc. ("Schwab"), Vanguard, PGIM Investments LLC ("PGIM Investments"), and Principal Life Insurance Company.

All investment allocation percentages are determined by the Authority/Corporation's Board of Directors and reviewed annually. A percentage of the assets of the seven upper level enrollment bands in the Managed Allocation option are allocated to a funding agreement issued by the Principal Life Insurance Company. The agreement offers a guarantee of principal and a minimum rate of return to the Trust. The crediting rates on the Principal Life funding agreement during the periods from July 1, 2023 through December 31, 2023 and January 1, 2024 through June 30, 2024 were 4.85% and 4.70%, respectively.

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 has continued to become more conservative as the depletion of the fund's assets neared. The Plan's assets were fully depleted during FY2024. See Note B for an update to the target asset allocation that was approved when the assets were depleted during the last quarter of FY2024. The Commonwealth transferred $3.7 million to the Plan during that quarter and plans to transfer an estimate of each year's shortfall at the beginning of each fiscal year. On July 5, 2024 the Commonwealth transferred an additional $7.5 million for the estimated shortfall for FY2025. An additional $6.8 million is scheduled to be received at the beginning of FY2026 as a part of the final Commonwealth 2024-2026 biennial budget. The Plan offered enrollment periods in fiscal years 2002, 2003 and 2005, for purchasers to buy prepaid tuition contracts and also offers certain federal and state tax advantages to purchasers. There have been no enrollment periods since fiscal year 2005 as the Plan currently maintains an accumulated net deficit of approximately $29.5 million. The $7.5 million received on July 5, 2024 was excluded from consideration in the June 30, 2024 $29.5 million actuarial valuation deficit.

Note A--Description of Business--Continued

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

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

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

The Kentucky General Assembly approved certain changes to the Plan during the 2014 Legislative Session that became effective July 2014. These changes included the following: the addition of a utilization period definition; the establishment of a closure date of the Plan; the establishment of certain limitations on the growth of a plan account beyond the utilization period; the prohibition of projected college entrance year extensions; and the clarification of provisions for transferring a plan account to another qualified tuition program. During the 2019 General Assembly, House Bill 250 was passed and became effective June 27, 2019. With the law change, the Plan 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.

Per KRS 164A.708, once a real liability is expected to accrue, the General Assembly shall appropriate the necessary funds to meet the liability. The Plan's assets were exhausted in fiscal year 2024, at which time the liability of the Plan did become a General Obligation of the Commonwealth of Kentucky. As of June 30, 2024, the Plan maintained a present value fund deficit of $29.5 million. This represents

Note A--Description of Business--Continued

a $3.4 million decrease over the previous year's deficit. Over the remaining estimated life of the program, through fiscal year 2030, actuarial estimates show the Commonwealth of Kentucky will need to transfer approximately $32 million.

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. See Note U for the disclosure of new borrower outreach and communication guaranty agency responsibilities.

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.

Note A--Description of Business--Continued

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

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

Advantage Loan Program Operations

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

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

The Advantage program is financed through the issuance of both tax-exempt and taxable bonds. Tax-exempt bonds are used to finance loans for students enrolled in an institution within the Commonwealth or for residents of the Commonwealth. Taxable bonds are used to finance loans for non-residential 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 FAFSA information submitted by potential students at an institution. These services help simplify the cumbersome verification process for families and institutions. Certain verification requirements were waived during the Covid pandemic. In addition, there has recently been a significant reduction in the number of students selected for verification. Therefore, KHEAA notified participating institutions in May 2024 that FAFSA verification services would not be provided beyond the 2024 calendar year. 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 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. The Corporation is authorized to finance loans for students attending or who attended eligible post-secondary institutions. In addition, the Corporation contracts with ARC to service and collect 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) ARC's servicing of FFELP, Advantage, certain federal and other education loans; and (iv) ARC's collection of FFELP, Advantage, certain federal and other education loans for other holders on a commission or cost-reimbursement basis. FFELP student loans held by the Authority/Corporation and serviced and collected by ARC 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

Note A--Description of Business--Continued

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; however, upon default, ownership of the loans remains 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, 2024, the Authority/Corporation held approximately $715 million of FFELP and other education loans that are serviced by ARC. $670 million of those loans were pledged pursuant to the 2014 Indenture, the 2020 Indenture, the 2021 Indenture, the 2023 Indenture and the 2023-1 Indenture. The remaining $45 million of loans were funded by the Corporation's Operating Fund. ARC also services approximately $1 million of FFELP and other education loans on behalf of other holders. The majority of such education loans are serviced by ARC 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, ARC collects student loan remittances and subsequently disburses these remittances to the appropriate lending entities. The obligations pursuant to such servicing and collection agreements are without recourse to assets pledged to collateralize any Authority/Corporation financings.

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

Note B--Summary of Significant Accounting Policies

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

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

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

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

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

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

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

The Authority/Corporation's Fiduciary Funds are held in a custodial capacity. FSLRF assets and all earnings on those assets are the property of the Federal government and are used primarily to facilitate FFELP claim payments. Assets of the Trust are held by the Authority/Corporation on behalf of program participants. Effective with the FY2024 depletion of the KAPT program investment fund, any assets of the Plan received annually through General Fund transfers 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.

The Plan maintains a separate investment policy; however, the KAPT program investment fund was fully depleted during the last quarter of FY2024. In June 2024, a change to the target asset allocation was approved and, as reflected in the table below, resulted in 100% of all assets invested in cash equivalents prospectively. The cash equivalents are the result of General Fund appropriation payments that will be made annually based on actuarial projections.

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

	Effective June 30, 2022	Effective June 11, 2024
Large Cap U.S. Equities	0%	0%
Mid Cap U.S. Equities	0%	0%
Small Cap U.S. Equities	0%	0%
Non-U.S. Equities	0%	0%
Total Equity	0%	0%
Inflation Indexed Bonds	0%	0%
Domestic Fixed Income	0%	0%
Short Duration U.S. Fixed Income	50%	0%
Cash	50%	100%
Total Fixed Income	100%	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 2024.

<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.

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.

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

Capital Assets, Net - Capital assets are stated at cost, less accumulated depreciation. Acquisitions in excess of $500 qualify for 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 $14.7 million for loan principal and $873,000 for accrued interest as of June 30, 2024. Furthermore, the Authority/Corporation is required to purchase loans owned by third party customers with certain loan servicing violations. As of June 30, 2024, the allowance for third party servicing loan losses for loans that have been purchased was $792,000 for loan principal and $646,000 for accrued interest. In July 2015, the Authority/Corporation purchased an uninsured loan portfolio at a substantial discount. As of June 30, 2024, the allowance for the loans purchased at a discount was $15.9 million for loan principal and $10.4 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, 2024, the allowance for advances converted to loans was $1.75 million.

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

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

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

Servicing Fees - Fees for servicing loans held by third parties are recorded as servicing fee revenue when earned.

Third party loans serviced by ARC 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 particular program. Program-specific operating grant and contribution services include the interest earned on scholarship loans.

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

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, 2024, the Authority/Corporation's unrestricted net position is ($2,043,455).

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 U.

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

Note C--Cash and Investments--Continued

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.

As of June 30, 2024, 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
FDIC Insured		$ 279,960	$ 660,248
Collateralized by securities held by the pledging financial institution		7,084,080	2,034,408
Money market demand deposits			
Money market securities		181,446,018	6,509,917
Cash deposited with Kentucky State Treasurer	$ 7,957,334	1,527,490	608
	$ 7,957,334	$190,337,548	$ 9,205,181

Of the $190.3 million of cash and cash equivalents maintained in the Proprietary Funds, $74.3 million was held for guarantee operations and the remaining $116 million was held for loan finance and servicing activities.

Note C--Cash and Investments--Continued

Of the $9.2 million of cash and cash equivalents maintained in the Fiduciary Funds, $6.4 million was related to the FSLRF and the remaining $2.8 million was associated with the Plan and the Trust.

As of June 30, 2024, 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, 2024 are summarized as follows:

	Fair Value	Weighted Average Maturity (in years)
Corporate bonds	$ 56,146,961	2.78
U.S. Treasury and government agency securities	52,076,002	1.97
Collateralized mortgage obligations	3,800,838	6.61
	$ 112,023,801	

As of June 30, 2024, Trust investments of $279.3 million comprised primarily of mutual funds were held by Ascensus.

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.

Note C--Cash and Investments--Continued

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, 2024:

Rating	Fair Value
AAA / Aaa	$ 21,219,710
A / A	19,019,365
BAA / Baa	15,907,886
	$ 56,146,961

See Note B for a summary of the Plan's target asset allocations and the FY2024 changes to those allocations. From a credit risk perspective, 100% of Plan investments are now in cash equivalents.

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, 2024:

Money Market Securities of $181,446,018 are valued using quoted market prices. (Level 1 Inputs).

Corporate bonds, U.S. Treasury and government agency securities, and collateralized mortgage obligations of $112,023,801 were based on Level 2 inputs.

As of June 30, 2024, 100% of the value of the Trust and Plan investments was based on Level 1 inputs.

Note D--Capital Assets

A summary of capital assets follows:

	Beginning Balance July 1, 2023	Additions	Disposals	Ending Balance June 30, 2024
Proprietary fund:				
Furniture and equipment	$ 14,426,679	$ 627,596	$ 2,385,389	$ 12,668,886
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	5,738		86,785
Accumulated depreciation and amortization	(22,879,698)	(717,563)	(2,380,599)	(21,216,662)
Capital Assets, Net	$ 4,300,162	$ (84,229)	$ 4,790	$ 4,211,143
Fiduciary Fund:				
Furniture and equipment	$ 65,954			$ 65,954
Accumulated depreciation	(65,954)			(65,954)
	$	$	$	$

Depreciation and amortization expense totaled $1,114,751 for the year ended June 30, 2024, of which $1,059,341 was allocated to business-type activities and $55,410 allocated to governmental activities.

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

Loan guarantee operations	$ 215,508
Outreach	252,010
School services	15,590
Default collections	67,849
Loan finance and servicing	504,683
Other activites	3,701
	$ 1,059,341

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, 2024, the outstanding balance of aggregate insured student loans was approximately $1.1 billion. Loans insured by the Authority/Corporation are reinsured under FFELP by the federal government. Death, disability, bankruptcy, lender of last resort, closed school, false certification, and ineligible borrower claims are reinsured at 100%. Default claims are subject to the Authority/Corporation's default claims rate (reinsurance claims for the federal fiscal year divided by the total loans in repayment at the end of the preceding fiscal year).

The reinsurance trigger rate provision as outlined in 34 CFR 682.404(b) has been waived by ED through September 30, 2024. Therefore, the Authority/Corporation's reimbursement rate remains at the highest level. On December 18, 2015, the Consolidated Appropriations Act, 2016, was signed into law and amended the maximum reinsurance rate within Section 428(c)(1) of the Higher Education Act by striking 95% and inserting 100%. Therefore, the Authority/Corporation has not recorded a reserve at June 30, 2024 for losses on federal reinsurance. See Note S.

Under "normal" default collection operations, the Authority/Corporation was 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 pre-claim assistance. DAF are recorded monthly and are recognized as a deduction in the FSLRF and as revenue in the AOF. DAF are remitted back to the FSLRF for loans that default.

Excluding AMF and DAF, the aforementioned "normal" fees relate to accrued interest and collection costs retained by the Authority/Corporation from regular, administrative wage garnishment, rehabilitation and direct consolidation collections. These normal fees were superseded by the provisions of Dear Colleague Letters GEN-21-03 and GEN-22-16. It is currently unclear if or when these normal collection retention and fee provisions will become effective again. See Notes Q and U.

Note F--Loans (Finance and Servicing Operations)

The Authority/Corporation originates private supplemental loans, purchases loans and holds various types of student loans as described in Note A. The terms of these loans, which vary on an individual basis depending upon loan type and the date the loan was originated, generally provide for repayment in monthly installments of principal and interest over a period of generally ten years with most FFELP consolidation loans and many Advantage refinance loans having longer repayment terms. The repayment period begins after a grace period of six months following graduation or loss of qualified student status for the Subsidized and Unsubsidized Stafford loans. The repayment period for Consolidation, SLS and PLUS loans begins within 60 days from the date the loan is fully disbursed. Statutory interest rates on student loans ranged from 1.9% to 12% for the fiscal year ended June 30, 2024 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, 2024:

Stafford - Subsidized	$ 127,358,157
Stafford - Unsubsidized	153,684,392
PLUS/SLS	8,977,112
Consolidation	178,536,426
Supplemental	234,100,706
Other	12,063,973
Total gross loans	714,720,766
Allowance for loan losses	(31,457,691)
Loans, net	683,263,075
Less amount shown as current assets	116,391,173
Noncurrent loans, net	$ 566,871,902

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, 2024, the allowance for the loan principal purchased at a discount was $15.9 million. In addition, $1,688,748 of student loan principal was no longer insured due to violations of due diligence requirements.

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

Note G--Special Allowance

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

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

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

Note H--Loan and Other Forgiveness

During fiscal year 2024, the Authority/Corporation forgave $311,559 in loan principal and accrued interest for teachers funded by ED. Also, during fiscal year 2024, the Authority/Corporation provided additional loan forgiveness of $25,835.

Note I--Revenue Bonds Payable

As of June 30, 2024, the Authority/Corporation had bonds payable outstanding across five separate indentures of trust. Both the 2014 and 2023 indentures of trust are master indentures that permit additional bonds to be issued under that same master indenture. The 2014 master indenture includes bond issuances in 2014, 2017, 2019, and 2021 whereas the 2023 master indenture has only had the one issuance in 2023. The 2020-1, 2021-1 and 2023-1 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 five indentures of trust and supporting supplemental indentures of trust within each of the five, among other things, require the Authority/Corporation to comply with various covenants, such as annual financial statements and investor reporting. Each of the eight issuances with bonds payable outstanding as of June 30, 2024 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, 2024 and the related activity for the year ended June 30, 2024 is as follows:

Series		Scheduled Maturity	Interest	Beginning Balance July 1, 2023	Bond Maturities Redemptions	New Issues	Premium / (Discount)	Ending Balance June 30, 2024
2014 Indenture								
2014 A	*	June 1, 2031	Fixed	$ 1,480,547	$ (1,500,000)		$ 19,453	$ -
2017 A	*	June 1, 2034	Fixed	12,784,198	(6,155,000)		(48,822)	6,580,376
2019 A1-B1	*	June 1, 2036	Fixed	34,786,971	(2,000,000)		(397,874)	32,389,097
2019 A2		June 1, 2034	Fixed	27,245,000	(3,485,000)			23,760,000
2021A-1	*	June 1, 2033	Fixed	12,131,188	(500,000)		(268,429)	11,362,759
2021A-2		June 1, 2035	Fixed	46,450,000	(3,500,000)			42,950,000
				134,877,904	(17,140,000)		(695,672)	117,042,232
2020-1 Indenture								
2020-1A-1A		November 25, 2050	Monthly	72,618,446	(14,144,176)			58,474,270
2020-1A-1b		November 25, 2050	Monthly	207,321,554	(40,380,824)			166,940,730
2020-1B		November 25, 2050	Monthly	7,000,000				7,000,000
				286,940,000	(54,525,000)			232,415,000
2021-1 Indenture								
2021-1A-1A		March 25, 2051	Monthly	20,677,047	(4,139,858)			16,537,189
2021-1A-1B		March 25, 2051	Monthly	69,475,953	(13,910,142)			55,565,811
2021-1B		March 25, 2051	Monthly	2,000,000				2,000,000
				92,153,000	(18,050,000)			74,103,000
2023-AB Indenture								
2023A-1	*	June 1, 2037	Fixed	10,980,000				10,980,000
2023A-2		June 1, 2037	Fixed	70,535,000	(4,000,000)			66,535,000
2023B-1		June 1, 2046	Fixed	12,000,000				12,000,000
				93,515,000	(4,000,000)			89,515,000
2023-1A-1 1A-2 Indenture								
2023-1A-1	*	June 1, 2036	Weekly			$109,810,000		109,810,000
2023-1A-2		June 1, 2036	Weekly		(3,730,000)	50,805,000		47,075,000
					(3,730,000)	160,615,000		156,885,000
				$ 607,485,904	$ (97,445,000)	$160,615,000	$ (695,672)	$ 669,960,232

* This bond series is tax exempt

Note I--Revenue Bonds Payable--Continued

The Authority/Corporation's revenue bonds include fixed and variable rates of interest based on various index rates. Those fixed rates and variable index rates ranged from 1.41% to 7.31% as of June 30, 2024. Debt service requirements to maturity or redemption date, assuming interest rates based on fixed rates and variable index rates at June 30, 2024, are as follows:

	Principal Repayment Amount (Thousands)					
	2014	2020-1	2021-1	2023AB	2023-1A-1&2	Total
Year Ending June 30, 2025	$ 11,205			$ 1,265		$ 12,470
Year Ending June 30, 2026	13,665			1,770		15,435
Year Ending June 30, 2027	13,485			2,150		15,635
Year Ending June 30, 2028	10,500			3,025		13,525
Year Ending June 30, 2029	8,850			3,415		12,265
5 Years Ending June 30, 2034	14,870			18,660		33,530
5 Years Ending June 30, 2039	41,700			47,230		88,930
5 Years Ending June 30, 2044				6,000	$ 156,885	162,885
5 Years Ending June 30, 2049				6,000		6,000
5 Years Ending June 30, 2054		$ 232,415	$ 74,103			306,518
	$ 114,275	$ 232,415	$ 74,103	$ 89,515	$ 156,885	$667,193

	Interest Repayment Amount (Thousands)					
	2014	2020-1	2021-1	2023AB	2023-1A-1&2	Total
Year Ending June 30, 2025	$ 4,179	$ 12,204	$ 3,879	$ 5,138	$ 7,419	$ 32,819
Year Ending June 30, 2026	3,739	12,204	3,879	5,067	7,419	32,308
Year Ending June 30, 2027	3,195	12,204	3,879	4,972	7,419	31,669
Year Ending June 30, 2028	2,681	12,204	3,879	4,859	7,419	31,042
Year Ending June 30, 2029	2,270	12,204	3,879	4,698	7,419	30,470
5 Years Ending June 30, 2034	8,324	61,017	19,396	20,070	37,093	145,900
5 Years Ending June 30, 2039	2,340	61,017	19,396	12,119	37,093	131,965
5 Years Ending June 30, 2044		61,017	19,396	3,898	29,674	113,985
5 Years Ending June 30, 2049		61,017	19,396	707		81,120
5 Years Ending June 30, 2054		12,204	7,759			19,963
	$ 26,728	$ 317,292	$ 104,738	$ 61,528	$ 140,955	$651,241

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

Note J--Direct Placements and Direct Borrowings

The Authority/Corporation refunded the Series 2017-1 and Series 2019-1 Direct Purchase Notes on December 19, 2023. 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 and was structured with a SOFR-based interest rate. On June 28, 2024, the Authority and the Corporation entered into an Agreement as to Certain Advantage Advances with each other. The Agreement authorizes interest bearing advances, with an initial fixed rate of 6.46%, from the Authority to the Corporation from time to time during the period ending on June 30, 2025. The purpose of the advances is for the funding of certain loans originated under the Advantage Program in a maximum aggregate outstanding principal amount not to exceed $35 million.

The balance of direct purchase notes payable and direct borrowings under lines of credit agreements at June 30, 2024 and the related activity for the year then ended June 30, 2024 is as follows:

Series		Scheduled Maturity	Interest Rate	Beginning Balance July 1, 2023	Bond Maturities & Redemptions	New Issues	Ending Balance June 30, 2024
Direct Placements							
2017-1 Indenture							
2017-1	*	December 1, 2037	Monthly	$ 76,133,000	$ (76,133,000)		
2019-1 Indenture							
2019-1	*	August 1, 2039	Monthly	32,165,000	(32,165,000)		
2019-1		August 1, 2039	Monthly	23,005,000	(23,005,000)		
				55,170,000	(55,170,000)		
				$ 131,303,000	$ (131,303,000)		
Direct Borrowings							
Revolver Line of Credit		May 16, 2025	Monthly	$ 37,417,864	$ (60,791,980)	$ 32,570,000	$ 9,195,884
				$ 37,417,864	$ (60,791,980)	$ 32,570,000	$ 9,195,884

* This bond series is tax exempt

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. For the June 28, 2024 Agreement, the Advantage Advances, the Advantage Loans funded from such Advantage Advances and the revenues from such Advantage Loans are pledged as collateral. The amount of unused revolving line of credit and Advantage Advances was approximately $65.8 million and the full $35 million, respectively, as of June 30, 2024.

For the direct borrowing 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. There are no events of default under the Advantage

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

Advances agreement; however, if the Corporation does not repay the principal balance of all Advantage Advances by June 30, 2025, all outstanding Advantage Advances are to be repaid as to principal from the receipts on all Advantage Loans funded from the Advances, net of certain collection and servicing costs and interest upon the Advantage Advances, no less frequently than monthly.

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, 2024, the Authority/Corporation is reporting liabilities for excess yield on acquired purpose investments of $680,222.

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

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

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

Arbitrage rebate is applicable to all of the Authority/Corporation's tax-exempt bonds. With certain limited exceptions, income earned on non-purpose investments (investments other than student loans) which exceeds the bond yield (arbitrage yield), must be rebated to the U.S. Treasury. Payments of at least 90% are due every five years after the year of issuance, and upon final maturity of bonds. At June 30, 2024, the Authority/Corporation is reporting excess yield restriction and rebate liabilities on non-purpose investments of $147,540 and $88,005, respectively.

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, 2024. As of June 30, 2024, there is approximately $6.8 million of gain remaining to be amortized.

Note M--Net Pension Liability

Plan Description. Employees of the Authority/Corporation participate in 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 FY24

Note M--Net Pension Liability--Continued

was 66.17% is comprised of the normal cost contribution of 9.97% and the actuarially accrued liability contribution of 56.20%. The Authority employer total contribution rate for FY23 was 78.00% comprised of the normal cost contribution of 9.97% and the actuarially accrued liability contribution of 68.03%. The Authority normal cost contribution for FY24 and FY23 of 9.97% comprised of 7.82% for pension contributions and 2.15% for insurance contributions. The Corporation employer total normal cost contribution rate for FY24 and FY23 was 9.97% comprised of 7.82% for pension contributions and 2.15% for insurance contributions. The Corporation's FY24 and FY23 total allocated annual amortized cost for retirement liabilities was $4,310,436. 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:

	FY24	FY23
Authority: Employer	$ 205,307	$ 287,553
Authority: Employee	18,163	23,061
	$ 223,470	$ 310,614
Corporation: Employer	$ 4,298,563	$ 4,322,117
Corporation: Employee	570,822	533,922
	$ 4,869,385	$ 4,856,039
Total: Employer	$ 4,503,870	$ 4,609,670
Total: Employee	588,985	556,983
	$ 5,092,855	$ 5,166,653

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pension. At June 30, 2024, the Authority/Corporation reported a net pension liability of $60,535,087 for its proportionate share of the KERS's collective net pension liability. The Authority's portion is $3,777,045 and the Corporation's is $56,758,042. The net pension liability was measured as of June 30, 2023, and the total pension liability used to calculate the net pension liability was determined by the actuarial valuation as of that date.

The Authority/Corporation's estimated proportionate share of the collective net pension liability was based on a projection of the Authority/Corporation's long-term share of contributions to the pension plan relative to the projected contributions of all employer participants, as actuarially determined. The Authority's contributions during the measurement period as provided by KPPA were $314,516 with a proportionate share percentage of .030661%. The Corporation's contributions during the measurement period as provided by KPPA were $4,743,907 with a proportionate share percentage of .460746%.

Note M--Net Pension Liability--Continued

For the year ended June 30, 2024, the Authority/Corporation recognized pension expense of $(4,961,824) for its proportionate share of KERS's pension expense. The Authority's portion was $(1,782,130) and the Corporation's was $(3,179,694).

At June 30, 2024, 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	$ 46,698	$ 46
Net difference between projected and actual investment earnings on pension plan investments	63,810	59,969
Changes in assumptions		103,785
Changes in proportion and differences between employer contributions and proportionate share of contributions		781,316
Authority's contributions to KERS subsequent to the measurement date	205,307	
	$ 315,815	$ 945,116

$205,307 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, 2025. 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:	
2025	$ (841,456)
2026	(7,014)
2027	16,898
2028	(3,036)

Note M--Net Pension Liability--Continued

At June 30, 2024, 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	$ 701,733	$ 686
Net difference between projected and actual investment earnings on pension plan investments	958,884	901,158
Changes in assumptions		1,559,588
Changes in proportion and differences between employer contributions and proportionate share of contributions		679,842
Corporation's contributions to KERS subsequent to the measurement date	4,298,563	
	$ 5,959,180	$ 3,141,274

$4,298,563 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, 2025.

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:	
2025	$ (1,583,568)
2026	(105,399)
2027	253,934
2028	(45,624)

Note M--Net Pension Liability--Continued

Actuarial Assumptions. The total pension liability was determined by an actuarial valuation as of June 30, 2023, 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-2020 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 2013-2022, projected with the ultimate rates from MP-2020 mortality improvement scale using a base year of 2023. For disabled post-retirement members, the mortality table used is the PUB-2010 Disabled Mortality table, with rates multiplied by 150% for both male and female rates, projected with the ultimate rates from the MP-2020 mortality improvement scale using a base year of 2010.

The actuarial assumptions used in the June 30, 2023 valuation was based on the results of an actuarial experience study for period ending June 30, 2022. The long-term expected rate of return were determined by using a building block method in which best estimated ranges of expected future real rates of return were 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
Equity		
Public Equity	5.90%	32.50%
Private Equity	11.73%	7.00%
Fixed Income		
Core Fixed Income	2.45%	20.50%
Speciality Credit	3.65%	15.00%
Cash	1.39%	5.00%
Inflation Protected		
Real Estate	4.99%	10.00%
Real Return	5.15%	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	$ 4,341,320	$ 3,777,045	$ 3,309,431
Corporation's proportionate share of net pension liability	$ 65,237,462	$ 56,758,042	$ 49,731,167

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 KERS, a cost-sharing multiple-employer defined benefit retiree healthcare plan (Insurance Fund) administered by 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.

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 FY24 was 66.17% comprised of the normal cost contribution of 9.97% and the actuarially accrued liability contribution of 56.20%. The Authority employer total contribution rate for FY23 was 78.00% comprised of the normal cost contribution of 9.97% and the actuarially accrued liability contribution of 68.03%. The Authority normal cost contribution for FY24 and FY23 of 9.97% is comprised of 7.82% for pension contributions and 2.15% for insurance contributions. The Corporation employer total normal cost contribution rate for FY24 and FY23 was 9.97% comprised of 7.82% for pension contributions and 2.15% for insurance contributions. The Corporation's FY24 and FY23 total allocated annual amortized cost for retirement liabilities was $4,310,436.

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

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:

	FY24	FY23
Authority: Employer	$ 56,431	$ 79,037
Authority: Employee 1%		
	$ 56,431	$ 79,037
Corporation: Employer	$ 1,181,502	$ 1,187,976
Corporation: Employee 1%	38,918	35,710
	$ 1,220,420	$ 1,223,686
Total: Employer	$ 1,237,933	$ 1,267,013
Total: Employee	38,918	35,710
	$ 1,276,851	$ 1,302,723

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, 2024, the Authority/Corporation reported a liability of $5,221,879 for its proportionate share of the KERS's collective net OPEB liability. The Authority's portion is $230,340 and the Corporation's is $4,991,539. The net OPEB liability was measured as of June 30, 2023, and the total OPEB liability used to calculate the net OPEB liability was determined by the actuarial valuation as of that date.

The Authority/Corporation's proportionate share of the net OPEB liability was determined using the employers' actual contributions for FY23. The Authority's contributions during the measurement period as provided by KPPA were $37,086 with a proportionate share percentage of .029358%. The Corporation's contributions during the measurement period as provided by KPPA were $605,809 with a proportionate share percentage of .636196%.

For the year ended June 30, 2024, the Authority/Corporation recognized OPEB expense of $(3,208,751) for its proportionate share of KERS's OPEB expense. The Authority's portion was $(281,769) and the Corporation's was $(2,926,982).

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, 2024, the Authority/Corporation reported an implicit subsidy of $178,930. The Authority's portion is $7,893 and the Corporation's is $171,037. At June 30, 2023, the Authority/Corporation reported an implicit subsidy of $335,021. The Authority's portion is $18,083 and the Corporation's is $316,938.

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

At June 30, 2024, 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		$ 313,245
Net difference between projected and actual investment earnings on pension plan investments	$ 34,547	34,506
Changes in assumptions	22,538	25,428
Changes in proportion and differences between employer contributions and proportionate share of contributions	6,454	356,219
Authority's implicit subsidy to KERS subsequent to the measurement date	7,893	
Authority's contributions to KERS subsequent to the measurement date	56,431	
	$ 127,863	$ 729,398

$56,431 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, 2025. Amounts reported as deferred outflows and inflows of resources related to OPEB will be recognized in OPEB expense as follows:

Year Ending June 30:	
2025	$ (329,533)
2026	(262,170)
2027	(71,451)
2028	(2,705)

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

At June 30, 2024, 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		$ 6,788,106
Net difference between projected and actual investment earnings on pension plan investments	$ 748,651	747,744
Changes in assumptions	488,413	551,024
Changes in proportion and differences between employer contributions and proportionate share of contributions	1,678,492	2,435,481
Corporation's implicit subsidy to KERS subsequent to the measurement date	171,037	
Corporation's contributions to KERS subsequent to the measurement date	1,181,502	
	$ 4,268,095	$ 10,522,355

$1,181,502 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, 2025. 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:	
2025	$ (3,467,612)
2026	(2,970,696)
2027	(1,109,921)
2028	(58,570)

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, 2023, 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-2020 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 2013-2022, projected with the ultimate rates from MP-2020 mortality improvement scale using a base year of 2023. For disabled post-retirement members, the mortality table used is the PUB-2010 Disabled Mortality table, with rates multiplied by 150% for both male and female rates, projected with the ultimate rates from the MP-2020 mortality improvement scale using a base year of 2010.

The actuarial assumptions used in the June 30, 2023 valuation was based on the results of an actuarial experience study for period ending June 30, 2022. The long-term expected rate of return was determined by using a building-block method in which best estimated ranges of expected future real rate of returns were developed for each asset class. The ranges were combined by weighing the expected future real rate of return by the target asset allocation percentage.

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

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

Asset Class	Long Term Expected Real Rate of Return	Target Allocation
Equity		
Public Equity	5.90%	43.50%
Private Equity	11.73%	10.00%
Fixed Income		
Core Fixed Income	2.45%	10.00%
Speciality Credit	3.65%	15.00%
Cash	1.39%	1.50%
Inflation Protected		
Real Estate	4.99%	10.00%
Real Return	5.15%	10.00%
		100.00%

The long-term expected rate of return on plan assets is 6.50%, 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 5.94%. This rate is based on the expected rate of return on OPEB plan investments of 6.50% and a municipal bond rate of 3.86%, as reported in Fidelity Index's 20-Year Municipal GO AA Index as of June 30, 2023. 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	4.94%	5.94%	6.94%
Authority's proportionate share of net OPEB liability	$ 309,788	$ 230,340	$ 163,531
Corporation's proportionate share of net OPEB liability	$ 6,713,198	$ 4,991,539	$ 3,543,765

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	$ 168,855	$ 230,340	$ 304,770
Corporation's proportionate share of net OPEB liability	$ 3,659,141	$ 4,991,539	$ 6,604,450

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. The Authority/Corporation reported a payable of $20,151 for the outstanding amount of contributions to the Insurance Plan required for the year ended June 30, 2024. The Authority's portion is $1,770 and the Corporation's is $18,381.

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, 2024. 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 (2002-2023).

Investment Rates - See Note B for the update to the target asset allocation approved during the last quarter of FY2024 that changed the target allocation from 50% fixed income investments and 50% cash equivalents to 100% cash equivalents. The depletion of the KAPT program investment fund and the change in the target asset allocation were considered in the annual actuarial valuation.

Investment Expenses – Now that the KAPT Program is being funded by annual General Fund appropriation transfers, any investment of those funds is as cash equivalents with a return that is net of any expenses.

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

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

Note O--Tuition Benefits Payable--Continued

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

Note O--Tuition Benefits Payable--Continued

As of June 30, 2024, the tuition for the 2024-2025 academic year will increase 1.6% for the Value Plan while tuition payout values for the Standard Plan and Premium Plan increased by 2.2%. The Standard Plan and the Premium Plan tuition payout value assumption for the 2024-2025 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, 2024, the annualized tuition increase for the highest-priced Kentucky public university, as applicable to the tuition benefits payout rate of Kentucky's Affordable Prepaid Tuition Standard and Premium Plans, which represents 95.3% of the Plan's enrollments, has been 5.8%. 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, 2024, has been 6.9%.

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 2020 indenture, the 2021 indenture, the 2023 indenture and the 2023-1 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 / SAMF

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

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

The second group of loans included 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 were not subject to an active bankruptcy filing, and werein default on or after the date of the Letter. The actions required for that second group of loans included 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 those loans to the Department. The third and final group of loans included 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 that third group of loans included all actions required for the first group of loans plus sending financial adjustments and associated money to purchasing lenders (for loan rehabilitations) or the Department (for loan rehabilitations or consolidations).

KHEAA's FSLRF fund was 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. Those refunds and adjustments included any collection costs charged to the borrower. However, a number of these suspension actions, especially the special mandatory assignment of the group two loans, significantly lowered the Authority's revenues from debt recovery commissions. DCL GEN-21-03's provision for the "Reimbursement of Lost Revenue" authorized a GA to reimburse itself from the FSLRF for lost revenue because of those actions. Guaranty Agencies were permitted to reimburse themselves for that lost revenue from the FSLRF on a quarterly basis based on their good-faith estimates, and

Note Q--Reimbursement for Lost Revenue / SAMF--Continued

without the requirement for prior approval from Federal Student Aid as to lost revenue. USDE did not set specific requirements for the GA's estimate of its lost collection revenues for the purposes of seeking reimbursement from the Federal Fund, but the estimate was required to be made in good faith and supported by the GA's records. During the first three months of FY2024 through the end of the pandemic payment pause, the Authority continued utilizing the same model to calculate and record good faith reimbursement for lost revenue estimates supported by its records.

During FY2022 the source of funds eligible to pay reimbursement for lost revenue was expanded by ED. The Authority/Corporation and other guarantors shared with FSA the insufficiency of FSLRF funds available to perform all actions required by DCL GEN-21-03 while also maintaining compliance with the minimum reserve ratio ("MRR"). Up through the end of the pandemic payment pause, ED continued subsidizing the shortfall in the FSLRF. During FY2024, the Authority/Corporation recognized $3.5 million of federal minimum reserve ratio transfers in the FSLRF and also recognized GEN-21-03 expenses for reimbursement of lost revenue in the FSLRF and reimbursement for lost revenue to the AOF, respectively, of $5.3 million.

While the provisions of DCL GEN-21-03 ended on August 28, 2023, the federal student loan repayment pause on student loan repayment, interest, and collections ended a few days later on August 31, 2023. The Authority/Corporation continued to receive GEN-21-03 reimbursement for lost revenue under the same formulation used to compensate guarantors for lost revenues through the August end date. For the first group of loans on which a default claim was paid prior to March 13, 2020, the provisions of a new DCL GEN-22-16 will be in place for thirteen months through September 30, 2024 following the pandemic payment pause to help those borrowers who opt-in receive a "Fresh Start." DCL GEN-22-16 was released on December 2, 2022 and is titled "Fresh Start Initiative Guidance to Guaranty Agencies." Interest rate accruals will resume, but during the Fresh Start opt-in window no collection attempts are allowed on that first group of loans. Borrowers who default after the pandemic payment pause will be subject to collections. During the twelve month period from October 2023 through September 2024, guaranty agencies will be compensated with a Special Account Maintenance Fee ("SAMF") based on the September 30, 2023 original principal outstanding ("OPO") as of the end of payment pause multiplied by 0.7% for an annual amount that will be paid on a quarterly basis. During FY2024, the Authority/Corporation recognized $8.6 million of reimbursement for lost revenue from this transition fee. See Note U regarding a possible new structure for the Authority's participation in the FFEL Program.

Note R--FAFSA Student Support Strategy Award

The Authority was awarded $977,500 in FY2024 for the award titled FAFSA Student Support Strategy project. The objective of the award is to support the Department of Education's student financial aid programs by (1) increasing the 2024-25 FAFSA completion rates and (2) combating "summer melt" and increasing actual enrollment rates among students who have expressed an intent to enroll in college for the 2024-25 academic year. The award period extends from the start date of May 6, 2024 through September 30, 2024. The entire $977,500 was received during FY2024 and is accounted and reported in these financial statements as program revenue under the description operating grants and contributions for the outreach business-type activities. Expense related to the award is recognized in the fiscal year that it is disbursed.

Note S--Leases

The Authority/Corporation, as a lessee, entered into a five-year lease agreement for office space effective June 1, 2022. The interest rate of 2.20% was assumed for the lease asset and liability calculations. The total of the Authority/Corporation's lease asset is recorded at a cost of $1,985,943, less accumulated amortization of $827,475.

A summary of lease asset activity during the year ended June 30, 2024 is as follows:

	Beginning Balance July 1, 2023	Additions	Remeasure-ments	Deductions	Ending Balance June 30, 2024
Lease Asset: Office space	$ 1,985,943				$ 1,985,943
Accumulated amortization:					
Office space	(430,287)	$ (397,188)			(827,475)
	$ 1,555,656	$ (397,188)	$	$	$ 1,158,468

A summary of the changes in the lease liability during the year ended June 30, 2024 is as follows:

	Beginning Balance July 1, 2023	Additions	Remeasure-ments	Deductions	Ending Balance June 30, 2024	Amounts Due Within One Year
Lease Liability: Office space	$ 1,590,818	$	$	$ (379,878)	$ 1,210,940	$ 398,470

Note S--Leases--Continued

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

Year Ending June 30:	Principal	Interest	Total
2025	$ 398,470	$ 22,646	$ 421,116
2026	415,907	13,704	429,611
2027	396,563	4,376	400,939
	$ 1,210,940	$ 40,726	$ 1,251,666

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 $171,887 during the year.

Note T--Commitments and Contingencies

The FSLRF is contingently liable for loans made by financial institutions that qualify for guarantee. The reinsurance trigger rate provision as outlined in 34 CFR 682.404(b) has been waived by ED through September 30, 2024. Therefore, the Authority/Corporation's reimbursement rate remains at the highest level. Prior to December 1, 2015, the federal government's reinsurance rate for defaults was 100% for loans made prior to October 1, 1993, 98% for loans made on or after October 1993 to September 30, 1998, and 95% for loans made after September 30, 1998. Effective December 1, 2015, the maximum reinsurance rate was amended from 95% to 100%. In the event of future adverse default experience, the FSLRF could be liable for 25% of defaulted loans for a default ratio in excess of 9%. The liability for a default ratio over 5% and up to 9% is 15%. At the beginning of each federal fiscal year, the reinsurance rate returns to applicable baseline; management does not expect that all guaranteed loans could default in one year. Although the reinsurance trigger rate is currently waived and management believes the FSLRF's expected maximum contingent liability is less than 25% of outstanding guaranteed loans, if the waiver were not in place the maximum contingent liability at June 30, 2024 would be calculated as follows:

Amount of guaranteed student loans outstanding at lenders	$ 1,176,285,510
Less minimum federal government share - 75%	882,214,133
	$ 294,071,377

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 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.

Note T--Commitments and Contingencies--Continued

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.

In July 2023, FSA conducted fieldwork testing for a program review of KHEAA's administration of the FFEL Program. The review focused primarily on KHEAA's implementation of the requirements of DCL GEN-21-03. Subsequently, FSA sent certain additional information requests and preliminary findings to KHEAA and KHEAA responded timely and completely to those requests. A final program determination letter from FSA is still pending. KHEAA believes that it has complied in all material respects with GEN-21-03.

Note U--Subsequent Events

Voluntary Flexible Agreement

On July 30, 2024, an office of ED, Office of the Undersecretary, published a *Notice Inviting Guaranty Agencies to Submit Requests to Participate in a Voluntary Flexible Agreement*. The primary scope of the Voluntary Flexible Agreement ("VFA") includes compensation structures, outreach activities, loan transfer schedules and future planning for guaranty agencies. Guaranty agencies will earn revenues and fees differently than it would under its existing Higher Education Act agreement. The new structure also compensates guaranty agencies for the implementation and operation of a new program of borrower outreach and communication to help borrowers return to good standing and access repayment programs and benefits that will promote successful long-term repayment on their loans. In addition, the agreement requires the adoption of a schedule for transferring defaulted loans to ED and each agency must also map their loan data and systems to at least one other agency acceptable to ED.

The deadline for submission of interest in a VFA was August 20, 2024. The Authority submitted a letter of request on August 20, 2024 indicating its interest in a VFA. ED and the Authority may enter into a Voluntary Flexible Agreement in October that could be effective as of October 1, 2024.

Note U--Subsequent Events--Continued

1, 2024 and will remain in effect for two years from the effective date unless terminated earlier as provided in the VFA. The VFA may be extended for additional one-year terms upon mutual agreement by both parties at least six months prior to the current end date of the VFA.

Note V--Recent Pronouncements

The GASB issued a couple of standards with requirements that became effective for adoption during the current year. These statements were adopted during the current year but 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, 2023

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

	FY 2023	FY 2022	FY 2021	FY 2020	FY 2019	FY 2018	FY 2017	FY 2016	FY 2015	FY 2014
Authority's proportion of the net pension liability	0.030661%	0.042364%	0.057939%	0.054812%	0.058291%	0.069264%	0.085192%	0.093544%	0.097187%	0.101355%
Authority's proportionate share of the net pension liability	$ 3,777,045	$ 5,620,577	$ 7,715,735	$ 7,763,930	$ 8,232,439	$ 9,422,519	$ 11,405,792	$ 10,663,495	$ 9,749,658	$ 9,093,000
Authority's covered-employee payroll	$ 461,232	$ 551,530	$ 754,480	$ 781,500	$ 852,612	$ 1,057,832	$ 1,317,197	$ 1,556,281	$ 1,628,998	$ 1,740,891
Authority's proportionate share of the net pension liability as a percentage of its covered-employee payroll	818.90%	1019.09%	1022.66%	993.47%	965.56%	890.74%	865.91%	685.19%	598.51%	522.32%
Plan fiduciary net position as a percentage of the total pension liability	22.32%	18.51%	18.48%	14.01%	13.66%	12.84%	13.30%	14.87%	18.83%	22.32%

	FY 2023	FY 2022	FY 2021	FY 2020	FY 2019	FY 2018	FY 2017	FY 2016	FY 2015	FY 2014
Corporation's proportion of the net pension liability	0.460746%	0.470853%	0.477177%	0.800634%	0.819901%	0.850042%	0.833570%	0.819117%	0.839524%	0.796208%
Corporation's proportionate share of the net pension liability	$ 56,758,042	$ 62,469,680	$ 63,545,649	$ 113,407,028	$ 115,794,636	$ 115,637,803	$ 111,601,157	$ 93,375,171	$ 84,220,102	$ 71,434,000
Corporation's covered-employee payroll	$ 10,305,169	$ 10,535,584	$ 11,280,083	$ 11,415,195	$ 11,992,554	$ 12,982,294	$ 12,888,303	$ 13,627,623	$ 14,071,702	$ 13,672,643
Corporation's proportionate share of the net pension liability as a percentage of its covered-employee payroll	550.77%	592.94%	563.34%	993.47%	965.55%	890.73%	865.91%	685.19%	598.51%	522.46%
Plan fiduciary net position as a percentage of the total pension liability	22.32%	18.51%	18.48%	14.01%	13.66%	12.84%	13.30%	14.87%	18.83%	22.32%

Total collective net pension liability for the Kentucky Employees Retirement System (KERS) non-hazardous employees	$ 12,318,726,000	$ 13,267,343,000	$ 13,316,997,000	$ 14,164,653,000	$ 14,123,002,000	$ 13,603,775,000	$ 13,388,336,000	$ 11,399,489,047	$ 10,031,891,000	$ 8,971,820,000
KERS' non-hazardous employees total fiduciary net position	$ 3,539,943,000	$ 3,013,845,000	$ 3,018,660,000	$ 2,308,080,000	$ 2,233,672,000	$ 2,004,446,000	$ 2,056,870,000	$ 1,980,292,118	$ 2,327,782,000	$ 2,578,290,000
KERS' non-hazardous employees total pension liability	$ 15,858,669,000	$ 16,281,188,000	$ 16,335,657,000	$ 16,472,733,000	$ 16,356,674,000	$ 15,608,221,000	$ 15,445,206,000	$ 13,379,781,165	$ 12,359,673,000	$ 11,550,110,000

Schedule of Required Contributions-Pension
June 30, 2023

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

	FY 2023	FY 2022	FY 2021	FY 2020	FY 2019	FY 2018	FY 2017	FY 2016	FY 2015	FY 2014
Authority's contractually required contribution	$ 314,516	$ 429,223	$ 610,978	$ 555,099	$ 604,423	$ 434,346	$ 552,959	$ 479,957	$ 502,383	$ 567,008
Authority's contributions in relation to the contractually required contribution	(314,516)	(429,223)	(552,883)	(555,099)	(604,423)	(434,346)	(530,040)	(479,957)	(502,383)	(301,000)
Authority's contribution deficiency	$ -	$ -	$ 58,095	$ -	$ -	$ -	$ 22,919	$ -	$ -	$ 266,008
Authority's covered-employee payroll	$ 461,232	$ 551,530	$ 754,480	$ 781,500	$ 852,612	$ 1,057,832	$ 1,317,197	$ 1,556,281	$ 1,628,998	$ 1,740,891
Authority's contributions as a percentage of covered-employee payroll	68.19%	77.82%	73.28%	71.03%	70.89%	41.06%	40.24%	30.84%	30.84%	17.29%

	FY 2023	FY 2022	FY 2021	FY 2020	FY 2019	FY 2018	FY 2017	FY 2016	FY 2015	FY 2014
Corporation's contractually required contribution	$ 4,743,907	$ 4,842,963	$ 9,134,611	$ 8,108,213	$ 8,518,310	$ 5,330,530	$ 5,410,509	$ 4,202,759	$ 4,339,713	$ 4,453,180
Corporation's contributions in relation to the contractually required contribution	(4,743,907)	(4,842,963)	(4,631,602)	(4,687,079)	(4,924,142)	(5,330,530)	(5,186,253)	(4,202,759)	(4,339,713)	(2,364,000)
Corporation's contribution deficiency	$ -	$ -	$ 4,503,009	$ 3,421,134	$ 3,594,168	$ -	$ 224,256	$ -	$ -	$ 2,089,180
Corporation's covered-employee payroll	$ 10,305,169	$ 10,535,584	$ 11,280,083	$ 11,415,195	$ 11,992,554	$ 12,982,294	$ 12,888,303	$ 13,627,623	$ 14,071,702	$ 13,672,643
Corporation's contributions as a percentage of covered-employee payroll	46.03%	45.97%	41.06%	41.06%	41.06%	41.06%	40.24%	30.84%	30.84%	17.29%

Note to the Required Supplemental Information-Pension
June 30, 2023

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

Actuarial valuation date	June 30, 2021
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, 2023

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

	FY 2023	FY 2022	FY 2021	FY 2020	FY 2019	FY 2018	FY 2017
Authority's proportion of the net OPEB liability	0.029358%	0.040952%	0.057622%	0.054812%	0.058291%	0.069214%	0.085192%
Authority's proportionate share of the net OPEB liability	$ 230,340	$ 905,903	$ 1,313,394	$ 1,391,626	$ 1,295,748	$ 1,641,003	$ 2,160,437
Authority's covered-employee payroll	$ 461,232	$ 551,530	$ 754,480	$ 781,500	$ 852,612	$ 1,057,832	$ 1,317,197
Authority's proportionate share of the net OPEB liability as a percentage of its covered-employee payroll	49.94%	164.25%	174.08%	178.07%	151.97%	155.13%	164.02%
Plan fiduciary net position as a percentage of the total OPEB liability	66.14%	38.15%	38.38%	29.47%	30.92%	27.32%	24.40%

	FY 2023	FY 2022	FY 2021	FY 2020	FY 2019	FY 2018	FY 2017
Corporation's proportion of the net OPEB liability	0.636196%	0.717742%	0.534471%	0.800634%	0.819901%	0.849297%	0.833570%
Corporation's proportionate share of the net OPEB liability	$ 4,991,539	$ 15,877,245	$ 12,182,342	$ 20,327,361	$ 18,225,547	$ 20,136,083	$ 21,139,020
Corporation's covered-employee payroll	$ 10,305,169	$ 10,535,584	$ 11,280,083	$ 11,415,195	$ 11,992,554	$ 12,982,294	$ 12,888,303
Corporation's proportionate share of the net OPEB liability as a percentage of its covered-employee payroll	48.44%	150.70%	108.00%	178.07%	151.97%	155.10%	164.02%
Plan fiduciary net position as a percentage of the total OPEB liability	66.14%	38.15%	38.38%	29.47%	30.92%	27.32%	24.40%
Total collective net OPEB liability for the Kentucky Employees Retirement System (KERS) non-hazardous employees	$ 784,592,000	$ 2,212,111,000	$ 2,279,327,000	$ 2,538,908,000	$ 2,222,896,000	$ 2,370,912,000	$ 2,535,962,000
KERS' non-hazardous employees total fiduciary net position	$ 1,532,752,000	$ 1,364,419,000	$ 1,419,477,000	$ 1,060,649,000	$ 995,089,000	$ 891,205,000	$ 817,370,000
KERS' non-hazardous employees total OPEB liability	$ 2,317,344,000	$ 3,576,530,000	$ 3,698,804,000	$ 3,599,557,000	$ 3,217,985,000	$ 3,262,117,000	$ 3,353,332,000

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

Schedule of Required Contributions-OPEB
June 30, 2023

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

	FY 2023	FY 2022	FY 2021	FY 2020	FY 2019	FY 2018	FY 2017
Authority's contractually required contribution	$ 37,086	$ 55,079	$ 90,764	$ 96,906	$ 105,724	$ 88,978	$ 110,776
Authority's contributions in relation to the contractually required contribution	(37,086)	(55,079)	(84,125)	(96,906)	(105,724)	(88,978)	(109,986)
Authority's contribution deficiency	$ -	$ -	$ 6,639	$ -	$ -	$ -	$ 790
Authority's covered-employee payroll	$ 461,232	$ 551,530	$ 754,480	$ 781,500	$ 852,612	$ 1,057,832	$ 1,317,197
Authority's contributions as a percentage of covered-employee payroll	8.04%	9.99%	11.15%	12.40%	12.40%	8.41%	8.35%

	FY 2023	FY 2022	FY 2021	FY 2020	FY 2019	FY 2018	FY 2017
Corporation's contractually required contribution	$ 605,809	$ 677,896	$ 1,356,994	$ 1,415,484	$ 1,487,077	$ 1,091,820	$ 1,083,906
Corporation's contributions in relation to the contractually required contribution	(605,809)	(677,896)	(948,655)	(960,018)	(1,008,574)	(1,091,820)	(1,076,173)
Corporation's contribution deficiency	$ -	$ -	$ 408,339	$ 455,466	$ 478,503	$ -	$ 7,733
Corporation's covered-employee payroll	$ 10,305,169	$ 10,535,584	$ 11,280,083	$ 11,415,195	$ 11,992,554	$ 12,982,294	$ 12,888,303
Corporation's contributions as a percentage of covered-employee payroll	5.88%	6.43%	8.41%	8.41%	8.41%	8.41%	8.35%

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

Note to the Required Supplemental Information-OPEB
June 30, 2023

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

Actuarial valuation date	June 30, 2021
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 6.30% at January 1, 2023 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 6.30% at January 1, 2023 and gradually decreasing to an ultimate trend rate of 4.05% over a period of 13 years