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

Combined Financial Statements
and Required Supplementary Information

June 30, 2026

LBMC

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

Combined Financial Statements
and Required Supplementary Information

June 30, 2026

Independent Auditors' Report 1

Management's Discussion and Analysis (Unaudited) 4

Financial Statements

Combined Government-Wide Statement of Net Position 14

Combined Government-Wide Statement of Activities 15

Combined Statement of Net Position – Proprietary Funds 16

Combined Statement of Revenues, Expenditures and Changes in Net Position – Proprietary Funds 18

Combined Statement of Cash Flows – Proprietary Funds 20

Balance Sheet – Governmental Fund 22

Statement of Revenues, Expenditures and Changes in Fund Balance – Governmental Fund 23

Statement of Fiduciary Net Position (Deficit) 24

Statement of Changes in Fiduciary Net Position (Deficit) 25

Notes to Combined Financial Statements 26

Required Supplementary Information 71

Independent Auditors' Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards* 79

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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, 2026, 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, 2026, 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").

We did not audit the financial statements of Kentucky Educational Savings Plan Trust, which represent 100% of the assets, net position, and revenues of that fiduciary fund as of June 30, 2026. 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 Educational Savings Plan Trust, is solely based on the reports of the other auditors.

Basis for Opinions

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.

Change in Accounting Principles

As discussed in Note W to the combined financial statements, effective July 1, 2025, the Authority/Corporation adopted Governmental Accounting Standards Board ("GASB") Statement No. 103, *Financial Reporting Model Improvements*, and GASB Statement No. 104, *Disclosure of Certain Capital Assets*. Our opinion is not modified with respect to these matters.

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 , the pension and other postemployment benefits liability and contributions information on pages 71 through 76, and the budgetary comparison information on pages 77 through 78 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 24, 2026, 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 24, 2026

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

June 30, 2026

Description of the Business

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

The Authority/Corporation maintains the following operations:

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

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

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

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

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

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

Loan Finance – The Loan Finance operation refinances existing long-term debt, issues new debt, originates and acquires private supplemental student loans and acquires 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 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 $696 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 two key items: (1) the financial and operational impact of the current status of guaranty agency circumstances disclosed in Notes Q and U, and (2) the continued prospective impact on Advantage Loan volume of the 2025 One Big Beautiful Bill Act (H.R. 1). 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 borrowings and revenue bonds payable cannot be projected with certainty at this time.

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 the 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 the Asset Resolution Corporation ("ARC") as both a separate legal entity and blended component unit of the Corporation's proprietary fund.

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

June 30, 2026

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 and ARC publish separate financial statements and footnotes. To obtain a copy of these component unit financial statements or 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, 2026 and 2025, respectively.

Management's Discussion and Analysis (Unaudited)

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

June 30, 2026

	Governmental Funds		Proprietary Funds	
	2026	2025	2026	2025
Net Position Information				
Capital assets, net (2025, as restated)			$ 5,881,236	$ 5,000,365
Other assets	$ 72,665,777	$ 49,187,549	1,067,243,281	1,061,903,357
Total Assets	72,665,777	49,187,549	1,073,124,517	1,066,903,722
Deferred Outflow of Resources			7,849,087	8,864,688
Long-term liabilities			674,203,899	743,824,402
Other liabilities (2025 Proprietary, as restated)	455	227,575	87,585,592	23,716,495
Total Liabilities	455	227,575	761,789,491	767,540,897
Deferred Inflow of Resources			9,983,788	14,845,714
Net Position:				
Invested in capital assets, net			4,487,318	4,437,182
Restricted	72,665,322	48,959,974	294,908,732	285,121,025
Unrestricted			9,804,275	3,823,592
Total Net Position, 2025 Restated	$ 72,665,322	$ 48,959,974	$ 309,200,325	$ 293,381,799
Activity Information				
Interest and investment income fund	$ 379,445	$ 275,648	$ 12,961,664	$ 16,047,945
Student aid & advancement fund revenue	387,373,800	364,180,311		
Unclaimed lottery revenue	101,136,200	113,197,376		
Federal funds revenue		98,659		
Contributions from Agency Operating Fund	2,556,774	2,199,096		
Servicing Fees from external sources			35,670	34,107
Servicing Fees from Education Finance Funds			3,836,464	3,922,058
Debt recovery commission			1,806,430	2,339,936
State General Fund revenue			5,820,000	6,000,000
Federal fees			6,721,894	8,714,280
Default aversion fee income				44,372
Interest income on loans			43,337,528	15,528,348
Amortization of deferred gain on debt retirements			1,077,074	1,077,075
Late payment penalties			339,222	410,876
School Services			399,917	545,624
Other income	3,935,206	3,608,143	538,405	420,380
Total Revenue	495,381,425	483,559,233	76,874,268	55,085,001
Kentucky Tuition Grant	48,306,120	43,587,840		
College Access Program Grant	231,694,732	232,143,393		
Early Graduation Scholarship	314,018	271,419		
Early Childhood Development Scholarship	2,538,396	2,587,360		
Kentucky National Guard Tuition Award Program	8,531,324	7,298,212		
Kentucky Educational Excellence Scholarship	117,057,534	114,613,444		
Teacher Scholarship	1,090,989	241,848		
Student Teacher Stipend Program	6,587,043	6,015,972		
Teacher Recruitment Student Loan Forgiveness (2025, as restated)	300,043	122,172		
Osteopathic Medicine Scholarship	465,648	565,876		
Dual Credit Scholarship Program	30,383,229	26,596,231		
Work Ready Kentucky Scholarship Program	12,961,330	12,886,218		
Veterinary Contract Spaces Program	6,037,482	5,595,332		
Kentucky Rural Veterinarian Loan Repayment Program	192,043	122,172		
Optometry Scholarship Program	1,031,043	952,172		
Coal County Scholarship Program for Pharmacy Students	220,086	256,898		
Innovative Scholarship Pilot Project	3,822,974	4,523,620		
John R. Justice Grant	142,043	220,831		
Loan guarantee operations			1,593,247	1,145,245
Default collections			3,711,325	4,072,284
Loan finance and servicing activities (2025, as restated)			45,721,551	17,195,772
Outreach			4,750,636	5,538,143
Student aid administration			2,556,774	2,199,096
School services			2,402,677	2,874,237
Other activities			319,532	100,179
Total Expenditures	471,676,077	458,601,010	61,055,742	33,124,956
Change in Net Position	23,705,348	24,958,223	15,818,526	21,960,045
Net Postion - beginning, 2025 Restated	48,959,974	24,001,751	293,381,799	271,421,754
Net Postion - ending	$ 72,665,322	$ 48,959,974	$ 309,200,325	$ 293,381,799

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, 2026. Please read it in conjunction with the Authority/Corporation's combined financial statements and notes to the combined financial statements, which follow this section.

Financial Overview

- The Authority/Corporation's proprietary fund total assets and deferred outflows increased approximately $5.2 million from $1.076 billion to $1.081 billion. The net change was comprised of several offsetting increases and decreases in cash and cash equivalents, investments, loans and accrued interest income. Restricted cash decreased approximately $22.5 million. No new bonds were issued and unexpended bond proceeds from the Series 2025A transaction continued to be utilized. Loans increased $40 million due to the offsetting of runoff with an approximate $80 million portfolio purchase during the year as well as new Advantage Loan originations. Total Authority cash and investments decreased by approximately $10 million due to the net of investment growth offset by a $15 million interfund receivable from the Corporation for the aforementioned portfolio purchase.

- The Authority/Corporation's proprietary fund liabilities and deferred inflows decreased by over $10 million from approximately $782 million to $772 million. The overall slight decrease in liabilities and deferred inflows was attributable to the net of various decreases and increases year over year. Direct borrowings increased $63.6 based on line of credit draws for loans. This was largely offset by bonds payable runoff of $67.3 million. Most of the remaining decrease was attributable to a $2.9 million decrease in Net OPEB and pension liabilities, a $3.8 million decrease in Net OPEB and pension deferred inflows and ongoing annual amortization of deferred gain on retirements of $1.1 million.

- The Authority/Corporation's proprietary fund revenues decreased $7.2 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 with the most significant occurring with investment income and federal fees discussed in more detail below.

- The Authority/Corporation's total proprietary fund expenditures decreased approximately $1 million. The overall decrease is generally the net of the following increases and decreases: $431,000 decrease associated with loan finance and servicing related expense, $361,000 decrease in default collections expense, $448,000 increase in loan guarantee operations expense, $788,000 decrease in outreach expense, $358,000 increase in student aid administration, $471,000 decrease in school services expense and $219,000 increase 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 increased by approximately $23.5 million due primarily to increases in cash and cash equivalents, scholarship conversion loans receivable and scholarship advances receivable. Cash and cash equivalents increased approximately $15.6 million due primarily to additional restricted cash associated with an increase to College Access Program eligibility. Scholarship conversion loans and scholarship advances receivable increased $865,000 and $7 million, respectively. Approximately $10.1 million of FY2025 and FY2026 disbursements for the new Teacher Recruitment Student Loan Forgiveness Pilot Program were set up in FY2026 as Scholarship Advances Receivable, including the $3.3 million from FY2025.

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

- The Authority/Corporation's net governmental fund revenues increased approximately $11.8 million due primarily to the 24RS HB 6 (House Bill 6) biennial budget revenue increases for College Access Program of $9.7 million and Kentucky Educational Excellence Scholarships of $2.1 million. 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 in correlation to the increase in revenues. Expenditures increased by approximately $9.7 million as a result of mainly increases with a few decreases including the following: $4.7 million increase for Kentucky Tuition Grants, $3.3 million decrease for the new Teacher Recruitment Student Loan Forgiveness Pilot Program (see Note V), $2.4 million increase for Kentucky Educational Excellence Scholarships, $849,000 increase in Teacher Scholarships, $1.2 million increase in the Kentucky National Guard Tuition Award Program, $3.8 million increase for Dual Credit Scholarships and $701,000 decrease 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 increased from $48.9 million to $72.7 million. Total proprietary fund net position increased $15.8 million comprised of a $4.2 million increase from default collection operations (compared to a $6.3 million increase in prior year), $5.3 million increase from loan guarantee operations (compared to $9.8 million increase in prior year), $1.5 million contribution (including General Fund revenue) for outreach activities (compared to $1.7 million contribution in prior year), $0 contribution (including General Fund revenue) for student aid administration (compared to $0 contribution in prior year), $9.8 million increase in loan finance and servicing activities (compared to $9.9 million increase in prior year), and $2 million contribution for school services (compared to $2.3 million in prior year).

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

June 30, 2026

Certain highlights related to the combined statement of net position as of June 30, 2026, are as follows:

- The Authority/Corporation maintained $1 billion of FFELP guarantees outstanding.
- The Authority/Corporation owned and serviced $696 million of FFELP loans and education loans.
- The Authority/Corporation maintained $477 million of defaulted loan principal and interest in its collection portfolio.
- Unrestricted net position continued to increase due partially to a positive balance as a result of the annual June 30 retirement liability updates. These retirement liabilities reflect the overall decrease to the Operating Fund net position due to GASB 68 and 75.
- Unrestricted net position increased from $3.8 million to $9.8 million due primarily to a combination of income, including increases from retirement liability and deferred resource changes, and transfers from the Corporation's Education Finance Funds.
- Net position restricted for student aid and related activities increased from $187.6 million to $193.8 million. Net position restricted other increased from $97.5 million to approximately $101 million.

Combined Statement of Revenues, Expenses and Changes in Net Position

The $15.8 million increase in proprietary fund net position during fiscal year 2026 was $6.2 million less than the $22 million increase during fiscal year 2025. The overall decrease in proprietary fund net position was attributable to a $6 million increase for the Authority and a $9.8 million increase for the Corporation. The Authority's overall year over year decrease in Net Position growth from $12 million to $6 million reflects the continued accounting and recognition of the various types of federal fees (see Note Q) and debt recovery commissions and also lower investment income. The decrease in default collections parallels with a decrease in special account maintenance fee rate applied to a lower guarantee loan portfolio balance. The decrease in loan guarantee operations correlates primarily with a $4 million decrease in investment income. The Corporation's net increase was largely related to a continued decrease in retirement liabilities and increases in the activity in the Education Finance Funds.

Management's Discussion and Analysis (Unaudited)

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

June 30, 2026

	Federal Student Loan Reserve Fund		Kentucky's Affordable Prepaid Tuition		Kentucky Education Savings Plan Trust	
	2026	2025	2026	2025	2026	2025
Net Position Information						
Total Assets	$ 7,065,037	$ 6,891,625	$ 4,020,317	$ 3,281,448	$ 360,202,310	$ 313,279,289
Total Liabilities	2,484,757	2,739,613	20,113,127	26,300,983	396,703	492,998
Total Net Position (Deficit)	**$ 4,580,280**	**$ 4,152,012**	**$ (16,092,810)**	**$ (23,019,535)**	**$ 359,805,607**	**$ 312,786,291**
Changes in Fiduciary Net Position Information						
Federal reinsurance	$ 65,039,201	$ 67,720,498				
State General Fund revenue			$ 6,800,000	$ 7,500,000		
Contributions					$ 32,309,521	$ 29,791,482
Federal minimum reserve ratio transfer						
Interest/investment income and increase in fair value	189,641	214,562	218,173	247,426	46,645,475	32,325,799
Other income	50,849	373,025				
Total Additions	65,279,691	68,308,085	7,018,173	7,747,426	78,954,996	62,117,281
Administrative expenses (incl pers./prof. expenses)			397,209	392,420	1,417,506	1,243,999
Refunds			1,694,271	1,325,851		
Trustee fee expense			4,299	3,567		
Tuition benefits expense, net			(2,004,331)	(462,169)		
Loan claims	64,851,423	67,643,761				
Withdrawals					30,518,174	26,701,287
Default aversion fee expense		44,372				
Expenses for Federal Fees						
Total Deductions	64,851,423	67,688,133	91,448	1,259,669	31,935,680	27,945,286
Change in Net Position	**$ 428,268**	**$ 619,952**	**$ 6,926,725**	**$ 6,487,757**	**$ 47,019,316**	**$ 34,171,995**

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

June 30, 2026

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, 2026. 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 $2.7 million in FY2026 due primarily to the continued decrease of outstanding loan guarantees to contribute to an overall lower volume of claim filings.

- The Plan noted a decrease in the Net Deficit of approximately $6.9 million in fiscal year 2026, due primarily to the net of several different factors including the following: Commonwealth contributions (see Note A), interest on the deficit at a prior assumed rate, slightly favorable tuition inflation, slightly unfavorable investment experience, past Roth IRA conversions, and other program experience during FY2026.

- At June 30, 2026 and 2025, the Trust's fiduciary net position totaled $359.8 million and $312.8 million, respectively. Fiduciary net position increased $47 million, or 15%, from June 30, 2025 to June 30, 2026.

Statement of Fiduciary Net Position (Deficit)

The Federal Student Loan Reserve Fund ("FSLRF") net position increased approximately $428,000 over ending net position in the prior year. Assets increased by approximately $173,000 while liabilities decreased $255,000. 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, 2026 for losses on federal reinsurance. See Note Q—Federal Fees for certain disclosures to the combined financial statements related to recent and current guidance and activities impacting the financial statements of the Federal Student Loan Reserve Fund.

The Plan's total assets increased approximately $739,000, from $3.3 million as of June 30, 2025 to $4 million as of June 30, 2026. Total liabilities continued to decrease. The $6.2 million decrease in liabilities from $26.3 million to $20.1 million was due to continued runoff of KAPT's membership from 1,337 to 1,082 accounts. See also Note O for detail related to tuition and investment return assumptions.

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 $47 million during the year due primarily to investment revenue of $46.6 million and net contributions of $1.8 million offset by $1.4 million of administrative expenses. 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 increase in FSLRF net position was $428,000 in FY2026 as compared to a $620,000 increase in FY2025. See the Statement of Fiduciary Net Position explanation above and Note Q for more detail describing the change in the FSLRF balance during FY2026.

As noted above, the Plan experienced a decrease in the Net Deficit of approximately $6.9 million in fiscal year 2026. For the year ended June 30, 2026, the Trust experienced net investment income of $46.6 million whereas for the year ended June 30, 2025, the Trust experienced net investment income of $32.3 million. Trust contributions net of withdrawals were $1.8 million and $3.1 million for FY2026 and FY2025, respectively.

Combined Government-Wide Statement of Net Position

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

June 30, 2026

ASSETS	Governmental Activities	Business-Type Activities	Total
Current:			
Cash and cash equivalents	$ 41,199,438	$ 75,064,341	$ 116,263,779
Investments		1,551,911	1,551,911
Accounts receivable and prepaid expenses	11,873,362	1,091,137	12,964,499
Accrued interest income		31,324,846	31,324,846
Receivable from U.S. Department of Education		2,543,587	2,543,587
Receivable from FSLRF for federal fees		1,776,741	1,776,741
Loans, net		83,925,901	83,925,901
Scholarship conversion loans receivable	450,000		450,000
Total Current Assets	53,522,800	197,278,464	250,801,264
Noncurrent:			
Restricted cash and cash equivalents		117,095,654	117,095,654
Investments		147,086,375	147,086,375
Capital assets, net		4,343,925	4,343,925
Subscription assets, net		1,173,219	1,173,219
Lease asset, net		364,092	364,092
Loans, net		595,085,176	595,085,176
Accrued interest income, net		10,697,612	10,697,612
Scholarship conversion loans receivable, net	3,607,528		3,607,528
Scholarship advances receivable	15,535,449		15,535,449
Total Noncurrent Assets	19,142,977	875,846,053	894,989,030
Total Assets	72,665,777	1,073,124,517	1,145,790,294
Deferred Outflows of Resources:			
Deferred amount on debt refunding		435,369	435,369
Deferred pension expense		5,221,685	5,221,685
Deferred OPEB expense		2,192,033	2,192,033
Total Assets and Deferred Outflows of Resources	72,665,777	1,080,973,604	1,153,639,381
LIABILITIES			
Current:			
Accounts payable and accrued expenses	455	5,734,435	5,734,890
Accrued interest expense		1,711,300	1,711,300
Direct borrowing		63,661,612	63,661,612
Subscription liability		349,984	349,984
Lease liability		396,563	396,563
Bonds payable, net		15,635,000	15,635,000
Other liability		96,698	96,698
Total Current Liabilities	455	87,585,592	87,586,047
Noncurrent:			
Net pension liability		53,721,955	53,721,955
Net OPEB liability		4,147,982	4,147,982
Allowance for arbitrage liabilities		1,783,487	1,783,487
Subscription liability		460,402	460,402
Bonds payable, net		613,999,802	613,999,802
Other liability		90,271	90,271
Total Noncurrent Liabilities		674,203,899	674,203,899
Total Liabilities	455	761,789,491	761,789,946
Deferred Inflows of Resources:			
Deferred pension expense		2,033,266	2,033,266
Deferred OPEB expense		3,279,263	3,279,263
Deferred gain on debt retirements, net		4,671,259	4,671,259
Total Liabilities and Deferred Inflows of Resources	455	771,773,279	771,773,734
NET POSITION			
Invested in capital assets, net of expended debt proceeds		4,487,318	4,487,318
Restricted, other		101,042,609	101,042,609
Restricted for program benefits	72,665,322		72,665,322
Restricted for student aid and related activities		193,866,123	193,866,123
Unrestricted		9,804,275	9,804,275
Total Net Position	$ 72,665,322	$ 309,200,325	$ 381,865,647

Combined Government-Wide Statement of Activities

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

For the Year Ended June 30, 2026

	Direct Expenses	Indirect Expenses	Program Revenue: Charges for Services	Program Revenue: Operating Grants and Contributions	Net (Expenses) Revenues and Changes in Net Position: Governmental Activities	Net (Expenses) Revenues and Changes in Net Position: Business-Type Activities	Net (Expenses) Revenues and Changes in Net Position: Total
Governmental Activities:							
Kentucky Tuition Grant	$ 48,164,077	$ 142,043		$ 50,272,678	$ 1,966,558		$ 1,966,558
College Access Program Grant	231,552,689	142,043		244,692,715	12,997,983		12,997,983
Early Graduation Scholarship	171,975	142,043		317,263	3,245		3,245
Early Childhood Development Scholarship	2,396,353	142,043		2,657,746	119,350		119,350
Kentucky National Guard Tuition Award Program	8,389,281	142,043		7,657,625	(873,699)		(873,699)
Kentucky Educational Excellence Scholarship	116,915,491	142,043		117,075,243	17,709		17,709
Teacher Scholarship	948,946	142,043		2,142,043	1,051,054		1,051,054
Student Teacher Stipend Program	6,445,000	142,043		7,442,043	855,000		855,000
Teacher Recruitment Student Loan Forgiveness Pilot Program	158,000	142,043		10,171,960	9,871,917		9,871,917
Osteopathic Medicine Scholarship	323,605	142,043		258,178	(207,470)		(207,470)
Dual Credit Scholarship Program	30,241,186	142,043		28,343,693	(2,039,536)		(2,039,536)
Work Ready Kentucky Scholarship Program	12,819,287	142,043		14,201,706	1,240,376		1,240,376
Veterinary Contract Spaces Program	5,895,439	142,043		5,942,443	(95,039)		(95,039)
Kentucky Rural Veterinarian Loan Repayment Program	50,000	142,043		150,314	(41,729)		(41,729)
Optometry Scholarship Program	889,000	142,043		990,443	(40,600)		(40,600)
Coal County Scholarship Program for Pharmacy Students	78,043	142,043		189,313	(30,773)		(30,773)
Innovative Scholarship Pilot Project	3,680,931	142,043		2,733,976	(1,088,998)		(1,088,998)
John R. Justice Grant		142,043		142,043			
Total Governmental Activities	469,119,303	2,556,774		495,381,425	23,705,348		23,705,348
Business-Type Activities:							
Loan guarantee operations	1,593,247		$ 6,876,210			$ 5,282,963	5,282,963
Default collections	3,711,325		7,932,581			4,221,256	4,221,256
Loan finance and servicing activities	45,721,551		55,526,028			9,804,477	9,804,477
Outreach	4,750,636			3,263,226		(1,487,410)	(1,487,410)
Student aid administration	2,556,774			2,556,774			
School services	2,402,677		399,917			(2,002,760)	(2,002,760)
Other activities	319,532		319,532				
Total Business-Type Activities	61,055,742		71,054,268	5,820,000		15,818,526	15,818,526
Total Activities	$ 530,175,045	$ 2,556,774	$ 71,054,268	$ 501,201,425	23,705,348	15,818,526	39,523,874
Net Position, July 1, 2025, Restated					48,959,974	293,381,799	342,341,773
Net Position, June 30, 2026					$ 72,665,322	$ 309,200,325	$ 381,865,647

Combined Statement of Net Position - Proprietary Funds

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

June 30, 2026

	Authority			Corporation			Combined
	Internal Service Fund	Agency Operating Fund	Authority Total	Education Finance Funds	Operating Fund	Corporation Total	Total
ASSETS							
Current:							
Cash and cash equivalents	$ 2,538,487	$ 37,098,609	$ 39,637,096		$ 35,427,245	$ 35,427,245	$ 75,064,341
Investments		1,551,911	1,551,911				1,551,911
Accounts receivable and prepaid expenses	141,972	92,095	234,067		857,070	857,070	1,091,137
Accrued interest income		1,241,936	1,241,936	$ 25,168,257	4,914,653	30,082,910	31,324,846
Receivable from U.S. Department of Education		1,484,355	1,484,355	764,830	294,402	1,059,232	2,543,587
Receivable from Federal Student Loan Reserve Fund		1,776,741	1,776,741				1,776,741
Loans, net				60,975,221	22,950,680	83,925,901	83,925,901
Total Current Assets	2,680,459	43,245,647	45,926,106	86,908,308	64,444,050	151,352,358	197,278,464
Noncurrent:							
Restricted cash and cash equivalents				117,095,654		117,095,654	117,095,654
Investments		136,699,589	136,699,589		10,386,786	10,386,786	147,086,375
Capital assets, net		4,065,224	4,065,224		278,701	278,701	4,343,925
Subscription assets, net		137,009	137,009		1,036,210	1,036,210	1,173,219
Lease asset, net					364,092	364,092	364,092
Loans, net				517,814,590	77,270,586	595,085,176	595,085,176
Accrued interest income, net				9,756,401	941,211	10,697,612	10,697,612
Total Noncurrent Assets		140,901,822	140,901,822	644,666,645	90,277,586	734,944,231	875,846,053
Total Assets	2,680,459	184,147,469	186,827,928	731,574,953	154,721,636	886,296,589	1,073,124,517
Deferred Outflows of Resources:							
Deferred Amount on Debt Refunding				435,369		435,369	435,369
Deferred pension expense		153,545	153,545		5,068,140	5,068,140	5,221,685
Deferred OPEB expense		67,150	67,150		2,124,883	2,124,883	2,192,033
Total Deferred Outflows		220,695	220,695	435,369	7,193,023	7,628,392	7,849,087
Total Assets and Deferred Outflows of Resources	2,680,459	184,368,164	187,048,623	732,010,322	161,914,659	893,924,981	1,080,973,604

Combined Statement of Net Position - Proprietary Funds

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

June 30, 2026

	Authority			Corporation			Combined
	Internal Service Fund	Agency Operating Fund	Authority Total	Education Finance Funds	Operating Fund	Corporation Total	Total
LIABILITIES							
Current:							
Accounts payable and accrued expenses	1,230,702	101,779	1,332,481	312,228	4,089,726	4,401,954	5,734,435
Interfund payable (receivable)	1,449,757	(1,291,293)	158,464	(1,635,087)	1,476,623	(158,464)	
Accrued interest expense				1,465,364	245,936	1,711,300	1,711,300
Direct borrowing					63,661,612	63,661,612	63,661,612
Subscription liability		65,655	65,655		284,329	284,329	349,984
Lease liability					396,563	396,563	396,563
Bonds payable, net				15,635,000		15,635,000	15,635,000
Other liability		96,698	96,698				96,698
Total Current Liabilities	2,680,459	(1,027,161)	1,653,298	15,777,505	70,154,789	85,932,294	87,585,592
Noncurrent:							
Net pension liability		1,820,152	1,820,152		51,901,803	51,901,803	53,721,955
Net OPEB liability		133,619	133,619		4,014,363	4,014,363	4,147,982
Interfund payable (receivable)		(15,000,000)	(15,000,000)		15,000,000	15,000,000	
Allowance for arbitrage liabilities				1,783,487		1,783,487	1,783,487
Subscription liability		68,465	68,465		391,937	391,937	460,402
Bonds payable, net				613,999,802		613,999,802	613,999,802
Other liability		90,271	90,271				90,271
Total Noncurrent Liabilities		(12,887,493)	(12,887,493)	615,783,289	71,308,103	687,091,392	674,203,899
Total Liabilities	2,680,459	(13,914,654)	(11,234,195)	631,560,794	141,462,892	773,023,686	761,789,491
Deferred Inflows of Resources:							
Deferred pension expense		341,906	341,906		1,691,360	1,691,360	2,033,266
Deferred OPEB expense		193,645	193,645		3,085,618	3,085,618	3,279,263
Deferred gain on debt retirements, net				4,671,259		4,671,259	4,671,259
Total Liabilities and Deferred Inflows of Resources	2,680,459	(13,379,103)	(10,698,644)	636,232,053	146,239,870	782,471,923	771,773,279
NET POSITION							
Invested in capital assets, net		3,881,144	3,881,144		606,174	606,174	4,487,318
Restricted, other				95,778,269	5,264,340	101,042,609	101,042,609
Restricted for student aid and related activities		193,866,123	193,866,123				193,866,123
Unrestricted					9,804,275	9,804,275	9,804,275
Total Net Position	$	$ 197,747,267	$ 197,747,267	$ 95,778,269	$ 15,674,789	$ 111,453,058	$ 309,200,325

See Notes to Combined Financial Statements

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, 2026

	Authority			Corporation			Combined
	Internal Service Fund	Agency Operating Fund	Authority Total	Education Finance Funds	Operating Fund	Corporation Total	Total
Operating Revenues:							
Interest on loans				$ 38,595,678	$ 4,741,850	$ 43,337,528	$ 43,337,528
Servicing fees from external sources					35,670	35,670	35,670
Servicing fees from Education Finance Funds					3,836,464	3,836,464	3,836,464
State General Fund revenue		$ 5,820,000	$ 5,820,000				5,820,000
Debt recovery commission		1,806,430	1,806,430				1,806,430
Federal fees		6,721,894	6,721,894				6,721,894
Late payment penalties				323,808	15,414	339,222	339,222
School services		399,917	399,917				399,917
Other income	$ 319,532	215,974	535,506		2,899	2,899	538,405
Total Operating Revenues	319,532	14,964,215	15,283,747	38,919,486	8,632,297	47,551,783	62,835,530
Operating Expenses:							
Administrative expenses	319,532	5,859,003	6,178,535		10,976,918	10,976,918	17,155,453
Outreach expenses		4,750,636	4,750,636				4,750,636
Student aid administration expenses		2,556,774	2,556,774				2,556,774
School service expenses		2,402,677	2,402,677				2,402,677
Servicing fees for Operating Fund				3,836,464		3,836,464	3,836,464
Depreciation and amortization		357,924	357,924		872,149	872,149	1,230,073
Provision for loan losses				1,104,792	279,141	1,383,933	1,383,933
Amortization of loan purchase premiums					220,577	220,577	220,577
Other expenses		279,571	279,571	300,966	736,415	1,037,381	1,316,952
Total Operating Expenses	319,532	16,206,585	16,526,117	5,242,222	13,085,200	18,327,422	34,853,539

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, 2026

	Authority			Corporation			Combined
	Internal Service Fund	Agency Operating Fund	Authority Total	Education Finance Funds	Operating Fund	Corporation Total	Total
Nonoperating Revenues:							
Interest and investment income		6,064,493	6,064,493	5,333,253	1,563,918	6,897,171	12,961,664
Amortization of deferred gain on debt retirements				1,077,074		1,077,074	1,077,074
Total Nonoperating Revenues		6,064,493	6,064,493	6,410,327	1,563,918	7,974,245	14,038,738
Nonoperating Expenses:							
Interest expense on debt				28,385,848	2,019,900	30,405,748	30,405,748
Debt issuance cost				(26,949)		(26,949)	(26,949)
Long-term debt credit facility and remarketing fees				1,090,147	151,667	1,241,814	1,241,814
Provision for arbitrage				455,942		455,942	455,942
Total Nonoperating Expenses				29,904,988	2,171,567	32,076,555	32,076,555
Net Changes to Retirement Liabilities/Deferred Resources		1,191,926	1,191,926		4,682,426	4,682,426	5,874,352
Net Income (Loss) Before Transfers		6,014,049	6,014,049	10,182,603	(378,126)	9,804,477	15,818,526
Interfund Transfers				(6,589,417)	6,589,417		
Increase in Net Position After Transfers		6,014,049	6,014,049	3,593,186	6,211,291	9,804,477	15,818,526
Net Position, July 1, 2025, Restated		191,733,218	191,733,218	92,185,083	9,463,498	101,648,581	293,381,799
Net Position, June 30, 2026		$ 197,747,267	$ 197,747,267	$ 95,778,269	$ 15,674,789	$ 111,453,058	$ 309,200,325

Combined Statement of Cash Flows - Proprietary Funds

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

For the Year Ended June 30, 2026

	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				$ 82,682,023	$ 11,212,955	$ 93,894,978	$ 93,894,978
Interest received on loans				23,539,656	(1,875,999)	21,663,657	21,663,657
Special allowance paid				3,425,569	501,731	3,927,300	3,927,300
Servicing fees received, internal sources	$ (319,532)	$ 16,953	$ (302,579)	(3,836,464)	3,836,464		(302,579)
School services fees received		399,917	399,917				399,917
Servicing fees received, external sources					41,159	41,159	41,159
Debt recovery commission received		1,806,430	1,806,430				1,806,430
Federal fees received		6,721,894	6,721,894				6,721,894
State General Fund revenue received		5,820,000	5,820,000				5,820,000
Outreach		(4,750,636)	(4,750,636)				(4,750,636)
School services		(2,402,677)	(2,402,677)				(2,402,677)
Internal activity-payments to other funds	(78,935)	78,935		675,052	(675,052)		
Loans originated, including costs				(8,884,683)	(20,733,445)	(29,618,128)	(29,618,128)
Administrative expenses paid		(20,082,365)	(20,082,365)	(1,904,488)	(12,474,225)	(14,378,713)	(34,461,078)
Interfund loan sales and purchases				(20,427,577)	20,427,577		
Loans purchased, including premiums				(32,254)	(89,049,488)	(89,081,742)	(89,081,742)
Student aid administration		(2,556,774)	(2,556,774)				(2,556,774)
Client loan receipts					134,158	134,158	134,158
Loan receipts remitted to clients					(124,981)	(124,981)	(124,981)
Net Cash Provided by (Used In) Operating Activities	(398,467)	(14,948,323)	(15,346,790)	75,236,834	(88,779,146)	(13,542,312)	(28,889,102)
Cash Paid from Noncapital Financing Activities:							
Debt principal payments				(66,610,273)	(6,500,000)	(73,110,273)	(73,110,273)
Proceeds from debt issued					70,161,612	70,161,612	70,161,612
Interest on debt				(28,773,342)	(1,782,476)	(30,555,818)	(30,555,818)
Increase in Federal Student Loan Reserve receivable		486,738	486,738				486,738
Credit facility fees paid				(1,091,422)	(151,667)	(1,243,089)	(1,243,089)
Debt issuance costs				26,949	(157,550)	(130,601)	(130,601)
Interfund transfers				(6,589,417)	6,589,417		
Borrowing from the Authority					15,000,000	15,000,000	15,000,000
Net Cash Provided by (Used In) Noncapital Financing Activities		486,738	486,738	(103,037,505)	83,159,336	(19,878,169)	(19,391,431)
Cash Flows From Capital and Related Financing Activities:							
Capital expenditures		(961,965)	(961,965)		(168,410)	(168,410)	(1,130,375)
Subscription liability		65,655	65,655		(471,367)	(471,367)	(405,712)
Lease liability					(415,907)	(415,907)	(415,907)
Other liability		96,698	96,698				96,698
Net Cash Used In Capital and Related Financing Activities		(799,612)	(799,612)		(1,055,684)	(1,055,684)	(1,855,296)
Cash Flows From Investing Activities:							
Proceeds from sales/maturities of investments		87,582,454	87,582,454		6,077,391	6,077,391	93,659,845
Purchases of investments		(89,585,905)	(89,585,905)		(6,526,741)	(6,526,741)	(96,112,646)
Investment income		4,234,851	4,234,851	5,402,234	1,744,527	7,146,761	11,381,612
Net Cash Provided By (Used In) Investing Activities		2,231,400	2,231,400	5,402,234	1,295,177	6,697,411	8,928,811
Net Increase (Decrease) in Cash and Cash Equivalents	(398,467)	(13,029,797)	(13,428,264)	(22,398,437)	(5,380,317)	(27,778,754)	(41,207,018)
Cash and Cash Equivalents, July 1, 2025	2,936,954	50,128,406	53,065,360	139,494,091	40,807,562	180,301,653	233,367,013
Cash and Cash Equivalents, June 30, 2026	$ 2,538,487	$ 37,098,609	$ 39,637,096	$ 117,095,654	$ 35,427,245	$ 152,522,899	$ 192,159,995

Combined Statement of Cash Flows - Proprietary Funds

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

For the Year Ended June 30, 2026

	Authority			Corporation			Combined
	Internal Service Fund	Agency Operating Fund	Authority Total	Education Finance Funds	Operating Fund	Corporation Total	Total
Reconciliation of Income to Net Cash Provided By (Used In) Operating Activities							
Net income (loss) before transfers		$ 6,014,049	$ 6,014,049	$ 10,182,603	$ (378,126)	$ 9,804,477	$ 15,818,526
Adjustments to reconcile income to net cash provided by (Used In) operating activities:							
Investment income (loss)		(6,064,493)	(6,064,493)	(5,402,234)	(1,571,114)	(6,973,348)	(13,037,841)
Depreciation and amortization		791,590	791,590		872,149	872,149	1,663,739
Amortization, Expense and Write-off of Debt Issuance Costs				(26,949)		(26,949)	(26,949)
Amortization of loan purchase premiums					220,577	220,577	220,577
Amortization of deferred gain on debt retirements				(1,077,074)		(1,077,074)	(1,077,074)
Subscription expense		(134,160)	(134,160)				(134,160)
Credit facility fees				1,090,147	151,667	1,241,814	1,241,814
OPEB expense		(1,191,926)	(1,191,926)		(2,768,786)	(2,768,786)	(3,960,712)
Pension expense					(1,913,640)	(1,913,640)	(1,913,640)
Provision for loan losses				1,104,792	279,141	1,383,933	1,383,933
Borrower interest converted to principal				(14,534,868)	(1,950,515)	(16,485,383)	(16,485,383)
Loan forgiveness				22,175	232	22,407	22,407
Other liability		(96,698)	(96,698)	28,385,848	2,019,900	30,405,748	30,309,050
(Increases) decreases in assets:							
Accounts receivables and prepaid expenses	$ 151,001	15,749	166,750		(265,045)	(265,045)	(98,295)
Receivable from the FSLRF for federal fees		(370,419)	(370,419)				(370,419)
Accrued interest receivable		159,940	159,940	651,521	(4,334,224)	(3,682,703)	(3,522,763)
Principal received on loans				82,682,023	11,212,955	93,894,978	93,894,978
Loans purchased, including premiums				(32,254)	(89,049,488)	(89,081,742)	(89,081,742)
Loans originated, including costs				(8,884,683)	(20,733,445)	(29,618,128)	(29,618,128)
Interfund loan sales and purchases				(20,427,577)	20,427,577		
Increases (decreases) in liabilities:							
Accounts payable and accrued expenses	199,399	(93,920)	105,479	(13,012)	44,576	31,564	137,043
Payable to FSLRF		(15,000,000)	(15,000,000)				(15,000,000)
Subscription payable		65,655	65,655	385,382	(257,741)	127,641	193,296
Interfund receivable/payable	(748,867)	859,611	110,744	675,052	(785,796)	(110,744)	
Allowance for arbitrage liabilities				455,942		455,942	455,942
Other liability		96,698	96,698				96,698
Net Cash Provided By (Used In) Operating Activities	$ (398,467)	$ (14,948,324)	$ (15,346,791)	$ 75,236,834	$ (88,779,146)	$ (13,542,312)	$ (28,889,103)

Balance Sheet - Governmental Fund

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

June 30, 2026

	Governmental Fund
ASSETS	**Student Aid**
Current:	
Cash and cash equivalents	$ 41,199,438
Accounts receivable	11,873,362
Scholarship conversion loans receivable	450,000
Total Current Assets	53,522,800
Noncurrent:	
Scholarship conversion loans receivable, net of allowance of $2,295,000	3,607,528
Scholarship advances receivable	15,535,449
Total Noncurrent Assets	19,142,977
Total Assets	72,665,777
LIABILITIES	
Current:	
Accounts payable	455
Total Liabilities	455
FUND BALANCE	
Restricted for program benefits	$ 72,665,322

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, 2026

	Governmental Fund
	Student Aid
Revenues:	
Interest and investment income fund	$ 379,445
Unclaimed lottery revenue	101,136,200
State General Fund revenue	387,373,800
Other income	3,935,206
Contribution from Agency Operating Fund	2,556,774
Total Revenues	495,381,425
Expenditures:	
Kentucky Tuition Grant	48,306,120
College Access Program Grant	231,694,732
Early Graduation Scholarship	314,018
Early Childhood Development Scholarship	2,538,396
Kentucky National Guard Tuition Award Program	8,531,324
Kentucky Educational Excellence Scholarship	117,057,534
Teacher Scholarship	1,090,989
Student Teacher Stipend Program	6,587,043
Teacher Recruitment Student Loan Forgiveness Pilot Program	300,043
Osteopathic Medicine Scholarship	465,648
Dual Credit Scholarship Program	30,383,229
Work Ready Kentucky Scholarship Program	12,961,330
Veterinary Contract Spaces Program	6,037,482
Kentucky Rural Veterinarian Loan Repayment Program	192,043
Optometry Scholarship Program	1,031,043
Coal County Scholarship Program for Pharmacy Students	220,086
Innovative Scholarship Pilot Project	3,822,974
John R. Justice Grant	142,043
Total Expenditures	471,676,077
Net Change in Fund Balance	23,705,348
Fund Balance, July 1, 2025, Restated	48,959,974
Fund Balance, June 30, 2026	$ 72,665,322

Statement of Fiduciary Net Position (Deficit)

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

June 30, 2026

ASSETS	Federal Student Loan Reserve Fund	Kentucky's Affordable Prepaid Tuition	Kentucky Education Savings Plan Trust
Current:			
Cash and cash equivalents	$ 7,065,037	$ 4,020,317	$ 209,662
Investments			359,930,328
Other current assets			62,320
Total Assets	7,065,037	4,020,317	360,202,310
LIABILITIES			
Current:			
Accounts payable	7,224		271,652
Accrued expenses			125,051
Tuition benefits payable		5,128,729	
Payable to Agency Operating Fund	1,776,741		
Payable to U.S. Department of Education	700,792		
Total Current Liabilities	2,484,757	5,128,729	396,703
Noncurrent:			
Tuition benefits payable		14,984,398	
Total Liabilities	2,484,757	20,113,127	396,703
NET POSITION (DEFICIT)			
Restricted for program benefits		(16,092,810)	359,805,607
Restricted for other purposes	4,580,280		
Total Net Position (Deficit)	$ 4,580,280	$ (16,092,810)	$ 359,805,607

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, 2026

	Federal Student Loan Reserve Fund	Kentucky's Affordable Prepaid Tuition	Kentucky Education Savings Plan Trust
Additions:			
Federal reinsurance	$ 65,039,201		
State General Fund revenue		$ 6,800,000	
Contributions			$ 32,309,521
Investment Revenues:			
Net increase in fair value of investments			34,383,909
Interest and investment income	189,641	218,173	12,261,566
Other income	50,849		
Total Additions	65,279,691	7,018,173	78,954,996
Deductions:			
Program benefits:			
Loan claims	64,851,423		
Withdrawals			30,518,174
Administrative expenses		39,566	1,417,506
Personnel and professional expenses		357,643	
Refunds		1,694,271	
Trustee fee expense		4,299	
Tuition benefits expense, net		(2,004,331)	
Total Deductions	64,851,423	91,448	31,935,680
Change in Net Position	428,268	6,926,725	47,019,316
Net Position (Deficit), July 1, 2025	4,152,012	(23,019,535)	312,786,291
Net Position (Deficit), June 30, 2026	$ 4,580,280	$ (16,092,810)	$ 359,805,607

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

June 30, 2026

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. 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 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) 329-7092.

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, Outreach services are also 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 College Match Day, which helps high school juniors explore college options and discover the best match and fit for their goals and interests; 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 FY2025, the Authority/Corporation provided some or all levels of administration of twenty 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 Program, (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, (17) Innovative Scholarship Pilot Project, (18) Student Teacher Stipend Program, (19) Kentucky Rural Veterinary Medicine Student Loan Repayment Program and (20) Teacher Recruitment Student Loan Forgiveness Pilot Program.

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

Note A--Description of Business--Continued

registration as an investment company under the Investment Company Act of 1940. The Trust offers certain federal and state tax advantages to account owners. An individual or entity participating in the Trust establishes an account in the name of a beneficiary. During FY2026, investment contributions with Ascensus as Program Manager consisted of the following six options offered by ten different investment companies: the Managed Allocation Option (seven different enrollment bands), the Active Bond Option, the Equity Index Option, the Active Equity Option, the Bond Index Option 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 ten investment companies: American Funds, Dimensional Fund Advisors ("DFA"), Cohen & Steers Capital Management, Inc. ("Cohen & Steers"), Baird Advisors, BlackRock, Charles Schwab Investment Management, Inc. ("Schwab"), State Street Global Advisors ("SSGA"), Vanguard, PGIM Investments LLC ("PGIM"), 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 six upper-level enrollment bands in the Managed Allocation option are allocated to a funding agreement issued by the Principal Life Insurance Company. The agreement offers a guarantee of principal and a minimum rate of return to the Trust. The crediting rate on the Principal Life funding agreement for the period from July 1, 2025 through June 30, 2026 was 4.66%.

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, $7.5 million in early July 2024 and $6.8 million in early July 2025 as a part of the final Commonwealth 2024-2026 biennial budget for those two years' estimated shortfalls. An additional Commonwealth transfer of $5.1 million was made in early July 2026 as part of the 2026-2028 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 $16.1 million. The $5.1 million received in early July 2026 was excluded from consideration in the June 30, 2026 $16.1 million actuarial valuation deficits.

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, 2026, the Plan maintained a present value fund deficit of $16.1 million. This represents a $6.9 million decrease over the previous year's deficit. Over the remaining estimated life

Note A--Description of Business--Continued

of the program, through fiscal year 2030, actuarial estimates show the Commonwealth of Kentucky will need to transfer approximately $16.6 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 Notes Q and U for the disclosures related to the funding model and guaranty agency responsibilities under the existing and new Voluntary Flexible Agreement ("VFA").

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 and investment income. 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 (when applicable), VFA-related revenues (see Note Q), account maintenance fees, General Fund appropriations 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, the Advantage Medical Loan (“AML”) where students in medical or dental doctoral programs borrow for their specialized education programs, the Advantage Graduate Loan (“AGL”) where students borrower for other graduate or professional degree programs, 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, APL, AML and AGL 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 and families.

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. 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.

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 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 line(s) of credit also provide for certain collateral account and proceeds restrictions.

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

June 30, 2026

Note A--Description of Business--Continued

As of June 30, 2026, the Authority/Corporation held approximately $696 million of FFELP and other education loans that are serviced by ARC. $596 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. All of these pledged loans are serviced by ARC. The remaining $100 million of loans were funded by the Corporation's Operating Fund and are serviced by either ARC or a third-party servicer. As a servicer of FFELP and other education loans, ARC collects student loan remittances and subsequently disburses these remittances to the appropriate trust or lending entity. 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 all applicable statements issued by the Government Accounting Standards Board ("GASB") 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.

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

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

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 that resulted in 100% of all assets invested in cash equivalents prospectively. The cash equivalents are from General Fund appropriation payments that will be made annually based on actuarial projections.

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 2026.

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

Osteopathic medicine scholarship advances to students may be repaid via eligible service credits granted for working as a doctor in Kentucky. The expenditures are recorded as advances and charged

Note B--Summary of Significant Accounting Policies—Continued

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.

Leases – The Authority/Corporation recognizes lease assets and lease liabilities for leases with terms greater than twelve months in accordance with GASB Statement No. 87, *Leases*. At the commencement of a lease, the entity records a lease liability at the present value of future lease payments and a corresponding lease asset representing the right to use the underlying asset during the lease term. Lease payments include fixed payments, variable payments based on an index or rate, and certain other payments as required by the lease agreement. Lease assets are amortized over the shorter of the lease term or the useful life of the underlying asset. Lease liabilities are reduced as payments are made and increased for interest expense. Short-term leases (those with a maximum possible term of 12 months or less) are not recognized as lease assets or liabilities; payments for such leases are recognized as expenses when incurred. The Authority/Corporation evaluates contracts for embedded leases and reviews lease terms and renewal options to determine the appropriate accounting treatment. Disclosures regarding significant leasing arrangements, including the amount of lease assets and liabilities, are presented in Note S.

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 “normal” collections on defaulted loans are recorded as income when received. See Note E. 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 was $18.5 million as of June 30, 2026. In addition, the Authority/Corporation records a provision for loan loss related to Teacher, Osteopathic Medicine, Pharmacy, and Teacher Recruitment Student Loan Forgiveness Program advances that have converted to loans. As of June 30, 2026, the allowance for advances converted to loans was $2.3 million.

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

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.

Operating Revenues and Operating Expenses - Operating revenues in the proprietary funds are those revenues that are generated from the primary operations of the fund. All other revenues are reported as non-operating revenues. Operating expenses are those expenses that are essential to the primary operations of the fund. All other expenses are reported as non-operating expenses.

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

Servicing Fees - 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.

State General Fund Revenue – State General Fund revenue is recognized throughout the fiscal year and the revenue recognition is timed with the incurrence of Outreach and Student Aid Administration business-type activity expenses. These annual expenses exceed the annual General Fund revenue and are representative of the Authority's cost of Outreach and Student Aid Administration services KHEAA provides to students and families of the Commonwealth.

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 of 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.

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

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.

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.

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

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, 2026, the Authority/Corporation's unrestricted net position is $10,131,748.

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 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.

Note C--Cash and Investments--Continued

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, 2026, 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		$ 285,533	$ 709,662
Uninsured		261,850	
Collateralized by securities held by the pledging financial institution		9,649,006	2,258,759
Money market demand deposits			
Money market securities		179,110,278	8,240,623
Cash deposited with Kentucky State Treasurer	$ 41,203,113	2,538,492	85,976
	$ 41,203,113	$191,845,159	$ 11,295,020

Of the $191.8 million of cash and cash equivalents maintained in the Proprietary Funds, $39.6 million was held for guarantee operations and the remaining $152.2 million was held for loan finance and servicing activities.

Of the $11.3 million of cash and cash equivalents maintained in the Fiduciary Funds, $7.1 million was related to the FSLRF and the remaining $4.2 million was associated with the Plan and the Trust.

Note C--Cash and Investments--Continued

As of June 30, 2026, 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, 2026 are summarized as follows:

	Fair Value	Weighted Average Maturity (in years)
Corporate bonds	$ 56,164,699	2.51
U.S. Treasury and government agency securities	78,216,394	2.13
Collateralized mortgage obligations	14,257,193	8.25
	$ 148,638,286	

As of June 30, 2026, Trust investments of $360 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.

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, 2026:

Rating	Fair Value
AAA / Aaa	$ 20,364,504
AA / Aa	575,476
A / A	22,447,590
BAA / Baa	12,777,129
	$ 56,164,699

Note C--Cash and Investments--Continued

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, 2026:

Money Market Securities of $179,110,278 are valued using quoted market prices. (Level 1 Inputs).

Corporate bonds, U.S. Treasury and government agency securities, and collateralized mortgage obligations of $148,638,286 were based on Level 2 inputs.

As of June 30, 2026, 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, 2025	Additions	Disposals	Ending Balance June 30, 2026
Proprietary fund:				
Capital Assets (excluding SBITA)				
Furniture and equipment	$ 12,701,880	$ 1,456,266	$ 461,655	$ 13,696,491
Building	12,075,048	12,034		12,087,082
System development	55,955			55,955
Student loan servicing system	541,131			541,131
Debt recovery system	86,785			86,785
Accumulated depreciation	(21,650,302)	(934,872)	461,655	(22,123,519)
Capital Work in Progress	672,433		672,433	
Capital Assets (excluding Subscription and Lease), Net	$ 4,482,930	$ 533,428	$ 672,433	$ 4,343,925
Subscription Assets				
Subscription assets	$ 517,434	$ 987,464		$ 1,504,898
Accumulated Amortization		(331,679)		(331,679)
Subscription Assets, Net	$ 517,434	$ 655,785	$	$ 1,173,219
Lease Assets				
Building	$ 1,985,943			$ 1,985,943
Accumulated Amortization	(1,224,663)	$ (397,188)		(1,621,851)
Lease Assets, Net	$ 761,280	$ (397,188)	$	$ 364,092
Capital Assets (including Subscription and Lease), Net	**$ 5,761,644**	**$ 792,025**	**$ 672,433**	**$ 5,881,236**
Fiduciary fund:				
Capital Assets				
Furniture and equipment	$ 65,954			$ 65,954
Accumulated depreciation	(65,954)			(65,954)
	$	$	$	$

Depreciation and amortization expense (including Note S amortization) totaled $1,663,739 for the year ended June 30, 2026, of which $1,614,059 was allocated to business-type activities and $49,680 allocated to governmental activities.

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

Loan guarantee operations	$ 298,611
Outreach	358,871
School services	22,363
Default collections	59,313
Loan finance and servicing	872,149
Other activities	2,752
	$ 1,614,059

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

June 30, 2026

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, 2026, the outstanding balance of aggregate insured student loans was approximately $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 as a part of the VFA. 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, 2026 for losses on federal reinsurance. See Note T. 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:

Rehabilitated Loans - 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% retention.

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

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

Account Maintenance Fees ("AMF") - The 1998 Amendments established an account maintenance fee based on 0.06% of the average annual amount of outstanding loans. AMF is paid to the Authority/Corporation on a quarterly basis by the Federal government.

Default Aversion Fees ("DAF") - 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, 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. Some of these normal fees were superseded by the provisions of either Dear Colleague Letters GEN-21-03, GEN-22-16 and/or the current VFA. See Notes Q and U regarding the current and new VFA.

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. Statutory interest rates on student loans, net of certain applicable interest rate reductions, ranged from 0.00% to 11.94% for the fiscal year ended June 30, 2026 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 various other reasons.

Loans consist of the following at June 30, 2026:

Stafford - Subsidized	$ 114,662,471
Stafford - Unsubsidized	144,669,338
PLUS/SLS	7,718,623
Consolidation	191,346,119
Supplemental	235,819,715
Other	1,540,403
Total gross loans	695,756,669
Allowance for Advantage loan losses	(16,398,470)
Allowance for FFELP and other loan losses	(2,111,739)
Unamortized premium on purchase of loans	1,764,617
Loans, net	679,011,077
Less amount shown as current assets	83,925,901
Noncurrent loans, net	$ 595,085,176

All principal and accrued interest on FFELP student loans are insured against borrower death, disability, bankruptcy or default, as long as the Authority/Corporation performs all required loan servicing due diligence activities. In advance of a FY2026 conversion to a new loan servicing system, the Authority/Corporation wrote off $30.5 million of uninsured principal and interest during the year. The write-offs were only of loans with 100% of their principal balance already in reserve in the allowance for loan loss account. The purpose of this endeavor was to limit the FY2026 transfer of unnecessary data to the new loan servicing system.

All student loans in the Education Finance Funds are pledged as collateral for certain bonds.

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. The Authority/Corporation transitioned to the SOFR-based SAP calculation effective July 1, 2023. 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 2026, the Authority/Corporation forgave $73,263 in loan principal and accrued interest for teachers funded by ED. Also, during fiscal year 2026, the Authority/Corporation provided additional loan forgiveness of $22,407.

Note I--Revenue Bonds Payable

As of June 30, 2026, 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, 2021 and 2025 whereas the 2023 master indenture has only had the one issuance in 2023. The 2023-1A indenture is also a master indenture. The 2020-1 and 2021-1 indentures of trust are closed indentures that only allowed for the one issuance and do not permit any future issuances under the same indentures of trust. These 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, 2026 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, 2026 and the related activity for the year ended June 30, 2026 are as follows:

Series		Series Final Scheduled Maturity	Interest	Beginning Balance July 1, 2025	New Issues	Bond Maturities & Redemptions	Amortization of Premium / (Discount)	Ending Balance June 30, 2026
2014 Indenture								
2017 A	*	June 1, 2034	Fixed	$ 4,033,104		$ (1,655,000)	$ 1,183	$ 2,379,287
2019 A1-B1	*	June 1, 2036	Fixed	29,939,092		(3,000,000)	(395,354)	26,543,738
2019 A2		June 1, 2034	Fixed	18,060,000		(6,560,000)		11,500,000
2021A-1	*	June 1, 2033	Fixed	10,365,726		(950,000)	(121,949)	9,293,777
2021A-2		June 1, 2035	Fixed	37,950,000		(13,000,000)		24,950,000
2025A-1	*	June 1, 2033	Fixed	27,920,000		(400,000)		27,520,000
2025A-2		June 1, 2035	Fixed	67,380,000		(2,500,000)		64,880,000
				195,647,922		(28,065,000)	(516,120)	167,066,802
2020-1 Indenture								
2020-1A-1A		November 25, 2050	Monthly	52,212,453		(3,502,273)		48,710,180
2020-1A-1b		November 25, 2050	Monthly	149,062,820		(9,998,000)		139,064,820
2020-1B		November 25, 2050	Monthly	7,000,000				7,000,000
				208,275,273		(13,500,273)		194,775,000
2021-1 Indenture								
2021-1A-1A		March 25, 2051	Monthly	14,679,412		(1,133,014)		13,546,398
2021-1A-1B		March 25, 2051	Monthly	49,323,588		(3,806,986)		45,516,602
2021-1B		March 25, 2051	Monthly	2,000,000				2,000,000
				66,003,000		(4,940,000)		61,063,000
2023 Indenture								
2023A-1	*	June 1, 2037	Fixed	10,230,000		(900,000)		9,330,000
2023A-2		June 1, 2037	Fixed	56,035,000		(14,020,000)		42,015,000
2023B-1		June 1, 2046	Fixed	12,000,000				12,000,000
				78,265,000		(14,920,000)		63,345,000
2023-1A Indenture								
2023-1A-1	*	June 1, 2036	Weekly	109,810,000				109,810,000
2023-1A-2		June 1, 2036	Weekly	38,760,000		(5,185,000)		33,575,000
				148,570,000		(5,185,000)		143,385,000
				$ 696,761,195	$	$ (66,610,273)	$ (516,120)	$ 629,634,802

* This bond series is tax exempt

Note I--Revenue Bonds Payable--Continued

The Authority/Corporation's revenue bonds include fixed and variable rates of interest based on various index rates. Those fixed rates and variable index rates ranged from 1.41% to 7.22% as of June 30, 2026. Debt service requirements to maturity or redemption date, assuming interest rates based on fixed rates and variable index rates at June 30, 2026, are as follows:

	Principal Repayment Amount (Thousands)					
	2014	2020-1	2021-1	2023AB	2023-1A	Total
Year Ending June 30, 2027	$ 13,485			$ 2,150		$ 15,635
Year Ending June 30, 2028	12,630			3,025		15,655
Year Ending June 30, 2029	11,730			3,415		15,145
Year Ending June 30, 2030	9,020			3,790		12,810
Year Ending June 30, 2031	10,140			4,555		14,695
5 Years Ending June 30, 2036	71,570			10,315		81,885
5 Years Ending June 30, 2041	36,860			24,095		60,955
5 Years Ending June 30, 2046				12,000	$ 143,385	155,385
5 Years Ending June 30, 2051		$ 194,775	$ 61,063			255,838
	$ 165,435	$ 194,775	$ 61,063	$ 63,345	$ 143,385	$628,003

	Interest Repayment Amount (Thousands)					
	2014	2020-1	2021-1	2023AB	2023-1A	Total
Year Ending June 30, 2027	$ 8,016	$ 7,679	$ 2,366	$ 3,628	$ 4,060	$ 25,749
Year Ending June 30, 2028	7,502	7,679	2,366	3,514	4,060	25,121
Year Ending June 30, 2029	6,981	7,679	2,366	3,354	4,060	24,440
Year Ending June 30, 2030	6,493	7,679	2,366	3,168	4,060	23,766
Year Ending June 30, 2031	6,127	7,679	2,366	2,958	4,060	23,190
5 Years Ending June 30, 2036	23,661	38,396	11,830	11,459	20,301	105,647
5 Years Ending June 30, 2041	9,135	38,396	11,831	5,583	20,301	85,246
5 Years Ending June 30, 2046		38,396	11,830	2,873	8,120	61,219
5 Years Ending June 30, 2051		30,716	11,831			42,547
	$ 67,915	$ 184,299	$ 59,152	$ 36,537	$ 69,022	$416,925

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.

Note J--Direct Placements and Direct Borrowings

On May 16, 2025, 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. The balance of direct borrowings under lines of credit agreements at June 30, 2026 and the related activity for the year then ended June 30, 2026 is as follows:

Series	Scheduled Maturity	Interest Rate	Beginning Balance July 1, 2025	New Issues	Bond Maturities & Redemptions	Ending Balance June 30, 2026
Direct Borrowings						
Revolver Line of Credit	May 16, 2028	Monthly		$ 70,161,612	$ (6,500,000)	$ 63,661,612
			$	$ 70,161,612	$ (6,500,000)	$ 63,661,612

* 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. The amount of unused revolving line of credit was approximately $11.3 million, as of June 30, 2026.

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.

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, 2026, the Authority/Corporation is reporting liabilities for excess yield on acquired purpose investments of $1,502,428.

Note K—Allowance for Arbitrage Liabilities--Continued

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

Yield adjustment payments, which also relate to yield restriction on acquired purpose investments, are applicable to all tax-exempt bonds with respect to such investments that were acquired after July 18, 2016 and also apply to such investments that were acquired prior to such date if allocated to tax exempt bonds bearing interest on a 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, 2026, the Authority/Corporation is reporting excess yield restriction and rebate liabilities on non-purpose investments of $188,049 and $93,011, 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, 2026. As of June 30, 2026, there is approximately $4.7 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 consists 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 FY26 was 42.76% comprised of the normal cost contribution of 8.44% and the actuarially accrued liability contribution of 34.32%. The normal cost contribution of 8.44% comprised of 6.99% for pension contributions and 1.45% for insurance contributions. The Authority employer total contribution rate for FY25 was 48.75% comprised of the normal cost contribution of 8.44% and the actuarially accrued liability contribution of 40.31%. The normal cost contribution of 8.44% comprised of 6.99% for pension contributions and 1.45% for insurance contributions. The Corporation employer total normal cost contribution rate for FY26 was 8.44% comprised of 6.99% for pension contributions and 1.45% for insurance contributions. The Corporation's FY26 total allocated annual amortized cost for retirement liabilities was $3,728,867. The Corporation employer total normal cost contribution rate for FY26 was

Note M--Net Pension Liability--Continued

8.44% comprised of 6.99% for pension contributions and 1.45% for insurance contributions. The Corporation's FY25 total allocated annual amortized cost for retirement liabilities was $3,728,867. 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:

	FY26	FY25
Authority: Employer	$ 112,392	$ 122,776
Authority: Employee	15,779	15,039
	$ 128,171	$ 137,815
Corporation: Employer	$ 3,894,665	$ 3,980,687
Corporation: Employee	520,802	530,344
	$ 4,415,467	$ 4,511,031
Total: Employer	$ 4,007,057	$ 4,103,463
Total: Employee	536,581	545,383
	$ 4,543,638	$ 4,648,846

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pension. At June 30, 2026, the Authority/Corporation reported a net pension liability of $53,721,955 for its proportionate share of the KERS's collective net pension liability. The Authority's portion is $1,820,152 and the Corporation's is $51,901,803. The net pension liability was measured as of June 30, 2025, and the total pension liability used to calculate the net pension liability was determined by the actuarial valuation as of June 30, 2024.

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 $157,475 with a proportionate share percentage of .015708%. The Corporation's contributions during the measurement period as provided by KPPA were $4,459,211 with a proportionate share percentage of .447915%. For the year ended June 30, 2026, the Authority/Corporation recognized pension expense of $1,156,002 for its proportionate share of KERS's pension expense. The Authority's portion was $(825,022) and the Corporation's was $1,981,024.

Note M--Net Pension Liability--Continued

At June 30, 2026, 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	$ 30,940	
Net difference between projected and actual investment earnings on pension plan investments	10,213	$ 49,640
Changes in proportion and differences between employer contributions and proportionate share of contributions		292,266
Authority's contributions to KERS subsequent to the measurement date	112,392	
	$ 153,545	$ 341,906

$112,392 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, 2026. 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:	
2026	$ (265,518)
2027	(14,405)
2028	(12,850)
2029	(7,980)

Note M--Net Pension Liability--Continued

At June 30, 2026, 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	$ 882,260	
Net difference between projected and actual investment earnings on pension plan investments	291,215	$ 1,415,550
Changes in proportion and differences between employer contributions and proportionate share of contributions		275,860
Corporation's contributions to KERS subsequent to the measurement date	3,894,665	
	$ 5,068,140	$ 1,691,410

$3,894,655 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, 2026.

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:	
2026	$ 486,849
2027	(410,766)
2028	(366,413)
2029	(227,555)

Note M--Net Pension Liability--Continued

Actuarial Assumptions. The total pension liability was determined by an actuarial valuation as of June 30, 2024, using the entry age normal cost method and the following actuarial assumptions:

Assumptions	Percentage
Inflation	2.50% 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, 2024 valuation were based on the results of an actuarial experience study for the period ending June 30, 2022. The long-term expected rate of return was determined by using a building block method in which best estimate ranges of expected future real rates of return are developed for each asset class. The ranges are combined by weighting the expected future real rate of return by the target asset allocation percentage.

Note M--Net Pension Liability--Continued

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

Asset Class	Long Term Expected Real Rate of Return	Target Allocation
Equity		
Public Equity	4.15%	30.00%
Private Equity	7.90%	6.00%
Fixed Income		
Core Fixed Income	2.70%	27.00%
Speciality Credit	3.83%	20.00%
Cash	1.25%	2.00%
Inflation Protected		
Real Estate	4.75%	5.00%
Real Return	5.20%	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 KPPA 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	$ 2,128,704	$ 1,820,152	$ 1,564,404
Corporation's proportionate share of net pension liability	$ 60,700,190	$ 51,901,803	$ 44,609,105

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.

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. See Note M for the Authority's and the Corporation's employer total contribution rates broken down by normal cost, by actuarially accrued liability contribution, and/or by total allocated annual amortized cost, as applicable, for FY26 and FY25.

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:

	FY26	FY25
Authority: Employer	$ 23,314	$ 25,468
Authority: Employee 1%		
	$ 23,314	$ 25,468
Corporation: Employer	$ 807,901	$ 825,745
Corporation: Employee 1%	43,647	41,899
	$ 851,548	$ 867,644
Total: Employer	$ 831,215	$ 851,213
Total: Employee	43,647	41,899
	$ 874,862	$ 893,112

OPEB Liabilities, OPEB Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB. At June 30, 2026, the Authority/Corporation reported a liability of $4,147,982 its proportionate share of the KERS's collective net OPEB liability. The Authority's portion is $133,619 and the Corporation's is $4,014,363. The net OPEB liability was measured as of June 30, 2025, and the total OPEB liability used to calculate the net OPEB liability was determined by the actuarial valuation as of June 30, 2024.

The Authority/Corporation's proportionate share of the net OPEB liability was determined using the employers' actual contributions for FY25. The Authority's contributions during the measurement period as provided by KPPA were $4,794 with a proportionate share percentage of .015617%. The Corporation's contributions during the measurement period as provided by KPPA were $161,846 with a proportionate share percentage of .469186%.

For the year ended June 30, 2026, the Authority/Corporation recognized OPEB expense of ($2,192,081) for its proportionate share of KERS's OPEB expense. The Authority's portion was ($231,196) and the Corporation's was ($1,960,885).

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

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

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, 2026, the Authority/Corporation reported an implicit subsidy of $159,728. The Authority's portion is $5,145 and the Corporation's is $154,583. At June 30, 2025, the Authority/Corporation reported an implicit subsidy of $144,912. The Authority's portion was $5,479 and the Corporation's was $139,433.

At June 30, 2026, 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	$ 27,533	$ 26,461
Net difference between projected and actual investment earnings on pension plan investments	5,584	20,859
Changes in assumptions	5,574	
Changes in proportion and differences between employer contributions and proportionate share of contributions		146,325
Authority's implicit subsidy to KERS subsequent to the measurement date	5,145	
Authority's contributions to KERS subsequent to the measurement date	23,314	
	$ 67,150	$ 193,645

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

$23,314 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, 2026. Amounts reported as deferred outflows and inflows of resources related to OPEB will be recognized in OPEB expense as follows:

Year Ending June 30:	
2027	$ (110,888)
2028	(32,208)
2029	(9,038)
2030	(2,820)

At June 30, 2026, 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	$ 827,188	$ 794,968
Net difference between projected and actual investment earnings on pension plan investments	167,759	626,665
Changes in assumptions	167,452	
Changes in proportion and differences between employer contributions and proportionate share of contributions		1,663,985
Corporation's implicit subsidy to KERS subsequent to the measurement date	154,583	
Corporation's contributions to KERS subsequent to the measurement date	807,901	
	$ 2,124,883	$ 3,085,618

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

$807,901 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, 2026. 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:	
2026	$ (1,459,232)
2027	(291,763)
2028	(87,495)
2029	(84,728)

Actuarial Assumptions. The total OPEB liability was determined by an actuarial valuation as of June 30, 2024, using the entry age normal cost method and the following actuarial assumptions:

Assumptions	Percentage
Inflation	2.50%
Payroll Growth	0.00%
Investment Rate of Return	6.50%

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, 2024 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 estimate 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	4.15%	40.00%
Private Equity	7.90%	8.00%
Fixed Income		
Core Fixed Income	2.70%	10.00%
Speciality Credit	3.83%	25.00%
Cash	1.25%	2.00%
Inflation Protected		
Real Estate	4.75%	7.00%
Real Return	5.20%	8.00%
		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 6.25%. This rate is based on the expected rate of return on OPEB plan investments of 6.50% and a municipal bond rate of 5.20%, that include only federally tax-exempt municipal bonds as reported in Bond Buyer's "20-Bond Go Index" as of June 30, 2025. 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	5.25%	6.25%	7.25%
Authority's proportionate share of net OPEB liability	$ 182,215	$ 133,619	$ 92,650
Corporation's proportionate share of net OPEB liability	$ 5,474,333	$ 4,014,363	$ 2,783,496

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	$ 96,660	$ 133,619	$ 176,721
Corporation's proportionate share of net OPEB liability	$ 2,903,985	$ 4,014,363	$ 5,309,292

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.

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, 2026. 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 (2002-2025).

Investment Rates - See Note B for the update to the target asset allocation approved during 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 last 10 years of tuition increases are as follows:

Academic Year		Value Plan	Standard/ Premium Plan
Academic Year	2016 - 2017	4.0%	5.0%
Academic Year	2017 - 2018	9.0%	4.0%
Academic Year	2018 - 2019	4.1%	2.5%
Academic Year	2019 - 2020	2.8%	(0.5%)
Academic Year	2020 - 2021	2.7%	1.0%
Academic Year	2021 - 2022	0.0%	1.0%
Academic Year	2022 - 2023	2.7%	1.0%
Academic Year	2023 - 2024	2.1%	2.8%
Academic Year	2024 - 2025	1.6%	2.2%
Academic Year	2025 - 2026	3.2%	3.0%

As of June 30, 2026, the tuition for the 2026-2027 academic year will increase 1.5% for the Value Plan while tuition payout values for the Standard Plan and Premium Plan increased by 1.99%. The Standard Plan and the Premium Plan tuition payout value assumption for the 2026-2027 academic year is 4.0%. 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, 2026, 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

Note O--Tuition Benefits Payable--Continued

Plans, which represents 95.3% of the Plan's enrollments, has been 5.3%. 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, 2026, has been 6.5%.

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. **Authority/Corporation Operating Funds:** 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--Federal Fees

USDE is authorized to enter into a VFA in lieu of guaranty agency agreements established under the Higher Education Act of 1965. The COVID-19 pandemic and the subsequent repayment pause by USDE created an unstable environment for guaranty agencies. In February of 2024, USDE officials engaged the guaranty agency community in negotiations to develop an alternative financing model that would provide stability for both guaranty agencies and borrowers as lender and guaranty agency FFELP portfolios continue to runoff. The Authority executed a VFA with USDE effective October 1, 2024. See Note U related to a new VFA executed subsequent to June 30, 2026.

Note Q--Federal Fees--Continued

The VFA in effect during FY2026 replaced all compensation paid to the Authority, except for the account maintenance fee ("AMF") and the reimbursement into the Federal Fund for claims paid to lenders. A special account maintenance fee ("SAMF") and successful resolution fee ("SRF") were also received during the year as a part of the VFA. The SAMF is calculated based on the Authority's outstanding net guarantees using a similar formula as the AMF. The successful resolution fee ("SRF") fee is paid when a borrower with at least one loan in default successfully consolidates all their defaulted loans at the Authority into the Direct Loan program. This fee is the lesser of a set dollar amount or a percentage of the amount of the outstanding loans being resolved. During FY2026, the Authority/Corporation recognized $6,721,894 of federal fees related to the applicable revenue provisions in place during this period.

Note R—Subscription-Based Information Technology Arrangements (SBITAs)

The Authority/Corporation began recognizing subscription-based information technology arrangements (SBITAs) during FY2026. A conversion to a new loan servicing system effective April 1, 2026 increased the aggregate SBITA balances to a level requiring recognition. The ongoing monthly subscription servicing fee is variable; therefore, those licensing fees are recognized as subscription expense as incurred. For the arrangements that existed at the beginning of the year, the respective asset and liability balances of each were restated as of July 1, 2025. A summary of the subscription asset activity during the year ended June 30, 2026 is as follows:

Subscription Assets	Beginning Balance July 1, 2025, Restated	Additions	Remeasure-ments	Deductions	Ending Balance June 30, 2026
Software Systems	$ 285,751	$ 818,472			$ 1,104,223
Telecommunication Systems	231,683	168,992			400,675
Accumulated Amortization		(331,679)			(331,679)
	$ 517,434	$ 655,785	$	$	$ 1,173,219

A summary of the changes in the subscription liabilities during the year ended June 30, 2026 is as follows:

Subscription Liabilities	Beginning Balance July 1, 2025, Restated	Additions	Remeasure-ments	Deductions	Ending Balance June 30, 2026	Amounts Due Within One Year
Software Systems	$ 321,553	$ 398,472		$ 214,498	$ 505,527	$ 247,291
Telecommunication Systems	241,629	168,992		105,762	304,859	102,693
	$ 563,182	$ 567,464	$	$ 320,260	$ 810,386	$ 349,984

Note R—Subscription-Based Information Technology Arrangements (SBITAs)--Continued

The future subscription payments are as follows:

Year Ending June 30:	Principal	Interest	Total
2027	$ 349,984	$ 33,715	$ 383,699
2028	307,771	16,938	324,709
2029	117,235	5,283	122,518
2030	35,396	1,764	37,160
	$ 810,386	$ 57,700	$ 868,086

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 $1,621,851.

A summary of lease asset activity during the year ended June 30, 2026 is as follows:

	Beginning Balance July 1, 2025	Additions	Remeasure-ments	Deductions	Ending Balance June 30, 2026
Lease Asset: Office space	$ 1,985,943				$ 1,985,943
Accumulated amortization: Office space	(1,224,663)	$ (397,188)			(1,621,851)
	$ 761,280	$ (397,188)	$	$	$ 364,092

A summary of the changes in the lease liability during the year ended June 30, 2026 is as follows:

	Beginning Balance July 1, 2025	Additions	Remeasure-ments	Deductions	Ending Balance June 30, 2026	Amounts Due Within One Year
Lease Liability: Office space	$ 812,470	$	$	$ 415,907	$ 396,563	$ 396,563

Note S--Leases--Continued

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

Year Ending June 30:	Principal	Interest	Total
2027	$ 396,563	$ 4,376	$ 400,939

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 $142,419 during the year.

Note T--Commitments and Contingencies

The FSLRF is contingently liable for loans made by financial institutions that qualify for a guarantee. The reinsurance trigger rate provision as outlined in 34 CFR 682.404(b) has been waived by ED through September 30, 2026 as part of the VFA between the United States Department of Education and the Authority. 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, 2026 would be calculated as follows:

Amount of guaranteed student loans outstanding at lenders	$ 1,022,495,132
Less minimum federal government share - 75%	766,871,349
	$ 255,623,783

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.

Note U—Subsequent Events

The Authority executed a two-year VFA in the fall of 2024 with USDE effective October 1, 2024. Subsequent to June 30, 2026, the Authority executed a new VFA with USDE effective August 1, 2026. The new VFA will remain in effect until six months after the Secretary ends the pause on involuntary collections (including the commencement of Treasury Offset and Administrative Wage Garnishment) or September 30, 2027, whichever occurs sooner, unless terminated earlier as provided in the VFA. The VFA may be extended for up to two additional six-month terms if the Secretary has not yet returned to involuntary collections (including the commencement of Treasury Offset and Administrative Wage Garnishment) at least 30 days prior to the current end date of the VFA. Although SAMF compensation remains applicable under the new VFA, the SRF compensation only applies to consolidations submitted without collection costs, that were applied for prior to the August 1, 2026 effective date of the VFA.

Note V—Restatement

The Combined Total Net Position of the Proprietary Funds at June 30, 2025 was restated from $293,427,548 to $293,381,799. The $45,749 restatement reflects the recognition of subscription-based information technology arrangements (SBITAs) in accordance with GASB Statement No. 96 Subscription-Based Information Technology Arrangements. Certain SBITA balances that were previously considered immaterial and were not recorded have been recognized due to the addition of new arrangements and the resulting materiality of the aggregate SBITA balances. In addition, the Fund Balance of the Governmental Fund at June 30, 2025 was restated from $45,624,841 to $48,959,974. The $3,335,133 restatement represents an adjustment of awards to advances receivable for a newly implemented student aid program.

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

June 30, 2026

Note W--Recent Pronouncements

The GASB issued a couple of standards with requirements that became effective for adoption during the current year. Statement No. 103, *Financial Reporting Model Improvements*, is to improve key components of the financial reporting model to enhance its effectiveness in providing information that is essential for decision making and assessing a government's accountability. Statement No. 104, *Disclosure of Certain Capital Assets*, requires the provision of detailed information about capital assets in notes to financial statements. These statements were adopted during the current year. See the Required Supplementary Information ("RSI") schedule with KHEAA Governmental Fund budgetary comparison information related to Statement No. 103. See Note D related to Statement No. 104. 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, 2026

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

	FY 2025	FY 2024	FY 2023	FY 2022	FY 2021	FY 2020	FY 2019	FY 2018	FY 2017	FY 2016	FY 2015
Authority's proportion of the net pension liability	0.015708%	0.020589%	0.030661%	0.042364%	0.057939%	0.054812%	0.058291%	0.069264%	0.085192%	0.093544%	0.097187%
Authority's proportionate share of the net pension liability	$ 1,820,152	$ 2,480,906	$ 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
Authority's covered-employee payroll	$ 309,204	$ 368,432	$ 461,232	$ 551,530	$ 754,480	$ 781,500	$ 852,612	$ 1,057,832	$ 1,317,197	$ 1,556,281	$ 1,628,998
Authority's proportionate share of the net pension liability as a percentage of its covered-employee payroll	588.66%	673.37%	818.90%	1019.09%	1022.66%	993.47%	965.56%	890.74%	865.91%	685.19%	598.51%
Plan fiduciary net position as a percentage of the total pension liability	30.40%	25.96%	22.32%	18.51%	18.48%	14.01%	13.66%	12.84%	13.30%	14.87%	18.83%

	FY 2025	FY 2024	FY 2023	FY 2022	FY 2021	FY 2020	FY 2019	FY 2018	FY 2017	FY 2016	FY 2015
Corporation's proportion of the net pension liability	0.447915%	0.451664%	0.460746%	0.470853%	0.477177%	0.800634%	0.819901%	0.850042%	0.833570%	0.819117%	0.839524%
Corporation's proportionate share of the net pension liability	$ 51,901,803	$ 54,424,005	$ 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
Corporation's covered-employee payroll	$ 10,570,302	$ 10,349,396	$ 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
Corporation's proportionate share of the net pension liability as a percentage of its covered-employee payroll	491.02%	525.87%	550.77%	592.94%	563.34%	993.47%	965.55%	890.73%	865.91%	685.19%	598.51%
Plan fiduciary net position as a percentage of the total pension liability	30.40%	25.96%	22.32%	18.51%	18.48%	14.01%	13.66%	12.84%	13.30%	14.87%	18.83%

Total collective net pension liability for the Kentucky Employees Retirement System (KERS) non-hazardous employees	$ 11,587,422,000	$ 12,049,666,000	$ 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
KERS' non-hazardous employees total fiduciary net position	$ 5,061,425,000	$ 4,223,936,000	$ 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
KERS' non-hazardous employees total pension liability	$ 16,648,847,000	$ 16,273,602,000	$ 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

Schedule of Required Contributions-Pension
June 30, 2026

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

	FY 2025	FY 2024	FY 2023	FY 2022	FY 2021	FY 2020	FY 2019	FY 2018	FY 2017	FY 2016	FY 2015
Authority's contractually required contribution	$ 157,475	$ 215,475	$ 314,516	$ 429,223	$ 610,978	$ 555,099	$ 604,423	$ 434,346	$ 552,959	$ 479,957	$ 502,383
Authority's contributions in relation to the contractually required contribution	(157,475)	(215,475)	(314,516)	(429,223)	(552,883)	(555,099)	(604,423)	(434,346)	(530,040)	(479,957)	(502,383)
Authority's contribution deficiency	$ -	$ -	$ -	$ -	$ 58,095	$ -	$ -	$ -	$ 22,919	$ -	$ -
Authority's covered-employee payroll	$ 309,204	$ 368,432	$ 461,232	$ 551,530	$ 754,480	$ 781,500	$ 852,612	$ 1,057,832	$ 1,317,197	$ 1,556,281	$ 1,628,998
Authority's contributions as a percentage of covered-employee payroll	50.93%	58.48%	68.19%	77.82%	73.28%	71.03%	70.89%	41.06%	40.24%	30.84%	30.84%

	FY 2025	FY 2024	FY 2023	FY 2022	FY 2021	FY 2020	FY 2019	FY 2018	FY 2017	FY 2016	FY 2015
Corporation's contractually required contribution	$ 4,459,211	$ 4,736,561	$ 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
Corporation's contributions in relation to the contractually required contribution	(4,459,211)	(4,736,561)	(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)
Corporation's contribution deficiency	$ -	$ -	$ -	$ -	$ 4,503,009	$ 3,421,134	$ 3,594,168	$ -	$ 224,256	$ -	$ -
Corporation's covered-employee payroll	$ 10,570,302	$ 10,349,396	$ 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
Corporation's contributions as a percentage of covered-employee payroll	42.19%	45.77%	46.03%	45.97%	41.06%	41.06%	41.06%	41.06%	40.24%	30.84%	30.84%

Note to the Required Supplemental Information-Pension Employers' Contributions
June 30, 2026

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

Actuarial valuation date	June 30, 2023
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	2.50%
Payroll growth	0.00%
Investment rate of return	5.25%

Schedule of Proportionate Share of the Net OPEB Liability and Related Ratios
June 30, 2026

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

	FY 2025	FY 2024	FY 2023	FY 2022	FY 2021	FY 2020	FY 2019	FY 2018	FY 2017
Authority's proportion of the net OPEB liability	0.015617%	0.020231%	0.029358%	0.040952%	0.057622%	0.054812%	0.058291%	0.069214%	0.085192%
Authority's proportionate share of the net OPEB liability	$ 133,619	$ 146,280	$ 230,340	$ 905,903	$ 1,313,394	$ 1,391,626	$ 1,295,748	$ 1,641,003	$ 2,160,437
Authority's covered-employee payroll	$ 309,204	$ 368,432	$ 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	43.21%	39.70%	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	69.13%	70.95%	66.14%	38.15%	38.38%	29.47%	30.92%	27.32%	24.40%

	FY 2025	FY 2024	FY 2023	FY 2022	FY 2021	FY 2020	FY 2019	FY 2018	FY 2017
Corporation's proportion of the net OPEB liability	0.469186%	0.514890%	0.636196%	0.717742%	0.534471%	0.800634%	0.819901%	0.849297%	0.833570%
Corporation's proportionate share of the net OPEB liability	$ 4,014,363	$ 3,722,908	$ 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	$ 10,570,302	$ 10,349,396	$ 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	37.98%	35.97%	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	69.13%	70.95%	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	$ 855,601,000	$ 723,049,000	$ 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	$ 1,915,732,000	$ 1,765,729,000	$ 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	$ 2,771,333,000	$ 2,488,778,000	$ 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, 2026

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

	FY 2025	FY 2024	FY 2023	FY 2022	FY 2021	FY 2020	FY 2019	FY 2018	FY 2017
Authority's contractually required contribution	$ 4,794	$ 26,135	$ 37,086	$ 55,079	$ 90,764	$ 96,906	$ 105,724	$ 88,978	$ 110,776
Authority's contributions in relation to the contractually required contribution	(4,794)	(26,135)	(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	$ 309,204	$ 368,432	$ 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	1.55%	7.09%	8.04%	9.99%	11.15%	12.40%	12.40%	8.41%	8.35%

	FY 2025	FY 2024	FY 2023	FY 2022	FY 2021	FY 2020	FY 2019	FY 2018	FY 2017
Corporation's contractually required contribution	$ 161,846	$ 605,710	$ 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	(161,846)	(605,710)	(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	$ 10,570,302	$ 10,349,396	$ 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	1.53%	5.85%	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 Employers' Contributions
June 30, 2026

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

Actuarial valuation date	June 30, 2023
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	2.50%
Payroll growth	0.00%
Investment rate of return	6.50%
Healthcare Trend Rates Pre-65	Initial trend starting at 6.80% at January 1, 2025, 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 8.50% at January 1, 2025 and gradually decreasing to an ultimate trend rate of 4.05% over a period of 11 years.

Required Supplementary Information
KHEAA
Budgetary Comparison Schedule
Governmental Fund
for the Year Ended June 30, 2026

	Budgeted Amounts		Variance with Original Budget-- over (under)	Actual Amounts Budgetary (and GAAP)	Variance with Final Budget-- over (under)
	Original	Final	Final Budget	Basis	Actual Amounts
BUDGETARY REVENUES					
Kentucky Tuition Grant	$ 46,475,000	$ 49,985,399	$ 3,510,399	$ 49,985,399	$
College Access Program Grant	249,357,300	247,470,088	(1,887,212)	247,470,088	
Early Graduation Scholarship	575,000	575,000		575,000	
Early Childhood Development Scholarship		3,000,700	3,000,700	3,000,700	
Kentucky National Guard Tuition Award Program	7,448,100	8,467,824	1,019,724	8,467,824	
Kentucky Educational Excellence Scholarship	115,790,200	117,235,833	1,445,633	117,235,833	
Teacher Scholarship	2,350,000	3,612,686	1,262,686	3,612,686	
Student Teacher Stipend Program	7,300,000	7,306,200	6,200	7,306,200	
Teacher Recruitment Student Loan Forgiveness Pilot Program	10,000,000	11,464,867	1,464,867	11,464,867	
Dual Credit Scholarship Program	19,490,100	30,591,974	11,101,874	30,591,974	
Work Ready Kentucky Scholarship Program	20,400,500	13,750,500	(6,650,000)	13,750,500	
Veterinary Contract Spaces Program	5,800,400	6,745,217	944,817	6,745,217	
Kentucky Rural Veterinarian Loan Repayment Program		1,093,800	1,093,800	1,093,800	
Optometry Scholarship Program	848,400	925,378	76,978	925,378	
Coal County Scholarship Program for Pharmacy Students	200,000	200,000		200,000	
Innovative Scholarship Pilot Project	5,000,000	3,784,551	(1,215,449)	3,784,551	
John R. Justice Grant	86,000	86,000		86,000	
Total budgetary revenues	$ 491,121,000	$ 506,296,017	$ 15,175,017	$ 506,296,017	$
BUDGETARY EXPENDITURES					
Current:					
Kentucky Tuition Grant	$ 46,475,000	$ 49,985,399	$ 3,510,399	$ 48,164,077	$ (1,821,322)
College Access Program Grant	249,357,300	247,470,088	(1,887,212)	231,552,689	(15,917,399)
Early Graduation Scholarship	575,000	575,000		171,975	(403,025)
Early Childhood Development Scholarship		3,000,700	3,000,700	2,396,353	(604,347)
Kentucky National Guard Tuition Award Program	7,448,100	8,467,824	1,019,724	8,389,281	(78,543)
Kentucky Educational Excellence Scholarship	115,790,200	117,235,833	1,445,633	116,915,491	(320,342)
Teacher Scholarship	2,350,000	3,612,686	1,262,686	2,696,199	(916,487)
Student Teacher Stipend Program	7,300,000	7,306,200	6,200	6,445,000	(861,200)
Teacher Recruitment Student Loan Forgiveness Pilot Program	10,000,000	11,464,867	1,464,867	6,704,859	(4,760,008)
Dual Credit Scholarship Program	19,490,100	30,591,974	11,101,874	30,241,186	(350,788)
Work Ready Kentucky Scholarship Program	20,400,500	13,750,500	(6,650,000)	12,819,287	(931,213)
Veterinary Contract Spaces Program	5,800,400	6,745,217	944,817	5,895,439	(849,778)
Kentucky Rural Veterinarian Loan Repayment Program		1,093,800	1,093,800	50,000	(1,043,800)
Optometry Scholarship Program	848,400	925,378	76,978	889,000	(36,378)
Coal County Scholarship Program for Pharmacy Students	200,000	200,000		195,000	(5,000)
Innovative Scholarship Pilot Project	5,000,000	3,784,551	(1,215,449)	3,681,516	(103,035)
John R. Justice Grant	86,000	86,000			(86,000)
Total budgetary expenditures	$ 491,121,000	$ 506,296,017	$ 15,175,017	$ 477,207,352	$ (29,088,665)
Net change in fund balance				29,088,665	29,088,665
Budgetary fund balance-beginning of period, Restated	48,959,974	48,959,974		48,959,974	
Budgetary fund balance-end of period	$ 48,959,974	$ 48,959,974	$	78,048,639	$ 29,088,665

RECONCILIATION TO GAAP BASIS

Plus: Revenues recognized for GAAP purposes but not included in the budgetary basis	1,814,651
Plus: Disbursements for Conversion Loan Scholarships	8,088,049
Less: FY 2025 Continuing Appropriations included in budgetary basis, recognized as revenue in prior year	(11,575,017)
Less: Restricted and federal allotment not recognized as revenue	(3,711,000)
Total fund balance GAAP basis	$ 72,665,322

Required Supplementary Information
Note to Budgetary Comparison Schedule

Significant Variations

Original Budget to Final Budget

The final budget amounts for both budgetary revenues and budgetary expenditures for KHEAA's Governmental Fund each totaled $506,296,017 which is $15,175,017 more than their original budgeted amount of $491,121,000. This difference represents a 3.13% increase over the original budgeted amount. The total $15.18 million increase is derived from eleven programs that had an aggregate gross increase of $24.93 million net of three programs that had an aggregate gross decrease of $9.75 million. In general, changes from original budget to final budget are not uncommon and occur as a result of the addition of continuing appropriation and necessary adjustments to meet specific program needs since award offers are extended prior to the start of the school year and based on anticipated enrollment. More specifically, the largest changes occurred within the Dual Credit Scholarship Program and the Work Ready Kentucky Scholarship Program that increased and decreased by $11.1 million and $6.7 million, respectively. These changes were attributable to growth in the number of high school students enrolling in dual credit coursework and transfers needed to cover those obligations.

Final Budget to Actual Results

The actual amounts for budgetary expenditures were less than the final budgetary expenditures by $29,088,665. The two largest decreases were associated with the College Access Program Grant and the Teacher Recruitment Student Loan Forgiveness Pilot Program with decreases of $15.92 million and $4.76 million, respectively. The College Access Program Grant decrease was primarily attributable to awards being offered to potentially eligible students who either did not follow through with enrollment, enrolled part-time and did not utilize the full amount, or were determined ineligible by their postsecondary institution. The Teacher Recruitment Student Loan Forgiveness Pilot Program decrease was a result of a significant continuing appropriation when the program was enacted during the 2024 session that has continued in combination with new base appropriation during the early years of the program. All eligible students were funded.

Independent Auditors' Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*

Independent Auditors' Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by Comptroller General of the United States, the 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, 2026, and the related notes to the financial statements, which collectively comprise the Authority/Corporation's combined financial statements and have issued our report thereon dated September 24, 2026. Our report includes a reference to other auditors who audited the financial statements of the Kentucky Educational Savings Plan Trust, as described in our report on the Authority/Corporation's combined financial statements. This report does not include the results of the other auditors' testing of internal control over financial reporting or compliance and other matters that are reported on separately by those auditors.

Report on Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered on the Authority/Corporation's internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of on the Authority/Corporation's internal control. Accordingly, we do not express an opinion on the effectiveness of on the Authority/Corporation's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Report on Compliance and Other Matters

As part of obtaining reasonable assurance about whether on the Authority/Corporation's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the financial statements. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of This Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

LBMC, PC

Louisville, Kentucky
September 24, 2026