

Combined Financial Statements
and Required Supplementary Information

2020

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

June 30, 2020



Combined Financial Statements
and Required Supplementary Information

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

June 30, 2020

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Independent Auditors' Report

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

Report on the Financial Statements

We have audited the accompanying combined financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the Kentucky Higher Education Assistance Authority and the Kentucky Higher Education Student Loan Corporation (the "Authority/Corporation"), component units of the Commonwealth of Kentucky, as of and for the year ended June 30, 2020, and the related notes to the financial statements, which collectively comprise the Authority/Corporation's combined financial statements as listed in the accompanying table of contents.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

Our responsibility is to express opinions on these combined financial statements based on our audit. We did not audit the financial statements of Kentucky Education Savings Plan Trust, which statements reflect total assets of \$217,021,725 as of June 30, 2020, and an increase to fiduciary net position of \$387,144 for the year ended June 30, 2020. Those financial statements were audited by other auditors whose reports have been furnished to us, and our opinion, insofar as it relates to the amounts included for Kentucky Education Savings Plan Trust, is solely based on the reports of the other auditors. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the combined financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of

the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the combined financial statements.

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

Opinions

In our opinion, based on our audit and the report of other auditors, the combined financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the Authority/Corporation as of June 30, 2020, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis (unaudited) on pages 3 through 14 and the required supplemental information on pages 75 through 80 be presented to supplement the basic combined financial statements. Such information, although not a part of the basic combined financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the combined financial statements in an appropriate operational, economic, or historical context. We and other auditors have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic combined financial statements, and other knowledge we obtained during our audit of the basic combined financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued a report dated September 24, 2020, on our consideration of the Authority/Corporation's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Authority/Corporation's internal control over financial reporting and compliance.

STROTSMAN AND COMPANY

Louisville, Kentucky
September 24, 2020

Management's Discussion and Analysis (Unaudited)

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

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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 borrowers who are refinancing as part of the Advantage Loan Program, 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 fourteen student aid programs.

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

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

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

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

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

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

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

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

Industry Update

The Health Care and Education Reconciliation Act ("HCERA") of 2010 (H.R.4872/Public Law 111-152) was signed into law on March 30, 2010. HCERA eliminated the origination and/or guarantee of FFELP loans, effective July 1, 2010. In accordance with HCERA, the Authority/Corporation continues to provide guarantee services on \$2.1 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 \$990 million of FFELP loans and other education loans. The Authority/Corporation can no longer originate, guarantee or fund any newly originated FFELP loans; however, the Authority/Corporation does continue to look for opportunities to mitigate the impact of the runoff of the FFELP legacy loan portfolio through Advantage Loan Program growth and through the acquisition of FFELP (rehabilitation) loans and additional FFELP guarantees.

The Authority/Corporation plans to leverage its experience collecting defaulted FFELP and Direct Loans to become one of the Private Collection Agencies ("PCA") selected by ED as part of future PCA Request for Proposal processes. In anticipation of future PCA selection processes, the Authority/Corporation sought and received state legislative approval from the Commonwealth of Kentucky to create the Asset Resolution Corporation ("ARC") as the entity that would contract with ED to become a PCA. ARC was created by the Kentucky General Assembly effective July 12, 2012. During Fiscal Year 2021, ARC will contractually formalize FFELP & Advantage loan collection activities, shared staff, support services that will result in revenues and expenses being recognized for ARC during such fiscal year.

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

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As it relates to currently known facts, decisions or conditions that either are expected to, or could, have a significant effect on financial position or results of operations, there are three items worthy of disclosure. First, the Authority/Corporation will continue to monitor the financial and operational impact of the novel coronavirus ("COVID-19") pandemic. The United States Congress has enacted several COVID-19-related bills, including the Coronavirus Aid, Relief, and Economic Security Act, signed into law on March 27, 2020, the Paycheck Protection and Health Care Enhancement Act, signed into law on April 24, 2020 and the Student Veteran Coronavirus Response Act, signed into law on April 28, 2020 (collectively, the "CARES Acts"), that authorize numerous measures in response to the economic effects of the COVID-19 Pandemic. Such measures include, for six months, the scheduled payment of federally owned education loans, including federally owned FFELP Loans and loans originated under the Federal Direct Student Loan Program, and from certain other federal higher education aid requirements. The original six-month suspension, without interest, of student loan payments for federally owned education loans was extended until December 31, 2020 by an executive order in early August. Certain other legislation has been proposed as well, some of which would directly affect the payment performance of privately held portfolios of FFELP Loans and numerous other provisions that might indirectly affect such performance and the administrative and servicing costs and revenues associated with FFELP loans and other post-secondary education loans. There can be no assurance as to whether any proposed legislation will become law or, if it does become law, as to the nature of any changes to its current provisions or as to the timing of its enactment or implementation. In addition, there can also be no assurance as to the likelihood that any one or more of currently proposed provisions may not become law, in their current or in a modified form, by operation of other legislation.

Second, House Bill 1 of the Kentucky Legislature's 2019 Special Session froze the employer contribution rate for quasi-governmental agencies like the Corporation at the same rate for fiscal year 2020. The legislation provided four avenues for voluntary cessation of participation in the Kentucky Retirement System or the option to remain in the system for those agencies. Due to the COVID-19 pandemic, House Bill 352 of the 2020 Regular Session extended the freeze to the employer contribution rate for fiscal year 2021, allowing quasi-governmental agencies additional time to decide which of the four avenues to pursue. Potential further reforms to the Commonwealth's public employee pension funding provisions remain under legislative consideration; however, no assurance may be given as to the timing or content of any legislation that may result from such consideration. There also can be no assurance as to the level of contributions that the Corporation may be required to fund in future fiscal years or as to the potential effects of such contributions upon the Corporation's operations or upon market evaluation of the Corporation's bonds and notes.

Third, despite certain rating surveillance challenges associated with the student loan sector since 2015, the Authority/Corporation's Loan Finance operation has remained very active with recent financings closed in July 2018, April 2019 and August 2019. Some of the Authority/Corporation's bonds have been downgraded since 2015 due primarily to the concern by some rating agencies that certain FFELP Asset-Backed Security tranches will not fully pay down by their scheduled final maturity dates. This concern has been driven by an increase in the number of borrowers opting for extended repayment plans. The most widely available extended repayment plan is the Income-Based Repayment ("IBR") plan that caps borrower payments based on income and family size. The downgrades do not impact the cost of funds of the bonds. In addition, spreads have been reasonable since the large widening of spreads immediately subsequent to the 2015 actions.

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Although the cost of funds and spreads are stable, the Authority/Corporation has responded to the challenges these downgrades and other factors might present to some investors in its LIBOR floating rate notes. On June 15, 2020, the Corporation launched separate Consent Solicitations with respect to each of its Student Loan Asset-Backed Notes, Series 2013-1 and its Student Loan Asset-Backed Notes, Series 2013-2. On July 21, 2020, the Corporation launched separate Consent Solicitations with respect to each of its Student Loan Revenue Bonds, Series 2010-1, Class A-2 and its Student Loan Asset-Backed Notes, Series 2015-1. Each of these Consent Solicitations sought approval by the holders of the applicable Corporation issue of LIBOR floating rate notes (each, an "LFRN") of a First Supplemental Indenture (each, a "Supplemental Indenture") to amend the applicable Indenture of Trust securing the LFRN (each an "Indenture"). Each such amendment would permit the Corporation to redeem the applicable LFRN in whole, from any source, at its option within a one-year period following the first date upon which the Corporation had received sufficient holder consents to the Supplemental Indenture to satisfy Indenture requirements ("Requisite Consents" and a "Redemption Window"), at a redemption price of 100.0% of the principal amount of the LFRN so redeemed plus unpaid interest accrued to the date of redemption or, with respect to its Student Loan Revenue Bonds, Series 2010-1, Class A-2, at a redemption price of 100.33% of the principal amount of the LFRN so redeemed plus unpaid interest accrued to the date of redemption, as more specifically provided in each applicable Supplemental Indenture. Each such amendment would also permit the Corporation to sell some or all of the financed loans pledged under the applicable Indenture during the Redemption Window or, with respect to its Student Loan Asset-Backed Notes, Series 2013-1 and its Student Loan Asset-Backed Notes, Series 2013-2, thereafter, subject to certain restrictions as more specifically provided in each applicable Supplemental Indenture. The Corporation received the Requisite Consents for each of the Supplemental Indentures relating to its Student Loan Asset-Backed Notes, Series 2013-1 and its Student Loan Asset-Backed Notes, Series 2013-2 on July 13, 2020, received the Requisite Consents for the Supplemental Indenture relating to its Student Loan Asset-Backed Notes, Series 2015-1 on August 14, 2020 and received the Requisite Consents for the Supplemental Indenture relating to its Student Loan Revenue Bonds, Series 2010-1, Class A-2 on August 31, 2020.

Management's Discussion and Analysis (Unaudited)--Continued

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Overview of Financial Statements

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

The combined government-wide statement of net position and statement of activities include the Governmental Funds and Proprietary Funds. The combined government-wide financial statements can be found on pages 15 and 16 of this report. The combined fund financial statements can be found on pages 17 through 24 of this report.

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

The fiduciary fund statement of net position (deficit) and changes in fiduciary net position (deficit) can be found on pages 25 and 26 of this report.

The Trust publishes separate financial statements and footnotes.

To obtain a copy of the combined financial statements and footnotes, please contact the Authority at (502) 696-7421.

The following is a condensed summary of financial information for the years ended June 30, 2020 and 2019, respectively.

**Kentucky Higher Education Assistance Authority/
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	Governmental Fund		Proprietary Funds	
	2020	2019	2020	2019
Net Position Information				
Capital assets			\$ 5,946,828	\$ 6,326,963
Other assets	\$ 52,792,503	\$ 57,784,068	1,204,682,756	1,274,064,455
Total Assets	<u>52,792,503</u>	<u>57,784,068</u>	<u>1,210,629,584</u>	<u>1,280,391,418</u>
Deferred Outflows of Resources:				
Deferred OPEB expense			4,128,805	3,873,269
Deferred pension expense			10,708,875	14,560,641
Total Assets and Deferred Outflows of Resources	<u>52,792,503</u>	<u>57,784,068</u>	<u>1,225,467,264</u>	<u>1,298,825,328</u>
Long-term liabilities			969,223,777	1,018,879,652
Other liabilities	85,296	2,181	96,585,366	127,446,669
Deferred pension expense			6,103,287	2,880,078
Deferred OPEB expense			4,787,790	2,241,345
Deferred gain on debt retirements, net			11,133,705	12,813,159
Total Liabilities and Deferred Inflows of Resources	<u>85,296</u>	<u>2,181</u>	<u>1,087,833,925</u>	<u>1,164,260,903</u>
Invested in capital assets, net of expended debt proceeds			5,946,828	5,616,963
Unrestricted			(121,922,872)	(104,864,975)
Restricted, other			149,546,236	136,993,096
Restricted for program benefits	52,707,207	57,781,887		
Restricted for student aid and related activities			104,063,147	96,819,341
Total Net Position	<u>\$ 52,707,207</u>	<u>\$ 57,781,887</u>	<u>\$ 137,633,339</u>	<u>\$ 134,564,425</u>
Activity Information				
Interest and investment income fund	\$ 85,301	\$ 54,515	\$ 5,865,891	\$ 6,152,372
Student aid & advancement fund revenue	254,585,343	247,290,017		
Unclaimed lottery revenue	11,000,000	8,900,000		
Contributions from Agency Operating Fund	2,482,333	1,887,596		
Federal funds revenue		38,400		
Servicing Fees from external sources			131,863	158,701
Servicing Fees from Education Finance Funds			5,547,037	5,323,665
Debt recovery commission			18,235,667	20,816,199
Federal fees earned			1,160,979	933,558
Default aversion fee income			57,642	22,545
Interest income on loans			14,524,949	15,936,598
Amortization of deferred gain on debt retirements			1,679,454	1,799,930
Gain on the sale of loans			900,817	176,222
Late payment penalties			683,011	878,465
School Services			951,518	817,907
Other income	1,188,325	679,521	379,185	144,813
Total Revenue	<u>269,341,302</u>	<u>258,850,049</u>	<u>50,118,013</u>	<u>53,160,975</u>
Kentucky Tuition Grant	35,934,126	33,699,590		
College Access Program Grant	91,831,748	83,330,518		
Early Graduation Scholarship	317,581	380,708		
Early Childhood Development Scholarship	691,665	701,094		
Kentucky National Guard Tuition Award Program	7,436,818	7,362,601		
Kentucky Educational Excellence Scholarship	119,087,406	118,116,233		
Teacher Scholarship	279,056	377,099		
Osteopathic Medicine Scholarship	592,260	583,326		
Coal County Scholarship Program for Pharmacy Students	503,947	516,251		
Dual Credit Scholarship	5,592,524	5,485,545		
Work Ready Scholarship	11,417,784	6,842,099		
Kentucky Coal County College Completion Scholarship	731,067	2,244,019		
John R. Justice Grant		173,466		
Loan guarantee operations			2,195,527	4,170,380
Default collections			5,887,474	6,318,084
Loan finance and servicing activities			29,750,236	37,959,685
Outreach			3,446,536	3,833,105
Student aid administration			2,482,333	1,887,596
School services			3,047,300	2,763,796
Other activities			239,693	140,941
Total Expenditures	<u>274,415,982</u>	<u>259,812,549</u>	<u>47,049,099</u>	<u>57,073,587</u>
Change in Net Position	<u>\$ (5,074,680)</u>	<u>\$ (962,500)</u>	<u>\$ 3,068,914</u>	<u>\$ (3,912,612)</u>

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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, 2020. Please read it in conjunction with the Authority/Corporation's combined financial statements and notes to the combined financial statements, which follow this section.

Financial Overview

- The Authority/Corporation's proprietary fund total assets and deferred outflows decreased approximately \$73 million (5.7%), from \$1.30 billion to \$1.23 billion. The decrease was attributable primarily to decreases in cash and cash equivalents, investments and loans. Cash, cash equivalents and investments decreased approximately \$36 million due largely to the utilization of bond proceeds during FY2020 from an April 2019 bond transaction in support of Advantage Loans. Loans decreased approximately \$37 million from net loan runoff.
- The Authority/Corporation's proprietary fund liabilities and deferred inflows decreased \$76.4 million (6.6%) from \$1.16 billion to \$1.09 billion. The overall decrease in liabilities and deferred inflows was attributable to the net of various decreases and increases year over year with one large decrease being the most material. Long-term debt associated with bonds payable, direct placements and direct borrowings decreased approximately \$80 million. This decrease was a net normal bond payable runoff, the issuance of the 2019-1 notes and the maturity of a \$45 million line of credit. This net decrease was offset by a \$5.6 million increase in a payable to USDE primarily as a result of lower interest rates creating negative special allowance payable.
- The Authority/Corporation's proprietary fund revenues decreased \$3 million which is comprised primarily of a \$4 million decrease to debt recovery commissions and loan interest income net of various other net increases. See the condensed financial information schedule for Governmental Fund and Proprietary Funds for the detail of these variances year over year.
- The Authority/Corporation's total proprietary fund expenditures decreased approximately \$10 million (17.6%), due primarily to a \$2 million decrease in loan guarantee operation expense and an additional \$8.2 million decrease in loan finance and servicing related expense. The \$8.2 million decrease is related largely to lower expense from the changes in Net Pension and Net OPEB liabilities. See the condensed financial information schedule for Governmental Fund and Proprietary Funds for a detailed side by side comparison of expenditures for each business-type activity.

Management's Discussion and Analysis (Unaudited)--Continued

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- The Authority/Corporation's governmental fund assets decreased by approximately \$5 million due primarily to decreases in accounts receivable and noncurrent advances of \$4.46 million and \$492,000, respectively.
- The Authority/Corporation's governmental fund liabilities did not materially change year over year.
- The Authority/Corporation's governmental fund revenues increased approximately \$10.5 million (4.1%), resulting primarily from increases in student aid revenue and unclaimed lottery revenue of \$7.3 million and \$2.1 million, respectively.
- The Authority/Corporation's governmental fund expenditures increased approximately \$14.6 million (5.6%) resulting largely from increases in several student aid programs including, but not limited to, the following: \$2.2 million for Kentucky Tuition Grant, \$8.5 million for College Access Program Grant, \$971,000 for Kentucky Educational Excellence Scholarships and \$4.6 million for Work Ready Scholarship. These increases were offset by a \$1.5 million decrease in the Coal County College Completion Scholarship and the net of several other smaller variances. See the condensed financial information schedule for Governmental Fund and Proprietary Funds for a detailed side by side comparison of Governmental Fund expenditures.

Combined Statement of Net Position – Governmental Fund and Proprietary Funds

Total governmental net position decreased from \$57.8 million to \$52.7 million. Total proprietary fund net position increased \$3.1 million comprised of a \$12.3 million increase from default collection operations (compared to a \$14.5 million increase in prior year), \$3.3 million increase from loan guarantee operations (compared to \$803,000 million increase in prior year), \$3.4 million contribution for outreach activities (compared to \$3.8 million contribution in prior year), \$2.5 million contribution for student aid administration (compared to \$1.9 million in prior year), \$4.5 million loss in loan finance and servicing activities (compared to \$11.5 million loss in prior year), and \$2.1 million contribution for school services (compared to \$1.9 million in prior year).

Certain highlights related to the combined statement of net position as of June 30, 2020, are as follows:

- The Authority/Corporation maintained \$2.1 billion of FFELP guarantees outstanding.
- The Authority/Corporation owned and serviced \$990 million of FFELP loans and education loans.
- The Authority/Corporation maintained \$461 million of defaulted loan principal in its collection portfolio.
- Unrestricted net position is presented as a negative amount reflecting the overall decrease to the Corporation's Operating Fund net position due to GASB 68 and 75.

Management's Discussion and Analysis (Unaudited)--Continued

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- Net position, restricted other, increased from \$137 million to \$149.5 million due primarily to the overcollateralization contribution related to the 2019-1 transaction as well as Education Finance Fund net earnings on loans.
- Net position restricted for student aid and related activities increased from \$96.8 million to \$104.1 million.

Combined Statement of Revenues, Expenses and Changes in Net Position

The \$3.1 million increase in proprietary fund net position during fiscal year 2020 was \$7 million more than the \$3.9 million decrease during fiscal year 2019. The overall increase in proprietary fund net position was attributable to the net of a \$7.6 million increase for the Authority and a \$4.5 million decrease for the Corporation. The Authority's increase of \$7.6 million was approximately the same as the prior year increase. The Corporation's loss was largely due to increased pension and OPEB expense. Another critical highlight related to the combined statement of revenues, expenses and changes in net position for the year ended June 30, 2020 is the \$9.1 million of program benefits provided by the Authority/Corporation. The majority of these program benefits directly benefited the citizens of the Commonwealth of Kentucky.

Management's Discussion and Analysis (Unaudited)

**Kentucky Higher Education Assistance Authority/
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	Federal Student Loan Reserve Fund		Kentucky's Affordable Prepaid Tuition		Kentucky Education Savings Plan Trust	
	2020	2019	2020	2019	2020	2019
Net Position Information						
Other assets	\$ 26,030,943	\$ 24,099,779	\$ 44,835,035	\$ 58,466,533	\$ 217,021,725	\$ 216,182,145
Total Assets	26,030,943	24,099,779	44,835,035	58,466,533	217,021,725	216,182,145
Total Liabilities	545,995	173,713	78,804,442	96,203,553	661,416	208,980
Restricted net position (deficit)	25,484,948	23,926,066	(33,969,407)	(37,737,020)	216,360,309	215,973,165
Total Net Position	\$ 25,484,948	\$ 23,926,066	\$ (33,969,407)	\$ (37,737,020)	\$ 216,360,309	\$ 215,973,165
Changes in Fiduciary Net Position Information						
Federal reinsurance Contributions	\$ 93,909,566	\$ 90,422,714	\$ 91,778	\$ 184,355	\$ 19,049,833	\$ 54,578,909
Investment revenue	192,466	259,987	2,112,620	3,815,872	4,637,673	8,814,334
Other income	1,278,268	1,678,930				
Total Additions	95,380,300	92,361,631	2,204,398	4,000,227	23,687,506	63,393,243
Administrative expenses			263,955	422,429	879,529	892,995
Refunds			2,187,352	2,452,259		
Trustee expense			99,478	133,662		
Tuition benefits expense (savings), net			(4,114,000)	1,351,446		
Loan claims	93,763,776	90,252,342				
Redemptions					22,420,833	58,203,372
Default aversion	57,642	22,545				
Total Deductions	93,821,418	90,274,887	(1,563,215)	4,359,796	23,300,362	59,096,367
Change in Net Position	\$ 1,558,882	\$ 2,086,744	\$ 3,767,613	\$ (359,569)	\$ 387,144	\$ 4,296,876

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

June 30, 2020

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, 2020. 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

- Loan claims paid increased from \$90.3 million in fiscal year 2019 to \$93.8 million in fiscal year 2020 (3.9% increase).
- The Plan noted a decrease in the Net Deficit of approximately \$3.7 million in fiscal year 2020, due primarily to the net of several different factors including the following: gains due to favorable tuition inflation and investment experience, certain changes in program assumptions, other program experience during FY 2020 and interest on the deficit at an assumed rate of return.

Statement of Fiduciary Net Position (Deficit)

The FSLRF net position increased \$1.6 million over ending net position in the prior year. Assets increased by approximately \$1.9 million while liabilities increased \$373,000. 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 S). Therefore, the Authority/Corporation has not recorded a reserve at June 30, 2020 for losses on federal reinsurance. The reinsurance complement to the FSLRF for collections of defaulted student loans has subsequently resulted in year over year increases to the FSLRF net position.

The Plan's total assets decreased \$13.6 million, from \$58.5 million as of June 30, 2019 to \$44.8 million as of June 30, 2020. Total liabilities decreased \$17.4 million from \$96.2 million to \$78.8 million. Detail related to tuition and investment return assumptions, as applicable, include the following:

- 2020-thereafter – The investment yield assumption is based on estimates of the yields that will be available on the investment portfolio and cash and cash equivalents. The gross investment yield assumption utilized in the calculation of the tuition benefit payable is based on an investment glide path approach for the Plan. The investments in the Plan will change over time to asset allocations that will reduce equity exposure and try to preserve investment gains. A glide path approach should better match projected payouts as the value of the Plan's assets continues to move closer to its depletion date.
- As of June 30, 2020, the actual tuition increase for the 2020-2021 academic year will be 2.7% for the Value Plan and 1% for the Standard Plan and Premium Plan. The tuition increase assumption for each year thereafter through 2028, when all current participant standard utilization periods expire, will be 4.75%.

Management's Discussion and Analysis (Unaudited)--Continued

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

June 30, 2020

The Trust is an Internal Revenue Code 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 \$387,000 during the year. See the condensed financial information schedule for Fiduciary Funds on page 12 for a detailed side by side comparison of the Trust's revenues and expenses.

Statement of Changes in Fiduciary Net Position (Deficit)

The FSLRF net position increased \$1.6 million over ending net position in the prior year. Assets increased by approximately \$1.9 million while liabilities increased \$373,000. As noted above, the reinsurance complement to the FSLRF for collections of defaulted student loans has subsequently resulted in year over year increases to the FSLRF net position.

The Plan noted a decrease in the Net Deficit of approximately \$3.7 million in fiscal year 2020, due primarily to the net of several different factors including the following: gains due to favorable tuition inflation and investment experience, certain changes in program assumptions, other program experience during FY 2020 and interest on the deficit at an assumed rate of return.

Combined Government-Wide Statement of Net Position

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

June 30, 2020

ASSETS	Governmental Activities	Business-Type Activities	Total
Current:			
Cash and cash equivalents	\$ 6,431,099	\$ 32,213,089	\$ 38,644,188
Accounts receivable and prepaid expenses	38,024,193	908,778	38,932,971
Receivable from U.S. Department of Education		360,000	360,000
Accrued interest income		28,145,557	28,145,557
Investments		1,831,082	1,831,082
Scholarship conversion loans receivable	450,000		450,000
Loans, net		96,212,735	96,212,735
Total Current Assets	44,905,292	159,671,241	204,576,533
Noncurrent:			
Restricted cash and cash equivalents		71,637,276	71,637,276
Investments		96,808,930	96,808,930
Receivable from Federal Student Loan Reserve Fund		248,220	248,220
Fixed assets, net		5,946,828	5,946,828
Loans, net		868,080,143	868,080,143
Scholarship conversion loans receivable, net	3,925,534		3,925,534
Scholarship advances receivable	3,961,677		3,961,677
Accrued interest income, net		8,236,946	8,236,946
Total Noncurrent Assets	7,887,211	1,050,958,343	1,058,845,554
Total Assets	52,792,503	1,210,629,584	1,263,422,087
Deferred Outflows of Resources:			
Deferred OPEB expense		4,128,805	4,128,805
Deferred pension expense		10,708,875	10,708,875
Total Assets and Deferred Outflows of Resources	52,792,503	1,225,467,264	1,278,259,767
LIABILITIES			
Current:			
Accounts payable and accrued expenses	85,296	7,108,575	7,193,871
Accrued interest expense		1,277,408	1,277,408
Payable to US Department of Education		5,598,783	5,598,783
Direct borrowing		72,510,600	72,510,600
Bonds payable		10,090,000	10,090,000
Total Current Liabilities	85,296	96,585,366	96,670,662
Noncurrent:			
Allowance for arbitrage liabilities		478,122	478,122
Net OPEB liability		19,521,295	19,521,295
Net pension liability		124,027,075	124,027,075
Direct placements		266,225,490	266,225,490
Bonds payable, net		558,971,795	558,971,795
Total Noncurrent Liabilities		969,223,777	969,223,777
Total Liabilities	85,296	1,065,809,143	1,065,894,439
Deferred Inflows of Resources:			
Deferred pension expense		6,103,287	6,103,287
Deferred OPEB expense		4,787,790	4,787,790
Deferred gain on debt retirements, net		11,133,705	11,133,705
Total Liabilities and Deferred Inflows of Resources	85,296	1,087,833,925	1,087,919,221
NET POSITION			
Invested in capital assets, net of expended debt proceeds		5,946,828	5,946,828
Restricted, other		149,546,236	149,546,236
Restricted for program benefits	52,707,207		52,707,207
Restricted for student aid and related activities		104,063,147	104,063,147
Unrestricted		(121,922,872)	(121,922,872)
Total Net Position	\$ 52,707,207	\$ 137,633,339	\$ 190,340,546

Combined Government-Wide Statement of Activities

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

For the Year Ended June 30, 2020

			Program Revenue		Net (Expenses) Revenues and Changes in Net Position		
	Direct Expenses	Indirect Expenses	Charges for Services	Operating Grants and Contributions	Governmental Activities	Business-Type Activities	Total
Governmental Activities:							
Kentucky Tuition Grant	\$ 35,730,306	\$ 203,820		\$ 44,518,079	\$ 8,583,953		\$ 8,583,953
College Access Program Grant	91,627,928	203,820		88,111,591	(3,720,157)		(3,720,157)
Early Graduation Scholarship	122,000	195,581		317,581			
Early Childhood Development Scholarship	487,845	203,820		465,376	(226,289)		(226,289)
Kentucky National Guard Tuition Award Program	7,232,998	203,820		7,628,536	191,718		191,718
Kentucky Educational Excellence Scholarship	118,848,634	238,772		119,066,592	(20,814)		(20,814)
Teacher Scholarship	75,236	203,820		60,174	(218,882)		(218,882)
Dual Credit Scholarship Program	5,374,390	218,134		5,289,018	(303,506)		(303,506)
Osteopathic Medicine Scholarship	389,539	202,721		386,925	(205,335)		(205,335)
Work Ready Scholarship	11,199,650	218,134		3,061,911	(8,355,873)		(8,355,873)
Coal County Scholarship Program for Pharmacy Students	310,738	193,209		237,952	(265,995)		(265,995)
Kentucky Coal County College Completion Program	534,385	196,682		197,567	(533,500)		(533,500)
Total Governmental Activities	271,933,649	2,482,333		269,341,302	(5,074,680)		(5,074,680)
Business-Type Activities:							
Loan guarantee operations	2,195,527		\$ 5,459,165			\$ 3,263,638	3,263,638
Default collections	5,887,474		18,235,667			12,348,193	12,348,193
Loan finance and servicing activities	29,750,236		25,231,970			(4,518,266)	(4,518,266)
Outreach	3,446,536					(3,446,536)	(3,446,536)
Student aid administration	2,482,333					(2,482,333)	(2,482,333)
School services	3,047,300		951,518			(2,095,782)	(2,095,782)
Other activities	239,693		239,693				
Total Business-Type Activities	47,049,099		50,118,013			3,068,914	3,068,914
Total Activities	\$ 318,982,748	\$ 2,482,333	\$ 50,118,013	\$ 269,341,302	(5,074,680)	3,068,914	(2,005,766)
Change in Net Position					(5,074,680)	3,068,914	(2,005,766)
Net Position, July 1, 2019					57,781,887	134,564,425	192,346,312
Net Position, June 30, 2020					\$ 52,707,207	\$ 137,633,339	\$ 190,340,546

Combined Statement of Net Position - Proprietary Funds

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

June 30, 2020

	Authority			Corporation			Combined
	Internal Service Fund	Agency Operating Fund	Authority Total	Education Finance Funds	Operating Fund	Corporation Total	Total
ASSETS							
Current:							
Cash and cash equivalents	\$ 3,024,481	\$ 14,818,196	\$ 17,842,677		\$ 14,370,412	\$ 14,370,412	\$ 32,213,089
Investments		1,831,082	1,831,082				1,831,082
Accounts receivable and prepaid expenses		231,410	231,410		677,368	677,368	908,778
Accrued interest income		411,540	411,540	\$ 22,979,694	4,754,323	27,734,017	28,145,557
Receivable from U.S. Department of Education Loans, net		360,000	360,000				360,000
				85,625,041	10,587,694	96,212,735	96,212,735
Total Current Assets	3,024,481	17,652,228	20,676,709	108,604,735	30,389,797	138,994,532	159,671,241
Noncurrent:							
Restricted cash and cash equivalents				71,637,276		71,637,276	71,637,276
Investments		87,478,794	87,478,794		9,330,136	9,330,136	96,808,930
Fixed assets, net		5,661,627	5,661,627		285,201	285,201	5,946,828
Loans, net				805,070,698	63,009,445	868,080,143	868,080,143
Receivable from Federal Student Loan Reserve Fund		248,220	248,220				248,220
Accrued interest income, net				6,516,053	1,720,893	8,236,946	8,236,946
Total Noncurrent Assets		93,388,641	93,388,641	883,224,027	74,345,675	957,569,702	1,050,958,343
Total Assets	3,024,481	111,040,869	114,065,350	991,828,762	104,735,472	1,096,564,234	1,210,629,584
Deferred Outflows of Resources:							
Deferred OPEB expense		289,024	289,024		3,839,781	3,839,781	4,128,805
Deferred pension expense		882,096	882,096		9,826,779	9,826,779	10,708,875
Total Deferred Outflows		1,171,120	1,171,120		13,666,560	13,666,560	14,837,680
Total Assets and Deferred Outflows of Resources	3,024,481	112,211,989	115,236,470	991,828,762	118,402,032	1,110,230,794	1,225,467,264

Combined Statement of Net Position - Proprietary Funds

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

June 30, 2020

	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	864,065	1,163,750	2,027,815	578,042	4,502,718	5,080,760	7,108,575
Interfund payable (receivable)	2,160,416	(2,048,315)	112,101	(5,955,485)	5,843,384	(112,101)	
Accrued interest expense				1,227,559	49,849	1,277,408	1,277,408
Payable to U.S. Department of Education				5,201,126	397,657	5,598,783	5,598,783
Direct borrowing					72,510,600	72,510,600	72,510,600
Bond Payable				10,090,000		10,090,000	10,090,000
Total Current Liabilities	3,024,481	(884,565)	2,139,916	11,141,242	83,304,208	94,445,450	96,585,366
Noncurrent:							
Net OPEB liability		1,295,748	1,295,748		18,225,547	18,225,547	19,521,295
Net pension liability		8,232,439	8,232,439		115,794,636	115,794,636	124,027,075
Interfund payable (receivable)		(8,173,360)	(8,173,360)		8,173,360	8,173,360	
Allowance for arbitrage liabilities				478,122		478,122	478,122
Direct placements				266,225,490		266,225,490	266,225,490
Bonds payable, net				558,971,795		558,971,795	558,971,795
Total Noncurrent Liabilities		1,354,827	1,354,827	825,675,407	142,193,543	967,868,950	969,223,777
Total Liabilities	3,024,481	470,262	3,494,743	836,816,649	225,497,751	1,062,314,400	1,065,809,143
Deferred Inflows of Resources:							
Deferred pension expense		1,368,685	1,368,685		4,734,602	4,734,602	6,103,287
Deferred OPEB expense		648,268	648,268		4,139,522	4,139,522	4,787,790
Deferred gain on debt retirements, net				11,133,705		11,133,705	11,133,705
Total Liabilities and Deferred Inflows of Resources	3,024,481	2,487,215	5,511,696	847,950,354	234,371,875	1,082,322,229	1,087,833,925
NET POSITION							
Invested in capital assets, net		5,661,627	5,661,627		285,201	285,201	5,946,828
Restricted, other				143,878,408	5,667,828	149,546,236	149,546,236
Restricted for student aid and related activities		104,063,147	104,063,147				104,063,147
Unrestricted					(121,922,872)	(121,922,872)	(121,922,872)
Total Net Position	\$	\$ 109,724,774	\$ 109,724,774	\$ 143,878,408	\$ (115,969,843)	\$ 27,908,565	\$ 137,633,339

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, 2020

	Authority			Corporation			Combined
	Internal Service Fund	Agency Operating Fund	Authority Total	Education Finance Funds	Operating Fund	Corporation Total	Total
Operating Revenues:							
Interest Revenues:							
Interest on loans				\$ 37,412,541	\$ 2,404,871	\$ 39,817,412	\$ 39,817,412
Interest and investment income		\$ 4,103,735	\$ 4,103,735	1,303,786	458,370	1,762,156	5,865,891
Amortization of deferred gain on debt retirements				1,679,454		1,679,454	1,679,454
Interest expense on bonds				(24,064,640)	(1,227,823)	(25,292,463)	(25,292,463)
Total Net Interest Revenues		4,103,735	4,103,735	16,331,141	1,635,418	17,966,559	22,070,294
Financing Expenses:							
Provision for loan losses				1,629,774	(366,137)	1,263,637	1,263,637
Provision for arbitrage				63,675		63,675	63,675
Long-term debt credit facility and remarketing fees				22,500	44,793	67,293	67,293
Debt issuance costs				618,239		618,239	618,239
Total Financing Expenses				2,334,188	(321,344)	2,012,844	2,012,844
Interest Revenues Net of Financing Expenses		4,103,735	4,103,735	13,996,953	1,956,762	15,953,715	20,057,450
Other Operating Revenues:							
Servicing fees from external sources					131,863	131,863	131,863
Servicing fees from Education Finance Funds					5,547,037	5,547,037	5,547,037
Debt recovery commission		18,235,667	18,235,667				18,235,667
Federal fees earned		1,160,979	1,160,979				1,160,979
Default aversion fee income		57,642	57,642				57,642
Gain on sale/purchase of loans				105,629	795,188	900,817	900,817
Late payment penalties				671,470	11,541	683,011	683,011
School services		951,518	951,518				951,518
Other income	\$ 239,693	136,809	376,502		2,683	2,683	379,185
Total Operating Revenues	239,693	24,646,350	24,886,043	14,774,052	8,445,074	23,219,126	48,105,169

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, 2020

	Authority			Corporation			Combined
	Internal Service Fund	Agency Operating Fund	Authority Total	Education Finance Funds	Operating Fund	Corporation Total	Total
Operating Expenses:							
Administrative expenses	239,693	7,540,056	7,779,749		21,049,860	21,049,860	28,829,609
Servicing fees for Operating Fund				5,547,037		5,547,037	5,547,037
Depreciation and amortization		360,958	360,958		212,497	212,497	573,455
Other expenses		181,987	181,987	243,456	559,520	802,976	984,963
Total Operating Expenses	<u>239,693</u>	<u>8,083,001</u>	<u>8,322,694</u>	<u>5,790,493</u>	<u>21,821,877</u>	<u>27,612,370</u>	<u>35,935,064</u>
Net Operating Income (Loss) Before Program Benefits		<u>16,563,349</u>	<u>16,563,349</u>	<u>8,983,559</u>	<u>(13,376,803)</u>	<u>(4,393,244)</u>	<u>12,170,105</u>
Program Benefits:							
Principal and interest benefits				125,022		125,022	125,022
School service		3,047,300	3,047,300				3,047,300
Outreach		3,446,536	3,446,536				3,446,536
Student aid administration		2,482,333	2,482,333				2,482,333
Total Program Benefits		<u>8,976,169</u>	<u>8,976,169</u>	<u>125,022</u>		<u>125,022</u>	<u>9,101,191</u>
Operating Income (Loss) Before Transfers		<u>7,587,180</u>	<u>7,587,180</u>	<u>8,858,537</u>	<u>(13,376,803)</u>	<u>(4,518,266)</u>	<u>3,068,914</u>
Transfers (to) from Other Funds							
Interfund transfers				4,878,583	(4,878,583)		
Increase (Decrease) in Net Position After Transfers		<u>7,587,180</u>	<u>7,587,180</u>	<u>13,737,120</u>	<u>(18,255,386)</u>	<u>(4,518,266)</u>	<u>3,068,914</u>
Net Position, July 1, 2019		<u>102,137,594</u>	<u>102,137,594</u>	<u>130,141,288</u>	<u>(97,714,457)</u>	<u>32,426,831</u>	<u>134,564,425</u>
Net Position, June 30, 2020	<u>\$ -</u>	<u>\$ 109,724,774</u>	<u>\$ 109,724,774</u>	<u>\$ 143,878,408</u>	<u>\$ (115,969,843)</u>	<u>\$ 27,908,565</u>	<u>\$ 137,633,339</u>

Combined Statement of Cash Flows - Proprietary Funds

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

For the Year Ended June 30, 2020

	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				\$ 156,239,316	\$ 8,648,986	\$ 164,888,302	\$ 164,888,302
Interest received on loans				26,568,080	2,230,373	28,798,453	28,798,453
Special allowance paid				(5,245,925)	(806,864)	(6,052,789)	(6,052,789)
Servicing fees received, internal sources	\$ (239,693)	\$ (366,743)	\$ (606,436)	(5,547,037)	5,547,037		(606,436)
School services fees received		951,518	951,518				951,518
Servicing fees received, external sources					163,387	163,387	163,387
Debt recovery commission received		18,235,667	18,235,667				18,235,667
Federal fees received		1,160,979	1,160,979				1,160,979
Default aversion fees received		57,642	57,642				57,642
Outreach		(3,446,536)	(3,446,536)				(3,446,536)
School services		(3,047,300)	(3,047,300)				(3,047,300)
Internal activity-payments to other funds	449,506	(449,506)		(1,603,830)	1,603,830		
Loans originated, including costs				(9,270,372)	(23,857,717)	(33,128,089)	(33,128,089)
Administrative expenses paid		(15,917,011)	(15,917,011)	(3,352,108)	(13,704,602)	(17,056,710)	(32,973,721)
Credit facility fees paid				(22,500)	(44,139)	(66,639)	(66,639)
Loans purchased, including premiums				(2,041,346)	(71,359,582)	(73,400,928)	(73,400,928)
Student aid administration		(2,482,333)	(2,482,333)				(2,482,333)
Interfund loan sales and purchases				(129,896,329)	129,896,329		
Client loan receipts					686,840	686,840	686,840
Loan receipts remitted to clients					(727,931)	(727,931)	(727,931)
Net Cash Provided By (Used In) Operating Activities	209,813	(5,303,623)	(5,093,810)	25,827,949	38,275,947	64,103,896	59,010,086
Cash Paid from Noncapital Financing Activities:							
Proceeds from debt issued				104,965,000	81,360,000	186,325,000	186,325,000
Debt principal payments				(140,590,000)	(125,451,464)	(266,041,464)	(266,041,464)
Interest on debt				(26,538,259)	(1,479,197)	(28,017,456)	(28,017,456)
Debt issuance costs				(618,239)		(618,239)	(618,239)
Interfund transfers				4,878,583	(4,878,583)		
Borrowing from the Authority					8,173,360	8,173,360	8,173,360
Net Cash Used In Noncapital Financing Activities				(57,902,915)	(42,275,884)	(100,178,799)	(100,178,799)
Cash Flows From Capital and Related Financing Activities:							
Capital expenditures		(373,286)	(373,286)		(198,988)	(198,988)	(572,274)
Interest paid on capital lease		(6,179)	(6,179)				(6,179)
Bond principal payments		(710,000)	(710,000)				(710,000)
Net Cash Used In Capital and Related Financing Activities		(1,089,465)	(1,089,465)		(198,988)	(198,988)	(1,288,453)
Cash Flows From Investing Activities:							
Proceeds from sales/maturities of investments		74,332,668	74,332,668		7,781,892	7,781,892	82,114,560
Purchases of investments		(77,485,391)	(77,485,391)		(8,108,008)	(8,108,008)	(85,593,399)
Investment income		3,334,587	3,334,587	1,480,775	379,351	1,860,126	5,194,713
Net Cash Provided By Investing Activities		181,864	181,864	1,480,775	53,235	1,534,010	1,715,874
Net Increase (Decrease) in Cash and Cash Equivalents	209,813	(6,211,224)	(6,001,411)	(30,594,191)	(4,145,690)	(34,739,881)	(40,741,292)
Cash and Cash Equivalents, July 1, 2019	2,814,668	21,029,420	23,844,088	102,231,467	18,516,102	120,747,569	144,591,657
Cash and Cash Equivalents, June 30, 2020	\$ 3,024,481	\$ 14,818,196	\$ 17,842,677	\$ 71,637,276	\$ 14,370,412	\$ 86,007,688	\$ 103,850,365

Combined Statement of Cash Flows - Proprietary Funds

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

For the Year Ended June 30, 2020

	Authority		Corporation			Combined	
	Internal Service Fund	Agency Operating Fund	Authority Total	Education Finance Funds	Operating Fund	Corporation Total	Total
Reconciliation of Operating Income to Net Cash Provided By (Used In) Operating Activities							
Operating income (loss) before transfers		\$ 7,587,180	\$ 7,587,180	\$ 8,858,537	\$ (13,376,803)	\$ (4,518,266)	\$ 3,068,914
Adjustments to reconcile operating income to net cash provided by (used in) operating activities:							
Investment income		(4,103,735)	(4,103,735)	(1,480,775)	(474,226)	(1,955,001)	(6,058,736)
Depreciation and amortization		739,912	739,912		212,497	212,497	952,409
Amortization of deferred gain on debt retirements				(1,679,454)		(1,679,454)	(1,679,454)
Amortization, expense and write-off of debt issuance costs				618,239		618,239	618,239
Interest expense		6,179	6,179	24,064,640	1,227,823	25,292,463	25,298,642
Provision for loan losses				1,629,774	(366,137)	1,263,637	1,263,637
Borrower interest converted to principal				(20,383,058)	(2,781,436)	(23,164,494)	(23,164,494)
Loan forgiveness				125,022		125,022	125,022
Pension expense		(1,237,158)	(1,237,158)		7,162,344	7,162,344	5,925,186
OPEB expense					151,660	151,660	151,660
(Increases) decreases in assets:							
Accounts receivables and prepaid expenses	\$ 46,510	(318,111)	(271,601)		64,156	64,156	(207,445)
Accrued interest receivable		(48,632)	(48,632)	(4,954,528)	1,384,484	(3,570,044)	(3,618,676)
Principal received on loans				156,239,316	8,648,986	164,888,302	164,888,302
Loans purchased, including premiums				(2,041,346)	(71,359,582)	(73,400,928)	(73,400,928)
Loans originated, including costs				(9,270,372)	(23,857,717)	(33,128,089)	(33,128,089)
Interfund loan sales and purchases				(129,896,329)	129,896,329		
Increases (decreases) in liabilities:							
Accounts payable and accrued expenses	126,824	26,572	153,396	(18,383)	(128,163)	(146,546)	6,850
Payable to U.S. Department of Education				5,556,821	267,902	5,824,723	5,824,723
Interfund receivable/payable	36,479	(7,949,651)	(7,913,172)	(1,603,830)	1,603,830		(7,913,172)
Accrued interest payable		(6,179)	(6,179)				(6,179)
Allowance for arbitrage liabilities				63,675		63,675	63,675
Net Cash Provided By (Used In) Operating Activities	\$ 209,813	\$ (5,303,623)	\$ (5,093,810)	\$ 25,827,949	\$ 38,275,947	\$ 64,103,896	\$ 59,010,086

Balance Sheet - Governmental Fund

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

June 30, 2020

ASSETS	Governmental Fund Student Aid
Current:	
Cash and cash equivalents	\$ 6,431,099
Accounts receivable	38,024,193
Scholarship conversion loans receivable	<u>450,000</u>
Total Current Assets	<u>44,905,292</u>
Noncurrent:	
Scholarship conversion loans receivable, net of allowance of \$3,191,000	3,925,534
Scholarship advances receivable	<u>3,961,677</u>
Total Noncurrent Assets	<u>7,887,211</u>
Total Assets	<u>52,792,503</u>
LIABILITIES	
Current:	
Accounts payable	<u>85,296</u>
Total Liabilities	<u>85,296</u>
FUND BALANCE	
Restricted for program benefits	<u><u>\$ 52,707,207</u></u>

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, 2020

	Governmental Fund
	Student Aid
Revenues:	
Interest and investment income fund	\$ 85,301
Unclaimed lottery revenue	11,000,000
State General Fund revenue	254,585,343
Other income	1,188,325
Contribution from Agency Operating Fund	2,482,333
	<hr/>
Total Revenues	269,341,302
	<hr/>
Expenditures:	
Kentucky Tuition Grant	35,934,126
College Access Program Grant	91,831,748
Early Graduation Scholarship	317,581
Early Childhood Development Scholarship	691,665
Kentucky National Guard Tuition Award Program	7,436,818
Kentucky Educational Excellence Scholarship	119,087,406
Teacher Scholarship	279,056
Osteopathic Medicine Scholarship	592,260
Coal County Scholarship Program for Pharmacy Students	503,947
Dual Credit Scholarship Program	5,592,524
Work Ready Scholarship	11,417,784
Kentucky Coal County College Completion Program	731,067
	<hr/>
Total Expenditures	274,415,982
	<hr/>
Net Change in Fund Balance	(5,074,680)
	<hr/>
Fund Balance, July 1, 2019	57,781,887
	<hr/>
Fund Balance, June 30, 2020	\$ 52,707,207
	<hr/> <hr/>

Statement of Fiduciary Net Position (Deficit)

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

June 30, 2020

ASSETS	Federal Student Loan Reserve Fund	Kentucky's Affordable Prepaid Tuition	Kentucky Education Savings Plan Trust
Current:			
Cash and cash equivalents	\$ 23,558,587	\$ 4,545,139	\$ 79,934
Contributions receivable		83,480	
Fees receivable		3,244	
Receivable from U.S. Department of Education	2,375,146		
Investments		40,169,888	216,941,151
Other current assets	97,210		640
Total Current Assets	26,030,943	44,801,751	217,021,725
Noncurrent:			
Contributions receivable		33,284	
Total Assets	26,030,943	44,835,035	217,021,725
LIABILITIES			
Current:			
Accounts payable	297,775	20,870	588,350
Accrued expenses			73,066
Tuition benefits payable		15,023,711	
Payable to Agency Operating Fund	248,220		
Total Current Liabilities	545,995	15,044,581	661,416
Noncurrent:			
Tuition benefits payable		63,759,861	
Total Liabilities	545,995	78,804,442	661,416
NET POSITION (DEFICIT)			
Restricted for program benefits		(33,969,407)	216,360,309
Restricted for other purposes	25,484,948		
Total Net Position (Deficit)	\$ 25,484,948	\$ (33,969,407)	\$ 216,360,309

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, 2020

	Federal Student Loan Reserve Fund	Kentucky's Affordable Prepaid Tuition	Kentucky Education Savings Plan Trust
Additions:			
Federal reinsurance	\$ 93,909,566		
Contract income, net		\$ 91,778	
Contributions			\$ 19,049,833
Investment Revenues:			
Net unrealized loss on investments		(6,657,397)	(615,361)
Interest and investment income	192,466	8,770,017	5,253,034
Other income	1,278,268		
Total Additions	95,380,300	2,204,398	23,687,506
Deductions:			
Program benefits:			
Loan claims	93,763,776		
Default aversion fee expense	57,642		
Redemptions			22,420,833
Administrative expenses		42,455	879,529
Personnel and professional expenses		221,500	
Refunds		2,187,352	
Trustee fee expense		99,478	
Tuition benefits expense (savings), net		(4,114,000)	
Total Deductions	93,821,418	(1,563,215)	23,300,362
Change in Net Position	1,558,882	3,767,613	387,144
Net Position (Deficit), July 1, 2019	23,926,066	(37,737,020)	215,973,165
Net Position (Deficit), June 30, 2020	\$ 25,484,948	\$ (33,969,407)	\$ 216,360,309

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

June 30, 2020

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 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 borrowers who are refinancing as part of the Advantage Loan Program, purchases and/or services eligible Federal and Advantage student loans and performs collection activities on certain eligible student loans. The Mission of the organizations is "Helping Kentucky students and families prepare, plan, and pay for higher education. The Vision is "Connecting all Kentuckians to higher education." The Guiding Principles are "Promoting the merits of higher education and improving access, affordability, and completion. The Authority and the Corporation maintain bundled operations to maximize the efficiency of all Authority and Corporation operational and support activities. Accordingly, all senior management positions have responsibilities related to both the Authority and the Corporation. Additionally, the Plan and the Trust are governed by the Authority and Corporation's combined Board of Directors. Throughout the accompanying combined financial statements, the "Authority/Corporation" refers to the combined group of operations.

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

Outreach Programs

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

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

June 30, 2020

Note A--Description of Business--Continued

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 FY2020 the Authority/Corporation provided some or all levels of administration of fourteen student aid programs: (1) Kentucky Tuition Grant (“KTG”), (2) College Access Program Grant (“CAP”), (3) Kentucky Educational Excellence Scholarship, (4) Teacher Scholarship, (5) Osteopathic Medicine Scholarship, (6) Kentucky Coal County College Completion Program, (7) Early Childhood Development Scholarship, (8) Coal County Scholarship Program for Pharmacy Students, (9) Work Ready Kentucky Scholarship, (10) John R. Justice Grant, (11) Kentucky National Guard Tuition Award Program, (12) Early Graduation Scholarship, (13) Minority Educator Recruitment and Retention Scholarship, and (14) Dual Credit Scholarship 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. The Authority had a contract with TIAA-CREF Tuition Financing, Inc. (“TFI”), a wholly-owned subsidiary of Teachers Insurance and Annuity Association of America (“TIAA”) from July 1, 2018 through February 22, 2019. On February 22, 2019, program administration of the Trust converted from TIAA to Ascensus College Savings Recordkeeping Services, LLC. The Trust is operated in a manner such that it is exempt from registration as an investment company under the Investment Company Act of 1940. The Trust offers certain federal and state tax advantages to account owners.

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

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

All investment allocation percentages are determined by the Authority/Corporation’s Board of Directors and reviewed annually. The assets of the Guaranteed Option and a percentage of the assets of the five upper level enrollment bands in Managed Allocation are allocated to a funding agreement issued by TIAA-CREF Life Insurance Company, a subsidiary of TIAA, which offers a guarantee of principal and a minimum rate of return to the Trust. The current Ascensus Equity

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

June 30, 2020

Note A--Description of Business--Continued

Options are distributed over eighteen offerings from eight different investment companies specializing in equity management. The Guaranteed Option is contractually obligated to pay a minimum rate of return of 1%. For fiscal year 2020, the Guaranteed investment rate was 2.09%. The NexBank High Yield Savings offered within the Capital Preservation Option had an Annual Percentage Yield of 1.69% as of June 30, 2020.

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

Prepaid Tuition Plan

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

On July 1, 2005, governance of the Plan permanently transferred to the Authority/Corporation. The Plan was established to provide families with an opportunity to save for future postsecondary education expenses. The Plan's investment policy goal is to earn rates of return that closely match or exceed anticipated tuition inflation rates and remain sufficiently liquid to meet the Plan's benefit payments in a timely manner. The Plan offered enrollment periods in fiscal years 2002, 2003 and 2005, for purchasers to buy prepaid tuition contracts. The Plan offers certain federal and state tax advantages to purchasers. There have been no enrollment periods since fiscal year 2005 as the Plan currently maintains an accumulated net deficit of approximately \$34 million.

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

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

June 30, 2020

Note A--Description of Business--Continued

the statutorily defined payout value of the contract less benefits received, administrative and cancellation fees. Non-qualified withdrawals are subject to a 10% penalty in accordance with Section 529 of the Internal Revenue Code ("IRC") except in cases where the withdrawal is: (1) made on account of the death or disability of the student; (2) made on account of a scholarship received by a student, or (3) a non-taxable transfer to another account or to another IRC Section 529 program for a different student who is a family member of the original student.

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

As of June 30, 2020, the Plan maintained a present value fund deficit of \$34 million. This represents a \$3.7 million decrease over the previous year's deficit. Based on actuarial estimates, the Plan's assets will be exhausted in fiscal year 2024, at which time the liability of the Plan becomes a General Obligation of the Commonwealth of Kentucky. Per KRS 164A.708, once a real liability is expected to accrue, the General Assembly shall appropriate the necessary funds to meet the liability. Over the remaining estimated life of the program, through fiscal year 2030, actuarial estimates show the Commonwealth of Kentucky will need to transfer approximately \$38.6 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 ED as a pre-HCERA means of making loans available to students attending colleges, universities and vocational institutions. FFELP provides for the Authority/Corporation's loan guarantee operations to guarantee the repayment of principal and accrued interest to lenders for each eligible student loan. The Authority/Corporation's loan guarantee operation is responsible for maintaining loan guarantees, providing default aversion assistance to lenders for delinquent loans, reporting loan information to the National Student Loan Data System ("NSLDS"), paying lender claims for loans in default, paying lender specialty claims such as death, disability or bankruptcy and collecting loans on which default claims have been paid. The Authority/Corporation also educates lenders about FFELP requirements and regulatory changes.

Effective January 10, 1977, the Authority/Corporation's loan guarantee operation entered into a supplemental guaranty agreement with the Federal government, which provided up to 100% reimbursement, depending upon default experience as specified in the agreement. Subsequently, federal reinsurance on guaranteed loans made from October 1, 1993 to September 30, 1998 was reduced to a maximum of 98% and federal reinsurance on guaranteed loans made on or after

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

June 30, 2020

Note A--Description of Business--Continued

October 1, 1998, was reduced to a maximum of 95%. The maximum reinsurance rate was amended to 100% effective for default claims paid on or after December 1, 2015 (see Note E). The Higher Education Amendments of 1998 (the "1998 Amendments") which were enacted on October 7, 1998, with an effective date of October 1, 1998, changed the manner in which FFELP is administered. Under the 1998 Amendments, the Authority/Corporation established a Federal Student Loan Reserve Fund (the "FSLRF") and an Agency Operating Fund (the "AOF") to account for all FFELP guarantee activities. FSLRF assets and all earnings on those assets are the property of the Federal government.

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

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

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

Advantage Loan Program Operations

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

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

June 30, 2020

Note A--Description of Business--Continued

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

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

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

School Services Operations

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

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

Loan Finance, Servicing and Collection Operations

The Corporation is an independent *de jure* municipal corporation established by the Kentucky General Assembly in 1978 to provide a loan finance program for post-secondary students in the Commonwealth of Kentucky. The Corporation is authorized to finance loans for students attending or

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

June 30, 2020

Note A--Description of Business--Continued

who have attended eligible post-secondary institutions. In addition, the Corporation services and collects education loans and issues bonds and notes not to exceed \$5 billion in order to carry out its corporate powers and duties.

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

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

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

As of June 30, 2020, the Authority/Corporation held and/or serviced approximately \$990 million of FFELP and other education loans. \$896 million of loans were pledged pursuant to the 2010 Indenture, the 2013-1 Indenture, the 2013-2 Indenture, the 2014 Indenture, the 2015 Indenture, the 2016 Indenture, the 2017 Indenture, the 2018 Indenture and the 2019 indenture. The remaining \$93 million of loans were funded by the Corporation's Operating Fund. Also, the Authority/Corporation services approximately \$1.7 million of FFELP and other education loans on behalf of other holders. The majority of such education loans are serviced by the Authority/Corporation pursuant to servicing agreements which do not provide for the acquisition by the Authority/Corporation of the education loans serviced. As a servicer of FFELP and other education loans, the Authority/Corporation collects student loan remittances and subsequently disburses these remittances to the appropriate lending entities. The Authority/Corporation's obligations pursuant to such servicing and collection agreements are without recourse to assets pledged to collateralize any Authority/Corporation financings.

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

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

June 30, 2020

Note B--Summary of Significant Accounting Policies

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

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

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

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

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

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

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

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

of program participants. Assets of the Plan are held by the Authority/Corporation to offset future tuition obligations.

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

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

The Plan maintains a separate investment policy. In May 2020, a change to the target asset allocation was approved and later implemented on July 31, 2020. The target asset allocations in effect as of June 30 and July 31, 2020 are as follows:

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

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

- i. No more than 5% of the total amount of the equity portion of the investment account in the securities of any one issuer;
- ii. No more than 15% of the total amount of the equity portion of the investment account in any one industry, as defined by Standard & Poor's;
- iii. For portfolios invested in major-market countries, no more than 10% of the total amount of the equity portion of the investment account in any one country with the exception of those countries whose weighting in the Europe, Australia, and Far East ("EAFE") index is greater than 15%, where a maximum weight of the current country weight in the EAFE benchmark plus 5% is permitted;

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

- iv. For portfolios invested in emerging markets, no more than 10% of the equity portion of the investment account shall be invested in one country;
- v. A minimum of five countries shall be represented in each investment account; and
- vi. No more than 10% of the total amount of the fixed income portion of the investment account shall be committed to the securities of any one issuer at the time of purchase, with the exception of securities issued or guaranteed by the full faith and credit of the United States of America or AAA-related securities issued by government agencies as to which there is no limit.

Under the 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 2020.

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

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

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

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

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

Allowance for Uncollectible Loans - As discussed in Note A, most FFELP loans held by the Authority/Corporation are insured by guarantee agencies and the ED. Management of the Authority/Corporation believes that all of its respective guaranty agencies and the ED will be able to

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

honor all loan claims submitted. However, the Authority/Corporation records a provision for loan losses based upon its expected default claims with respect to 98% and 97% insured loans and for loans with certain loan servicing violations. The allowance for loan loss on all loans funded through normal operations was \$6.3 million for loan principal and \$720,000 for accrued interest as of June 30, 2020. Furthermore, the Authority/Corporation is required to purchase loans owned by third party customers with certain loan servicing violations. As of June 30, 2020, the allowance for third party servicing loan losses for loans that have been purchased was \$1.3 million for loan principal and \$818,000 for accrued interest. In July 2015, the Authority/Corporation purchased an uninsured loan portfolio at a substantial discount. As of June 30, 2020, the allowance for the loans purchased at a discount was \$15.3 million for loan principal and \$6.6 million for accrued interest. In addition, the Authority/Corporation records a provision for loan loss related to Teacher, Osteopathic Medicine and Pharmacy advances that have converted to loans. As of June 30, 2020, the allowance for advances converted to loans was \$3.2 million.

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

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

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

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

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

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

Income Taxes - The Authority is a state government agency established by the Kentucky General Assembly and the Corporation is an independent *de jure* municipal corporation and political subdivision of the Commonwealth of Kentucky; therefore, they are not subject to federal or state

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

income taxes. The Trust and the Plan are state sponsored IRC Section 529 education savings plans and are also not subject to federal or state income taxes.

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

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

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

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

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.

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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, 2020, the Authority/Corporation's unrestricted net position is (\$121,922,872).

Subsequent Events - In preparing these combined financial statements, the Authority/Corporation has evaluated events and transactions for potential recognition or disclosure through the date of the Independent Auditors' Report, which represents the date the financial statements were available to be issued. See Note T.

Note C--Cash and Investments

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

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

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

**Kentucky Higher Education Assistance Authority/
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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, 2020, 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		\$ 36,303	\$ 829,934
Collateralized by securities held by the pledging financial institution		18,315,110	7,119,747
Money market demand deposits		81,186,459	20,225,653
Money market securities			
Cash deposited with Kentucky State Treasurer	\$ 6,431,099	3,024,482	9,387
	<u>\$ 6,431,099</u>	<u>\$ 102,562,354</u>	<u>\$ 28,184,721</u>

Of the \$102.5 million of cash and cash equivalents maintained in the Proprietary Funds, \$18.3 million was held for guarantee operations and the remaining \$84.2 million was held for loan finance and servicing activities.

Of the \$28.2 million of cash and cash equivalents maintained in the Fiduciary Funds, \$23.6 million was related to the FSLRF and the remaining \$4.6 million was associated with the Plan and the Trust.

As of June 30, 2020, 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, 2020 are summarized as follows:

	Fair Value	Weighted Average Maturity (in years)
Corporate bonds	\$ 49,782,789	2.68
U.S. Treasury and government agency securities	29,773,056	2.26
Collateralized mortgage obligations	19,084,167	10.68
	<u>\$ 98,640,012</u>	

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Note C--Cash and Investments--Continued

As of June 30, 2020, Trust investments of \$216.9 million comprised entirely of mutual funds held by Ascensus.

As of June 30, 2020, Plan investments of \$40.2 million comprised primarily of mutual funds held by State Street Global Advisors.

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

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

Credit Risk - The Authority/Corporation's investment policy limits the credit risk for securities. Securities must have a credit rating of BBB by a nationally recognized credit rating agency. Money Market Securities must be rated A-1 or P-1 or better at the time of purchase. The investment manager is allowed to hold up to 5% in aggregate market value securities that have been downgraded below BBB, but must maintain an average rating of A for the total portfolio. The following table summarizes the Standard & Poor's / Moody's rating (as applicable) for all corporate bonds held by the Authority/Corporation's Proprietary Funds as of June 30, 2020:

<u>Rating</u>	<u>Fair Value</u>
AAA / Aaa	\$ 18,998,743
AA / Aa	2,784,587
A / A	16,078,126
BAA / Baa	11,921,333
	<u>\$ 49,782,789</u>

The Plan maintains an investment policy that limits the credit risk for fixed income securities and short-term commercial paper. No more than 10% of the total amount of fixed-income portion of the investment account shall be committed to the securities of any one issuer at the time of purchase, with the exception of securities issued or guaranteed by the full faith and credit of the United States or AAA-rated securities issued by government agencies as to which there is no limit. The Plan may invest in short-term commercial paper of any domestic issuer, maturing within 9 months, with a minimum rating of A-1 by Standard & Poor's or Prime 1 by Moody's. As previously noted, at June 30, 2020, the Plan primarily invested in mutual funds.

**Kentucky Higher Education Assistance Authority/
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Note C--Cash and Investments--Continued

Fair Value Measurement

In accordance with GASB 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, 2020:

Money Market Securities of \$81,186,459 are valued using quoted market prices. (Level 1 Inputs).

Corporate bonds, U.S. Treasury and government agency securities, and collateralized mortgage obligations of \$98,640,012 were based on Level 2 inputs.

As of June 30, 2020, 100% of the value of the Trust and Plan investments was based on Level 1 inputs.

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Note D--Fixed Assets

A summary of fixed assets follows:

	Beginning Balance July 1, 2019	Additions	Disposals	Ending Balance June 30, 2020
Proprietary fund:				
Furniture and equipment	\$ 13,784,791	\$ 572,274	\$ 82,366	\$ 14,274,699
Building	12,075,049			12,075,049
System development	55,955			55,955
Student loan servicing	541,131			541,131
Debt recovery system	81,047			81,047
Accumulated depreciation and amortization	<u>(20,211,010)</u>	<u>(952,409)</u>	<u>(82,366)</u>	<u>(21,081,053)</u>
	<u>\$ 6,326,963</u>	<u>\$ (380,135)</u>	<u>\$</u>	<u>\$ 5,946,828</u>
Fiduciary Fund:				
Furniture and equipment	\$ 67,688	\$	\$ 1,084	\$ 66,604
Accumulated depreciation	<u>(67,688)</u>	<u></u>	<u>(1,084)</u>	<u>(66,604)</u>
	<u>\$</u>	<u>\$</u>	<u>\$</u>	<u>\$</u>

Depreciation and amortization expense totaled \$952,409 for the year ended June 30, 2020, of which \$821,871 was allocated to business-type activities, \$122,275 allocated to governmental activities, and \$8,263 allocated to the fiduciary activities.

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

Loan guarantee operations	\$ 241,506
Outreach	204,716
School services	43,700
Default collections	119,452
Loan finance and servicing	<u>212,497</u>
	<u>\$ 821,871</u>

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Note D--Fixed Assets--Continued

The Authority/Corporation has assets under capital lease agreements, as described in Note I, of \$12,075,049 with related accumulated amortization of \$6,902,277. Amortization of assets under capital lease is included in amortization expense in the accompanying combined financial statements. Amortization expense of assets under capital lease agreements was \$402,502 for the year ended June 30, 2020.

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, 2020, the outstanding balance of aggregate insured student loans was approximately \$2.1 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 (reimbursed default claims for the federal fiscal year divided by the original principal amount of loans in repayment at the beginning of the fiscal year).

The Authority/Corporation's annual default claims rate is within the 5%, which allows for reimbursement rates at the highest level. On December 18, 2015, the Consolidated Appropriations Act, 2016, was signed into law and amended the maximum reinsurance rate within Section 428(c)(1) of the Higher Education Act by striking 95% and inserting 100%. Therefore, the Authority/Corporation has not recorded a reserve at June 30, 2020 for losses on federal reinsurance. See Footnote S.

The Authority/Corporation is entitled to charge certain fees associated with its reinsurance activities. A summary of those 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% of collection costs.

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 sum of net guarantees as of September 30. 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 preclaim assistance. DAF are recorded monthly and are recognized as a deduction in the FSLRF and as revenue in the AOF. DAF are remitted back to the FSLRF for loans that default.

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Note F--Loans (Finance and Servicing Operations)

The Authority/Corporation originates private supplemental loans, purchases loans and holds various types of student loans as described in Note A. The terms of these loans, which vary on an individual basis depending upon loan type and the date the loan was originated, generally provide for repayment in monthly installments of principal and interest over a period of generally ten years with most FFELP consolidation loans and many Advantage refinance loans having longer repayment terms. The repayment period begins after a grace period of six months following graduation or loss of qualified student status for the Subsidized and Unsubsidized Stafford loans. The repayment period for Consolidation, SLS and PLUS loans begins within 60 days from the date the loan is fully disbursed. Statutory interest rates on student loans ranged from 1.9% to 12% for the fiscal year ended June 30, 2020 depending upon the type and date of origination of the individual loan. Actual rates may be lower due to interest rate reductions associated with payments via electronic funds transfer or for other reasons such as borrowers making a specified number of consecutive on-time payments.

Loans consist of the following at June 30, 2020:

Stafford - Subsidized	\$ 221,157,588
Stafford - Unsubsidized	258,300,042
PLUS/SLS	16,086,076
Consolidation	299,505,287
Supplemental	182,896,813
Other	<u>10,811,808</u>
 Total gross loans	 988,757,614
Allowance for loan losses	(22,883,549)
Unamortized discount on purchase of loans	<u>(1,581,187)</u>
 Loans, net	 964,292,878
Less amount shown as current assets	<u>96,212,735</u>
 Noncurrent loans, net	 <u>\$ 868,080,143</u>

All principal and accrued interest on FFELP student loans is insured against borrower death, disability, bankruptcy or default, as long as the Authority/Corporation performs all required loan servicing due diligence activities. In July 2015, the Authority/Corporation purchased an uninsured loan portfolio at a substantial discount. As of June 30, 2020, the allowance for the loan principal purchased at a discount was \$15.3 million. In addition, \$2,220,898 of student loan principal was no longer insured due to violations of due diligence requirements.

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

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Note G--Special Allowance

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

Note H--Loan and Other Forgiveness

During fiscal year 2020, the Authority/Corporation forgave approximately \$821,700 in loan principal and accrued interest for teachers funded by ED. Also, during fiscal year 2020, the Authority/Corporation provided additional loan forgiveness of \$125,022.

Note I--Capital Lease Payable

On June 22, 2000, the Commonwealth of Kentucky, State Property and Building Commission (the "Commission") issued \$8,825,000 in bonds payable on behalf of the Authority/Corporation. The proceeds of the bonds were used for a building to house the Authority/Corporation's operations located in Frankfort, Kentucky. On October 8, 2003, the Commission issued additional bonds payable on behalf of the Authority/Corporation as a partial refunding of original bonds payable.

The original bonds had a final principal payment in May 2010. The new bonds bore interest at fixed rates which vary from 2.0% to 5.25% and matured in May 2020. The bonds were special and limited obligations of the Commission. The bonds did not constitute a debt, liability or obligation of the Commonwealth of Kentucky or a pledge of the full faith and credit or taxing power of the Commonwealth of Kentucky, but were payable solely from amounts derived from the biennially renewable lease agreement with the Authority/Corporation as described below. The bondholders had no security interest in any properties constituting the project or any amounts derived there from.

The scheduled payments of principal and interest on the bonds were guaranteed under an insurance policy.

In connection with the issuance of the bonds, the Authority/Corporation entered into a financing/lease agreement with the Commission whereby the Authority/Corporation agreed to lease the newly constructed building.

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Note I--Capital Lease Payable--Continued

The lease payments were equal to the debt service required by the bond indenture. In connection with the agreements, the Kentucky General Assembly appropriated sufficient spending authorization to the Authority/Corporation to pay the lease payments required through May 2020 maturity. The final lease payment was made in May 2020.

A summary of the activity for the capital lease for the year ended June 30, 2020 is as follows:

	<u>June 30, 2019</u>	<u>Additions</u>	<u>Payments</u>	<u>June 30, 2020</u>
Capital Lease Payable	<u>\$ 710,000</u>	<u>\$</u>	<u>\$ 710,000</u>	<u>\$ -</u>

Notes to Combined Financial Statements--Continued

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

June 30, 2020

Note J--Revenue Bonds Payable

The balance of revenue bonds and notes payable at June 30, 2020 and the related activity for the year ended June 30, 2020 is as follows:

<u>Series</u>	<u>Scheduled Maturity</u>	<u>Interest</u>	<u>Beginning Balance July 1, 2019</u>	<u>Bond Maturities Refundings</u>	<u>New Issues</u>	<u>Amortization of Premium / (Discount) June 30, 2020</u>	<u>Ending Balance June 30, 2020</u>
<u>2010 Indenture</u>							
2010 A-1	* May 1, 2020	Quarterly					
2010 A-2	* May 1, 2034	Quarterly	\$ 75,300,000	\$ (9,170,000)			\$ 66,130,000
			<u>75,300,000</u>	<u>(9,170,000)</u>			<u>66,130,000</u>
<u>2013-1 Indenture</u>							
2013-1	June 1, 2026	Monthly	<u>171,035,000</u>	<u>(27,795,000)</u>			<u>143,240,000</u>
<u>2013-2 Indenture</u>							
2013-2	June 1, 2028	Monthly	<u>141,493,391</u>	<u>(22,925,000)</u>		\$ 174,612	<u>118,743,003</u>
<u>2014 Indenture</u>							
2014 A	* June 1, 2031	Fixed	9,580,239	(2,825,000)		(54,962)	6,700,277
2017 A	* June 1, 2034	Fixed	34,394,149	(4,530,000)		(208,948)	29,655,201
2019 A1-B1	* June 1, 2036	Fixed	38,380,858			(453,544)	37,927,314
2019 A2	June 1, 2034	Fixed	60,985,000	(8,780,000)			52,205,000
			<u>143,340,246</u>	<u>(16,135,000)</u>		<u>(717,454)</u>	<u>126,487,792</u>
<u>2015-1 Indenture</u>							
2015-1	December 1, 2031	Monthly	<u>64,016,000</u>	<u>(8,655,000)</u>			<u>55,361,000</u>
<u>2018 Indenture</u>							
2018-1A	June 1, 2036	Monthly	66,670,000	(17,410,000)			49,260,000
2018-1B	June 1, 2036	Monthly	9,840,000				9,840,000
			<u>76,510,000</u>	<u>(17,410,000)</u>			<u>59,100,000</u>
			<u>\$ 671,694,637</u>	<u>\$ (102,090,000)</u>		<u>\$ (542,842)</u>	<u>\$ 569,061,795</u>

* This bond series is tax exempt

Notes to Combined Financial Statements--Continued

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

June 30, 2020

Note J--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 2.09% to 4.00% as of June 30, 2020.

Debt service requirements to maturity or redemption date, assuming interest rates based on fixed rates and variable index rates at June 30, 2020, are as follows:

	Principal Repayment Amount (Thousands)						Total
	2010	2013-1	2013-2	2014	2015-1	2018-1	
Year Ending June 30, 2021				\$ 4,990		\$ 5,100	\$ 10,090
Year Ending June 30, 2022				6,990		6,400	13,390
Year Ending June 30, 2023				7,290		6,900	14,190
Year Ending June 30, 2024				8,640		7,000	15,640
Year Ending June 30, 2025				9,455		6,500	15,955
5 Years Ending June 30, 2030		\$ 143,240	\$ 120,169	38,870		11,200	313,479
5 Years Ending June 30, 2035	\$ 66,130			29,025	\$ 55,361		150,516
5 Years Ending June 30, 2040				17,250		16,000	33,250
	<u>\$ 66,130</u>	<u>\$ 143,240</u>	<u>\$ 120,169</u>	<u>\$ 122,510</u>	<u>\$ 55,361</u>	<u>\$ 59,100</u>	<u>\$ 566,510</u>
	Interest Repayment Amount (Thousands)						
	2010	2013-1	2013-2	2014	2015-1	2018-1	Total
Year Ending June 30, 2021	\$ 1,248	\$ 964	\$ 929	\$ 5,122	\$ 511	\$ 2,467	\$ 11,241
Year Ending June 30, 2022	1,248	964	929	4,920	511	2,288	10,860
Year Ending June 30, 2023	1,248	964	929	4,632	511	2,058	10,342
Year Ending June 30, 2024	1,248	963	928	4,322	511	1,804	9,776
Year Ending June 30, 2025	1,248	963	928	3,947	511	1,540	9,137
5 Years Ending June 30, 2030	6,237	963	2,785	13,713	2,553	5,002	31,253
5 Years Ending June 30, 2035	4,990			8,006	511	4,218	17,725
5 Years Ending June 30, 2040				863		844	1,707
	<u>\$ 17,467</u>	<u>\$ 5,781</u>	<u>\$ 7,428</u>	<u>\$ 45,525</u>	<u>\$ 5,619</u>	<u>\$ 20,221</u>	<u>\$ 102,041</u>

All assets of the 2010 Indenture, the 2013-1 Indenture, the 2013-2 Indenture, the 2014 Indenture, the 2015 Indenture, the 2016 Indenture, the 2017 Indenture, the 2018 Indenture and the 2019 Indenture are pledged for repayment of the specific bond or note issues under each resolution or program.

Management of the Corporation recently obtained consents from bondholders in relation to several of its bonds. The purposes of the consents include (1) improving long-term liquidity flexibility to aid in future operations and financing and refinancing efforts, (2) responding to the impact of an increase in the number of borrowers opting for extended repayment plans and (3) responding to the expected discontinuation of LIBOR.

Notes to Combined Financial Statements--Continued

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

June 30, 2020

Note K--Direct Placements and Direct Borrowings

The Authority/Corporation closed its \$89,500,000 Direct Purchase Series 2016-1, its \$171,068,000 Direct Purchase Series 2017-1 and its \$104,965,000 Direct Purchase Series 2019-1 student loan backed notes on June 23, 2016, December 21, 2017 and August 15, 2019, respectively. On September 12, 2017, the Authority/Corporation executed a new Warehouse Loan and Security Agreement and Amendment to Loan Documents with a commercial bank (the "Bank") to provide up to \$45,000,000 for each of the two Lines of Credit for a total of \$90,000,000. One Line of Credit is a revolving Line of Credit that had an original three-year term period. On December 19, 2018, the Authority/Corporation and the Bank increased this revolving Line of Credit to \$75,000,000. In addition, on July 29, 2020, the revolving Line of Credit was extended for two years and the Authority/Corporation also executed a separate \$25,000,000 Line of Credit similar in structure to the \$45,000,000 Line of Credit that matured in March 2020. See Note T. The \$25,000,000 has a one-year allowable draw period that also matures at the end of the one year.

The balance of direct purchase notes payable and direct borrowings under lines of credit agreements at June 30, 2020 and the related activity for the year then ended June 30, 2020 is as follows:

Series	Scheduled Maturity	Interest Rate	Beginning Balance July 1, 2019	Bond Maturities & Refundings	New Issues	Ending Balance June 30, 2020
<u>Direct Placements</u>						
<u>2016-1 Indenture</u>						
2016-1-1-A & B	* June 1, 2026	Monthly	\$ 33,421,180	\$ (4,305,000)		\$ 29,116,180
2016-1-2-A & B	June 1, 2026	Monthly	22,901,310	(3,745,000)		19,156,310
			<u>56,322,490</u>	<u>(8,050,000)</u>		<u>48,272,490</u>
<u>2017-1 Indenture</u>						
2017-1	* December 1, 2037	Monthly	<u>143,438,000</u>	<u>(19,825,000)</u>		<u>123,613,000</u>
<u>2019-1 Indenture</u>						
2019-1	* August 1, 2039	Monthly		(5,625,000)	\$ 59,560,000	53,935,000
2019-1	August 1, 2039	Monthly		(5,000,000)	45,405,000	40,405,000
				<u>(10,625,000)</u>	<u>104,965,000</u>	<u>94,340,000</u>
			<u>\$ 199,760,490</u>	<u>\$ (38,500,000)</u>	<u>\$ 104,965,000</u>	<u>\$ 266,225,490</u>
<u>Direct Borrowings</u>						
2017 PNC Line of Credit	March 11, 2020	Monthly	\$ 43,243,839	\$ (43,243,839)		
2018 PNC Line of Credit	September 11, 2020	Monthly	<u>73,358,225</u>	<u>(82,207,625)</u>	<u>\$ 81,360,000</u>	<u>\$ 72,510,600</u>
			<u>\$ 116,602,064</u>	<u>\$ (125,451,464)</u>	<u>\$ 81,360,000</u>	<u>\$ 72,510,600</u>

* This bond series is tax exempt

Notes to Combined Financial Statements--Continued

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

June 30, 2020

Note K--Direct Placements and Direct Borrowings--Continued

The Authority/Corporation's direct purchase notes include variable rates of interest based on daily one-month LIBOR. Those variable rates ranged from 1.98% to 2.63% as of June 30, 2020.

Debt service requirements to maturity or redemption date, assuming interest rates based on the daily one-month LIBOR at June 30, 2020, are as follows:

	Principal Repayment Amount (Thousands)			
	2016-1	2017-1	2019-1	Total
Year Ending June 30, 2021				
Year Ending June 30, 2022				
Year Ending June 30, 2023				
Year Ending June 30, 2024				
Year Ending June 30, 2025				
5 Years Ending June 30, 2030	\$ 48,272			\$ 48,272
5 Years Ending June 30, 2035		\$ 123,613	\$ 94,340	217,953
5 Years Ending June 30, 2040				
	<u>\$ 48,272</u>	<u>\$ 123,613</u>	<u>\$ 94,340</u>	<u>\$ 266,225</u>
	Interest Repayment Amount (Thousands)			
	2016-1	2017-1	2019-1	Total
Year Ending June 30, 2021	\$ 585	\$ 955	\$ 661	\$ 2,201
Year Ending June 30, 2022	585	955	661	2,201
Year Ending June 30, 2023	585	955	661	2,201
Year Ending June 30, 2024	585	955	661	2,201
Year Ending June 30, 2025	585	955	661	2,201
5 Years Ending June 30, 2030	584	4,775	3,307	8,666
5 Years Ending June 30, 2035		4,775	3,307	8,082
5 Years Ending June 30, 2040		1,911	2,647	4,558
	<u>\$ 3,509</u>	<u>\$ 16,236</u>	<u>\$ 12,566</u>	<u>\$ 32,311</u>

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

June 30, 2020

Note K--Direct Placements and Direct Borrowings--Continued

The collateral for the notes directly placed with an investor is defined in the respective Continuing Covenant Agreements ("CCA") between the Corporation and the Investor as "the Trust Estate other than the moneys and investments held in the Department Rebate Fund and the Treasury Rebate Fund." The student loans backing the direct purchase notes are loans made under the FFEL program. Cash and marketable securities of the Operating Funds of the Authority/Corporation are pledged as collateral against any outstanding balance on the \$75,000,000 Line of Credit. The new \$25,000,000 Credit Facility executed on July 29, 2020 (see Note T) is restricted to the acquisition of loans made through FFELP and is collateralized by the loans financed with funds advanced by the Bank. In addition, both Lines of Credit are also cross-collateralized. The amount of unused revolving line of credit as of June 30, 2020 was approximately \$2.5 million.

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

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

Note L--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, 2020, the Authority/Corporation is reporting liabilities for excess yield on acquired purpose and non-purpose investments of \$478,122.

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

June 30, 2020

Note L--Allowance for Arbitrage Liabilities--Continued

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

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

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

On May 6, 2013, the Corporation entered into a voluntary closing agreement (the "VCA") with the Internal Revenue Service (the "IRS") relating to certain of its tax-exempt bonds (collectively, the "Subject Bond Issues"). The VCA resulted from a request that was submitted by KHESLC on July 31, 2012 pursuant to IRS Announcement 2012-14, 2012-14 I.R.B. 721, titled TEB Voluntary Closing Agreement Program: Relief from Allocation and Accounting Errors for Certain Issuers of Tax-Exempt Student Loan Bonds (the "Announcement"). The VCA modified the application of the foregoing excess yield discussion with respect to the Subject Bond Issues. The determination of excess yield on acquired purpose investments is no longer applicable for the Subject Bond Issues.

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

Note M--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 \$1.7 million for the year ended June 30, 2020. As of June 30, 2020, there is \$11.1 million of gain remaining to be amortized.

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

June 30, 2020

Note N--Net Pension Liability

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

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

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

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

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

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

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

The employer and each employee contribute a percentage of the employee's creditable compensation. Creditable compensation consists of all wages includable on the employee's Federal Form W-2, Wage and Tax statement, under the heading "Wages, Tips, and Other Compensation". There are two exceptions of payment of wages not included in creditable compensation: (1) the lump-sum compensatory leave payments to employees in Tier 2 and 3 and (2) vacation payout at termination. The Authority employer total contribution rate for FY20 and FY19 was 83.43% comprised of 71.03% for pension contributions and 12.40% for insurance contributions. The Corporation employer total contribution rates for FY20 and FY19 were 49.47% comprised of 41.06% for pension contributions and 8.41% for insurance contributions. The employee's contribution rates are as follows: Tier 1 - 5%, Tier 2 and 3 - 6%.

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

June 30, 2020

Note N--Net Pension Liability--Continued

The contributions for the employer and employee are as follows:

	<u>FY20</u>	<u>FY19</u>
Authority: Employer	\$ 561,412	\$ 591,576
Authority: Employee	<u>39,143</u>	<u>42,082</u>
	<u>\$ 600,555</u>	<u>\$ 633,658</u>
Corporation: Employer	\$ 4,798,556	\$ 5,067,063
Corporation: Employee	<u>607,572</u>	<u>647,655</u>
	<u>\$ 5,406,128</u>	<u>\$ 5,714,718</u>
Total: Employer	\$ 5,359,968	\$ 5,658,639
Total: Employee	<u>646,715</u>	<u>689,737</u>
	<u>\$ 6,006,683</u>	<u>\$ 6,348,376</u>

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

Pension Costs. At June 30, 2020, the Authority/Corporation reported a net pension liability of \$124,027,075 for its proportionate share of the KERS's collective net pension liability. The Authority's portion is \$8,232,439 and the Corporation's is \$115,794,636. The net pension liability was measured as of June 30, 2019, and the total pension liability used to calculate the net pension liability was determined by the actuarial valuation as of that date. The Authority/Corporation's estimated proportionate share of the collective net pension liability was based on a projection of the Authority/Corporation's long-term share of contributions to the pension plan relative to the projected contributions of all employer participants, as actuarially determined. The Authority's contributions during the measurement period as provided by KRS were \$604,423 with a proportionate share percentage of .058291%. The Corporation's contributions during the measurement period as provided by KRS were \$4,924,142 with a proportionate share percentage of .819901%.

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

June 30, 2020

Note N--Net Pension Liability--Continued

There are two primary methods that can be utilized to allocate the estimated unfunded net pension liability. The first method is the aforementioned "by payroll" method. This method determines each employer's share of the total payroll and allocates the unfunded net pension liability using that same share percentage. The second method calculates each employer's portion of the unfunded net pension liability. This second methodology is more of a specific identification methodology. The Authority/Corporation believe that "by payroll" was most likely selected as the methodology to allocate the unfunded net pension liability due to the ease and simplicity of this approach. The specific identification approach is less transparent and not as simple. The Authority/Corporation believe that the specific identification methodology for allocating the unfunded net pension liability would have resulted in a materially less June 30, 2020 net pension liability for the Corporation. The "by payroll" methodology does not reflect each employer's real liability. Management believes that the Corporation's real net pension liability is significantly less than the recorded net pension liability included in the financial statements herein. Management is not in possession of any information related to the Authority's real net pension liability that would indicate whether the Authority's real net pension liability may be materially different than its recorded net pension liability included in the financial statements herein.

For the year ended June 30, 2020, the Authority/Corporation recognized pension expense of \$11,401,696 for its proportionate share of KERS's pension expense. The Authority's portion was \$(559,204) and the Corporation's was \$11,960,900.

At June 30, 2020, 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:

<u>Authority</u>	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Difference between expected and actual experience	\$ 48,691	
Net difference between projected and actual investment earnings on pension plan investments	21,333	\$ 38,108
Changes in assumptions	250,660	
Changes in proportion and differences between employer contributions and proportionate share of contributions		1,330,577
Authority's contributions to KERS subsequent to the measurement date	561,412	
	<u>\$ 882,096</u>	<u>\$ 1,368,685</u>

Notes to Combined Financial Statements--Continued

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

June 30, 2020

Note N--Net Pension Liability--Continued

\$561,412 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, 2021. Other amounts reported as deferred outflows and inflows of resources related to KERS pensions will be recognized in pension expense as follows:

Authority Deferred Outflows of Resources

Original Deferral Year	Original Deferral Amount	2017	2018	2019	2020	2021	2022	2023	2024
2015	\$ 515,941	\$ (128,985)	\$ (128,985)	\$ (128,985)	\$ (128,986)				
2016	595,650		(148,913)	(148,913)	(148,913)	\$ (148,911)			
2017	886,964			(221,741)	(221,741)	(221,741)	\$ (221,741)		
2018	(533,506)				133,377	133,377	133,377	\$ 133,375	
2019	128,420					(32,105)	(32,105)	(32,105)	\$ (32,105)
	<u>\$ 1,593,469</u>	<u>\$ (128,985)</u>	<u>\$ (277,898)</u>	<u>\$ (499,639)</u>	<u>\$ (366,263)</u>	<u>\$ (269,380)</u>	<u>\$ (120,469)</u>	<u>\$ 101,270</u>	<u>\$ (32,105)</u>
Amortization 2020									<u>\$ 366,263</u>
Unamortized Amount 2020									<u>\$ 320,684</u>

Authority Deferred Inflows of Resources

Original Deferral Year	Original Deferral Amount	2016	2017	2018	2019	2020	2021	2022	2023	2024
2014	\$ 117,000	\$ (29,250)	\$ (29,250)	\$ (29,250)	\$ (29,250)					
2015	174,511		(43,628)	(43,628)	(43,628)	\$ (43,627)				
2016	200,939			(50,235)	(50,235)	(50,235)	\$ (50,234)			
2017	662,363				(165,591)	(165,591)	(165,591)	\$ (165,590)		
2018	926,360					(231,590)	(231,590)	(231,590)	\$ (231,590)	
2019	292,500						(73,125)	(73,125)	(73,125)	\$ (73,125)
	<u>\$ 2,373,673</u>	<u>\$ (29,250)</u>	<u>\$ (72,878)</u>	<u>\$ (123,113)</u>	<u>\$ (288,704)</u>	<u>\$ (491,043)</u>	<u>\$ (520,540)</u>	<u>\$ (470,305)</u>	<u>\$ (304,715)</u>	<u>\$ (73,125)</u>
Amortization 2020										<u>\$ 491,043</u>
Unamortized Amount 2020										<u>\$ 1,368,685</u>

Notes to Combined Financial Statements--Continued

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

June 30, 2020

Note N--Net Pension Liability--Continued

At June 30, 2020, 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	\$ 684,865	
Net difference between projected and actual investment earnings on pension plan investments	300,068	\$ 536,013
Changes in assumptions	3,525,693	
Changes in proportion and differences between employer contributions and proportionate share of contributions	517,596	4,198,589
Corporation's contributions to KERS subsequent to the measurement date	4,798,557	
	\$ 9,826,779	\$ 4,734,602

Notes to Combined Financial Statements--Continued

**Kentucky Higher Education Assistance Authority/
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June 30, 2020

Note N--Net Pension Liability--Continued

\$4,798,556 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, 2021. Other amounts reported as deferred outflows and inflows of resources related to KERS pensions will be recognized in pension expense as follows:

Corporation Deferred Outflows of Resources

Original Deferral Year	Original Deferral Amount	2017	2018	2019	2020	2021	2022	2023	2024
2015	\$ 7,181,849	\$(1,795,462)	\$(1,795,462)	\$(1,795,462)	\$(1,795,463)				
2016	4,731,726		(1,182,932)	(1,182,932)	(1,182,932)	\$(1,182,930)			
2017	9,286,085			(2,321,521)	(2,321,521)	(2,321,521)	\$(2,321,522)		
2018	(2,782,415)				695,604	695,604	695,604	\$ 695,603	
2019	1,289,060					(322,265)	(322,265)	(322,265)	\$ (322,265)
	<u>\$19,706,305</u>	<u>\$(1,795,462)</u>	<u>\$(2,978,394)</u>	<u>\$(5,299,915)</u>	<u>\$(4,604,312)</u>	<u>\$(3,131,112)</u>	<u>\$(1,948,183)</u>	<u>\$ 373,338</u>	<u>\$ (322,265)</u>
Amortization 2020									<u>\$ 4,604,312</u>
Unamortized Amount 2020									<u>\$ 5,028,222</u>

Corporation Deferred Inflows of Resources

Original Deferral Year	Original Deferral Amount	2016	2017	2018	2019	2020	2021	2022	2023	2024
2014	\$ 918,000	\$(229,500)	\$(229,500)	\$(229,500)	\$(229,500)					
2015	(688,500)		172,125	172,125	172,125	\$ 172,125				
2016	1,427,639			(356,910)	(356,910)	(356,910)	\$(356,909)			
2017	1,419,421				(354,855)	(354,855)	(354,855)	\$(354,856)		
2018	(293,410)					73,353	73,353	73,353	\$ 73,351	
2019	3,888,039						(972,010)	(972,010)	(972,010)	\$ (972,009)
	<u>\$ 6,671,189</u>	<u>\$(229,500)</u>	<u>\$(57,375)</u>	<u>\$(414,285)</u>	<u>\$(769,140)</u>	<u>\$(466,287)</u>	<u>\$(1,610,421)</u>	<u>\$(1,253,513)</u>	<u>\$(898,659)</u>	<u>\$(972,009)</u>
Amortization 2020										<u>\$ 466,287</u>
Unamortized Amount 2020										<u>\$ 4,734,602</u>

Actuarial Assumptions. The total pension liability was determined by an actuarial valuation as of June 30, 2019, using the entry age normal cost method and the following actuarial assumptions:

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

Salary increases were based on a service-related table.

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Kentucky Higher Education Student Loan Corporation**

June 30, 2020

Note N--Net Pension Liability--Continued

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

The actuarial assumptions used in the June 30, 2019 valuation was based on the results of an actuarial experience study for the period July 1, 2013 - June 30, 2018. The long-term expected rate of return was determined by using a building-block method in which best-estimate ranges of expected future real rate of returns are developed for each asset class. The ranges are combined by weighting the expected future real rate of return by the target asset allocation percentage.

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

<u>Asset Class</u>	<u>Long Term Expected Real Rate of Return</u>	<u>Target Allocation</u>
Growth		
US Equity	4.30%	15.75%
Non US Equity	4.80%	15.75%
Private Equity	6.65%	7.00%
Specialty Credit/High Yield	2.60%	15.00%
Liquidity		
Core Bonds	1.35%	20.50%
Cash	0.20%	3.00%
Diversifying Strategies		
Real Estate	4.85%	5.00%
Opportunistic/Absolute Return	2.97%	3.00%
Real Return	4.10%	15.00%
		<u>100.00%</u>

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

**Kentucky Higher Education Assistance Authority/
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June 30, 2020

Note N--Net Pension Liability--Continued

Discount Rate. The discount rate used to measure the total pension liability was 5.25%. The projection of cash flows used to determine the discount rate assumed employers would contribute the actuarially determined contribution rate of projected compensation over the remaining 24 year amortization period of the unfunded actuarial accrued liability.

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

	<u>1% Decrease in Discount Rate</u>	<u>Discount Rate</u>	<u>1% Increase in Discount Rate</u>
KRS Discount Rate	4.25%	5.25%	6.25%
Authority's proportionate share of net pension liability	\$ 9,437,439	\$ 8,232,439	\$ 7,236,439
Corporation's proportionate share of net pension liability	\$ 132,743,636	\$ 115,794,636	\$ 101,788,636

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

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

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

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

June 30, 2020

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

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

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

<u>Years of Service</u>	<u>Paid by Insurance Fund (%)</u>
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.

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June 30, 2020

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

Contributions. Contribution percentages are established in state statutes by the Kentucky Legislature. The contribution is a percentage of the employee's creditable compensation. The Authority employer total contribution rate for FY20 and FY19 were 83.43% comprised of 71.03% for pension contributions and 12.40% for insurance contributions. The Corporation employer total contribution rates for FY20 and FY19 were 49.47% comprised of 41.06% for pension contributions and 8.41% for insurance contributions. Employees participating on or after September 1, 2008 are required to pay an additional 1% of their creditable compensation for health insurance benefits. The contributions for the employer and additional 1% are as follows:

	<u>FY20</u>	<u>FY19</u>
Authority: Employer	\$ 97,987	\$ 121,168
Authority: Employee 1%		
	<u>\$ 97,987</u>	<u>\$ 121,168</u>
Corporation: Employer	\$ 982,837	\$ 1,037,847
Corporation: Employee 1%	38,733	40,805
	<u>\$ 1,021,570</u>	<u>\$ 1,078,652</u>
Total: Employer	\$ 1,080,824	\$ 1,159,015
Total: Employee	38,733	40,805
	<u>\$ 1,119,557</u>	<u>\$ 1,199,820</u>

OPEB Liabilities, OPEB Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB. At June 30, 2020, the Authority/Corporation reported a liability of \$19,521,295 for its proportionate share of the KERS's collective net OPEB liability. The Authority's portion is \$1,295,748 and the Corporation's is \$18,225,547. The net OPEB liability was measured as of June 30, 2019, and the total OPEB liability used to calculate the net OPEB liability was determined by the actuarial valuation as of that date. The Authority/Corporation's proportionate share of the net OPEB liability was determined using the employers' actual contributions for FY19. The Authority's contributions during the measurement period as provided by KRS were \$105,724 with a proportionate share percentage of .058291%. The Corporation's contributions during the measurement period as provided by KRS were \$1,008,574 with a proportionate share percentage of .819901%.

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June 30, 2020

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

There are two primary methods that can be utilized to allocate the estimated unfunded net OPEB liability. The first method is the aforementioned "by payroll" method. This method determines each employer's share of the total payroll and allocates the unfunded net OPEB liability using that same share percentage. The second method calculates each employer's portion of the unfunded net OPEB liability. This second methodology is more of a specific identification methodology. The Authority/Corporation believe that "by payroll" was most likely selected as the methodology to allocate the unfunded net OPEB liability due to the ease and simplicity of this approach. The specific identification approach is less transparent and not as simple. The Authority/Corporation believe that the specific identification methodology for allocating the unfunded net OPEB liability would have resulted in a materially less June 30, 2020 net OPEB liability for the Corporation. The "by payroll" methodology does not reflect each employer's real liability. Management believes that the Corporation's real net OPEB liability is significantly less than the recorded net OPEB liability included in the financial statements herein. Management is not in possession of any information related to the Authority's real net OPEB liability that would indicate whether the Authority's real net OPEB liability may be materially different than its recorded net OPEB liability included in the financial statements herein.

For the year ended June 30, 2020, the Authority/Corporation recognized OPEB expense of \$1,115,941 for its proportionate share of KERS's OPEB expense. The Authority's portion was \$(18,555) and the Corporation's was \$1,134,496.

The fully-insured premiums KRS pays for KERS Insurance Fund are blended rates based on the combined experience of active and retired members. Because the average cost of providing health care benefits to retirees under age 65 is higher than the average cost of providing health care benefits to active employees, there is an implicit employer subsidy for the non-Medicare eligible retirees. The Authority/Corporation is required to include the liability associated with this implicit subsidy in the deferred outflows and calculation of the total OPEB liability. At June 30, 2020, the Authority/Corporation reported as part of the deferred outflow an implicit subsidy of \$235,319. The Authority's portion is \$15,620 and the Corporation's is \$219,699. At June 30, 2019, the Authority/Corporation reported as part of the OPEB expense an implicit subsidy of \$197,335. The Authority's portion is \$14,870 and the Corporation's is \$182,465.

Notes to Combined Financial Statements--Continued

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

June 30, 2020

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

At June 30, 2020, 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:

<u>Authority</u>	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Difference between expected and actual experience		\$ 206,680
Net difference between projected and actual investment earnings on pension plan investments	\$ 5,488	13,986
Changes in assumptions	169,929	3,897
Changes in proportion and differences between employer contributions and proportionate share of contributions		423,705
Authority's implicit subsidy to KERS subsequent to the measurement date	15,620	
Authority's contributions to KERS subsequent to the measurement date	<u>97,987</u>	
	<u>\$ 289,024</u>	<u>\$ 648,268</u>

\$97,987 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, 2021. Amounts reported as deferred outflows and inflows of resources related to OPEB will be recognized in OPEB expense as follows:

<u>Year Ending June 30:</u>	
2021	\$ (128,474)
2022	(161,263)
2023	(54,641)
2024	
2025	
Thereafter	

Notes to Combined Financial Statements--Continued

**Kentucky Higher Education Assistance Authority/
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June 30, 2020

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

At June 30, 2020, 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:

<u>Corporation</u>	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Difference between expected and actual experience		\$ 2,907,094
Net difference between projected and actual investment earnings on pension plan investments	\$ 77,188	196,722
Changes in assumptions	2,390,156	54,820
Changes in proportion and differences between employer contributions and proportionate share of contributions	169,902	980,886
Corporation's implicit subsidy to KERS subsequent to the measurement date	219,699	
Corporation's contributions to KERS subsequent to the measurement date	982,836	
	<u>\$ 3,839,781</u>	<u>\$ 4,139,522</u>

\$982,836 reported as deferred outflows of resources related to OPEB resulting from the Corporation's contributions to KERS subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2021. Other amounts reported as deferred outflows and inflows of resources related to KERS OPEB will be recognized in OPEB expense as follows:

<u>Year Ending June 30:</u>	
2021	\$ (196,976)
2022	(740,460)
2023	(367,864)
2024	
2025	
Thereafter	

Notes to Combined Financial Statements--Continued

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

June 30, 2020

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

Actuarial Assumptions. The total OPEB liability was determined by an actuarial valuation as of June 30, 2019, using the entry age normal cost method and the following actuarial assumptions:

<u>Assumptions</u>	<u>Percentage</u>
Inflation	2.30%
Payroll Growth	0.00%
Investment Rate of Return	6.25%

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

The actuarial assumptions used in the June 30, 2019, valuation were based on the results of an actuarial experience study for the period July 1, 2013 - June 30, 2018

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

Notes to Combined Financial Statements--Continued

**Kentucky Higher Education Assistance Authority/
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June 30, 2020

Note O--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:

<u>Asset Class</u>	<u>Long Term Expected Real Rate of Return</u>	<u>Target Allocation</u>
Growth		
US Equity	4.30%	18.75%
Non US Equity	4.80%	18.75%
Private Equity	6.65%	10.00%
Specialty Credit/High Yield	2.60%	15.00%
Liquidity		
Core Bonds	1.35%	13.50%
Cash	0.20%	1.00%
Diversifying Strategies		
Real Estate	4.85%	5.00%
Opportunistic	2.97%	3.00%
Real Return	4.10%	15.00%
		<u>100.00%</u>

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

Discount Rate. The discount rate used to measure the total OPEB liability was 5.73%. This rate is based on the expected rate of return on OPEB plan investments of 6.25% and a municipal bond rate of 3.13%, as reported in Fidelity Index's 20-Year Municipal GO AA Index as of June 30, 2019. The projection of cash flows used to determine the discount rate assumed employers would contribute the actuarially determined contribution rate of projected compensation over the remaining 24 year amortization period of the unfunded actuarial accrued liability.

**Kentucky Higher Education Assistance Authority/
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Note O--Net Other Post-Employment Benefits ("OPEB")--Continued

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

	<u>1% Decrease</u>	<u>Discount Rate</u>	<u>1% Increase</u>
KRS Discount Rate	4.73%	5.73%	6.73%
Authority's proportionate share of net OPEB liability	\$ 1,542,748	\$ 1,295,748	\$ 1,092,748
Corporation's proportionate share of net OPEB liability	\$ 21,701,547	\$ 18,225,547	\$ 15,364,547

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

	<u>1% Decrease</u>	<u>Healthcare Cost Trend Rate</u>	<u>1% Increase</u>
KRS Healthcare Cost Trend Rate	2.62%	3.62%	4.62%
Authority's proportionate share of net OPEB liability	\$ 1,064,748	\$ 1,295,748	\$ 1,575,748
Corporation's proportionate share of net OPEB liability	\$ 15,385,547	\$ 18,225,547	\$ 21,660,547

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

Payable to the OPEB Plan. At June 30, 2020, the Authority/Corporation reported a payable of \$84,794 for the outstanding amount of contributions to the Insurance Plan required for the year ended June 30, 2020. The Authority's portion is \$7,893 and the Corporation's is \$76,901.

**Kentucky Higher Education Assistance Authority/
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June 30, 2020

Note P--Tuition Benefits Payable

The following assumptions provided by management were used in the actuarial valuation of tuition benefits payable as of June 30, 2020. 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 (2002-2019).

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

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

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

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

**Kentucky Higher Education Assistance Authority/
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June 30, 2020

Note P--Tuition Benefits Payable--Continued

- The tuition increases for the 2010-2011 academic year were 4.0% for the Value Plan and 6.0% for the Standard Plan and the Premium Plan.
- The tuition increases for the 2011-2012 academic year were 3.8% for the Value Plan and 6.0% for the Standard Plan and the Premium Plan.
- The tuition increases for the 2012-2013 academic year were 3.8% for the Value Plan and 6.0% for the Standard Plan and the Premium Plan.
- The tuition increases for the 2013-2014 academic year were 2.9% for the Value Plan and 3.0% for the Standard Plan and the Premium Plan.
- The tuition increases for the 2014-2015 academic year were 2.1% for the Value Plan and 5.0% for the Standard Plan and the Premium Plan.
- The tuition increases for the 2015-2016 academic year were 2.0% for the Value Plan and 3.0% for the Standard Plan and the Premium Plan.
- The tuition increases for the 2016-2017 academic year were 4.0% for the Value Plan and 5.0% for the Standard Plan and the Premium Plan.
- The tuition increases for the 2017-2018 academic year were 9.0% for the Value Plan and 4.0% for the Standard Plan and the Premium Plan.
- The tuition increases for the 2018-2019 academic year were 4.1% for the Value Plan and 2.5% for the Standard Plan and the Premium Plan.
- The tuition increases for the 2019-2020 academic year were 2.8% for the Value Plan and negative 0.5% for the Standard Plan and the Premium Plan.
- As of June 30, 2020, the tuition increase for the 2020-2021 academic year will be 2.7% for the Value Plan and 1% for the Standard Plan and Premium Plan. The tuition increase assumption for each year thereafter through 2028, when all current participant standard utilization periods expire, will be 4.75%.

For the period from inception to June 30, 2020, the annualized tuition increase for the highest-priced Kentucky public university, as applicable to the tuition benefits payout rate of Kentucky's Affordable Prepaid Tuition Standard and Premium Plans, which represents 95.4% of the Plan's enrollments, has been 6.7%. 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, 2020, has been 8.1%.

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.

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June 30, 2020

Note Q--Restricted Net Position

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

- a. **Federal Student Loan Reserve Fund:** Net position is restricted for certain FFELP activities, primarily the payments of claims.
- b. **Agency Operating Fund:** Net position is restricted for certain FFELP activities and other student aid activities.
- c. **Education Finance Funds:** Net position is restricted as required by the 2010 Indenture, the 2013-1 Indenture, the 2013-2 Indenture, the 2014 Indenture, the 2015 Indenture, the 2016 Indenture, the 2017 Indenture, the 2018 indenture and the 2019 indenture.
- d. **Corporation Operating Fund:** Net position is primarily restricted for an estimated amount of mandatory repurchases of loans subject to bankruptcy claims.
- e. **Student Aid Funds:** The Student Aid fund balance is restricted for the Student Aid Programs.
- f. **The Trust:** Net position is restricted for use by trust participants.

Note R--Operating Leases

The Authority/Corporation leases office space and equipment under agreements through 2023. Rental and space utilization expense was \$1,426,784 for the year ended June 30, 2020. Minimum future rental payments for real estate and equipment, including common area maintenance commitments, at June 30, 2020 are as follows:

<u>Year Ending June 30:</u>	
2021	\$ 1,317,347
2022	635,347
2023	21,030
	<hr/>
	\$ 1,973,724

**Kentucky Higher Education Assistance Authority/
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June 30, 2020

Note S--Commitments and Contingencies

The FSLRF is contingently liable for loans made by financial institutions that qualify for guarantee. The default ratio for loans guaranteed by the Authority/Corporation's loan guarantee operations is below 5% for the fiscal year ended June 30, 2020. Prior to December 1, 2015, the federal government's reinsurance rate for defaults was 100% for loans made prior to October 1, 1993, 98% for loans made on or after October 1993 to September 30, 1998, and 95% for loans made after September 30, 1998. Effective December 1, 2015, the maximum reinsurance rate was amended from 95% to 100%. In the event of future adverse default experience, the FSLRF could be liable for 25% of defaulted loans for a default ratio in excess of 9%. The liability for a default ratio over 5% and up to 9% is 15%. At the beginning of each federal fiscal year, the reinsurance rate returns to applicable baseline; management does not expect that all guaranteed loans could default in one year.

While management believes the FSLRF's expected maximum contingent liability is less than 25% of outstanding guaranteed loans, the maximum contingent liability at June 30, 2020 is calculated as follows:

Amount of guaranteed student loans outstanding at lenders	\$ 2,078,466,433
Less minimum federal government share - 75%	<u>1,558,849,825</u>
	<u>\$ 519,616,608</u>

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

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

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

Notes to Combined Financial Statements--Continued

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

June 30, 2020

Note S--Commitments and Contingencies--Continued

enforcement of the total finding, KHEAA believes that such amount, though not estimable, would be immaterial to the financial statements as a whole.

The COVID-19 pandemic has had a negative effect on the U.S. economy and has brought about new and proposed law changes related to student loans. Management of the Authority/Corporation is monitoring and responding to the effect of the pandemic on its operations and business model including its liquidity and change in net position. These responses include the regular assessment of the level of Corporation cash receipts from borrower, claim and consolidation payments in order to satisfy ongoing debt service requirements. The full impact of the pandemic is unknown and cannot be reasonably estimated as events are still developing.

Note T--Subsequent Events

On July 29, 2020, the Authority/Corporation executed a new Warehouse Loan and Security Agreement and Amendment to Loan Documents with a commercial bank (the "Bank") to provide up to \$25,000,000 of new Line of Credit draws and a renewal of an existing \$75,000,000 revolving Line of Credit. The revolving Line of Credit has a two-year term period. 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 second \$25,000,000 Line of Credit is a multi-draw term loan ("Credit Facility") with a 12-month period for advances on the Credit Facility that also matures at the end of the 12-month period. The Credit Facility is restricted to the acquisition of loans made through FFELP and is collateralized by the loans financed with funds advanced by the Bank. In addition, both Lines of Credit will also be cross-collateralized.

Note U--Recent Pronouncements

The GASB has issued seven standards that will become effective ranging from fiscal year 2021 to fiscal year 2023 financial statements. The Authority/Corporation is currently evaluating the impact that will result from adopting these GASB standards and is therefore unable to disclose the impact that adopting these standards will have on the Authority/Corporation's financial position and the results of its operations when the standards are adopted.

**REQUIRED SUPPLEMENTARY
INFORMATION**

Schedule of Proportionate Share of the Net Pension Liability and Related Ratios
June 30, 2019

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

	FY 2019	FY 2018	FY 2017	FY 2016	FY 2015	FY 2014
Authority's proportion of the net pension liability	0.058291%	0.069264%	0.085192%	0.093544%	0.097187%	0.101355%
Authority's proportionate share of the net pension liability	\$ 8,232,439	\$ 9,422,519	\$ 11,405,792	\$ 10,663,495	\$ 9,749,658	\$ 9,093,000
Authority's covered-employee payroll	\$ 852,612	\$ 1,057,832	\$ 1,317,197	\$ 1,556,281	\$ 1,628,998	\$ 1,740,891
Authority's proportionate share of the net pension liability as a percentage of its covered-employee payroll	965.56%	890.74%	865.91%	685.19%	598.51%	522.32%
Plan fiduciary net position as a percentage of the total pension liability	13.66%	12.84%	13.30%	14.87%	18.83%	22.32%
	FY 2019	FY 2018	FY 2017	FY 2016	FY 2015	FY 2014
Corporation's proportion of the net pension liability	0.819901%	0.850042%	0.833570%	0.819117%	0.839524%	0.796208%
Corporation's proportionate share of the net pension liability	\$ 115,794,636	\$ 115,637,803	\$ 111,601,157	\$ 93,375,171	\$ 84,220,102	\$ 71,434,000
Corporation's covered-employee payroll	\$ 11,992,554	\$ 12,982,294	\$ 12,888,303	\$ 13,627,623	\$ 14,071,702	\$ 13,672,643
Corporation's proportionate share of the net pension liability as a percentage of its covered-employee payroll	965.55%	890.73%	865.91%	685.19%	598.51%	522.46%
Plan fiduciary net position as a percentage of the total pension liability	13.66%	12.84%	13.30%	14.87%	18.83%	22.32%
Total collective net pension liability for the Kentucky Employees Retirement System (KERS) non-hazardous employees	\$ 14,123,002,000	\$ 13,603,775,000	\$ 13,388,336,000	\$ 11,399,489,047	\$ 10,031,891,000	\$ 8,971,820,000
KERS' non-hazardous employees total fiduciary net position	\$ 2,233,672,000	\$ 2,004,446,000	\$ 2,056,870,000	\$ 1,980,292,118	\$ 2,327,782,000	\$ 2,578,290,000
KERS' non-hazardous employees total pension liability	\$ 16,356,674,000	\$ 15,608,221,000	\$ 15,445,206,000	\$ 13,379,781,165	\$ 12,359,673,000	\$ 11,550,110,000

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

Schedule of Required Contributions-Pension
June 30, 2019

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

	<u>FY 2019</u>	<u>FY 2018</u>	<u>FY 2017</u>	<u>FY 2016</u>	<u>FY 2015</u>	<u>FY 2014</u>
Authority's contractually required contributor	\$ 604,423	\$ 434,346	\$ 552,959	\$ 479,957	\$ 502,383	\$ 567,008
Authority's contributions in relation to the contractually required contributor	(604,423)	(434,346)	(530,040)	(479,957)	(502,383)	(301,000)
Authority's contribution deficiency	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 22,919</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 266,008</u>
Authority's covered-employee payroll	\$ 852,612	\$ 1,057,832	\$ 1,317,197	\$ 1,556,281	\$ 1,628,998	\$ 1,740,891
Authority's contributions as a percentage of covered-employee payroll	70.89%	41.06%	40.24%	30.84%	30.84%	17.29%
	<u>FY 2019</u>	<u>FY 2018</u>	<u>FY 2017</u>	<u>FY 2016</u>	<u>FY 2015</u>	<u>FY 2014</u>
Corporation's contractually required contributor	\$ 8,518,310	\$ 5,330,530	\$ 5,410,509	\$ 4,202,759	\$ 4,339,713	\$ 4,453,180
Corporation's contributions in relation to the contractually required contributor	(4,924,142)	(5,330,530)	(5,186,253)	(4,202,759)	(4,339,713)	(2,364,000)
Corporation's contribution deficiency	<u>\$ 3,594,168</u>	<u>\$ -</u>	<u>\$ 224,256</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 2,089,180</u>
Corporation's covered-employee payroll	\$ 11,992,554	\$ 12,982,294	\$ 12,888,303	\$ 13,627,623	\$ 14,071,702	\$ 13,672,643
Corporation's contributions as a percentage of covered-employee payroll	41.06%	41.06%	40.24%	30.84%	30.84%	17.29%

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

Note to the Required Supplemental Information-Pension
June 30, 2019

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

Actuarial valuation date	June 30, 2017
Actuarial cost method	Entry age
Amortization method	Level of percentage of payroll, closed
Remaining amortization period	24 years
Asset valuation method	20% of the difference between the market value of assets and the expected actuarial value of assets is recognized
Inflation	2.30%
Projected salary increases	0.00%
Investment rate of return	5.25%, net of investment expense, including inflation

Schedule of Proportionate Share of the Net OPEB Liability and Related Ratios
June 30, 2019

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

	<u>FY 2019</u>	<u>FY 2018</u>	<u>FY 2017</u>
Authority's proportion of the net OPEB liability	0.058291%	0.069214%	0.085192%
Authority's proportionate share of the net OPEB liability	\$ 1,295,748	\$ 1,641,003	\$ 2,160,437
Authority's covered-employee payroll	\$ 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	151.97%	155.13%	164.02%
Plan fiduciary net position as a percentage of the total OPEB liability	30.92%	27.32%	24.40%
	<u>FY 2019</u>	<u>FY 2018</u>	<u>FY 2017</u>
Corporation's proportion of the net OPEB liability	0.819901%	0.849297%	0.833570%
Corporation's proportionate share of the net OPEB liability	\$ 18,225,547	\$ 20,136,083	\$ 21,139,020
Corporation's covered-employee payroll	\$ 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	151.97%	155.10%	164.02%
Plan fiduciary net position as a percentage of the total OPEB liability	30.92%	27.32%	24.40%
Total collective net OPEB liability for the Kentucky Employees Retirement System (KERS) non-hazardous employees	\$ 2,222,896,000	\$ 2,370,912,000	\$ 2,535,962,000
KERS' non-hazardous employees total fiduciary net position	\$ 995,089,000	\$ 891,205,000	\$ 817,370,000
KERS' non-hazardous employees total OPEB liability	\$ 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, 2019

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

	<u>FY 2019</u>	<u>FY 2018</u>	<u>FY 2017</u>
Authority's contractually required contribution	\$ 105,724	\$ 88,978	\$ 110,776
Authority's contributions in relation to the contractually required contribution	(105,724)	(88,978)	(109,986)
Authority's contribution deficiency	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 790</u>
Authority's covered-employee payroll	\$ 852,612	\$ 1,057,832	\$ 1,317,197
Authority's contributions as a percentage of covered-employee payroll	12.40%	8.41%	8.35%
	<u>FY 2019</u>	<u>FY 2018</u>	<u>FY 2017</u>
Corporation's contractually required contribution	\$ 1,487,077	\$ 1,091,820	\$ 1,083,906
Corporation's contributions in relation to the contractually required contribution	(1,008,574)	(1,091,820)	(1,076,173)
Corporation's contribution deficiency	<u>\$ 478,503</u>	<u>\$ -</u>	<u>\$ 7,733</u>
Corporation's covered-employee payroll	\$ 11,992,554	\$ 12,982,294	\$ 12,888,303
Corporation's contributions as a percentage of covered-employee payroll	8.41%	8.41%	8.35%

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

Note to the Required Supplemental Information-OPEB
June 30, 2019

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

Actuarial valuation date	June 30, 2017
Actuarial cost method	Entry age
Amortization method	Level of percentage of payroll, closed
Remaining amortization period	24 years
Asset valuation method	20% of the difference between the market value of assets and the expected actuarial value of assets is recognized
Inflation	2.30%
Projected salary increases	0.00%
Investment rate of return	6.25%, net of investment expense, including inflation
Healthcare Trend Rates Pre-65	Initial trend starting at 7.25% at January 1, 2019 and gradually decreasing to an ultimate trend rate of 4.05% over a period of 13 years
Healthcare Trend Rates Post-65	Initial trend starting at 5.10% at January 1, 2019 and gradually decreasing to an ultimate trend rate of 4.05% over a period of 11 years