



**KENTUCKY COMMUNITY AND
TECHNICAL COLLEGE SYSTEM**

2019-2020 ANNUAL FINANCIAL REPORT
(A Component Unit of the Commonwealth of Kentucky)

KENTUCKY COMMUNITY AND TECHNICAL COLLEGE SYSTEM

CONTENTS

Independent Auditor's Report	1
Management's Discussion and Analysis.....	3
Financial Statements	
Statements of Net Position	14
Statements of Revenues, Expenses and Changes in Net Position	15
Statements of Cash Flows.....	16
Notes to Financial Statements	18
Required Supplementary Information	
Schedule of KCTCS' Proportionate Share of Net Pension Liability – KTRS.....	59
Schedule of KCTCS' Pension Contribution – KTRS	59
Schedule of KCTCS' Proportionate Share of Net Pension Liability – KERS	60
Schedule of KCTCS' Pension Contribution – KERS	60
Schedule of KCTCS' Proportionate Share of the Net Other Postemployment Benefit Liability – KTRS – Medical Insurance Plan	61
Schedule of KCTCS' OPEB Contribution – KTRS – Medical Insurance Plan.....	61
Schedule of KCTCS' Proportionate Share of the Net Other Postemployment Benefit Liability – KTRS – Life Insurance Plan.....	62
Schedule of KCTCS' OPEB Contribution – KTRS – Life Insurance Plan	62
Schedule of KCTCS' Proportionate Share of the Net Other Postemployment Benefit Liability – KERS.....	63
Schedule of KCTCS' OPEB Contribution – KERS	63
Schedule of KCTCS' Changes in the Net OPEB Liability (Asset) and Related Ratios	64
Officers of the KCTCS Board of Regents, KCTCS Board of Regents and KCTCS President's Cabinet.....	65
Independent Auditor's Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance With <i>Government Auditing Standards</i>	66

INDEPENDENT AUDITOR'S REPORT

Members of the Board of Regents
Kentucky Community and Technical College System
Versailles, Kentucky

Secretary of Finance and
Administration Cabinet of the
Commonwealth of Kentucky

Report on the Financial Statements

We have audited the accompanying financial statements of the Kentucky Community and Technical College System (the System), a component unit of the Commonwealth of Kentucky, as of and for the years ended June 30, 2020 and 2019, and the related notes to the financial statements, which collectively comprise the System's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these 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.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits 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 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 auditor's 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 auditor considers 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 financial statements.

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the System, as of June 30, 2020 and 2019, and the changes in its financial position and its cash flows thereof for the years 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 management's discussion and analysis on pages 3 through 13 and the required supplementary information on pages 59 through 64 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We 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 financial statements, and other knowledge we obtained during our audit of the basic 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.

Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the System's basic financial statements. The listing of the Officers of the KCTCS Board of Regents, KCTCS Board of Regents, and KCTCS President's Cabinet is presented for purposes of additional analysis and is not a required part of the basic financial statements.

The listing of the Officers of the KCTCS Board of Regents, KCTCS Board of Regents, and KCTCS President's Cabinet has not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated December 17, 2020 on our consideration of the System's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the System's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the System's internal control over financial reporting and compliance.



Crowe LLP

Lexington, Kentucky
December 17, 2020

KENTUCKY COMMUNITY AND TECHNICAL COLLEGE SYSTEM

Management's Discussion and Analysis

June 30, 2020 and 2019

Management's Discussion and Analysis of the Kentucky Community and Technical College System (KCTCS) financial statements provides an overview of the financial position and activities of KCTCS for the years ended June 30, 2020 and 2019. This discussion has been prepared by management and is unaudited and should be read in conjunction with the financial statements and the related notes which follow this section. The financial statements and related notes and this discussion and analysis are the responsibility of management.

Financial Highlights

- KCTCS' financial position remained solid at June 30, 2020, with assets and deferred outflows of \$1.3 billion and liabilities and deferred inflows of \$639.1 million. Net position, which represents KCTCS' residual interest in assets and deferred outflows after liabilities and deferred inflows are deducted, was \$664.0 million at June 30, 2020 or 51.0 percent of total assets and deferred outflows. Net position at June 30, 2019 was \$562.8 million or 44.5 percent of total assets and deferred outflows.
- Total assets and deferred outflows increased \$39.7 million or 3.1 percent. The increase is primarily due to an increase in the other post-employment benefit (OPEB) asset of \$28.5 million. Total liabilities and deferred inflows decreased by \$61.6 million or 8.8 percent of total liabilities and deferred inflows. The decrease is primarily due to a decrease in pension deferred inflows of \$46.5 million and a decrease in the liability for other post-employment benefits of \$8.8 million.
- Total net position increased \$101.2 million primarily due to unrestricted revenue over expenses of \$65.8 million and an increase in restricted expendable net assets of \$21.6 million.
- Operating revenues were \$210.4 million and operating expenses were \$514.5 million, resulting in a loss from operations of \$304.1 million. When nonoperating revenues of \$390.9 million (including \$174.6 million in state appropriations) and other revenues of \$14.5 million are added, this resulted in an increase of \$101.2 million in net position.

Using the Financial Statements

The Financial Statements consist of Statements of Net Position (Balance Sheets), Statements of Revenues, Expenses and Changes in Net Position (Income Statements), Statements of Cash Flows, and Notes to the Financial Statements. These financial statements are prepared in accordance with standards issued by the Governmental Accounting Standards Board (GASB). Accordingly, the accrual basis of accounting is used whereby revenues are recognized when earned (when the service is provided) and expenses are recognized when incurred (when the service is received), regardless of when cash is exchanged.

Reporting Entity

The Kentucky Community and Technical College System (KCTCS) is a component unit of the Commonwealth of Kentucky (Commonwealth). KCTCS was created in May 1997 by The Higher Education Improvement Act (House Bill 1) of the Kentucky General Assembly. Since its creation, KCTCS has become the largest provider of postsecondary education and workforce training in the Commonwealth.

KCTCS provides both credit and non-credit education and training primarily to Kentucky residents. In fact, for most Kentuckians, higher education begins with KCTCS at one of its 16 colleges through traditional and distance education. Offering approximately 10,000 online course sections annually, KCTCS is the largest provider of internet-based courses in the state. KCTCS provides high quality, relevant educational programs and responsive business and industry training throughout the Commonwealth. Since its inception, KCTCS has provided the lowest tuition in the Commonwealth through a single, straightforward tuition and charge structure. KCTCS is committed to providing the best value in higher education in Kentucky.

KENTUCKY COMMUNITY AND TECHNICAL COLLEGE SYSTEM

Management's Discussion and Analysis

June 30, 2020 and 2019

KCTCS offers a variety of certificates, diplomas, and associate degree programs as well as customized training programs for business and industry. Through the Kentucky Fire Commission and the Kentucky Board of Emergency Medical Services, KCTCS provides fire and rescue training, certifications for first responders and emergency medical technicians, and licenses paramedics and ambulance services throughout the state. All KCTCS colleges are independently accredited by the Southern Association of Colleges and Schools Commission on Colleges (SACSCOC).

KCTCS has 16 colleges with over 70 locations strategically positioned throughout the regions of the Commonwealth - from Maysville to Somerset and from Ashland to Paducah - KCTCS is accessible and convenient to all Kentuckians. KCTCS colleges offer over 115 programs (110 technical programs) with associated credentials including certificates, diplomas and associate degrees in Arts, Science, Applied Science and Fine Arts. The single most popular area of study is the baccalaureate transfer program, which allows a student to earn an associate degree through KCTCS and transfer those credits to any Kentucky university.

While continuing to emphasize its historical mission to provide general education, KCTCS has increased its focus on occupational and technical education and workforce training. KCTCS is Kentucky's primary provider of workforce training, delivering programs and services that address the full spectrum of needs faced by business and industry, as well as programs for individuals who want to learn or upgrade new skills. These programs include apprenticeships, clinical experiences, and experience in the workplace to develop a graduate ready to enter a technical career.

Through Workforce Solutions units, KCTCS colleges deliver high quality, cost-effective customized training and assessment services to support business and industry so they can remain globally competitive and contribute to the economic viability of the Commonwealth. In FY20, KCTCS colleges provided workforce training for over 4,500 companies through the Commonwealth for over 42,000 individuals.

KCTCS also provides educational enrichment opportunities through community development classes related to personal improvement, cultural activities, and fine arts. These classes are tailored to meet local needs and provide opportunities for Kentuckians to connect, learn and grow in their communities.

KENTUCKY COMMUNITY AND TECHNICAL COLLEGE SYSTEM
Management's Discussion and Analysis
June 30, 2020 and 2019

Statements of Net Position

The Statements of Net Position present the financial condition of KCTCS at the end of the fiscal year and include all assets, deferred outflows, liabilities, and deferred inflows. Net position, the difference between total assets and deferred outflows and total liabilities and deferred inflows, is an important indicator of the current financial condition. Assets and liabilities are generally reported at cost. The major exception is investments which are reported at fair value.

A summary of the assets and deferred outflows, liabilities and deferred inflows and net position of KCTCS at June 30, 2020, 2019, and 2018, is as follows:

Condensed Statements of Net Position
(in thousands)

	2020	2019	2018
Assets and Deferred Outflows			
Current assets	\$ 301,355	\$ 273,330	\$ 262,139
Noncurrent assets	969,873	948,809	919,251
Deferred outflows	31,890	41,289	64,138
Total assets and deferred outflows	1,303,118	1,263,428	1,245,528
Liabilities and Deferred Inflows			
Current liabilities	45,154	46,265	58,384
Noncurrent liabilities	447,927	472,204	535,426
Deferred inflows	146,017	182,188	184,600
Total liabilities and deferred inflows	639,098	700,657	778,410
Net Position			
Net investment in capital	598,513	585,721	572,176
Restricted	201,154	178,467	169,535
Unrestricted	(135,647)	(201,417)	(274,593)
Total net position	\$ 664,020	\$ 562,771	\$ 467,118

Assets and Deferred Outflows: As of June 30, 2020, total assets and deferred outflows amounted to \$1.3 billion. Of this amount, investment in capital assets (net of depreciation) of \$754.6 million, or 57.9 percent of total assets and deferred outflows, represented the largest asset class. Cash and cash equivalents amounted to \$342.2 million or 26.3 percent of total assets and deferred outflows, and endowments amounted to \$67.3 million or 5.2 percent of total assets and deferred outflows. During the year, total assets and deferred outflows increased by \$39.7 million, primarily due to an increase in the other post-employment benefit (OPEB) asset of \$28.5 million.

Liabilities and Deferred Inflows: As of June 30, 2020, total liabilities and deferred inflows amounted to \$639.1 million. Net pension liability amounted to \$243.1 million or 38.0 percent of total liabilities and deferred inflows. Capital leases amounted to \$158.2 million or 24.8 percent of total liabilities and deferred inflows. Liabilities and deferred inflows decreased by \$61.6 million or 8.8 percent of total liabilities and deferred inflows. The decrease is primarily due to a decrease in pension deferred inflows of \$46.5 million and a decrease in the liability for other post-employment benefits of \$8.8 million.

KENTUCKY COMMUNITY AND TECHNICAL COLLEGE SYSTEM
Management's Discussion and Analysis
June 30, 2020 and 2019

Net Position: As of June 30, 2020, total net position amounted to \$664.0 million. Net position is reported on the Statements of Net Position in three categories: net investment in capital, \$598.5 million (90.1 percent); restricted \$201.2 million (30.3 percent); and unrestricted, \$(135.6) million (-20.4 percent). Restricted net position is subject to externally imposed restrictions governing its use. Unrestricted net position is not subject to externally imposed restrictions, however, substantially all unrestricted net position has been designated for support of instructional programs and initiatives and working capital requirements.

Total net position increased \$101.2 million primarily due to unrestricted revenue over expenses of \$65.8 million and an increase in restricted expendable net assets of \$21.6 million.

Fiscal Year Ended June 30, 2019

- As of June 30, 2019, total assets and deferred outflows amounted to \$1.3 billion. Of this amount, investment in capital assets (net of depreciation) of \$742.6 million, or 58.8 percent of total assets and deferred outflows, represented the largest asset class. Cash and cash equivalents amounted to \$330.2 million or 26.1 percent of total assets and deferred outflows, and endowments amounted to \$66.6 million or 5.3 percent of total assets and deferred outflows. During the year, total assets and deferred outflows increased by \$17.8 million from completion of BuildSmart projects.
- As of June 30, 2019, total liabilities and deferred inflows amounted to \$700.7 million. Net pension liability amounted to \$250.6 million or 35.8 percent of total liabilities and deferred inflows. Capital leases amounted to \$166.3 million or 23.7 percent of total liabilities and deferred inflows. Liabilities and deferred inflows decreased by \$77.8 million or 10.0 percent of total liabilities and deferred inflows. The decrease is primarily due to a decrease in the net pension liability of \$63.6 million and a decrease in leases payable totaling \$6.4 million.
- As of June 30, 2019, total net position of \$562.8 million is recorded in three categories: net investment in capital, \$585.7 million (104.1 percent); restricted \$178.5 million (31.7 percent); and unrestricted \$(201.4 million) (-35.8 percent). Total net position increased by \$95.7 million primarily due to unrestricted revenue over expenses of \$73.2 million and an increase in restricted capital projects of \$20.4 million.

Statements of Revenues, Expenses and Changes in Net Position

The Statements of Revenues, Expenses and Changes in Net Position are prepared using the accrual basis of accounting. The change in net assets is an indicator of whether the overall financial position has improved or declined during the year. All items that increase or decrease net assets must appear on the Statements of Revenues, Expenses and Changes in Net Position as revenues, expenses, gains, or losses. Financial activities are reported as either operating or nonoperating. State appropriations, certain grants, gifts, investment, and endowment income are required to be classified as nonoperating revenues because these funds are non-exchange revenues provided to KCTCS without direct commensurate value for those revenues. Accordingly, KCTCS reports an operating loss for the year prior to the addition of nonoperating revenues.

The utilization of long-lived capital assets is reflected in the financial statements as depreciation, which amortizes the cost of an asset over its expected useful life. Tuition is reduced by scholarships and bad debt expense. Institutional aid and grants-in-aid funded by federal and state grants are reported net of scholarship allowances.

KENTUCKY COMMUNITY AND TECHNICAL COLLEGE SYSTEM
Management's Discussion and Analysis
June 30, 2020 and 2019

Condensed Statements of Revenues, Expenses and Changes in Net Position
(in thousands)

	2020	2019	2018
Operating revenues			
Student tuition and fees, net	\$ 103,354	\$ 102,956	\$ 105,818
Grants and contracts	97,722	99,423	103,266
Other operating revenues	9,325	9,688	13,190
Total operating revenues	210,401	212,067	222,274
Operating expenses			
Educational and general, excluding depreciation	477,607	473,896	524,967
Depreciation	36,873	36,227	34,810
Total operating expenses	514,480	510,123	559,777
Operating loss	(304,079)	(298,056)	(337,503)
Nonoperating revenues			
State appropriations	174,581	174,572	179,789
Federal and state grants and contracts	203,369	185,296	178,606
Other nonoperating revenues	12,928	19,327	10,566
Total nonoperating revenues	390,878	379,195	368,961
Income before other revenues, expenses gains or losses	86,799	81,139	31,458
Capital construction appropriations	16,978	9,577	4,692
Net realized gain (loss) on disposal of capital assets	(2,998)	1,198	(6,602)
Additions to endowments	470	3,739	4,756
Total other revenues	14,450	14,514	2,846
Increase in net position before cumulative effect of change	101,249	95,653	34,304
Cumulative effect of change in accounting principle	-	-	(72,377)
Total increase (decrease) in net position	101,249	95,653	(38,073)
Net position, beginning of year	562,771	467,118	505,191
Net position, end of year	\$ 664,020	\$ 562,771	\$ 467,118

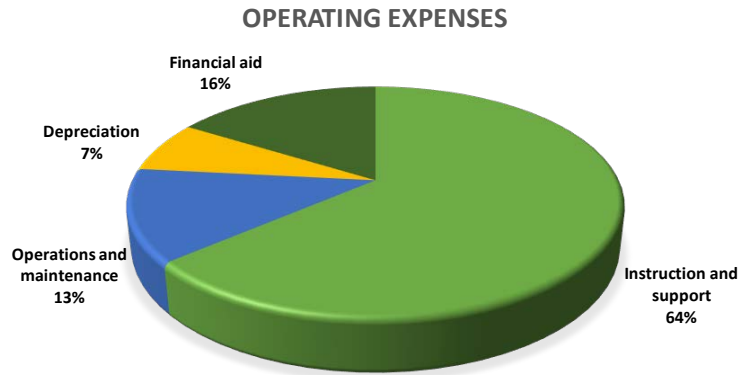
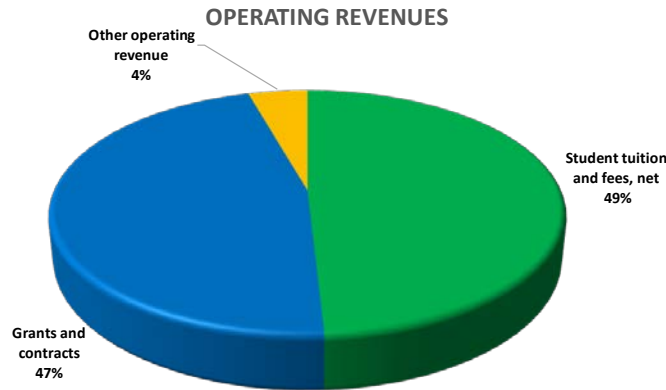
Total operating revenues were \$210.4 million for the year ended June 30, 2020. Included in KCTCS' operating revenues are net student tuition and fees of \$103.4 million or 49.1 percent of total operating revenues, and grants and contracts of \$97.7 million or 46.4 percent of total operating revenues. Tuition and fees are presented net of bad debt expense, scholarship allowances, gift scholarships and institutional scholarships.

A scholarship allowance is the difference between the stated charges for goods and services provided by KCTCS and the amount that is billed to students and third parties making payments on behalf of students. Any excess aid disbursed to the student is recognized as a student financial aid expense.

KENTUCKY COMMUNITY AND TECHNICAL COLLEGE SYSTEM
 Management's Discussion and Analysis
 June 30, 2020 and 2019

Operating expenses totaled \$514.5 million. Of this amount, \$477.6 million or 93.0 percent of total operating expenses was expended for educational and general programs, including instruction, academic support, libraries, public service, student services, institutional support, student financial aid and operations and maintenance (excluding depreciation). The loss from operations for the year amounted to \$304.1 million. Nonoperating and other revenues, net of related expenses, amounted to \$405.3 million, resulting in an increase in net position of \$101.2 million for the year.

The following charts depict operating revenues and expenses. State appropriations are not accounted for as operating revenues and, therefore, are excluded from the chart below:



Fiscal Year Ended June 30, 2019

- Total operating revenues were \$212.1 million for the year ended June 30, 2019, including net student tuition and fees of \$103.0 million or 48.5 percent of total operating revenues, and grants and contracts of \$99.4 million or 46.9 percent of total operating revenues.
- Operating expenses totaled \$510.1 million for the year ended June 30, 2019. Of this amount, \$473.9 million, or 92.9 percent of total operating expenses, was expended for educational and general programs, including instruction, libraries, academic support, public service, student services, institutional support, student financial aid and operations and maintenance (excluding depreciation).

KENTUCKY COMMUNITY AND TECHNICAL COLLEGE SYSTEM
Management's Discussion and Analysis
June 30, 2020 and 2019

- The loss from operations amounted to \$298.1 million for the year ended June 30, 2019. Nonoperating and other revenues, net of related expenses, amounted to \$393.7 million, resulting in an increase in net position of \$95.7 million for the year. Nonoperating revenues include state appropriations of \$174.6 million (44.3 percent of total nonoperating and other revenues).

Statements of Cash Flow

The Statements of Cash Flow present information related to KCTCS' cash inflows and outflows summarized by operating, capital, financing, and investing activities. The primary purpose of the Statements of Cash Flow is to provide information about cash receipts and cash payments to allow financial statement readers to assess:

- The ability to generate future net cash flow,
- The ability to meet obligations as they become due, and
- The possible need for external financing.

A comparative summary of KCTCS' Statements of Cash Flow for years ending June 30, 2020, 2019, and 2018 is as follows:

Condensed Statements of Cash Flow
(in thousands)

	<u>2020</u>	<u>2019</u>	<u>2018</u>
Cash provided by (used in):			
Operating activities	\$ (336,021)	\$ (308,866)	\$ (320,099)
State appropriation	174,581	174,572	179,789
Other noncapital financing activities	212,238	198,783	190,148
Capital and related financing activities	(47,286)	(57,668)	(53,711)
Investing activities	<u>8,511</u>	<u>1,479</u>	<u>9,764</u>
Net increase in cash and cash equivalents	12,023	8,300	5,891
Cash and cash equivalents, beginning of year	<u>330,211</u>	<u>321,911</u>	<u>316,020</u>
Cash and cash equivalents, end of year	<u>\$ 342,234</u>	<u>\$ 330,211</u>	<u>\$ 321,911</u>

Major sources of cash received from operating activities are student tuition and fees (\$103.4 million) and grants and contracts (\$98.7 million). Major uses of cash for operating activities are payments to employees for salaries and benefits (\$331.5 million), payments to vendors and contractors (\$133.3 million) and student financial aid (\$83.2 million). Noncapital financing activities include federal, state, and local grants, contracts, and appropriations of \$203.4 million.

Fiscal Year Ended June 30, 2019

- Major sources of cash received from operating activities for the year ended June 30, 2019 are student tuition and fees (\$102.9 million) and grants and contracts (\$97.8 million). Major uses of cash for operating activities are payments to employees for salaries and benefits (\$323.0 million), payments to vendors and contractors (\$129.0 million) and student financial aid (\$67.5 million).
- Noncapital financing activities include federal, state, and local grants, contracts, and appropriations of \$185.3 million.

KENTUCKY COMMUNITY AND TECHNICAL COLLEGE SYSTEM
Management's Discussion and Analysis
June 30, 2020 and 2019

Capital Assets

Capital assets, net of accumulated depreciation, totaled \$754.6 million at June 30, 2020, an increase of \$29.8 million. Capital assets as of June 30, 2020, 2019, and 2018, and significant changes in capital assets during those years are shown below (in thousands):

	Balance June 30, 2018	Net Additions FY 2019	Balance June 30, 2019	Net Additions FY 2020	Balance June 30, 2020
Land and land improvements	\$ 54,875	\$ 429	\$ 55,304	\$ 3,747	\$ 59,051
Buildings and infrastructure	890,505	16,428	906,933	39,399	946,332
Equipment, vehicles and campus improvements	148,435	6,998	155,433	10,644	166,077
Library materials	60,945	(18,153)	42,792	591	43,383
Construction in progress	54,117	14,880	68,997	(14,381)	54,616
Energy saving assets	39,024	7,169	46,193	3,692	49,885
Total assets	1,247,901	27,751	1,275,652	43,692	1,319,344
Accumulated depreciation	(523,124)	(9,942)	(533,066)	(31,727)	(564,793)
Capital assets, net	<u>\$ 724,777</u>	<u>\$ 17,809</u>	<u>\$ 742,586</u>	<u>\$ 11,965</u>	<u>\$ 754,551</u>

At June 30, 2020, KCTCS had capital construction projects in progress totaling \$54.6 million. These projects are principally financed by appropriations and bond proceeds from the Commonwealth of Kentucky.

KENTUCKY COMMUNITY AND TECHNICAL COLLEGE SYSTEM
Management's Discussion and Analysis
June 30, 2020 and 2019

Economic Factors Impacting Future Periods

The following are existing conditions and circumstances that will affect future financial results:

- KCTCS President Jay K. Box is retiring effective September 30, 2020. The KCTCS Board of Regents has appointed Dr. Paul Czarapata as interim KCTCS President to serve until a new KCTCS President is available to serve. The search firm of Gold Hill Associates has been hired to assist with a national search. The search process began in late spring 2020 with the naming of a Search Committee by Board of Regents Chair Dr. Gail Henson. The Search Committee will pare the candidates down for a final decision by the KCTCS Board of Regents. However, because of the COVID-19 pandemic the search had to be paused for a few months. The search is expected to resume in full in August. The updated timeline has been developed to have a new KCTCS President named and seated by early 2021.
- Senate Bill 153 of the 2016 General Assembly established performance-based funding for postsecondary education. Per this legislation a Performance-Based Funding Work Group, comprised of the presidents of Kentucky's four-year institutions, the president of KCTCS, appointees of the Kentucky Speaker of the House of Representatives, President of the State Senate and the Governor of Kentucky are expected to review and make recommendations regarding the progress of performance-based funding with Kentucky's public postsecondary education institutions. The Work Group is required to recommend any adjustments to current models to the Governor, Speaker of the House, and Senate President by December 1, 2020 for consideration of modifying the current performance-based models (four-year and two-year) by the Kentucky General Assembly when it convenes in January 2021. KCTCS is expected to seek adjustments to its performance-based funding model to help address volatility, reflect the career and technical and adult population education needs across Kentucky and the economic impact each college provides to its community.
- For FY 2021, KCTCS earned \$3.3 million or 22 percent of the Performance-Based Funding Pool in state support. KCTCS's performance funding allocation is distributed based on each college's performance as calculated with the approved KCTCS Performance-Based Funding Model metrics. The 2.0 percent stop-loss floor established for FY 2019-20 is continued with FY 2020-21. To reward outcomes promoted by the performance-based funding model and address historical funding inequities among the 16 colleges, it is anticipated that performance-based funding will continue to be phased-in at a graduated level given the lack of new funding to achieve full funding within the near future. Not included in performance funding calculations is roughly \$8.8 million set aside annually for mandated programs that are a part of KCTCS's base state appropriation, i.e. The Kentucky Fire Commission and Fire Rescue Training, the Kentucky Board of Emergency Medical Services, the KCTCS Adult Agriculture Education Program, and KCTCS-TRAINS. For FY 2020-21, the base state appropriation for KCTCS is \$171.3 million.
- For FY 2020-21, the Kentucky Council on Postsecondary Education approved a resident tuition rate increase for KCTCS of up to \$5 per student credit hour. On June 13, 2020, the KCTCS Board of Regents approved the FY 2020-21 resident tuition rate of \$179 per student credit hour. This is 2.9 percent, above the FY 2019-20 tuition rate. Nonresident students from counties contiguous to Kentucky will pay \$358 per credit hour. Other nonresident students will pay \$627 per credit hour. Students taking online courses will pay \$179 per credit hour.
- The KCTCS Board of Regents approved the FY 2020-21 operating budget totaling \$907.9 million and a FY 2020-21 capital budget totaling \$49.3 million. The FY 2020-21 operating budget continues KCTCS's practice of budgeting an unrestricted non-recurring emergency budget reserve, of which \$13.7 million is budgeted for FY 2020-21. Each college, the Kentucky Fire Commission, the Kentucky Board of Emergency Medical Services and Systemwide operations and support programs have set aside these funds as a contingency for a possible budget reduction, decline in enrollment, or other unanticipated, unavoidable costs.

KENTUCKY COMMUNITY AND TECHNICAL COLLEGE SYSTEM

Management's Discussion and Analysis

June 30, 2020 and 2019

- In December 2012, the KCTCS Board of Regents approved the establishment of a KCTCS OPEB Trust. In March 2013, KCTCS funded the Trust to substantially offset the actuarially calculated liability. Reflective of current financial markets and employees leaving KCTCS prior to retirement for other employment, as of June 30, 2020, the Trust's assets of \$205.0 million exceeded the total OPEB liability of \$152.5 million by \$52.5 million or 34.4 percent. This valuation is reflective of KCTCS acting as of January 2020 to reduce the out-of-pocket cost for retiree single coverage healthcare insurance to one-half for covered retirees. Contingent on the future expected obligation costs of the actuarial analysis, KCTCS may consider covering the full out-of-pocket cost for retiree single coverage healthcare insurance.
- KCTCS has employees within the Kentucky Retirement Systems (KRS) – Kentucky Teachers Retirement System (KTRS) and Kentucky Employees Retirement System (KERS). As of June 30, 2020, KCTCS had 393 employees within KERS and 394 within KTRS. With the passage of Senate Bill 249 of the 2020 Kentucky General Assembly, KCTCS and the other four-year public postsecondary education institutions within KERS retained the employer contribution rate of 49.47% versus 93.01%, through June 30, 2021. Per Senate Bill 249, KCTCS has until December 31, 2020 to decide on whether to remain-in or to opt-out of KERS. The KCTCS Board of Regents will be provided an updated analysis based on the June 30, 2020 KERS actuarial valuation for a decision at the December 2020 board meeting.
- KCTCS recognizes that additional revenue streams are needed to offset limited state funding and potential tuition revenue shortfalls as a result of COVID-19. In acknowledgment of that fact, in spring 2020, the Office of Institutional Advancement began a system-wide readiness assessment for a comprehensive KCTCS-wide capital campaign. From that assessment it was determined the following investments and efforts were critical prior to any next steps: 1) revising board policy on recognized foundations and establishing new administrative procedures, 2) establishing infrastructure and consistent business practice to quantify and report on effort, Return on Investment (ROI), outcomes, and forecasting, and 3) strengthening gift accounting operations. It is anticipated these tasks will be completed to coincide with the start of a new KCTCS president in spring of 2021 and the updating of the KCTCS Strategic Plan.
- The COVID-19 pandemic disrupted normal operations and created the need to move all spring semester classes online in March 2020. In May 2020, the governor's office and the Kentucky Council on Postsecondary Education granted permission for the colleges to allow students in technical programs back on campus for a limited amount of time to complete their programs. Summer classes were all online and fall classes are a mix of online, face-to-face and hybrid. Classes are offered in 8-, 12- and 16-week formats. Colleges are following safety protocols provided by the CDC and the state. Even so, enrollment is down as expected.

Associated with addressing the needs to keep students, faculty, staff, and campus visitors healthy and safe from the COVID-19 pandemic, all colleges had significant changes in operational protocols that are expected to continue until a vaccine is found. To help offset these costs KCTCS Colleges received Coronavirus Aid, Relief and Economic Security (CARES) Act funds. In total, all sources (federal and federal flow through) KCTCS Colleges were awarded approximately \$40.2 million as of June 30, 2020. Approximately \$23.6 million remained available as of June 30, 2020 to cover FY2021 costs.

KENTUCKY COMMUNITY AND TECHNICAL COLLEGE SYSTEM
Management's Discussion and Analysis
June 30, 2020 and 2019

Our Mission

In everything we do, our mission is to improve the quality of life and employability of the citizens of the Commonwealth by serving as the primary provider of:

- College and workforce readiness
- Transfer education
- Workforce education and training

Vision

A world-class system of colleges educating Kentucky's globally competitive workforce.

Values

- Flexibility and innovation
- Quality and excellence
- Openness and accountability
- Continuous improvement
- Data and outcomes-driven decision making
- Inclusion, equity, respect, and global diversity
- Balance, collaboration, and teamwork

In summary, although KCTCS has and continues to face many economic challenges, KCTCS management believes that its past and current management practices have and continue to position KCTCS for long-term financial health.

KENTUCKY COMMUNITY AND TECHNICAL COLLEGE SYSTEM

Statements of Net Position

June 30, 2020 and 2019

(in thousands)

	<u>2020</u>	<u>2019</u>
ASSETS		
Current Assets		
Cash and cash equivalents	\$ 265,978	\$ 234,251
Loans, accounts, and pledges receivable, net of bad debt	33,095	35,913
Other current assets	<u>2,282</u>	<u>3,166</u>
Total current assets	<u>301,355</u>	<u>273,330</u>
Noncurrent Assets		
Restricted cash and cash equivalents	76,256	95,960
Loans and other receivables	1,885	2,308
Endowment investments	67,299	66,580
Other long-term investments	17,357	17,393
Net other postemployment benefit asset	52,525	23,982
Capital assets, net	<u>754,551</u>	<u>742,586</u>
Total noncurrent assets	<u>969,873</u>	<u>948,809</u>
Deferred Outflows		
Deferred outflows - pension	24,324	34,427
Deferred outflows - other postemployment benefits	<u>7,566</u>	<u>6,862</u>
Total deferred outflows	<u>31,890</u>	<u>41,289</u>
Total assets and deferred outflows	<u>1,303,118</u>	<u>1,263,428</u>
LIABILITIES		
Current Liabilities		
Accounts payable and accrued expenses	21,319	20,840
Employee withholdings and deposits	3,020	3,635
Compensated absences - current	970	925
Unearned revenue	10,640	11,936
Leases payable - current	<u>9,205</u>	<u>8,929</u>
Total current liabilities	<u>45,154</u>	<u>46,265</u>
Noncurrent Liabilities		
Leases payable - noncurrent	148,985	157,344
Compensated absences - noncurrent	8,734	8,327
Net pension liability	243,073	250,580
Net other postemployment benefit liability	<u>47,135</u>	<u>55,953</u>
Total noncurrent liabilities	<u>447,927</u>	<u>472,204</u>
Deferred Inflows		
Deferred inflows - pension	90,238	136,737
Deferred inflows - other postemployment benefits	<u>55,779</u>	<u>45,451</u>
Total deferred inflows	<u>146,017</u>	<u>182,188</u>
Total liabilities and deferred inflows	<u>639,098</u>	<u>700,657</u>
NET POSITION		
Net investment in capital	598,513	585,721
Restricted		
Nonexpendable	46,270	45,186
Expendable	154,884	133,281
Unrestricted		
	<u>(135,647)</u>	<u>(201,417)</u>
Total net position	\$ <u>664,020</u>	\$ <u>562,771</u>

See accompanying notes to financial statements.

KENTUCKY COMMUNITY AND TECHNICAL COLLEGE SYSTEM
Statements of Revenues, Expenses and Changes in Net Position
Years Ended June 30, 2020 and 2019
(in thousands)

	2020	2019
OPERATING REVENUES		
Student tuition and fees, net of bad debt	\$ 256,933	\$ 249,828
Less: Scholarship allowances	(153,579)	(146,872)
Net tuition and fees	103,354	102,956
Federal grants and contracts	45,870	49,315
State and local grants and contracts	51,698	50,067
Nongovernmental grants and contracts	154	41
Indirect cost recoveries	2,326	2,087
Sales and services	4,762	5,278
Other operating revenues	2,237	2,323
Total operating revenues	210,401	212,067
OPERATING EXPENSES		
Educational and General:		
Instruction	146,263	162,729
Public service	40,158	37,904
Libraries	6,864	6,767
Academic support	23,403	24,007
Student services	52,943	56,372
Institutional support	58,071	56,512
Operation and maintenance of physical plant	66,683	61,964
Depreciation	36,873	36,227
Student financial aid	83,222	67,641
Total operating expenses	514,480	510,123
Operating loss	(304,079)	(298,056)
NONOPERATING REVENUES (EXPENSES)		
State appropriations	174,581	174,572
Federal and state grants and contracts	203,369	185,296
Gifts	4,105	8,384
Investment income	8,724	10,225
Interest expense - capital leases	(4,651)	(4,424)
Other nonoperating revenues	4,750	5,142
Net nonoperating revenues	390,878	379,195
Income before other revenues, expenses, gains or losses	86,799	81,139
Capital construction appropriations	16,978	9,577
Net realized gain (loss) on disposal of capital assets	(2,998)	1,198
Additions to endowments	470	3,739
Total other revenues	14,450	14,514
Increase in net position	101,249	95,653
NET POSITION		
Net position - beginning of year	562,771	467,118
Net position - end of year	\$ 664,020	\$ 562,771

See accompanying notes to financial statements.

KENTUCKY COMMUNITY AND TECHNICAL COLLEGE SYSTEM

Statements of Cash Flows
Years Ended June 30, 2020 and 2019
(in thousands)

	<u>2020</u>	<u>2019</u>
Cash flows from operating activities:		
Tuition and fees	\$ 103,447	\$ 102,863
Grants and contracts	98,730	97,773
Indirect cost recoveries	2,326	2,087
Sales and services	4,762	5,278
Payments to vendors and contractors	(133,346)	(128,988)
Student financial aid	(83,151)	(67,451)
Salaries, wages and benefits	(331,549)	(322,999)
Other receipts	2,760	2,571
Net cash used in operating activities	<u>(336,021)</u>	<u>(308,866)</u>
Cash flows from noncapital financing activities:		
State appropriations	174,581	174,572
Federal, state and local grants, contracts and appropriations	203,369	185,296
Gifts and pledges received for non-capital purposes	4,119	8,345
Other nonoperating receipts	4,750	5,142
Net cash provided by noncapital financing activities	<u>386,819</u>	<u>373,355</u>
Cash flows from capital and related financing activities:		
Capital appropriations	16,978	9,577
Proceeds from disposal of capital assets	1,946	193
Purchase of capital assets	(53,476)	(56,660)
Principal paid on leases	(10,722)	(25,813)
Proceeds from leases	2,639	19,459
Interest paid on leases	(4,651)	(4,424)
Net cash used in capital and related financing activities	<u>(47,286)</u>	<u>(57,668)</u>
Cash flows from investing activities:		
Proceeds from sales and maturities of investments	14	20
Interest on investments	8,500	9,787
Purchase of investments	(3)	(8,328)
Net cash provided by investing activities	<u>8,511</u>	<u>1,479</u>
Net change in cash	<u>12,023</u>	<u>8,300</u>
Cash - beginning of year	330,211	321,911
Cash - end of year	<u>\$ 342,234</u>	<u>\$ 330,211</u>

See accompanying notes to financial statements.

KENTUCKY COMMUNITY AND TECHNICAL COLLEGE SYSTEM

Statements of Cash Flows
Years Ended June 30, 2020 and 2019
(in thousands)

	<u>2020</u>	<u>2019</u>
Reconciliation of net operating loss to net cash used in operating activities:		
Operating loss	\$ (304,079)	\$ (298,056)
Adjustments to reconcile net operating loss to net cash used in operating activities:		
Depreciation expense	36,873	36,227
Increase (decrease) in cash due to change in:		
Loans and accounts receivable, net	2,921	(2,825)
Other assets	884	1,867
Accounts payable and accrued liabilities	479	(23)
Employee withholdings and deposits	(615)	(237)
Compensated absences	452	(51)
Unearned revenue	(1,296)	1,330
Deferred outflows - pension	10,102	21,610
Deferred outflows - OPEB	(703)	1,239
Deferred inflows - pension	(46,499)	3,084
Deferred inflows - OPEB	10,328	(1,763)
Net pension liability	(7,507)	(63,642)
Net OPEB liability	<u>(37,361)</u>	<u>(7,626)</u>
Net cash used in operating activities	\$ <u>(336,021)</u>	\$ <u>(308,866)</u>
Non-cash capital activities:		
Donated capital assets	\$ 306	\$ 104
Capital assets included in accounts payable and accrued liabilities	\$ 2,229	\$ 1,335

See accompanying notes to financial statements.

KENTUCKY COMMUNITY AND TECHNICAL COLLEGE SYSTEM

Notes to Financial Statements

June 30, 2020 and 2019

1. Organization and Summary of Significant Accounting Policies

Reporting Entity - The Kentucky Community and Technical College System (KCTCS) is a component unit of the Commonwealth of Kentucky and is included in the basic financial statements of the Commonwealth. KCTCS has considered whether several organizations (e.g. system and colleges' foundations) for which KCTCS is not financially accountable have met the criteria for inclusion as component units based on the nature and significance of their relationship with KCTCS. Currently, KCTCS believes none of these organizations are component units.

Basis of Presentation - KCTCS prepares its financial statements in accordance with accounting principles generally accepted in the United States of America as prescribed by the Governmental Accounting Standards Board (GASB). GASB establishes standards for external financial reporting for public colleges and universities. The financial statement presentation is intended to provide a comprehensive, entity-wide perspective of KCTCS' assets, deferred outflows, liabilities, deferred inflows, net position, revenues, expenses, changes in net position, and cash flows.

Accrual Basis - The financial statements have been prepared on the accrual basis of accounting. Revenues, expenses, gains, losses, assets, deferred outflows and liabilities and deferred inflows from exchange transactions are recognized when the exchange transaction takes place, while those from non-exchange transactions are recognized when all applicable eligibility requirements are met. Under the accrual basis of accounting, revenues are recognized when earned and expenses are recorded when an obligation is incurred. KCTCS reports as a Business Type Activity (BTA). BTAs are those activities that are financed in whole or in part by fees charged to external parties for goods and services.

Cash and Cash Equivalents - KCTCS considers all highly liquid investments purchased with an original maturity of three months or less to be cash equivalents. Noncurrent cash and cash equivalents represent cash restricted for capital construction, grants, loans, and endowment fund cash pending transfer to the custodian for investment by the endowment fund managers.

As of June 30, 2020, cash and cash equivalents consist of deposits in local banks of \$65.3 million, with the Commonwealth of Kentucky of \$276.9 million and with the Commonfund of \$3.0 million. As of June 30, 2019, deposits in local banks of \$66.1 million, with the Commonwealth of Kentucky of \$264.1 million, and with the Commonfund of \$2.5 million. Deposits with local banks and investments in repurchase agreements are covered by federal depository insurance or collateralized by securities held in KCTCS' name by its agents. Deposits with the Commonwealth are covered by federal depository insurance or collateralized by securities held by the Commonwealth in its name.

Pooled Endowment Funds - KCTCS employs the total return concept of investment management for setting investment objectives and determining investment performance. This concept recognizes dividends, interest, and realized and unrealized gains or losses in determining the total return earned during any particular period. The market value method of accounting for pooled endowment funds is employed to ensure proper distribution of market price changes, realized gains and losses on sales, accrued income earned, and distribution of investment earnings for expenditure by participating funds.

The Uniform Prudent Management of Institutional Funds Act, as adopted by the Commonwealth of Kentucky, permits KCTCS to appropriate an amount of the realized and unrealized endowment appreciation to support current programs. Accordingly, spendable return of the endowment is determined using the total return philosophy. The philosophy recognizes a prudent amount of the increase in the fair value of investments (realized and unrealized) as spendable return in addition to interest and dividends earned. Distribution of investment earnings for expenditure by participating funds is supported first by interest and dividends and, if necessary and available, a transfer from the endowment of any accumulated realized and unrealized gains on investments. If a donor has not provided specific instructions, state law permits KCTCS to authorize for expenditure the new appreciation (realized and unrealized) of the investments of endowment funds. When administering its power to spend net appreciation, KCTCS is required to consider the long and short-term needs present and anticipated financial requirements, expected total return on its investments, price-level trends, and general economic conditions. The amount of earnings to be distributed is determined annually based on these factors. Any net appreciation that is spent is required to be spent for the purposes for which the endowment was established.

At June 30, 2020, net appreciation of \$12.8 million is available to spend, of which \$12.4 million is restricted for specific purposes. At June 30, 2019, net appreciation of \$13.9 million was available to spend, of which \$13.5 million was restricted for specific purposes.

Continued

KENTUCKY COMMUNITY AND TECHNICAL COLLEGE SYSTEM

Notes to Financial Statements

June 30, 2020 and 2019

1. Organization and Summary of Significant Accounting Policies

Investments - Investments are stated at fair value and unrealized gains and losses on the carrying value of investments are reported as a component of investment income in the Statements of Revenues, Expenses and Changes in Net Position. Money markets are measured at amortized cost.

Loans, Accounts and Pledges Receivable - Accounts receivable consist of student tuition and fees and amounts due from federal, state, and local governments or private sources in connection with grants and contracts. Accounts receivable are recorded net of estimated uncollectible amounts. KCTCS determines its allowance by considering a number of factors, including the length of time accounts receivable are past due, previous loss history and the condition of the general economy. KCTCS writes off accounts when they are assessed as uncollectible. KCTCS has recorded an allowance for uncollectible student accounts of \$5,735 and \$4,215 at June 30, 2020 and 2019, respectively. KCTCS considers all other accounts receivable related to grants and contracts to be fully collectible. Pledges receivable are unconditional commitments from donors to give stated amounts over a specific period of time in the future. KCTCS records pledges at the present value of the net realizable amount. Loans receivable primarily consist of loans made by the Fire Commission. The Fire Commission is authorized to make low interest loans for the purchase of major equipment and construction of facilities to properly train volunteer fire departments that do not have other sources of funds at rates, which are favorable given their financial resources. KCTCS currently considers loans receivable and pledges to be fully collectible. Accordingly, no allowance for uncollectible accounts is recorded at June 30, 2020 and 2019.

Capital Assets - Capital assets are stated at cost at the date of acquisition or, in the case of gifts, at acquisition value at the date of the gift. Interest incurred on construction in progress is capitalized. For years ended June 30, 2020 and 2019, total interest capitalized was \$341,912 and \$358,295.

Equipment with a unit cost of \$5,000 or more and having an estimated useful life of greater than one year is capitalized. Renovations to buildings, infrastructure and land improvements that significantly increase the value or extend the useful life of the structure are capitalized. Routine repairs and maintenance are charged to operating expense in the period in which the expense is incurred.

Depreciation of capital assets is computed on a straight-line basis over the estimated useful lives of the assets, generally 40 years for buildings and land improvements, 25 years for infrastructure, 10 years for library volumes and 3 to 10 years for equipment. Assets under vendor financing agreements are amortized on the straight-line basis over the estimated useful life of the asset, or the term of the lease, whichever is shorter.

Compensated Absences - The liability for employee vacation and sick leave is recorded as compensated absences in the Statements of Net Position and the expense is recorded as a component of operating expense in the Statements of Revenues, Expenses and Changes in Net Position.

Unearned Revenue - Unearned revenue consists primarily of unearned tuition and fees related to the summer session and amounts from grants and contracts that have not yet been earned under the terms of the agreements.

Pensions - For purposes of measuring the net pension liability, deferred outflows of resources, deferred inflows of resources, and pension expense, information about the fiduciary net position of the Kentucky Employees Retirement System (KERS) and Kentucky Teachers Retirement System (KTRS) and additions to/deductions from KERS' and KTRS' fiduciary net position have been determined on the same basis as they are reported by KERS and KTRS. 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.

Postemployment Benefits Other Than Pensions (OPEB) - The KERS and KTRS defined benefit OPEB plans provide other postemployment benefits to eligible retirees participating in the KERS and KTRS pension plans. For purposes of measuring the net OPEB liability, deferred outflows of resources, deferred inflows of resources and OPEB expense, information about the fiduciary net position of KERS and KTRS and additions to/deductions from KERS' and KTRS' fiduciary net position have been determined on the same basis as they are reported by KERS and KTRS.

Continued

KENTUCKY COMMUNITY AND TECHNICAL COLLEGE SYSTEM

Notes to Financial Statements

June 30, 2020 and 2019

1. Organization and Summary of Significant Accounting Policies

Postemployment Benefits Other Than Pensions (OPEB) (continued) - 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. The KCTCS defined benefit OPEB plan provides other postemployment benefits to eligible retirees participating in the 403(b) defined contribution plan. The KCTCS OPEB plan is funded through an irrevocable trust under IRC Section 115, which was established during the year ended June 30, 2013. The KCTCS OPEB plan recognizes benefit payments when due and payable in accordance with the benefit terms. Investments are reported at fair value.

For purposes of measuring the net OPEB asset or liability, deferred outflows of resources, deferred inflows of resources and OPEB expense, information about the fiduciary net position of the KCTCS OPEB and additions to/deductions from the KCTCS' OPEB fiduciary net position have been determined on the same basis as described, above.

Net Position - Net position is required to be classified in the following categories for accounting and reporting purposes:

Net investment in capital: Capital assets, net of accumulated depreciation and unspent principal balances of debt, attributable to the acquisition, construction, or improvement of those assets.

Restricted:

Nonexpendable: Net assets of \$46.3 million is subject to externally imposed stipulations and related endowment fund investments are maintained permanently by KCTCS.

Expendable: Net assets of \$154.9 million whose use by KCTCS is subject to externally imposed stipulations that can be fulfilled by actions of KCTCS pursuant to those stipulations or that expire over time.

Unrestricted: Net assets whose use by KCTCS is not subject to externally imposed stipulations. Unrestricted net assets may be designated for specific purposes by KCTCS management or the Board of Regents or may be limited by contractual agreements with external parties.

Student Tuition and Fees - Student tuition and fees are presented net of bad debt, scholarships and other financial aid applied to student accounts. Payments made directly to students are presented as student financial aid expenses.

Scholarship Allowances - Scholarship allowances are the difference between the stated charge for goods and services provided and the amount paid by students or third parties on behalf of students. Student tuition and fee revenues are reported net of scholarship allowances in the Statements of Revenues, Expenses and Changes in Net Position. To the extent that revenues from grants or other programs are used to satisfy tuition, fees and other student charges, they are recorded as scholarship allowances.

Federal and State Grants and Contracts - Pell Grants, Supplemental Educational Opportunity Grants (SEOG), College Access Program (CAP) Grants and Kentucky Educational Excellence Scholarships (KEES) are considered nonexchange transactions and are recorded as nonoperating revenues. In addition, in 2020, KCTCS received Coronavirus Aid, Relief and Economic Security (CARES) Act funds to help offset the costs of the COVID-19 pandemic. For the year ended June 30, 2020, KCTCS recognized \$16.3 million of CARES revenue.

Operating Activities - KCTCS defines operating activities, as reported in the Statements of Revenues, Expenses and Changes in Net Position, as those that result from exchange transactions, such as payments received for providing goods and services and payments made for goods and services received. Nearly all of KCTCS' expenses are from exchange transactions. Certain significant revenues relied on for operations, such as state appropriations, certain grants, gifts, and investment income, are recorded as nonoperating revenues.

Income Taxes - KCTCS is an agency and instrumentality of the Commonwealth of Kentucky, pursuant to Kentucky Revised Statutes sections 164.580 thru 164.600. Accordingly, KCTCS is generally exempt from federal income taxes as an organization described in Section 115 of the Internal Revenue Code of 1986.

Continued

KENTUCKY COMMUNITY AND TECHNICAL COLLEGE SYSTEM

Notes to Financial Statements
June 30, 2020 and 2019

1. Organization and Summary of Significant Accounting Policies

Restricted Asset Spending Policy - KCTCS' policy is that restrictions on assets cannot be fulfilled by the expenditure of unrestricted funds. The determination of whether restricted or unrestricted funds are expended for a particular purpose is made on a case-by-case basis. Restricted funds remain restricted until spent for the intended purpose.

Use of Estimates - Financial statements prepared in conformity with accounting principles generally accepted in the United States of America requires estimates and assumptions. The accompanying financial statements include estimates for items such as bad debt allowances, fair value of investments, useful lives of capital assets, accrued expenses, net pension liability, net other postemployment benefit liability and other liabilities. Actual results could differ from estimates.

Recent Accounting Pronouncements - In May 2020, the GASB issued *Statement 95, Postponement of the Effective Dates of Certain Authoritative Guidance* in an effort to provide temporary relief to governments as a result of the COVID-19 pandemic. This statement was effective immediately and postponed the required implementation dates of certain statements and implementation guides. The requirements and revised effective dates of postponed statements and implementation guides which may be applicable for KCTCS are summarized below:

Statement 84, Fiduciary Activities. This statement requires financial statements and related note disclosures for fiduciary activities. It is effective for periods beginning after December 15, 2019. KCTCS will implement this statement during its fiscal year ending June 30, 2021.

Statement 87, Leases. This statement revises the recognition criteria for leases and, generally, requires recognition of lease assets and liabilities for leases that were previously classified as operating leases. It is effective for periods beginning after June 15, 2021. KCTCS will implement this statement during its fiscal year ending June 30, 2022.

Statement 89, Accounting for Interest Cost Incurred Before the End of a Construction Period. This statement requires that interest cost incurred before the end of a construction period be recognized as an expense in the period in which the cost is incurred. Interest incurred after implementation of this standard will no longer be capitalized as part of the cost of the related asset. This statement is effective for periods beginning after December 15, 2020. KCTCS will implement this statement during its fiscal year ending June 30, 2022.

Statement 90, Majority Equity Interests—an amendment of GASB Statements No. 14 and No. 61. This statement requires majority equity interests in legally separate organizations, which meet the definition of an investment, to be measured at fair value using the equity method of accounting. It is effective for periods beginning after December 15, 2019. KCTCS will implement this statement during its fiscal year ending June 30, 2021.

Statement 91, Conduit Debt Obligations. This statement requires a single method of reporting conduit debt obligations by issuers. It is effective for periods beginning after December 15, 2021. KCTCS will implement this statement during its fiscal year ending June 30, 2023.

Statement 92, Omnibus 2020. This statement addresses the application of various previously issued statements and implementation guides. It is effective for periods beginning after June 15, 2021. KCTCS will implement this statement during its fiscal year ending June 30, 2022.

Statement 93, Replacement of Interbank Offered Rates. This statement addresses accounting and financial reporting implications that result from the replacement of an interbank offered rate, such as the London Interbank Offered Rate (LIBOR). As a result of global reference rate reform, LIBOR is expected to cease to exist in its current form at the end of 2021, prompting governments to amend or replace financial instruments for the purpose of replacing LIBOR with other reference rates. This statement is effective for periods beginning after June 15, 2020. KCTCS will implement this statement during its fiscal year ending June 30, 2021.

Continued

KENTUCKY COMMUNITY AND TECHNICAL COLLEGE SYSTEM

Notes to Financial Statements

June 30, 2020 and 2019

1. Organization and Summary of Significant Accounting Policies

Recent Accounting Pronouncements (continued)

Implementation Guide – 2019–1, Implementation Guidance Update – 2019. This guide addresses the application of various previously issued statements and implementation guides. It is effective for periods beginning after June 15, 2020. KCTCS will implement the provisions in this guide for its fiscal year ending June 30, 2021.

Implementation Guide – 2019–2, Fiduciary Activities. This guide provides clarification of certain requirements included in *GASB Statement 84, Fiduciary Activities*. It is effective for periods beginning after December 15, 2019. KCTCS will implement the requirements of this guide for its fiscal year ending June 30, 2021.

Implementation Guide – 2019–3, Leases. This guide provides clarification of certain requirements included in *GASB Statement 87, Leases*. It is effective for periods beginning after June 15, 2021. KCTCS will implement the requirements of this guide for its fiscal year ending June 30, 2022.

As of June 30, 2020, the GASB has issued additional statements and guidance for which effective dates were not delayed. KCTCS has not yet implemented the provisions of these statements and guides which are described, below:

Statement 94, Public-Private and Public-Public Partnerships and Availability Payment Arrangements. This statement specifies accounting and reporting requirements, including revenue recognition, related to public-private and public-public partnerships, including service concession arrangements. It is effective for periods beginning after June 15, 2022. KCTCS will implement this statement during its fiscal year ending June 30, 2023.

Statement 96, Subscription-Based Information Technology Arrangements. This statement requires the recognition of an intangible asset and corresponding liability, as well as note disclosures for arrangements that meet the definition of a subscription-based information technology arrangement (SBITA). It also requires capitalization for outlays other than subscription payments, including implementation costs of a SBITA. This statement is effective for periods beginning after June 15, 2022. KCTCS will implement this statement during its fiscal year ending June 30, 2023.

Statement 97, Certain Component Unit Criteria, and Accounting and Financial Reporting for Internal Revenue Code (IRC) Section 457 Deferred Compensation Plans—an amendment of GASB Statements No. 14 and No. 84, and a supersession of GASB Statement No. 32. This statement requires that Section 457 plans be classified as pension or other employee benefit plans and clarifies that the provisions of *GASB Statement 84* should be applied to IRC Section 457 plans to determine whether those arrangements should be reported as fiduciary activities. This statement is effective for periods beginning after June 15, 2021. KCTCS will implement this statement during its fiscal year ending June 30, 2022.

Implementation Guide – 2020–1, Implementation Guidance Update - 2020. This guide addresses the application of various previously issued statements and implementation guides. It is effective for periods beginning after June 15, 2021 and December 15, 2021. KCTCS will implement the provisions in this guide for its fiscal years ending June 30, 2022 and June 30, 2023, as applicable.

KCTCS' management has not yet determined the effect these statements will have on KCTCS' financial statements.

Reclassifications - Certain reclassifications to fiscal 2019 comparative amounts have been made to conform to the 2020 classifications, with no impact on net position or change in net position.

Continued

KENTUCKY COMMUNITY AND TECHNICAL COLLEGE SYSTEM

Notes to Financial Statements

June 30, 2020 and 2019

1. Organization and Summary of Significant Accounting Policies

Coronavirus Pandemic (COVID-19) - The COVID-19 pandemic disrupted normal operations and created the need to move all spring semester classes online in March 2020. In May 2020, the governor's office and the Kentucky Council on Postsecondary Education granted permission for the colleges to allow students in technical programs back on campus for a limited amount of time to complete their programs. Summer classes were all online and fall classes are a mix of online, face-to-face and hybrid. Classes are offered in 8-, 12- and 16-week formats. Colleges are following safety protocols provided by the CDC and the state. Even so, enrollment is down as expected. Associated with addressing the needs to keep students, faculty, staff, and campus visitors healthy and safe from the COVID-19 pandemic, all colleges had significant changes in operational protocols that are expected to continue until a vaccine is found. To help offset these costs KCTCS Colleges received Coronavirus Aid, Relief and Economic Security (CARES) Act funds. In total, all sources (federal and federal flow through) KCTCS Colleges were awarded approximately \$40.2 million as of June 30, 2020. Approximately \$23.6 million remained available as of June 30, 2020 to cover FY2021 costs.

Subsequent Events - Management has evaluated subsequent events for accounting and disclosure requirements through December 17, 2020, the date that the financial statements were available to be issued.

2. Loans, Accounts and Pledges Receivable

Loans, accounts, and pledges receivable (net of allowances) as of June 30 are as follows (in thousands):

	2020	2019
Student (net of allowances of \$5,735 and \$4,215)	\$ 12,861	\$ 16,140
Other receivables	5,554	3,828
Reimbursement receivable – grants and contracts	13,582	14,427
Pledges receivable	1,304	1,624
Accrued interest receivable	27	36
Bridge loans	102	127
Loans receivable from fire districts	1,550	2,039
Total	34,980	38,221
Current portion	33,095	35,913
Non-current portion	\$ 1,885	\$ 2,308

Pledges receivable of \$1.3 million as of June 30, 2020 are expected to be collected primarily over the next ten years, as follows (in thousands):

2021	\$ 684
2022	321
2023	103
2024	89
2025	35
2026-2030	140
	1,372
Present value discount	(68)
	\$ 1,304

KCTCS is required to record operating, endowment, and capital pledges as revenue when all eligibility requirements have been met.

Continued

KENTUCKY COMMUNITY AND TECHNICAL COLLEGE SYSTEM

Notes to Financial Statements

June 30, 2020 and 2019

2. Loans, Accounts and Pledges Receivable

Fire commission receivables of \$1.55 million as of June 30, 2020 are expected to be collected primarily over the next twelve years as follows (in thousands):

2021	\$	387
2022		306
2023		253
2024		207
2025		156
2026 - 2030		218
2031 - 2032		23
		<u>23</u>
	\$	<u>1,550</u>

3. Investments

Investments are stated at fair value. Investments acquired by gift are stated at fair value at the date of the gift if a fair value is available, and otherwise, at appraised or nominal value. KCTCS has the following investments as of June 30 (in thousands):

<u>Investment Type</u>	<u>Fair Value</u>	
	<u>2020</u>	<u>2019</u>
Bond funds	\$ 25,692	\$ 27,016
Equity funds	49,314	48,276
Other	<u>9,650</u>	<u>8,681</u>
	<u>\$ 84,656</u>	<u>\$ 83,973</u>

Investment types described as "Other", above, include real estate holdings and limited partnerships. Bond funds, equity funds and other funds are invested in fund of funds and are measured at net asset value.

KCTCS has an investment management agreement with the Commonfund. The Commonfund managed \$87.7 million and \$86.5 million of KCTCS' investments at June 30, 2020 and 2019 which includes money market funds of \$3.0 million and \$2.5 million classified as cash and cash equivalents on the Statements of Net Position. The Commonfund was founded in 1969 to serve higher-education and non-profit organizations. It currently serves more than 1,350 organizations and has over \$25 billion in assets under management. The Commonfund is unrated.

Concentration of Credit Risk - Concentration of credit risk is the risk of loss attributed to the magnitude of a government's investment in a single issuer. KCTCS does not have a formal policy for concentration of credit risk.

Interest Rate Risk - Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. KCTCS' investment policy does not specifically limit investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

Custodial Credit Risk - Custodial credit risk is the risk that, in the event of the failure of the counterparty, KCTCS will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. KCTCS does not have a formal policy for custodial credit risk. As of June 30, 2020 and 2019, all KCTCS U.S. Treasuries, U.S. Agencies, and Corporate Notes were held by the investment's counterparty.

Continued

KENTUCKY COMMUNITY AND TECHNICAL COLLEGE SYSTEM

Notes to Financial Statements

June 30, 2020 and 2019

4. Fair Value Measurements

KCTCS categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on 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; Level 3 inputs are significant unobservable inputs. Investments that are measured at fair value using the net asset value (NAV) per share, or its equivalent as a practical expedient, are not classified in the fair value hierarchy. In instances where inputs used to measure fair value fall into different levels in the fair value hierarchy, fair value measurements in their entirety are categorized based on the lowest level input that is significant to the valuation. KCTCS' assessment of the significance of particular inputs to these fair value measurements requires judgment and considers factors specific to each asset or liability.

Investments (in thousands) measured at net asset value (NAV) as of:

	<u>Fair Value</u> (NAV)	<u>Unfunded</u> Commitment	<u>Redemption Terms</u>
June 30, 2020			
Public equities	\$ 46,562	\$ -	Monthly, 5 days notice. Partial not permitted if total investor value would be less than \$500,000.
Public equities - natural resources	2,752		Daily.
Fixed income equities	5,015		Weekly, 5 days notice. Partial not permitted if total investor value would be less than \$250,000.
High quality bonds	18,455		Weekly, monthly and quarterly with 5 - 60 days notice.
Alternative investments	2,222		Monthly and quarterly with 5 - 90 days notice.
Core real estate	3,377	800	Quarterly with 45 - 90 days notice.
Limited partnerships - natural resources	503	1,126	Upon termination of partnership.
Limited partnerships - real estate	927	2,032	Upon termination of partnership.
Limited partnerships - other	4,843	5,617	Upon termination of partnership.
	<u>\$ 84,656</u>	<u>\$ 9,575</u>	

June 30, 2019

Public equities	\$ 45,347	\$ -	Monthly with 5 days notice.
Public equities - natural resources	2,929		Daily.
Fixed income equities	3,836		Weekly with 5 days notice.
High quality bonds	20,171		Weekly and monthly with 5 days notice.
Alternative investments	3,009		Semi-annually, and quarter-end, 95 days notice in increments of \$100,000 or more.
Core real estate	3,176		Quarterly with 120 days notice.
Limited partnerships - natural resources	345	1,517	Upon termination of partnership.
Limited partnerships - real estate	1,048	2,185	Upon termination of partnership.
Limited partnerships - other	4,112	3,614	Upon termination of partnership.
	<u>\$ 83,973</u>	<u>\$ 7,316</u>	

Investment Objectives

<i>Public equities</i>	<i>Outperform Morgan Stanley Capital Int'l All Country World Index or Standard & Poors (S&P) 500.</i>
<i>Public equities - natural resources</i>	<i>Approximate performance of S&P Global Large Midcap Commodity and Resources Index.</i>
<i>Fixed income equities</i>	<i>Perform at or better than Bank of America's Merrill Lynch 1-3 Year U.S. Treasury Index.</i>
<i>High quality bonds</i>	<i>Outperform Barclays Aggregate Bond Index.</i>
<i>Alternative investments</i>	<i>Outperform 3-month Treasury Bills by more than 400 basis points, annually.</i>
<i>Core real estate</i>	<i>Provide returns in excess of National Council of Real Estate Investment Fiduciaries Fund Index.</i>
<i>Limited partnerships - natural resources / other</i>	<i>Long-term capital growth.</i>
<i>Limited partnerships - real estate</i>	<i>Obtain income and capital appreciation.</i>

Continued

KENTUCKY COMMUNITY AND TECHNICAL COLLEGE SYSTEM

Notes to Financial Statements

June 30, 2020 and 2019

5. Capital Assets, Net

Capital assets as of June 30 and the changes, therein, are summarized as follows (in thousands):

	2020			
	Beginning Balance	Additions	Transfers/ Reductions	Ending Balance
Cost				
Land*	\$ 31,388	\$ 180	\$ 95	\$ 31,473
Land improvements	23,916	3,662	-	27,578
Buildings and infrastructure	960,505	48,322	5,231	1,003,596
Construction in progress*	68,997	51,453	65,834	54,616
Equipment	148,054	15,408	4,764	158,698
Library materials	42,792	591	-	43,383
Total	<u>1,275,652</u>	<u>119,616</u>	<u>75,924</u>	<u>1,319,344</u>
Less accumulated depreciation				
Land improvements	7,859	518	-	8,377
Buildings and infrastructure	383,597	25,270	711	408,156
Equipment	100,226	10,692	4,435	106,483
Library materials	41,384	393	-	41,777
Total accumulated depreciation	<u>533,066</u>	<u>36,873</u>	<u>5,146</u>	<u>564,793</u>
Capital assets, net	<u>\$ 742,586</u>	<u>\$ 82,743</u>	<u>\$ 70,778</u>	<u>\$ 754,551</u>
	2019			
	Beginning Balance	Additions	Transfers/ Reductions	Ending Balance
Cost				
Land*	\$ 31,388	\$ -	\$ -	\$ 31,388
Land improvements	23,487	429	-	23,916
Buildings and infrastructure	936,908	25,825	2,228	960,505
Construction in progress*	54,117	49,280	34,400	68,997
Equipment	141,056	14,736	7,738	148,054
Library materials	60,945	605	18,758	42,792
Total	<u>1,247,901</u>	<u>90,875</u>	<u>63,124</u>	<u>1,275,652</u>
Less accumulated depreciation				
Land improvements	7,359	500	-	7,859
Buildings and infrastructure	359,212	24,750	365	383,597
Equipment	96,799	10,589	7,162	100,226
Library materials	59,754	388	18,758	41,384
Total accumulated depreciation	<u>523,124</u>	<u>36,227</u>	<u>26,285</u>	<u>533,066</u>
Capital assets, net	<u>\$ 724,777</u>	<u>\$ 54,648</u>	<u>\$ 36,839</u>	<u>\$ 742,586</u>

**Non-depreciable*

Continued

KENTUCKY COMMUNITY AND TECHNICAL COLLEGE SYSTEM

Notes to Financial Statements

June 30, 2020 and 2019

6. Unearned Revenue

Unearned revenue as of June 30 is as follows (in thousands):

	<u>2020</u>	<u>2019</u>
Unearned summer tuition revenue	\$ 8,072	\$ 9,532
Grants and contracts	<u>2,568</u>	<u>2,404</u>
	<u>\$ 10,640</u>	<u>\$ 11,936</u>

7. Noncurrent Liabilities

Noncurrent liabilities as of June 30 are summarized as follows (in thousands):

	<u>2020</u>					
	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Current Portion</u>	<u>Non Current Portion</u>
Leases payable						
Capital leases payable	<u>\$166,273</u>	<u>\$ 2,639</u>	<u>\$ 10,722</u>	<u>\$158,190</u>	<u>\$ 9,205</u>	<u>\$148,985</u>
Total leases payable	<u>166,273</u>	<u>2,639</u>	<u>10,722</u>	<u>158,190</u>	<u>9,205</u>	<u>148,985</u>
Other liabilities						
Compensated absences	9,252	12,187	11,735	9,704	970	8,734
Net pension liability	250,580	-	7,507	243,073	-	243,073
Net other postemployment benefit liability	<u>55,953</u>	<u>-</u>	<u>8,818</u>	<u>47,135</u>	<u>-</u>	<u>47,135</u>
Total other liabilities	<u>315,785</u>	<u>12,187</u>	<u>28,060</u>	<u>299,912</u>	<u>970</u>	<u>298,942</u>
Total noncurrent liabilities	<u>\$482,058</u>	<u>\$ 14,826</u>	<u>\$ 38,782</u>	<u>\$458,102</u>	<u>\$ 10,175</u>	<u>\$447,927</u>
	<u>2019</u>					
	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Current Portion</u>	<u>Non Current Portion</u>
Leases payable						
Capital leases payable	<u>\$172,627</u>	<u>\$ 19,459</u>	<u>\$ 25,813</u>	<u>\$166,273</u>	<u>\$ 8,929</u>	<u>\$157,344</u>
Total leases payable	<u>172,627</u>	<u>19,459</u>	<u>25,813</u>	<u>166,273</u>	<u>8,929</u>	<u>157,344</u>
Other liabilities						
Compensated absences	9,303	13,620	13,671	9,252	925	8,327
Net pension liability	314,222	-	63,642	250,580	-	250,580
Net other postemployment benefit liability	<u>62,317</u>	<u>-</u>	<u>6,364</u>	<u>55,953</u>	<u>-</u>	<u>55,953</u>
Total other liabilities	<u>385,842</u>	<u>13,620</u>	<u>83,677</u>	<u>315,785</u>	<u>925</u>	<u>314,860</u>
Total noncurrent liabilities	<u>\$558,469</u>	<u>\$ 33,079</u>	<u>\$109,490</u>	<u>\$482,058</u>	<u>\$ 9,854</u>	<u>\$472,204</u>

Continued

KENTUCKY COMMUNITY AND TECHNICAL COLLEGE SYSTEM

Notes to Financial Statements

June 30, 2020 and 2019

7. Noncurrent Liabilities

Capital leases consist of the following at June 30:

	<u>2020</u>	<u>2019</u>
	(in thousands)	
Computer equipment and software leases, all with 1 to 4 year remaining terms with total annual payments ranging from \$1,095 to \$195,705 and interest rates from 0.2% to 4%.	\$ 597	\$ 850
Energy savings leases with 5 to 16 year remaining terms, total annual payments ranging from \$115,120 to \$1,035,057 and interest rates from 1.96% to 4.65%.	38,519	40,787
Building leases with 3 - 14 year remaining terms, total annual payments ranging from \$432,216 to \$637,020 and interest rates ranging from 2.34% to 3.42%.	6,692	7,597
Copier and software leases, with 1 to 5 year remaining terms, total annual payments ranging from \$58 to \$133,320 and interest rates of 4%.	1,251	457
Construction, renovation and design projects with 4 to 18 year remaining terms, annual payments beginning at \$4,070,000 and increasing to \$7,680,000 and interest rates of 2.63% to 3.56%.	<u>111,131</u>	<u>116,582</u>
	<u>\$ 158,190</u>	<u>\$ 166,273</u>

Principal maturities and interest on capital leases payable for the next five years and in subsequent five-year periods as of June 30, 2020 are as follows (in thousands):

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2021	\$ 9,205	\$ 5,602	\$ 14,807
2022	9,441	5,112	14,553
2023	9,284	4,860	14,144
2024	19,503	4,430	23,933
2025	8,386	4,103	12,489
2026-2030	45,597	15,913	61,510
2031-2035	44,282	7,329	51,611
2036-2037	<u>12,492</u>	<u>521</u>	<u>13,013</u>
	<u>\$ 158,190</u>	<u>\$ 47,870</u>	<u>\$ 206,060</u>

Continued

KENTUCKY COMMUNITY AND TECHNICAL COLLEGE SYSTEM

Notes to Financial Statements

June 30, 2020 and 2019

7. Noncurrent Liabilities

KCTCS has entered into three significant lease agreements with the Commonwealth of Kentucky. The purpose of these leases is to finance construction, renovation, and design projects for campus facilities, which were approved under House Bill 235 (2014), and House Bill 303 (2016) of the General Assembly of the Commonwealth of Kentucky. KCTCS has pledged as collateral general receipts, including student registration fees, and its debt service account. The first agreement was entered into on May 1, 2016 in the amount of \$50.6 million and included a premium of \$6.0 million and bond issuance costs of \$329,204. The second agreement was entered into on April 12, 2017 in the amount of \$65.6 million and included a premium of \$5.5 million, bond issuance costs of \$396,563 and prepaid insurance of \$252,315. The third agreement was entered into on June 20, 2018 in the amount of \$27.8 million and included issuance costs of \$48,000. This lease requires variable interest only payments. As of June 30, 2020, the interest rate was 2.00%. KCTCS may elect to make an annual principal payment on this lease.

Operating Leases - KCTCS is obligated under several operating leases for office equipment, classroom space, and office space with expirations through June 2035. Rent expense was \$2.1 million and \$2.6 million for fiscal years ended June 30, 2020 and 2019. Future minimum lease payments as of June 30, 2020 are as follows (in thousands):

2021	\$	2,189
2022		1,830
2023		1,703
2024		1,636
2025		1,589
Thereafter		<u>2,596</u>
	\$	<u>11,543</u>

Sale-Leaseback - Maysville Community and Technical College sold its Rowan Campus during the fiscal year ended June 30, 2016 and leased the campus back for \$29,666 per month through June 30, 2019. KCTCS reported a gain of \$3.7 million upon termination of the sale-leaseback agreement for the fiscal year ended June 30, 2019.

8. Risk Management

KCTCS is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions, injuries to employees, and natural disasters. These risks are covered by (1) the State Fire and Tornado Insurance Fund (the Fund), (2) Sovereign Immunity and the State Board of Claims, or (3) in the case of risks not covered by the Fund and Sovereign Immunity, commercial insurance. The Fund covers losses to property from fire, wind, earthquake, flood, and other named perils between \$5,000 and \$1.0 million. Losses in excess of \$1.0 million are insured by commercial carriers under contract with the State Fire and Tornado Insurance Fund up to a maximum of \$1.5 billion per occurrence.

The Commonwealth of Kentucky is covered by sovereign immunity. Per KRS 44.073, state institutions of higher education, including KCTCS, under KRS Chapter 164 are considered agencies of the state. As such, KCTCS is covered by the Board of Claims for acts of negligence up to \$200,000 for a single claim and an aggregate of \$350,000 per negligent act. The Board has primary and exclusive jurisdiction over all acts of negligence for state institutions of higher education. For risks not covered by sovereign immunity, KCTCS has purchased commercial insurance policies covering risks of loss due to damage to property and automobiles, general and automobile liability claims, employee dishonesty, and student accidents.

KCTCS has general liability insurance with an aggregate total limit of \$3.0 million and a per occurrence limit of \$1.0 million without a deductible. An umbrella policy extends the liability aggregate total limit to \$10.0 million with a per occurrence limit of \$10.0 million without a deductible.

Continued

KENTUCKY COMMUNITY AND TECHNICAL COLLEGE SYSTEM

Notes to Financial Statements

June 30, 2020 and 2019

8. Risk Management

Educator's Legal Liability coverage has been secured through commercial insurance to insure KCTCS' faculty and staff against claims arising from actions undertaken within the scope of their job responsibilities. This coverage also extends to the KCTCS Board of Regents. The limit is \$2.0 million without a deductible. There have been no significant reductions in insurance coverage from 2019 to 2020. Settlements have not exceeded insurance coverage during the past three years.

Limited Professional Liability insurance has been obtained, which covers all faculty and students who participate in allied health programs. The coverage carries a \$1.0 million per claim limit and \$3.0 million annual aggregate with a \$10,000 deductible. International Liability insurance has been obtained for employee and/or student trips to other countries that meet the required criteria. A broad list of coverages with various limits are provided by this insurance.

Cyber Liability insurance has been obtained, which covers, but is not limited to fraud loss, extortion threats, public relations expenses, ransomware loss, telecommunications loss, and business interruption costs. The coverage carries a \$1.0 million annual aggregate limit with a \$25,000 deductible.

Active Shooter/Violence in the Workplace coverage has been obtained, which provides coverage for public relations counsel, funeral and burial expenses, psychiatric care, medical/dental care, employee counseling, temporary security measures, rehabilitation expenses, personal accident expenses, and reward money for post event investigation tips. The coverage carries a \$3.0 million annual aggregate limit for an act of workplace violence event with a \$0 deductible and a \$3.0 million annual aggregate for a stalking threat event with a \$0 deductible.

9. Natural Classification

Operating expenses are shown by program on the Statement of Revenues, Expenses and Changes in Net Position. The table, below, summarizes operating expenses (income) by natural classification for years ended June 30 (in thousands):

	<u>2020</u>	<u>2019</u>
Salaries and wages	\$ 246,102	\$ 237,459
Employee benefits - other	85,121	85,174
Employee benefits - pension and OPEB	(71,476)	(47,020)
Equipment, supplies and other services	86,843	84,318
Student scholarships and financial aid	83,151	67,451
Depreciation	36,873	36,227
Fire commission	34,200	32,159
Utilities	13,666	14,355
	<u>\$ 514,480</u>	<u>\$ 510,123</u>

Continued

KENTUCKY COMMUNITY AND TECHNICAL COLLEGE SYSTEM

Notes to Financial Statements

June 30, 2020 and 2019

10. Pension Plans

Regular full-time employees, and part-time employees who work 25 hours or more per week, are required to participate in a retirement plan. Employees may be an active participant in one of four plans, depending on plans available at the employee's hire date, as described below:

Upon consolidation - Upon consolidation of Kentucky's community colleges into one system (KCTCS), community and technical college employees had the option to enter the KCTCS 403(b) defined contribution plan or to remain in the retirement plan in which they were enrolled: for community college employees - the University of Kentucky (UK) 403(b) defined contribution plan; for technical college employees - Kentucky Teacher's Retirement System (KTRS) or Kentucky Employee's Retirement System (KERS). Participants in the UK 403(b) plan contribute 5 percent and KCTCS contributes 10 percent. UK has authorized Fidelity Investments and Teachers Insurance and Annuity Association (TIAA) as carriers for the plan. KTRS and KERS are cost-sharing, multiple-employer defined benefit plans each with a vesting period of 5 years. KTRS and KERS Boards establish contribution rates for employees and employers.

After consolidation and until December 31, 2013 - New employees had the option to participate in KTRS, KERS or the KCTCS 403(b) plan through December 31, 2013. Vesting periods for the KCTCS 403(b) plan depend on date of hire: employees hired before July 1, 2009 are vested immediately; employees hired July 1, 2009, or later, including rehires, are vested after 5 years (60 months) of continuous service. Employee contributions vest immediately.

After December 31, 2013 - After this date, new employees only have the option to participate in the KCTCS 403(b) plan. Full-time employees may elect to participate during the first 30 days of employment. Part-time employees may elect to participate during the first 30 days of employment or after 90 days to determine if hours worked criteria have been met. KCTCS has authorized American Century Investors, Fidelity Investments, Voya Financial and TIAA as carriers for the plan. The 403(b) plan may be amended.

Contributions are based on the participant's eligible compensation for all plans and employer contributions forfeited prior to vesting are used to reduce future employer contributions for all plans. KCTCS contributions for all retirement plans for fiscal years ending June 30, 2020 and 2019 totaled \$29.3 million and \$29.1 million. Employees contributed \$13.4 million and \$13.3 million for June 30, 2020 and 2019. KCTCS total payroll costs for employees in a retirement plan were \$218.3 million and \$212.1 million for June 30, 2020 and 2019.

Kentucky Teachers Retirement System (KTRS)

Pursuant to Kentucky Revised Statute (KRS) 161.250, the KTRS Board of Trustees is responsible for administration and management of the retirement system. The Board may adopt procedures necessary to conduct the business of the retirement system. Applicable provisions of the KRS shall control if an inconsistency exists between state law and policy. KTRS issues a financial report, including financial statements and required supplementary information, which may be obtained by writing Kentucky Teacher's Retirement Systems, 479 Versailles Road, Frankfort, Kentucky 40601; by calling (502)573-3266; or by visiting <https://trs.ky.gov/>.

KTRS Pension Benefits Provided - KTRS provides retirement, disability, and death benefits. KTRS retirees are entitled to a monthly benefit based on months of service and the average salary of 5 full fiscal years (highest 5 or last 3 based on date of participation) upon attainment of KTRS specified age (or age and service combinations). Participants are fully vested after completion of 60 months of service, 12 of which are current service. Retirement benefits are generally 2.5 percent of the employee's final 3 (or 5) year average compensation times years of service. Employees with 5 years of continuous service are eligible to retire at age 60 (or at any age with 27 years of service). Employees are eligible for service-related disability benefits regardless of years of service. Five years of service is required for nonservice-related disability eligibility. Disability benefits are determined in the same manner as retirement benefits but are payable immediately without an actuarial reduction. Retirees are covered by a \$5,000 life insurance benefit.

Continued

KENTUCKY COMMUNITY AND TECHNICAL COLLEGE SYSTEM

Notes to Financial Statements

June 30, 2020 and 2019

10. Pension Plans

KTRS Pension Contributions - Benefit and contribution rates are established by KRS 161.340, 161.550, and 161.565 and may be amended by the KTRS Board. For fiscal years June 30, 2020 and 2019, employees contributed 8.185 percent or 12.855 percent, depending on personnel classification, and KCTCS' contributed 15.865 percent. KCTCS' contribution is an actuarially determined amount that, when combined with employee contributions, is expected to finance the cost of benefits (pension, health and life) earned during the year with an additional amount to finance any unfunded liability. KCTCS contributed \$3.7 million and \$4.0 million for years ended June 30, 2020 and 2019.

KTRS Pension Liability, Pension Expense, Deferred Outflows and Deferred Inflows of Resources - KCTCS reported a liability for its proportionate share of the net pension liability that reflected a reduction in support from the State as follows at June 30:

	<u>2020</u>	<u>2019</u>
KCTCS proportionate share of the net pension liability	\$ 50,127,039	\$ 54,584,240
State's proportionate share of the net pension liability associated with KCTCS	<u>63,626,879</u>	<u>56,661,677</u>
Total	<u>\$ 113,753,918</u>	<u>\$ 111,245,917</u>

KCTCS' net pension liability was measured as of June 30, 2019 and total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of June 30, 2018. KCTCS' proportion of net pension liability was based on actual contributions during the measurement period of July 1, 2018 through June 30, 2019. At June 30, 2020 and 2019, KCTCS' proportion was 0.35 and 0.40 percent and the Commonwealth's proportion was 0.45 percent and 0.41 percent.

For years ended June 30, 2020 and 2019, KCTCS recognized pension income related to KTRS of \$42.8 million and \$41.8 million and income of \$6.5 million and \$6.8 million for support provided by the Commonwealth. KCTCS reported deferred outflows and deferred inflows of resources as follows at June 30:

	<u>2020</u>	
	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual experience	\$ 301,393	\$ 1,904,528
Changes in assumptions	4,177,769	28,079,236
Net difference between projected and actual earnings on pension plan investments	-	586,492
Changes in proportion and differences between KCTCS contributions and proportionate share of contributions	743,621	47,984,393
KCTCS contributions subsequent to the measurement date	<u>3,730,338</u>	<u>-</u>
Total	<u>\$ 8,953,121</u>	<u>\$ 78,554,649</u>

Continued

KENTUCKY COMMUNITY AND TECHNICAL COLLEGE SYSTEM

Notes to Financial Statements

June 30, 2020 and 2019

10. Pension Plans

KTRS Pension Liability, Pension Expense, Deferred Outflows and Deferred Inflows of Resources (continued)

	2019	
	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 432,569	\$ 3,102,810
Changes in assumptions	9,073,006	46,329,193
Net difference between projected and actual earnings on pension plan investments	-	1,665,092
Changes in proportion and differences between KCTCS contributions and proportionate share of contributions	1,053,463	71,415,254
KCTCS contributions subsequent to the measurement date	4,045,550	-
Total	\$ 14,604,588	\$ 122,512,349

As of June 30, 2020, KCTCS reported \$3.7 million as deferred outflows of resources related to pensions resulting from KCTCS' contributions subsequent to the measurement date, which 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 deferred inflows of resources related to pensions will be recognized in pension (income) expense for years ended June 30:

2021	\$ (41,996,357)
2022	(23,621,730)
2023	(7,234,141)
2024	(479,638)
	\$ (73,331,866)

KTRS Pension Actuarial Assumptions - Total pension liability (TPL) in the June 30, 2019 and 2018 measurement was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Actuarial valuation date	June 30, 2018 and 2017
Inflation	3.00%
Salary increases	3.50% - 7.30%, average, including inflation
Investment rate of return	7.50%, net of pension plan investment expense, including inflation
Municipal bond index rate	3.50% and 3.89%
Single equivalent interest rate	7.50%

Mortality rates were based on the RP-2000 Combined Mortality Table for Males or Females, as appropriate, with adjustments for mortality improvements based on a projection of Scale BB to 2025, set forward two years for males and one year for females.

The actuarial assumptions used in the June 30, 2018 valuation were based on the results of an actuarial experience study for the period July 1, 2010 - June 30, 2015 adopted by the KTRS Board on November 19, 2016.

Continued

KENTUCKY COMMUNITY AND TECHNICAL COLLEGE SYSTEM

Notes to Financial Statements

June 30, 2020 and 2019

10. Pension Plans

KTRS Pension Actuarial Assumptions (continued) - The long-term expected rate of return on pension plan investments was determined using a log-normal distribution analysis in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation.

The target allocation and best estimates of arithmetic real rates of return for each major asset class for the June 30, 2019 and 2018 measurements as provided by KTRS' investment consultant, are summarized below:

Asset Class	June 30, 2019		June 30, 2018	
	Target Allocation	Long-Term Expected Real Rate of Return	Target Allocation	Long-Term Expected Real Rate of Return
U.S. Equity	40%	4.20%	40%	4.20%
International Equity	22%	5.20%	22%	5.20%
Fixed Income	15%	1.20%	15%	1.20%
Additional Categories*	8%	3.20%	8%	3.30%
Real Estate	6%	3.80%	6%	3.80%
Private Equity	7%	6.30%	7%	6.30%
Cash	2%	0.90%	2%	0.90%
Total	100%		100%	

* Includes hedge funds, high yield, non-U.S. developed bonds and private credit strategies.

KTRS Pension Changes in Assumptions and Benefit Terms Since Prior Measurement Date - The TPL as of June 30, 2019 reflects the assumed municipal bond index rate decrease from 3.89 percent to 3.50 percent. The Single Equivalent Interest Rate (SEIR) remained at 7.50 percent.

KTRS Pension Changes Since Measurement Date - There were no changes between the measurement date of the collective net pension liability and KCTCS' reporting date that are expected to have a significant effect on KCTCS' proportionate share of the collective net pension liability.

KTRS Pension Discount Rate - The discount rate used to measure the TPL was 7.50 percent at June 30, 2019 and 2018. The TPL as of June 30, 2018 reflects the assumed municipal bond index rate increase from 3.56 percent to 3.89 percent, resulting in a change in the Single Equivalent Interest Rate (SEIR) from 4.49 percent to 7.50 percent. The impact of this change in the discount rate is a change in assumption that is added to expected TPL to determine the final TPL at June 30, 2018. The projection of cash flows used to determine the discount rate assumed that plan member contributions will be made at the current contribution rates and that employer contributions will be made at the actuarially determined contribution rates for all fiscal years in the future. Based on those assumptions, at the June 30, 2019 and 2018 measurement date, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Continued

KENTUCKY COMMUNITY AND TECHNICAL COLLEGE SYSTEM

Notes to Financial Statements

June 30, 2020 and 2019

10. Pension Plans

KTRS Pension Sensitivity of KCTCS' Proportionate Share of the Net Pension Liability to Changes in the Discount Rate - The following presents the net pension liability as well as what the net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower or 1-percentage-point higher than the current discount rate at June 30:

	2020		
	1% Decrease (6.50%)	Current Discount Rate (7.50%)	1% Increase (8.50%)
KCTCS' proportionate share of the collective net pension liability	\$63,981,205	\$50,127,039	\$38,433,998
	2019		
	1% Decrease (6.50%)	Current Discount Rate (7.50%)	1% Increase (8.50%)
KCTCS' proportionate share of the collective net pension liability	\$69,969,099	\$54,584,240	\$41,642,659

KTRS Pension Plan Fiduciary Net Position - Detailed information about the fiduciary net position is available in separately issued KTRS financial reports.

Kentucky Employees Retirement System (KERS)

The employees provided with pensions through the Kentucky Employees Retirement System (KERS) are in a defined benefit pension plan administered by the Kentucky Retirement System (KRS). Kentucky Revised Statute 61.645 grants the KRS Board of Trustees authority to administer the retirement system. KERS issues a financial report, including financial statements and required supplementary information which may be obtained by writing to Kentucky Retirement Systems, Perimeter Park West, 1260 Louisville Road, Frankfort, Kentucky 40601-6124 or by calling (502)696-8800.

KERS Pension Benefits Provided - KERS provides retirement, disability, and death benefits. Retirees covered by KERS are entitled to a monthly benefit based on months of service multiplied by the average salary of 5 full fiscal years (highest 5 or last 5 based on date of participation) upon attainment of KERS specified age (or age and service combinations). Participants are fully vested after completion of 60 months of service.

Retirement benefits are determined as a percent of the employee's final 5-year average compensation times the employee's years of service. Employees hired prior to September 1, 2008 can retire at any age with 27 years of service or at age 65 with 4 years of service. Employees hired after September 1, 2008 can retire when their age plus years of service equals 87 (must be at least age 57) or at age 65 with 5 years of service. Employees are eligible for service-related disability benefits regardless of length of service. Five years of service is required for nonservice-related disability eligibility. Disability benefits are determined based on participation date. Death benefits are based on age, months of service and whether the employee was active or retired.

Continued

KENTUCKY COMMUNITY AND TECHNICAL COLLEGE SYSTEM

Notes to Financial Statements

June 30, 2020 and 2019

10. Pension Plans

KERS Pension Contributions - Benefit and contribution rates are established by state statute. Per Kentucky Revised Statute 61.565(3) contribution requirements of active employees and participating organizations are established and may be amended by the KRS Board. KERS participants hired with an effective date prior to September 1, 2008 contribute 5 percent of their covered compensation. KERS participants hired with an effective date on or after September 1, 2008 contribute 6 percent of their covered compensation. KCTCS contributed 49.47 percent for years ended June 30, 2020 and 2019 for all KERS participants, regardless of hire date. These amounts were actuarially determined as an amount that, when combined with employee contributions, is expected to finance the cost of benefits (41.06 percent for pension and 8.41 percent for health insurance for years ended June 30, 2020 and 2019) earned by employees during the year, with an additional amount to finance any unfunded accrued liability.

Contributions to the pension plan from KCTCS were \$7.9 million and \$8.2 million for years ended June 30, 2020 and 2019.

KERS Pension Liability, Pension Expense, Deferred Outflows and Deferred Inflows of Resources - At June 30, 2020 and 2019, KCTCS reported a liability of \$192.9 million and \$196.0 million for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2019 and 2018 and the TPL used to calculate the net pension liability was determined by an actuarial valuation as of June 30, 2018, rolled-forward for June 30, 2019.

KCTCS' proportion of the net pension liability was based on actual contributions made to KERS during the measurement period to determine the proportionate share of each participating employer. At June 30, 2020 and 2019, KCTCS' proportion was 1.37 percent and 1.44 percent.

For years ended June 30, 2020 and 2019, KCTCS recognized pension (income) expense of \$(1.1) million and \$2.8 million related to KERS. KCTCS reported deferred outflows and deferred inflows of resources as follows at June 30:

	2020	
	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 1,141,172	\$ -
Changes in assumptions	5,874,772	-
Net difference between projected and actual earnings on pension plan investments	499,995	893,145
Changes in proportion and differences between KCTCS contributions and proportionate share of contributions	-	10,790,542
KCTCS contributions subsequent to the measurement date	7,855,225	-
Total	\$ 15,371,164	\$ 11,683,687

Continued

KENTUCKY COMMUNITY AND TECHNICAL COLLEGE SYSTEM

Notes to Financial Statements

June 30, 2020 and 2019

10. Pension Plans

KERS Pension Liability, Pension Expense, Deferred Outflows and Deferred Inflows of Resources (continued)

	2019	
	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 1,396,060	\$ 548,204
Changes in assumptions	8,752,754	-
Net difference between projected and actual earnings on pension plan investments	1,468,965	1,281,851
Changes in proportion and differences between KCTCS contributions and proportionate share of contributions	-	12,394,199
KCTCS contributions subsequent to the measurement date	8,204,598	-
Total	\$ 19,822,377	\$ 14,224,254

As of June 30, 2020, KCTCS reported \$7.9 million as deferred outflows of resources related to pensions resulting from KCTCS' contributions subsequent to the measurement date, which 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 deferred inflows of resources will be recognized in pension (income) expense for years ended June 30:

2021	\$ (2,739,353)
2022	(1,291,194)
2023	(126,079)
2024	(11,122)
	\$ (4,167,748)

KERS Pension Actuarial Assumptions - The total pension liability (TPL) for KERS measured as of June 30, 2019 and 2018 was determined using the actuarial valuation as of June 30, 2018 and 2017. This valuation used the following actuarial methods and assumptions applied to all prior periods included in the measurement:

Valuation date	June 30, 2018 and 2017 (rolled forward)
Experience study	July 1, 2013 - June 30, 2018
Actuarial cost method	Entry age normal
Amortization method	Level percentage of payroll, closed
Remaining amortization period	25 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%
Salary increase	3.55% to 15.55%, varies by service
Investment rate of return	5.25%

Continued

KENTUCKY COMMUNITY AND TECHNICAL COLLEGE SYSTEM

Notes to Financial Statements

June 30, 2020 and 2019

10. Pension Plans

KERS Pension Actuarial Assumptions (continued) - The mortality table used for active 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. The mortality table used for healthy retired members is a 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 members, the mortality table used is 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 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 net pension liability as of June 30, 2019 is based on the June 30, 2018 actuarial valuation and the net pension liability as of June 30, 2018 is based on the June 30, 2017 actuarial valuation rolled-forward. Deferred outflows and inflows related to differences between projected and actual earnings on plan investments are netted and amortized over a closed five-year period.

The target asset allocation and best estimates of arithmetic nominal rates of return for each major asset class for the June 30, 2019 and 2018 measurements are summarized in the following table:

Asset Class	June 30, 2019		June 30, 2018	
	Target Allocation	Long-Term Nominal Rate of Return	Target Allocation	Long-Term Nominal Rate of Return
Combined Equity	47%	11.70%	35%	5.77%
Global Bonds	20%	1.35%	10%	3.00%
Global Credit	0%	0.00%	17%	4.59%
Core Real Estate	5%	4.85%	5%	7.00%
Opportunistic	3%	2.97%	0%	0.00%
Absolute Return	0%	0.00%	10%	5.00%
Real Return	15%	4.10%	10%	5.00%
Private Equity	7%	6.65%	10%	6.50%
Cash Equivalent	3%	0.20%	3%	1.50%
Total	100%		100%	

KERS Pension Changes in Assumptions and Benefit Terms Since Prior Measurement Date – The KERS Board of Trustees adopted new actuarial assumptions based on an actuarial experience study for the period ending June 30, 2018. Key assumption changes include an increase to the salary increase assumptions for individual members and replacing the base retiree mortality tables with a KERS-specific mortality table developed using the actual mortality experience of non-disabled retirees in KERS. Mortality tables for disabled retirees and active members were updated with Public Retirement Mortality tables. In addition, termination rates and rates of disability incidence were increased. Retirement rates were decreased slightly for members with a participation date prior to July 1, 2003. For members with a participation date on or after July 1, 2003, retirement rates were set equal to 80% of the retirement rates applicable for the pre July 1, 2003 participants for ages below 65.

House Bill 1, which passed during the 2019 special legislative session, allows certain employers in the KERS non-hazardous plan to elect to cease participating in the system as of June 30, 2020. Since employer's elections were unknown at the time of the actuarial valuation and the legislation was enacted after the June 30, 2019 measurement date, no adjustments were made to the Total Pension Liability to reflect this legislation.

Continued

KENTUCKY COMMUNITY AND TECHNICAL COLLEGE SYSTEM

Notes to Financial Statements

June 30, 2020 and 2019

10. Pension Plans

KERS Pension Changes in Assumptions and Benefit Terms Since Prior Measurement Date (continued) – House Bill 265, which passed during the 2018 legislative session, allowed certain employers within the KERS non-hazardous system to contribute less than the actuarially determined contribution in the 2018/2019 fiscal year. Since this is not expected to be an ongoing contribution reduction, determining the KERS non-hazardous employers' proportionate share based on the employers' actual contributions would not be reflective of the employers' long-term contribution effort. Instead, the proportionate share calculations for employers of the KERS non-hazardous system were based on the employers' covered payroll provided for fiscal year ending June 30, 2019, which would result in the same proportionate share allocation if all participating employers contributed the same contribution rate. There were no changes in assumptions as of the June 30, 2018 measurement date.

KERS Pension Changes Since Measurement Date - There were no changes between the measurement date of the collective net pension liability and the KCTCS reporting date that are expected to have a significant effect on KCTCS proportionate share of the collective net pension liability.

KERS Pension Discount Rate - The discount rate used to measure the total pension liability was 5.25 percent at June 30, 2019 and 2018. The projection of cash flows used to determine the discount rate assumed that contributions from plan members and employers will be made at the actuarially determined contribution rate. Based on those assumptions, the pension plan's fiduciary net position and future contributions were projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability. The projection of cash flows used to determine the single discount rate assumes that the Commonwealth of Kentucky contributes the actuarially determined contribution in all future years.

KERS Pension Sensitivity of KCTCS' Proportionate Share of the Net Pension Liability to Changes in the Discount Rate - The following presents the net pension liability as well as what the net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower or 1-percentage-point higher than the current discount rate at June 30:

	2020		
	1% Decrease (4.25%)	Current Discount Rate (5.25%)	1% Increase (6.25%)
KCTCS' proportionate share of the collective net pension liability	\$221,186,561	\$192,945,631	\$169,607,065
	2019		
	1% Decrease (4.25%)	Current Discount Rate (5.25%)	1% Increase (6.25%)
KCTCS' proportionate share of the collective net pension liability	\$223,283,971	\$195,995,711	\$173,268,018

KERS Pension Plan Fiduciary Net Position - Detailed information about the pension plans' fiduciary net position is available in the separately issued KERS financial reports.

Continued

KENTUCKY COMMUNITY AND TECHNICAL COLLEGE SYSTEM

Notes to Financial Statements

June 30, 2020 and 2019

10. Pension Plans

The following tables summarize KCTCS' net pension liability, deferred inflows and outflows of resources and pension (income) expense recognized for the fiscal years ending June 30:

	2020		
	KERS	KTRS	Total
Net pension liability	\$ 192,945,631	\$ 50,127,039	\$ 243,072,670
Deferred outflows of resources	\$ 15,371,164	\$ 8,953,121	\$ 24,324,285
Deferred inflows of resources	\$ 11,683,687	\$ 78,554,649	\$ 90,238,336
Pension (income) expense recognized	\$ (1,139,434)	\$ (42,763,435)	\$ (43,902,869)

	2019		
	KERS	KTRS	Total
Net pension liability	\$ 195,995,711	\$ 54,584,240	\$ 250,579,951
Deferred outflows of resources	\$ 19,822,377	\$ 14,604,588	\$ 34,426,965
Deferred inflows of resources	\$ 14,224,254	\$ 122,512,349	\$ 136,736,603
Pension (income) expense recognized	\$ 2,838,349	\$ (41,786,244)	\$ (38,947,895)

11. Postemployment Benefit Plans (OPEB)

KCTCS employees hired prior to July 1, 2009 participate in either the KCTCS Retiree Health OPEB Plan, the Kentucky Teachers Retirement System OPEB Plan or the Kentucky Employees Retirement System OPEB Plan depending on the retirement plan in which they participate. Employees hired after July 1, 2009 and before January 1, 2014 participate in either the Kentucky Teachers Retirement System OPEB Plan or the Kentucky Employees Retirement System OPEB Plan. Each OPEB plan is described in detail in the following section.

Kentucky Teachers Retirement System (KTRS) OPEB Plan

The KTRS OPEB Plan is a cost-sharing multiple-employer defined benefit OPEB plan with a special funding situation. The plan includes medical insurance and life insurance plans and is administered by the Teachers Retirement System of the State of Kentucky (TRS). TRS publishes a financial report located at <https://trs.ky.gov/financial-reports-information>.

Benefit and contribution rates are established by state statute. Contribution requirements of active employees and participating organizations are established and may be amended by the TRS Board.

Medical Insurance Plan

KTRS Medical Plan Description - Kentucky Revised Statute 161.675 requires KTRS to provide post-employment healthcare benefits to eligible members and dependents. The KTRS Medical Insurance benefit is a cost-sharing multiple-employer defined benefit plan with a special funding situation. Changes to the plan may be made by the KTRS Board of Trustees, the Kentucky Department of Employee Insurance and the General Assembly.

Continued

KENTUCKY COMMUNITY AND TECHNICAL COLLEGE SYSTEM

Notes to Financial Statements

June 30, 2020 and 2019

11. Postemployment Benefit Plans (OPEB)

KTRS Medical Plan Benefits Provided - The member must have retired for service or disability to be eligible for benefits. Retired members are provided a monthly supplement to be used for their health insurance which is obtained through the Kentucky Employees Health Plan or the KTRS Medicare Eligible Health Plan, depending on age and Medicare eligibility. The TRS Board approves the supplement amount. Members pay the portion of the premium that exceeds the supplement.

KTRS Medical Plan Contributions - Participants contribute 3.75 percent of their covered compensation, KCTCS contributes 3.00 percent and 0.75 percent is funded by state appropriation. The state contributes the net cost of premiums for members who retired on or after July 1, 2010 who are in the non-Medicare eligible group. Premiums collected from retirees and investment interest help meet the medical expenses of the plan. KCTCS contributed \$923,483 and \$913,318 for the years ended June 30, 2020 and 2019.

KTRS Medical Plan Actuarial Assumptions - The total OPEB liability was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Valuation date	June 30, 2018 and 2017
Measurement date	June 30, 2019 and 2018
Inflation	3.00%
Real wage growth	0.50%
Wage inflation	3.50%
Salary increases	3.50% - 7.20%, including inflation
Investment rate of return	8.00%, net of OPEB plan investment expense, including inflation
Healthcare cost trend rate	Pre-65: 7.50% and 7.75% decreasing to an ultimate trend rate of 5.00% by FY2024. Post-65: 5.50% and 5.75% decreasing to an ultimate trend rate of 5.00% by FY2021.
Medicare Part B premiums	2.63% and 0.00% increasing to an ultimate rate of 5.00% by FY 2031 and 2030.
Municipal bond index rate	3.50% and 3.89%
Discount rate	8.00%
Single equivalent interest rate	8.00%, net of OPEB plan investment expense, including inflation

Mortality rates were based on the RP-2000 Combined Mortality Table projected to 2025 with projection scale BB and set forward two years for males and one year for females for the period after service retirement and for dependent beneficiaries. The RP-2000 Disabled Mortality Table set forward two years for males and seven years for females is used for the period after disability retirement.

The remaining actuarial assumptions (e.g., initial per capita costs, health care cost trends) used in the June 30, 2018 valuation were based on a review of recent plan experience done concurrently with the June 30, 2018 valuation. The health care cost trend assumption was updated for the June 30, 2018 valuation and was shown as an assumption change in the TOL roll forward while the change in initial per capita claims costs were included with experience in the TOL roll forward.

The long-term expected rate of return on plan investments was determined using a log-normal distribution analysis in which best-estimate ranges of expected future real rates of return (expected returns, net of OPEB plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation.

Continued

KENTUCKY COMMUNITY AND TECHNICAL COLLEGE SYSTEM

Notes to Financial Statements

June 30, 2020 and 2019

11. Postemployment Benefit Plans (OPEB)

KTRS Medical Plan Actuarial Assumptions (continued) – The target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

Asset Class	June 30, 2019		June 30, 2018	
	Target Allocation	30 Year Expected Geometric Rate of Return	Target Allocation	30 Year Expected Geometric Rate of Return
Global Equity	58.00%	5.10%	58.00%	4.60%
Fixed Income	9.00%	1.20%	9.00%	1.20%
Real Estate	6.50%	3.80%	5.50%	3.80%
Private Equity	8.50%	6.30%	6.50%	6.30%
Other Additional Categories*	17.00%	3.20%	20.00%	3.30%
Cash (LIBOR)	1.00%	0.90%	1.00%	0.90%
Total	100%		100%	

* Modeled as 50% High Yield and 50% Bank Loans

KTRS Medical Plan Changes in Assumptions Since Prior Measurement Date – The healthcare cost trend rate for Pre-65 decreased from 7.75 percent for fiscal year 2019 to 7.50 percent for fiscal year 2020 and Post-65 decreased from 5.75 percent for fiscal year 2019 to 5.50 percent for fiscal year 2020. Medicare Part B premiums increased to 2.63 percent for fiscal year 2020 from 0.0 percent for fiscal year 2019. The municipal bond index rate decreased from 3.89 percent to 3.50 percent.

KTRS Medical Plan Changes Since Measurement Date - There were no changes between the measurement date of the collective net OPEB liability and KCTCS' reporting date that are expected to have a significant effect on KCTCS' proportionate share of the collective net OPEB liability.

KTRS Medical Plan Discount Rate - The discount rate used to measure the total OPEB liability was 8.00 percent for fiscal year 2020 and 2019. The projection of cash flows used to determine the discount rate assumed that plan member contributions will be made at current contribution rates and the employer contributions will be made at statutorily required rates. Based on those assumptions, the plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on plan investments was applied to all periods of projected benefit payments to determine the total OPEB liability.

KTRS Medical Plan Sensitivity of the Net OPEB Liability to Changes in the Discount Rate and Healthcare Cost Trend Rates - The following presents the net OPEB liability, as well as what the net OPEB liability would be if it were calculated using a discount rate that is 1-percentage-point lower or 1-percentage-point higher than the current discount rate at June 30:

	2020		
	1% Decrease (7%)	Discount Rate (8%)	1% Increase (9%)
Net OPEB liability	\$18,255,000	\$15,410,000	\$13,027,000
	2019		
	1% Decrease (7%)	Discount Rate (8%)	1% Increase (9%)
Net OPEB liability	\$23,800,000	\$20,297,000	\$17,377,000

Continued

KENTUCKY COMMUNITY AND TECHNICAL COLLEGE SYSTEM

Notes to Financial Statements

June 30, 2020 and 2019

11. Postemployment Benefit Plans (OPEB)

KTRS Medical Plan Sensitivity of the Net OPEB Liability to Changes in the Discount Rate and Healthcare Cost Trend Rates (continued) - The following presents the net OPEB liability, as well as what the net OPEB liability would be if it were calculated using healthcare cost trend rates that are 1-percentage-point lower or 1-percentage-point higher than the current healthcare cost trend rates at June 30:

	2020		
	1% Decrease	Healthcare Cost Trend Rates	1% Increase
	(6.50% and 4.50% decreasing to 4%)	(7.50% and 5.50% decreasing to 5%)	(8.50% and 6.50% decreasing to 6%)
Net OPEB liability	\$12,544,000	\$15,410,000	\$18,933,000
	2019		
	1% Decrease	Healthcare Cost Trend Rates	1% Increase
	(6.75% and 4.75% decreasing to 4%)	(7.75% and 5.75% decreasing to 5%)	(8.75% and 6.75% decreasing to 6%)
Net OPEB liability	\$16,829,000	\$20,297,000	\$24,573,000

KTRS Medical Plan OPEB Liability, OPEB Expense, Deferred Outflows and Deferred Inflows of Resources - At June 30, 2020 and 2019, KCTCS reported a net OPEB liability of \$15.4 million and \$20.3 million for its proportionate share of the collective net OPEB liability that reflected a reduction in support from the State. The collective net OPEB liability was measured as of June 30, 2019 and 2018. Total OPEB liability, used to calculate collective net OPEB liability, was based on a projection of KCTCS's long-term share of contributions to the plan relative to projected contributions of all participating employers, actuarially determined. At June 30, 2019 and 2018, KCTCS's proportion was 0.53% and 0.59%.

The KCTCS proportionate share of OPEB liability, related State support and the total net OPEB liability that is associated with KCTCS were as follows at June 30:

	2020	2019
KCTCS proportionate share of the net OPEB liability	\$ 15,410,000	\$ 20,297,000
State's proportionate share of the net pension OPEB associated with KCTCS	<u>6,873,000</u>	<u>9,933,000</u>
Total	<u>\$ 22,283,000</u>	<u>\$ 30,230,000</u>

For the years ended June 30, 2020 and 2019, KCTCS recognized OPEB income related to the plan, of \$969,165 and \$227,231 which includes \$0.4 million and \$0.7 million of support provided by the Commonwealth of Kentucky.

Continued

KENTUCKY COMMUNITY AND TECHNICAL COLLEGE SYSTEM

Notes to Financial Statements

June 30, 2020 and 2019

11. Postemployment Benefit Plans (OPEB)

KTRS Medical Plan OPEB Liability, OPEB Expense, Deferred Outflows and Deferred Inflows of Resources (continued) - KCTCS reported deferred outflows and inflows of resources as follows at June 30:

	2020	
	Deferred Outflows of Resources	Deferred Inflows of Resources
Net difference between projected and actual earnings on OPEB plan investments	\$ -	\$ 3,730,000
Change in assumptions	410,000	-
Difference between expected and actual experience	66,000	-
Changes in proportion and differences between KCTCS contributions and proportionate share of contributions	-	3,059,000
KCTCS contributions subsequent to the measurement date	923,483	-
 Total	 \$ 1,399,483	 \$ 6,789,000
	2019	
	Deferred Outflows of Resources	Deferred Inflows of Resources
Net difference between projected and actual earnings on OPEB plan investments	\$ -	\$ 82,000
Change in assumptions	279,000	-
Difference between expected and actual experience	-	1,040,000
Changes in proportion and differences between KCTCS contributions and proportionate share of contributions	-	1,542,000
KCTCS contributions subsequent to the measurement date	913,318	-
 Total	 \$ 1,192,318	 \$ 2,664,000

Of the total amount reported as deferred outflows of resources, \$923,483 resulting from contributions subsequent to the measurement date and before the end of the fiscal year will be included as a reduction of the net OPEB liability in the year ended June 30, 2021. Amounts reported as deferred outflows and inflows of resources will be recognized in OPEB (income) expense as follows for years ended June 30:

2021	\$ (1,201,000)
2022	(1,201,000)
2023	(1,167,000)
2024	(1,173,000)
2025	(968,000)
Thereafter	(603,000)
	 \$ (6,313,000)

Continued

KENTUCKY COMMUNITY AND TECHNICAL COLLEGE SYSTEM

Notes to Financial Statements
June 30, 2020 and 2019

11. Postemployment Benefit Plans (OPEB)

KTRS Medical Plan Changes of Benefit Terms - There were no changes for fiscal years June 30, 2020 or 2019.

KTRS Medical Plan OPEB Fiduciary Net Position - Detailed information about the plan's fiduciary net position is available in the separately issued KTRS financial report.

Life Insurance Plan

KTRS Life Plan Description - KTRS administers the life insurance plan as provided by Kentucky Revised Statute 161.655 to eligible active and retired members. The life insurance plan is a cost-sharing multiple employer defined benefit plan. Changes made to the plan may be made by the KTRS Board of Trustees and the General Assembly.

KTRS Life Plan Benefits Provided - The life insurance plan provides a benefit of \$5,000 to members who retire based on service or disability and \$2,000 to active contributing members. The life insurance benefit is payable upon the death of the member.

KTRS Life Plan Contributions - The Commonwealth contributes 0.03 percent of the gross annual payroll of members and KCTCS contributes 0.04 percent of each participants covered compensation. KCTCS contributed \$20,106 and \$12,180 for fiscal years ended June 30, 2020 and 2019.

KTRS Life Plan Actuarial Assumptions - The total OPEB liability was determined using the following actuarial assumptions, applied to all periods included in the measurement as the health plan.

Valuation date	June 30, 2018 and 2017
Measurement date	June 30, 2019 and 2018
Inflation	3.00%
Real wage growth	0.50%
Wage inflation	3.50%
Salary increases	3.50% - 7.20%, including inflation
Investment rate of return	7.50%, net of OPEB plan investment expense, including inflation
Municipal bond index rate	3.50% and 3.89%
Discount rate	7.50%
Single equivalent interest rate	7.50%, net of OPEB plan investment expense, including inflation

Mortality rates were based on the RP-2000 Combined Mortality Table projected to 2025 with projection scale BB and set forward two years for males and one year for females for the period after service retirement and for dependent beneficiaries. The RP-2000 Disabled Mortality Table set forward two years for males and seven years for females is used for the period after disability retirement.

The remaining actuarial assumptions (e.g., initial per capita costs, health care cost trends) used in the June 30, 2018 valuation were based on a review of recent plan experience done concurrently with the June 30, 2018 valuation. The health care cost trend assumption was updated for the June 30, 2018 valuation and was shown as an assumption change in the TOL roll forward while the change in initial per capita claims costs were included with experience in the TOL roll forward.

The long-term expected rate of return on OPEB plan investments was determined using a log-normal distribution analysis in which best-estimate ranges of expected future real rates of return (expected returns, net of OPEB plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation.

Continued

KENTUCKY COMMUNITY AND TECHNICAL COLLEGE SYSTEM

Notes to Financial Statements

June 30, 2020 and 2019

11. Postemployment Benefit Plans (OPEB)

KTRS Life Plan Actuarial Assumptions (continued) - The target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

Asset Class*	June 30, 2019		June 30, 2018	
	Target Allocation	30 Year Expected Geometric Rate of Return	Target Allocation	30 Year Expected Geometric Rate of Return
U.S. Equity	40.00%	4.30%	40.00%	4.20%
International Equity	23.00%	5.20%	23.00%	5.20%
Fixed Income	18.00%	1.20%	18.00%	1.20%
Real Estate	6.00%	3.80%	6.00%	3.80%
Private Equity	5.00%	6.30%	5.00%	6.30%
Other Additional Categories**	6.00%	3.20%	6.00%	3.30%
Cash (LIBOR)	2.00%	0.90%	2.00%	0.90%
Total	100%		100%	

* As the life insurance plan investment policy is subject to change, the above reflects the pension allocation and returns that achieve the target 7.5% long-term rate of return. ** Modeled as 50% High Yield and 50% Bank Loans.

KTRS Life Plan Changes in Assumptions Since Prior Measurement Date – For the fiscal year ended, June 30, 2020, the municipal bond index rate decreased from 3.89 percent to 3.50 percent. There were no changes for the fiscal year ended June 30, 2019.

KTRS Life Plan Changes Since Measurement Date - There were no changes between the measurement date of the collective net OPEB liability and the KCTCS reporting date that are expected to have a significant effect on KCTCS' proportionate share of the collective net OPEB liability.

KTRS Life Plan Discount Rate - The discount rate used to measure the total OPEB liability was 7.50 percent for fiscal years 2020 and 2019. The projection of cash flows used to determine the discount rate assumed that employer contributions will be made at statutorily required rates. Based on those assumptions, the plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on plan investments was applied to all periods of projected benefit payments to determine the total OPEB liability.

KTRS Life Plan Sensitivity of the Net OPEB Liability to Changes in the Discount Rate - The following presents the net OPEB liability, as well as what the net OPEB liability would be if it were calculated using a discount rate that is 1-percentage-point lower or 1-percentage-point higher than the current discount rate at June 30:

	2020		
	1% Decrease (6.5%)	Discount Rate (7.5%)	1% Increase (8.5%)
Net OPEB liability	\$427,000	\$289,000	\$175,000

Continued

KENTUCKY COMMUNITY AND TECHNICAL COLLEGE SYSTEM

Notes to Financial Statements

June 30, 2020 and 2019

11. Postemployment Benefit Plans (OPEB)

KTRS Life Plan Sensitivity of the Net OPEB Liability to Changes in the Discount Rate (continued)

	2019		
	1% Decrease (6.5%)	Discount Rate (7.5%)	1% Increase (8.5%)
Net OPEB liability	\$452,000	\$297,000	\$170,000

KTRS Life Plan OPEB Liability, OPEB Expense, Deferred Outflows and Deferred Inflows of Resources - At June 30, 2020 and 2019, KCTCS reported a net OPEB liability of \$289,000 and \$297,000 for its proportionate share of the collective net OPEB liability that reflected a reduction for state support provided to KCTCS. The collective net OPEB liability was measured as of June 30, 2019 and 2018, and the total OPEB liability used to calculate the collective net OPEB liability was based on a projection of KCTCS's long-term share of contributions to the plan relative to the projected contributions of all participating employers, actuarially determined. At June 30, 2019 and 2018, KCTCS's proportion was 0.93% and 1.05%.

The amount recognized by KCTCS as its proportionate share of the OPEB liability, the related State support, and the total portion of the net OPEB liability that was associated with KCTCS were as follows at June 30:

	2020	2019
KCTCS proportionate share of the net OPEB liability	\$ 289,000	\$ 297,000
State's proportionate share of the net pension OPEB associated with KCTCS	-	-
Total	<u>\$ 289,000</u>	<u>\$ 297,000</u>

For the years ended June 30, 2020 and 2019, KCTCS recognized OPEB expense of \$25,074 and \$31,141 associated with the KTRS life insurance plan and reported deferred outflows and inflows of resources as follows at June 30:

	2020	
	Deferred Outflows of Resources	Deferred Inflows of Resources
Net difference between projected and actual earnings on OPEB plan investments	\$ 60,000	\$ -
Difference between expected and actual experience	-	6,000
Changes in proportion and differences between KCTCS contributions and proportionate share of contributions	-	28,000
KCTCS contributions subsequent to the measurement date	20,106	-
Total	<u>\$ 80,106</u>	<u>\$ 34,000</u>

Continued

KENTUCKY COMMUNITY AND TECHNICAL COLLEGE SYSTEM

Notes to Financial Statements

June 30, 2020 and 2019

11. Postemployment Benefit Plans (OPEB)

KTRS Life Plan OPEB Liability, OPEB Expense, Deferred Outflows and Deferred Inflows of Resources (continued)

	2019	
	Deferred Outflows of Resources	Deferred Inflows of Resources
Net difference between projected and actual earnings on OPEB plan investments	\$ 81,000	\$ -
Difference between expected and actual experience	-	6,000
Changes in proportion and differences between KCTCS contributions and proportionate share of contributions	-	8,000
KCTCS contributions subsequent to the measurement date	12,180	-
Total	\$ 93,180	\$ 14,000

Of the total amount reported as deferred outflows of resources, \$20,106 resulting from contributions subsequent to the measurement date and before the end of the fiscal year will be included as a reduction of the net OPEB liability in the year ended June 30, 2021. Other amounts reported as deferred outflows and inflows of resources will be recognized in OPEB expense as follows for years ended June 30:

2021	\$ 16,000
2022	16,000
2023	6,000
2024	(5,000)
2025	(7,000)
	\$ 26,000

KTRS Life Plan Changes of Benefit Terms - There were no changes for fiscal years ended June 30, 2020 or 2019.

KTRS Life Plan OPEB Fiduciary Net Position - Detailed information about the plan's fiduciary net position is available in the separately issued KTRS financial report.

Kentucky Employees Retirement System (KERS) OPEB Plan

KERS OPEB Plan Description - The KERS OPEB Plan is a cost-sharing multiple-employer defined benefit OPEB plan, which was available to KCTCS employees hired prior to January 1, 2014. This plan provides medical insurance for eligible retirees and is administered by Kentucky Retirement System (KRS) who publishes a financial report located at <https://kyret.ky.gov>.

KERS OPEB Benefits Provided – Benefits provided depend on the plan Tier in which a member is enrolled. There are three Tiers and members are assigned to Tiers depending on their participation date. Tier 1 includes members with a participation date prior to July 1, 2003. Members in Tier 1 are eligible for benefits if they are receiving a retirement payment. Tier 1 benefits include a portion of a medical premium paid by KERS. The amount of the medical premium paid is a percentage that is determined based on the number of years of service. Tier 2 includes members with participation dates of July 1, 2003 through August 31, 2008. Members in Tier 2 are eligible for benefits if they are receiving a retirement payment and have at least 120 months of service at retirement. Tier 3 includes members with a participation date after August 31, 2008.

Continued

KENTUCKY COMMUNITY AND TECHNICAL COLLEGE SYSTEM

Notes to Financial Statements

June 30, 2020 and 2019

11. Postemployment Benefit Plans (OPEB)

KERS OPEB Benefits Provided (continued)

Members in Tier 3 are eligible for benefits if they are receiving a retirement payment and have at least 180 months of service at retirement. Tier 2 and Tier 3 benefits include a monthly premium allowance of \$10 for each year of service. The monthly premium allowance is increased by 1.5 percent each July 1.

KERS OPEB Contributions - Benefit and contribution rates are established by state statute. Per Kentucky Revised Statute 61.565(3) contribution requirements of active employees and participating organizations are established and may be amended by the KRS Board. KERS participants hired with an effective date on or after September 1, 2008 contribute 1 percent of their covered compensation. KERS participants hired prior to September 1, 2008 do not contribute to the plan but do receive plan benefits. KCTCS contributed 8.41 percent for years ended June 30, 2020 and 2019. This rate was actuarially determined to produce an amount that, when combined with employee contributions, is expected to finance the cost of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. KCTCS contributed \$1.6 million and \$2.0 million for years ended June 30, 2020 and 2019 and the implicit subsidy was \$366,078 and \$309,262.

KERS OPEB Actuarial Assumptions - The total OPEB liability was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Valuation date	June 30, 2018 and 2017 (rolled forward)
Measurement date	June 30, 2019 and 2018
Inflation	2.30%
Payroll growth rate	0.00%
Salary increases	3.30% to 15.30%, varies by service
Investment rate of return	6.25%
Healthcare cost trend rate	Pre-65: 7.00% beginning January 1, 2020, decreasing to an ultimate trend rate of 4.05% over 12 years. Post-65: 5.00%, beginning January 1, 2020, decreasing to an ultimate trend rate of 4.05% over 10 years.

The mortality table used for active 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. The mortality table used for healthy retired members is a 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 members, the mortality table used is 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 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.

Continued

KENTUCKY COMMUNITY AND TECHNICAL COLLEGE SYSTEM

Notes to Financial Statements

June 30, 2020 and 2019

11. Postemployment Benefit Plans (OPEB)

KERS OPEB Actuarial Assumptions (continued)

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

Asset Class	June 30, 2019		June 30, 2018	
	Target Allocation	Long-Term Nominal Rate of Return	Target Allocation	Long-Term Nominal Rate of Return
Combined Equity	52.50%	11.70%	35.00%	5.77%
Global Bonds	13.50%	1.35%	4.00%	3.00%
Real Return	15.00%	4.10%	10.00%	7.00%
Private Equity	10.00%	6.65%	10.00%	6.50%
Core Real Estate	5.00%	4.85%	5.00%	9.00%
Global Credit	0.00%	0.00%	2.00%	3.75%
High Yield	0.00%	0.00%	7.00%	5.50%
Emerging Market Debt	0.00%	0.00%	5.00%	6.00%
Private Credit	0.00%	0.00%	10.00%	8.50%
Absolute Return	0.00%	0.00%	10.00%	5.00%
Opportunistic	3.00%	2.97%	0.00%	0.00%
Cash Equivalent	1.00%	0.20%	2.00%	1.50%
Total	100%		100%	

KERS OPEB Changes in Assumptions and Benefit Terms Since Prior Measurement Date – For the fiscal year ended June 30, 2020, the KERS Board of Trustees adopted new actuarial assumptions. These assumptions were based on an actuarial experience study for the period ending June 30, 2018. Key changes include replacing the base retiree mortality tables with a KERS-specific mortality table developed using the actual mortality experience of non-disabled retirees in KERS. Mortality tables for disabled retirees and active members were updated with Public Retirement Mortality tables. In addition, termination rates and rates of disability incidence were increased. Retirement rates were decreased slightly for members with a participation date prior to July 1, 2003. For members with a participation date on or after July 1, 2003, retirement rates were set equal to 80% of the retirement rates applicable for the pre July 1, 2003 participants for ages below 65.

House Bill 1, which passed during the 2019 special legislative session, allows certain employers in the non-hazardous plan to elect to cease participating in the system as of June 30, 2020. Since employer's elections were unknown at the time of the actuarial valuation and the legislation was enacted after the June 30, 2019 measurement date, no adjustments were made to the Total OPEB Liability to reflect this legislation.

House Bill 265, which passed during the 2018 legislative session, allowed certain employers within the non-hazardous plan to contribute less than the actuarially determined contribution in the 2018/2019 fiscal year. Since this is not expected to be an ongoing contribution reduction, determining the non-hazardous employers' proportionate share based on the employers' actual contributions would not be reflective of the employers' long-term contribution effort. Instead, the proportionate share calculations for employers of the non-hazardous plan were based on the employers' covered payroll provided for fiscal year ending June 30, 2019, which would result in the same proportionate share allocation if all participating employers contributed the same rate.

There were no changes in assumptions or benefit terms as of June 30, 2019.

Continued

KENTUCKY COMMUNITY AND TECHNICAL COLLEGE SYSTEM

Notes to Financial Statements

June 30, 2020 and 2019

11. Postemployment Benefit Plans (OPEB)

KERS OPEB Changes Since Measurement Date - There were no changes between the measurement date of the collective net OPEB liability and KCTCS' reporting date that are expected to have a significant effect on KCTCS proportionate share of the collective net OPEB liability.

KERS OPEB Discount Rate - For measurement dates June 30, 2019 and 2018, the discount rate used to determine the total OPEB liability was 5.73 percent and 5.86 percent. The projection of cash flows used to determine the discount rate assumed that contributions will be made at rates equal to the actuarially determined contribution rates. For measurement dates June 30, 2019 and 2018, the discount rate determination used an expected rate of return of 6.25 percent and a municipal bond rate of 3.13 percent and 3.62 percent, respectively, which was reported in Fidelity Index's "20 -Year Municipal GO AA Index" as of June 28, 2019 and June 30, 2018. However, the cost associated with the implicit employer subsidy was not included in the calculation of the actuarially determined contributions, and any cost associated with the implicit subsidy will not be paid out of the KRS' trusts. Therefore, the municipal bond rate was applied to future expected benefit payments associated with the implicit subsidy.

KERS OPEB Sensitivity of the Net OPEB Liability to Changes in the Discount Rate and Healthcare Cost Trend Rates - The following presents the net OPEB liability, as well as what the net OPEB liability would be if it were calculated using a discount rate that is 1-percentage-point lower or 1-percentage-point higher than the current discount rate as of June 30:

	2020		
	1% Decrease (4.73%)	Discount Rate (5.73%)	1% Increase (6.73%)
Net OPEB liability	\$36,160,370	\$30,368,762	\$25,601,059

	2019		
	1% Decrease (4.86%)	Discount Rate (5.86%)	1% Increase (6.86%)
Net OPEB liability	\$40,043,008	\$34,128,850	\$29,206,763

The following presents the net OPEB liability, as well as what the net OPEB liability would be if it were calculated using healthcare cost trend rates that are 1-percentage-point lower or 1-percentage-point higher than the current healthcare cost trend rates as of June 30:

	2020		
	1% Decrease (6% and 4% decreasing to 3.05%)	Healthcare Cost Trend Rates (7% and 5% decreasing to 4.05%)	1% Increase (8% and 6% decreasing to 4.05%)
Net OPEB liability	\$25,800,308	\$30,368,762	\$35,895,039

Continued

KENTUCKY COMMUNITY AND TECHNICAL COLLEGE SYSTEM

Notes to Financial Statements

June 30, 2020 and 2019

11. Postemployment Benefit Plans (OPEB)

KERS OPEB Sensitivity of the Net OPEB Liability to Changes in the Discount Rate and Healthcare Cost Trend Rates (continued)

	2019		
	1% Decrease	Healthcare Cost Trend Rates	1% Increase
	(6% and 4% decreasing to 3%)	(7% and 5% decreasing to 4%)	(8% and 6% decreasing to 5%)
Net OPEB liability	\$29,016,647	\$34,128,850	\$40,277,018

KERS OPEB Liability, OPEB Expense, Deferred Outflows and Deferred Inflows of Resources – KCTCS’ net OPEB liability, measured as of June 30, 2019 and 2018, was \$30.4 million and \$34.1 million. Its proportionate share of the collective net OPEB liability was 1.37 percent and 1.44 percent as of June 30, 2019 and 2018 and was determined using employers’ actual contributions for fiscal years ended June 30, 2018 and 2017. KCTCS recognized OPEB (income) expense of \$(0.3) million and \$1.0 million for years ended June 30, 2020 and 2019. KCTCS reported deferred outflows and inflows of resources as follows at June 30:

	2020	
	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ -	\$ 4,844,017
Changes in assumptions	3,982,655	91,346
Net difference between projected and actual earnings on OPEB plan investments	128,617	327,793
Changes in proportion and differences between KCTCS contributions and proportionate share of contributions	-	2,994,621
KCTCS contributions subsequent to the measurement date	1,975,002	-
Total	\$ 6,086,274	\$ 8,257,777

	2019	
	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ -	\$ 2,228,459
Changes in assumptions	3,587,657	128,984
Net difference between projected and actual earnings on OPEB plan investments	-	499,881
Changes in proportion and differences between KCTCS contributions and proportionate share of contributions	-	1,419,886
KCTCS contributions subsequent to the measurement date	1,988,928	-
Total	\$ 5,576,585	\$ 4,277,210

Continued

KENTUCKY COMMUNITY AND TECHNICAL COLLEGE SYSTEM

Notes to Financial Statements

June 30, 2020 and 2019

11. Postemployment Benefit Plans (OPEB)

KERS OPEB Liability, OPEB Expense, Deferred Outflows and Deferred Inflows of Resources (continued) - Of the total amount reported as deferred outflows of resources related to OPEB, \$1.6 million, resulting from contributions subsequent to the measurement date and before the end of the fiscal year, will be included as a reduction of the net OPEB liability in the year ended June 30, 2021.

Other amounts reported as deferred outflows and inflows of resources will be recognized in OPEB (income) expense as follows:

2021	\$ (854,437)
2022	(854,437)
2023	(1,730,624)
2024	<u>(707,007)</u>
	<u>\$ (4,146,505)</u>

OPEB Plan Fiduciary Net Position - Detailed information about the plan's fiduciary net position is available in the separately issued KERS financial report.

KCTCS Retiree Health OPEB Plan

The KCTCS Retiree Health OPEB Plan is a single-employer defined benefit other postemployment benefit plan which is administered by KCTCS and does not issue a stand-alone financial report. This plan provides healthcare benefits for eligible retirees who participate in the 403(b) defined contribution plan. The plan is funded by an irrevocable IRS Section 115 trust which KCTCS established during the year ended June 30, 2013 with a contribution of \$163.7 million. This plan was closed to new entrants as of July 1, 2009.

Employees and surviving spouses participating in this plan include former University of Kentucky faculty and staff; KCTCS 403(b) participants with a hire date prior to July 1, 2009; and University of Kentucky opt-over retirees.

KCTCS OPEB Plan Benefits Provided - Benefits are provided through a third-party insurer and cover the partial cost of the monthly health insurance premium which is based on Medicare retiree status and stated Medicare coverage rates. Pre-Medicare eligible employees have the same healthcare plan choices as active employees. Post-Medicare eligible employees receive monthly benefits determined to meet the premium obligations for the Medicare Advantage Plan.

KCTCS OPEB Plan Contributions - There were no contributions made to the plan during the fiscal years ended June 30, 2020 and 2019.

The plan covered the following as of the measurement dates of June 30:

	<u>2019</u>	<u>2018</u>
Inactive employees or beneficiaries currently receiving benefit payments	863	821
Inactive employees entitled to but not yet receiving benefit payments	80	87
Active employees	<u>1,338</u>	<u>1,581</u>
Total	<u><u>2,281</u></u>	<u><u>2,489</u></u>

Continued

KENTUCKY COMMUNITY AND TECHNICAL COLLEGE SYSTEM

Notes to Financial Statements

June 30, 2020 and 2019

11. Postemployment Benefit Plans (OPEB)

KCTCS OPEB Plan Net OPEB Asset - The net OPEB asset was measured as of June 30, 2019 and 2018 and the total OPEB liability used to calculate the net OPEB asset was determined by an actuarial valuation as of June 30, 2019 and July 1, 2017 which was rolled-forward for June 30, 2018 measurement date.

KCTCS OPEB Plan Actuarial Assumptions - The total OPEB liability was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Valuation date	July 1, 2019 and July 1, 2017 (rolled forward)
Healthcare inflation	2.5%
Salary increases	3.0%
Investment rate of return	7.0%
Healthcare cost trend rate	For June 30, 2019 and 2018, 7.35% KCTCS Pre-65; 7.01% and 7.35% KCTCS Post-65; 6.88% UK Pre-65; 31.25% and 5.93% UK Post-65 to an ultimate rate of 4.5% for 2031 and later years.

Mortality rates for healthy members were based on PUB-2010 Mortality Tables for “Teachers” and “General” Employees Projected Generationally with Scale MP-2018. Mortality rates for disabled members were based on PUB-2010 Disabled Retiree Table for “Non-Safety” Employees Projected Generationally with Scale MP-2018.

The long-term expected rate of return on plan investments is 7.0 percent and was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of geometric real rates of return for each major asset class included in the plan’s target asset allocation as of June 30 are summarized in the following table:

	June 30, 2019		June 30, 2018	
	Target Allocation	Long-Term Expected Real Rate of Return	Target Allocation	Long-Term Expected Real Rate of Return
Global Equity	52.70%	4.70%	55.00%	8.10%
Core Bonds	16.90%	1.50%	10.00%	4.20%
Diversifying Strategies	10.50%	4.60%	0.00%	0.00%
Private Real Estate	8.70%	4.30%	5.00%	7.40%
Credit	6.90%	4.90%	6.00%	11.00%
Public Natural Resources	4.10%	4.40%	5.00%	7.70%
Cash	0.20%	0.00%	0.00%	0.00%
Hedge Strategies	0.00%	0.00%	16.00%	5.80%
Treasury Inflation-Protected Securities	0.00%	0.00%	3.00%	2.80%
Total	100%		100%	

KCTCS OPEB Plan Discount Rate - The discount rate used to measure the total OPEB liability was 7.0 percent for June 30, 2019 and 2018. The projection of cash flows used to determine the discount rate assumed that contributions will be made at rates equal to the actuarially determined contribution rates. Based on those assumptions, the fiduciary net position was projected to be available to make all projected payments for current active and inactive employees. Therefore, the long-term expected rate of return on the plan investments was applied to all periods of projected benefit payments to determine the total OPEB liability.

Continued

KENTUCKY COMMUNITY AND TECHNICAL COLLEGE SYSTEM

Notes to Financial Statements

June 30, 2020 and 2019

11. Postemployment Benefit Plans (OPEB)

KCTCS OPEB Plan Changes in the Net OPEB Liability (Asset)

	Total OPEB Liability	Plan Fiduciary Net Position	Net OPEB Liability (Asset)
Balances at 6/30/18	\$ 163,397,044	\$ 186,116,782	\$ (22,719,738)
Changes for the year:			
Service cost	2,901,484	-	2,901,484
Interest	11,323,533	-	11,323,533
Changes in assumptions	(2,046,262)	-	(2,046,262)
Contributions - employee	589,335	-	589,335
Net investment income	-	14,029,874	(14,029,874)
Benefit payments	(3,853,897)	(3,853,897)	-
Net changes	<u>8,914,193</u>	<u>10,175,977</u>	<u>(1,261,784)</u>
Balances at 6/30/19	<u>\$ 172,311,237</u>	<u>\$ 196,292,759</u>	<u>\$ (23,981,522)</u>
Balances at 6/30/19	\$ 172,311,237	\$ 196,292,759	\$ (23,981,522)
Changes for the year:			
Service cost	2,877,496	-	2,877,496
Interest	12,131,312	-	12,131,312
Differences between expected and actual experience	(4,044,678)	-	(4,044,678)
Changes in assumptions	(26,946,517)	-	(26,946,517)
Net investment income	-	12,604,469	(12,604,469)
Benefit payments	(3,833,397)	(3,833,397)	-
Administrative expense	-	(43,578)	43,578
Net changes	<u>(19,815,784)</u>	<u>8,727,494</u>	<u>(28,543,278)</u>
Balances at 6/30/20	<u>\$ 152,495,453</u>	<u>\$ 205,020,253</u>	<u>\$ (52,524,800)</u>

KCTCS OPEB Plan Changes in Assumptions and Benefit Terms Since Prior Measurement Date

Changes for fiscal 2020: Medical trend, expected medical claims and health care cost aging were updated to better reflect expected experience of the plan. The base mortality table for healthy employees was updated from 2006 base rates using the RP-2014 Combined Healthy Mortality Table to PUB-2010 Mortality Tables for "Teachers" and "General" Employees. The base mortality table for disabled retirees was updated from 2006 base rates from the RP-2014 Disabled Retiree Mortality Table for "Non-Safety" Employees. The mortality improvement scale was updated from MP-2017 to MP-2018. Post-65 retirees who waived coverage are no longer assumed to later elect coverage.

Changes for fiscal 2019: Healthcare trend rates were updated from 7.5 percent to 7.35 percent for KCTCS, from 7 percent to 6.88 percent for UK Pre-65 and from 6 percent to 5.93 percent for UK Post-65. Mortality rates for healthy employees were updated from RP-2014 Combined Healthy Mortality Table for Males and Females Backed off to 2006 and Projected Generationally with Scale MP-2016 to RP-2014 Combined Healthy Mortality Table for Males and Females Backed off to 2006 and Projected Generationally with Scale MP-2017. Mortality rates for disabled employees were updated from RP-2014 Disabled Mortality Table for Males and Females Backed off to 2006 and Projected Generationally with Scale MP-2016 to RP-2014 Disabled Mortality Table for Males and Females Backed off to 2006 and Projected Generationally with Scale MP-2017.

Continued

KENTUCKY COMMUNITY AND TECHNICAL COLLEGE SYSTEM

Notes to Financial Statements

June 30, 2020 and 2019

11. Postemployment Benefit Plans (OPEB)

KCTCS OPEB Plan Changes Since Measurement Date - There were no changes between the measurement date of the net OPEB asset and KCTCS' reporting date that are expected to have a significant effect on the net OPEB asset.

KCTCS OPEB Plan Sensitivity of the Net OPEB Asset to Changes in the Discount Rate and Healthcare Cost Trend Rates - The following presents the net OPEB asset, as well as what the net OPEB asset would be if it were calculated using a discount rate that is 1-percentage-point lower or 1-percentage-point higher than the current discount rate:

	2020		
	1% Decrease (6.0%)	Discount Rate (7.0%)	1% Increase (8.0%)
Net OPEB liability (asset)	\$ (29,877,797)	\$ (52,524,800)	\$ (71,001,146)

	2019		
	1% Decrease (6.0%)	Discount Rate (7.0%)	1% Increase (8.0%)
Net OPEB liability (asset)	\$ 2,570,519	\$ (23,981,522)	\$ (45,505,774)

The following presents the net OPEB asset, as well as what the net OPEB asset would be if it were calculated using healthcare cost trend rates that are 1-percentage-point lower or 1-percentage-point higher than the current healthcare cost trend rates:

	2020		
	1% Decrease (6.35%, 6.01%, 5.88% and 30.25% decreasing to 3.5%)	Healthcare Cost Trend Rates (7.35%, 7.01%, 6.88% and 31.25% decreasing to 4.5%)	1% Increase (8.35%, 8.01%, 7.88% and 32.25% decreasing to 5.5%)
Net OPEB liability (asset)	\$ (71,832,629)	\$ (52,524,800)	\$ (28,853,751)

	2019		
	1% Decrease (6.35%, 5.88% and 4.93% decreasing to 3.5%)	Healthcare Cost Trend Rates (7.35%, 6.88% and 5.93% decreasing to 4.5%)	1% Increase (8.35%, 7.88% and 6.93% decreasing to 5.5%)
Net OPEB liability (asset)	\$ (47,813,309)	\$ (23,981,522)	\$ 5,543,002

Continued

KENTUCKY COMMUNITY AND TECHNICAL COLLEGE SYSTEM

Notes to Financial Statements

June 30, 2020 and 2019

11. Postemployment Benefit Plans (OPEB)

KCTCS OPEB Plan OPEB Expense, Deferred Outflows and Deferred Inflows of Resources - For the years ended June 30, 2020 and 2019, KCTCS recognized OPEB income of \$26.3 million and \$8.9 million associated with the plan and reported deferred inflows of resources as follows at June 30:

	<u>2020</u>
	<u>Deferred Inflows of Resources</u>
Differences between expected and actual experience	\$ 16,463,322
Changes of assumptions	22,330,894
Difference between projected and actual earnings on OPEB plan investments, net of deferred outflows	<u>1,904,138</u>
Total	<u>\$ 40,698,354</u>
	<u>2019</u>
	<u>Deferred Inflows of Resources</u>
Differences between expected and actual experience	\$ 30,562,520
Changes of assumptions	2,975,028
Difference between projected and actual earnings on OPEB plan investments	<u>4,957,841</u>
Total	<u>\$ 38,495,389</u>

Amounts reported as deferred inflows of resources will be recognized in OPEB (income) expense as follows:

2021	\$ (17,740,308)
2022	(13,416,004)
2023	(7,118,600)
2024	<u>(2,423,442)</u>
	<u>\$ (40,698,354)</u>

KCTCS OPEB Plan Payable to the Plan - At June 30, 2020 and 2019, KCTCS had no amounts payable for contributions to the plan.

Continued

KENTUCKY COMMUNITY AND TECHNICAL COLLEGE SYSTEM

Notes to Financial Statements

June 30, 2020 and 2019

11. Postemployment Benefit Plans (OPEB)

The following table summarizes the significant components of KCTCS' net OPEB liability (asset), deferred inflows and outflows of resources and OPEB (income) expense recognized for the fiscal years ended June 30:

	2020			
	KTRS	KERS	KCTCS	Total
Net OPEB liability	\$ 15,699,000	\$ 30,368,762	\$ -	\$ 46,067,762
Net OPEB (asset)	\$ -	\$ -	\$ (52,524,800)	\$ (52,524,800)
Deferred outflows	\$ 1,479,589	\$ 6,086,274	\$ -	\$ 7,565,863
Deferred inflows	\$ 6,823,000	\$ 8,257,777	\$ 40,698,354	\$ 55,779,131
OPEB (income) expense recognized	\$ (944,091)	\$ (289,210)	\$ (26,340,313)	\$ (27,573,614)

	2019			
	KTRS	KERS	KCTCS	Total
Net OPEB liability	\$ 20,594,000	\$ 34,128,850	\$ -	\$ 54,722,850
Net OPEB (asset)	\$ -	\$ -	\$ (23,981,522)	\$ (23,981,522)
Deferred outflows	\$ 1,285,498	\$ 5,576,585	\$ -	\$ 6,862,083
Deferred inflows	\$ 2,678,000	\$ 4,277,210	\$ 38,495,389	\$ 45,450,599
OPEB expense recognized	\$ (196,090)	\$ 1,052,333	\$ (8,927,962)	\$ (8,071,719)

In addition to the OPEB plans summarized in the table, above, KCTCS also maintains a long-term disability plan for community college employees who did not opt in to the KCTCS benefit system. This plan was initially funded through a trust and is now funded as claims arise. The estimated liability for long-term disability claims totaled \$1.1 million and \$1.2 million as of June 30, 2020 and 2019 and is included in net other postemployment benefit liability on the Statements of Net Position.

12. Commitments and Contingencies

Construction Commitments - The estimated cost to complete construction projects under contract at June 30, 2020 is \$38.4 million. The projects are to be financed principally by appropriations from the Commonwealth of Kentucky.

Claims and Litigation - KCTCS is a party to various legal proceedings and claims that arise in the ordinary course of business. Among these matters is the "Bennett v. KCTCS, et al" class action lawsuit, which was filed on October 1, 2018 in Franklin Circuit Court. This lawsuit names KCTCS as a party defendant for how KCTCS collects debts through the Department of Revenue. As of December 17, 2020, KCTCS management is unable to estimate the likelihood or range of any potential liability, and accordingly, no amounts are recorded in the financial statements at June 30, 2020.

Government Grants - KCTCS receives financial assistance from federal and state agencies in the form of grants and awards. The expenditure of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and is subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the applicable fund. KCTCS has had no disallowed claims in the past. In the opinion of management, such potential disallowed claims, if any, would not have a material adverse effect on the overall financial position of KCTCS at June 30, 2020.

Continued

KENTUCKY COMMUNITY AND TECHNICAL COLLEGE SYSTEM
Required Supplementary Information
June 30, 2020 and 2019

Schedule of KCTCS' Proportionate Share of the Net Pension Liability
Kentucky Teacher's Retirement System
(in thousands)

	2020	2019	2018	2017	2016	2015
KCTCS' proportionate share of net pension liability	\$ 50,127	\$ 54,584	\$ 113,107	\$ 251,694	\$ 219,423	\$ 209,139
State's proportionate share of collective net pension liability	63,627	56,662	127,090	34,486	33,391	36,216
	<u>\$ 113,754</u>	<u>\$ 111,246</u>	<u>\$ 240,197</u>	<u>\$ 286,180</u>	<u>\$ 252,814</u>	<u>\$ 245,355</u>
KCTCS' proportion of net pension liability	0.35%	0.40%	0.40%	0.81%	0.90%	0.97%
KCTCS' covered payroll	\$ 30,701	\$ 34,408	\$ 35,898	\$ 39,577	\$ 43,116	\$ 46,018
KCTCS' proportionate share of net pension liability as a percentage of its covered payroll	163.27%	158.64%	315.08%	635.96%	508.91%	454.47%
Plan fiduciary net position as a percentage of total pension liability	58.10%	59.30%	39.83%	35.22%	42.49%	45.59%

Notes:

This table represents data that is one year in arrears.

These are 10-year schedules, however, the information in this schedule is not required to be presented retroactively. Years will be added to this schedule in future fiscal years until 10-years of information is available.

Changes in assumptions: For fiscal year 2020, the assumed municipal bond index rate decreased from 3.89% to 3.50%. For fiscal year 2019, the KTRS plan discount rate increased from 4.49% to 7.50%. For fiscal year 2018, the KTRS plan discount rate increased from 4.20 percent to 4.49 percent. For fiscal year 2017, the KTRS plan discount rate decreased from 4.88 percent to 4.20 percent. For fiscal year 2016, there was a decrease in the assumed investment rate of return from 7.75 percent to 7.50 percent; a decrease in the assumed rate of inflation from 3.50 percent to 3.25 percent; a decrease in the assumed rate of wage inflation from 1.00 percent to 0.75 percent and a decrease in the payroll growth assumption from 4.50 percent to 4.00 percent.

Schedule of KCTCS Pension Contribution
Kentucky Teacher's Retirement Plan
(in thousands)

	2020	2019	2018	2017	2016	2015
Contractually required contribution	\$ 3,730	\$ 4,046	\$ 4,663	\$ 5,814	\$ 6,383	\$ 6,668
Contributions in relation to the contractually required contribution	<u>\$ 3,730</u>	<u>\$ 4,046</u>	<u>\$ 4,663</u>	<u>\$ 5,814</u>	<u>\$ 6,383</u>	<u>\$ 6,668</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
KCTCS covered payroll	\$ 28,942	\$ 30,701	\$ 34,408	\$ 35,898	\$ 39,577	\$ 43,116
Contributions as a percentage of covered payroll	12.89%	13.18%	13.55%	16.20%	16.13%	15.47%

Notes:

These are 10-year schedules, however, the information in this schedule is not required to be presented retroactively. Years will be added to this schedule in future fiscal years until 10-years of information is available.

Continued

KENTUCKY COMMUNITY AND TECHNICAL COLLEGE SYSTEM
Required Supplementary Information
June 30, 2020 and 2019

Schedule of KCTCS' Proportionate Share of the Net Pension Liability
Kentucky Employees Retirement System
(in thousands)

	2020	2019	2018	2017	2016	2015
KCTCS' proportionate share of net pension liability	\$ 192,946	\$ 195,996	\$ 201,115	\$ 193,547	\$ 186,537	\$ 174,855
KCTCS' proportion of net pension liability	1.37%	1.44%	1.50%	1.70%	1.86%	1.95%
KCTCS' covered payroll	\$ 20,008	\$ 22,028	\$ 23,258	\$ 27,453	\$ 30,224	\$ 32,208
KCTCS' proportionate share of net pension liability as a percentage of its covered payroll	964.34%	889.76%	864.71%	705.01%	617.18%	542.89%
Plan fiduciary net position as a percentage of total pension liability	13.66%	12.84%	13.30%	14.80%	18.83%	22.32%

Notes:

This table represents data that is one year in arrears.

These are 10-year schedules, however, the information in this schedule is not required to be presented retroactively. Years will be added to this schedule in future fiscal years until 10-years of information is available.

Changes in assumptions: For fiscal year 2020, there was an increase to the salary increase assumptions for individual members and the base retiree mortality tables were replaced with a KERS-specific mortality table developed using the actual mortality experience of non-disabled retirees in KERS. Mortality tables for disabled retirees and active members were updated with Public Retirement Mortality tables. Termination rates and rates of disability incidence were increased. Retirement rates were decreased slightly for members with a participation date prior to July 1, 2003. For members with a participation date on or after July 1, 2003, retirement rates were set equal to 80% of the retirement rates applicable for the pre July 1, 2003 participants for ages below 65. There were no changes for fiscal year 2019. For fiscal year 2018, the KERS plan discount rate and assumed investment rate of return decreased from 6.75 percent to 5.25 percent, the assumed rate of inflation decreased from 3.25 percent to 2.30 percent which also resulted in a 0.95% decrease in the salary increase assumption at all years of service. The payroll growth assumption decreased from 4.00 percent to 0.00 percent. For fiscal year 2017, the KERS plan discount rate and assumed investment rate of return decreased from 7.50 percent to 6.75 percent, the assumed rate of inflation decreased from 3.50 percent to 3.25 percent, the assumed rate of wage inflation decreased from 1.00 percent to 0.75 percent, the payroll growth assumption decreased from 4.50 percent to 4.00 percent. The assumed rates of retirement, withdrawal and disability were updated to more accurately reflect experience.

Changes in benefit terms: During the 2018 legislative session, House Bill 185 was enacted, which updated the benefit provisions for active members who die in the line of duty. Benefits paid to the spouses of deceased members have been increased from 25% of the member's final rate of pay to 75% of the member's average pay. If the member does not have a surviving spouse, benefits paid to surviving dependent children have been increased from 10% of the member's final pay rate to 50% of average pay for one child, 65% of average pay for two children, or 75% of average pay for three children. The Total Pension Liability as of June 30, 2018 is determined using these updated benefit provisions.

Schedule of KCTCS' Pension Contribution
Kentucky Employees Retirement Plan
(in thousands)

	2020	2019	2018	2017	2016	2015
Contractually required contribution	\$ 7,855	\$ 8,205	\$ 9,032	\$ 9,353	\$ 10,544	\$ 11,722
Contributions in relation to the contractually required contribution	\$ 7,855	\$ 8,205	\$ 9,032	\$ 9,353	\$ 10,544	\$ 11,722
Contribution deficiency (excess)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
KCTCS covered payroll	\$ 19,148	\$ 20,008	\$ 22,028	\$ 23,258	\$ 27,453	\$ 30,224
Contributions as a percentage of covered payroll	41.02%	41.01%	41.00%	40.21%	38.41%	38.78%

Notes:

These are 10-year schedules, however, the information in this schedule is not required to be presented retroactively. Years will be added to this schedule in future fiscal years until 10-years of information is available.

Continued

KENTUCKY COMMUNITY AND TECHNICAL COLLEGE SYSTEM
Required Supplementary Information
June 30, 2020 and 2019

Schedule of KCTCS' Proportionate Share of the Net Other Postemployment Benefit Liability
Kentucky Teacher's Retirement System - Medical Insurance Plan
(in thousands)

	2020	2019	2018
KCTCS' proportion of net OPEB liability	0.53%	0.59%	0.64%
KCTCS' proportionate share of net OPEB liability	\$ 15,410	\$ 20,297	\$ 22,671
State's proportionate share of net OPEB liability	<u>6,873</u>	<u>9,933</u>	<u>10,281</u>
	<u>\$ 22,283</u>	<u>\$ 30,230</u>	<u>\$ 32,952</u>
KCTCS' covered payroll	\$ 30,701	\$ 34,408	\$ 35,898
KCTCS' proportionate share of net OPEB liability as a percentage of its covered payroll	50.19%	58.99%	63.15%
Plan fiduciary net position as a percentage of total OPEB liability	32.58%	25.50%	21.18%

Notes:

This table represents data that is one year in arrears.

These are 10-year schedules, however, the information in this schedule is not required to be presented retroactively. Years will be added to this schedule in future fiscal years until 10-years of information is available.

Changes in assumptions: For fiscal year 2020, the healthcare cost trend rate decreased from 7.75% and 5.75% to 7.50% and 5.50% for Pre-65 and Post 65, respectively. Medicare Part B premiums increased to 2.63% from 0.00%. The municipal bond index rate decreased from 3.89% to 3.50%. For fiscal year 2019, healthcare cost trend rates were decreased to 0.00% from 1.02% for Medicare Part B Premiums. The municipal bond index rate increased from 3.56% to 3.89%.

Changes of benefit terms: There were no changes for fiscal years 2020 and 2019. For fiscal year 2018, the eligibility for non-single subsidies (NSS) for the KEHP-participating members who retired prior to July 1, 2010 was restored, but the state will only finance, via its KEHP "Shared Responsibility" contributions, the costs of the NSS related to those KEHP-participating members who retired on or after July 1, 2010.

Schedule of KCTCS' OPEB Contribution
Kentucky Teacher's Retirement System - Medical Insurance Plan
(in thousands)

	2020	2019	2018
Contractually required contribution	\$ 923	\$ 913	\$ 908
Contributions in relation to the contractually required contribution	<u>\$ 923</u>	<u>\$ 913</u>	<u>\$ 908</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
KCTCS covered payroll	\$ 28,942	\$ 30,701	\$ 34,408
Contributions as a percentage of covered payroll	3.19%	2.97%	2.64%

Notes:

These are 10-year schedules, however, the information in this schedule is not required to be presented retroactively. Years will be added to this schedule in future fiscal years until 10-years of information is available.

Continued

KENTUCKY COMMUNITY AND TECHNICAL COLLEGE SYSTEM
Required Supplementary Information
June 30, 2020 and 2019

Schedule of KCTCS' Proportionate Share of the Net Other Postemployment Benefit Liability
Kentucky Teacher's Retirement System - Life Insurance Plan
(in thousands)

	2020	2019	2018
KCTCS' proportion of net OPEB liability	0.93%	1.05%	1.11%
KCTCS' proportionate share of net OPEB liability	\$ 289	\$ 297	\$ 243
KCTCS' covered payroll	\$ 30,701	\$ 34,408	\$ 35,898
KCTCS' proportionate share of net OPEB liability as a percentage of its covered payroll	0.94%	0.86%	0.68%
Plan fiduciary net position as a percentage of total OPEB liability	73.40%	75.00%	79.99%

Notes:

This table represents data that is one year in arrears.

These are 10-year schedules, however, the information in this schedule is not required to be presented retroactively. Years will be added to this schedule in future fiscal years until 10-years of information is available.

Changes in assumptions: For fiscal year 2020, the municipal bond index rate decreased from 3.89% to 3.50%. For fiscal year 2019, the municipal bond index rate increased from 3.56% to 3.89%. The amortization period was changed from 27 years to 30 years and the inflation rate was changed from 3.00% to 3.50%.

Schedule of KCTCS' OPEB Contribution
Kentucky Teacher's Retirement System - Life Insurance Plan
(in thousands)

	2020	2019	2018
Contractually required contribution	\$ 20	\$ 12	\$ 5
Contributions in relation to the contractually required contribution	\$ 20	\$ 12	\$ 5
Contribution deficiency (excess)	\$ -	\$ -	\$ -
KCTCS covered payroll	\$ 28,942	\$ 30,701	\$ 34,408
Contributions as a percentage of covered payroll	0.07%	0.04%	0.01%

Notes:

These are 10-year schedules, however, the information in this schedule is not required to be presented retroactively. Years will be added to this schedule in future fiscal years until 10-years of information is available.

Continued

KENTUCKY COMMUNITY AND TECHNICAL COLLEGE SYSTEM
Required Supplementary Information
June 30, 2020 and 2019

Schedule of KCTCS' Proportionate Share of the Net Other Postemployment Benefit Liability
Kentucky Employees Retirement System
(in thousands)

	2020	2019	2018
KCTCS' proportion of net OPEB liability	1.37%	1.44%	1.50%
KCTCS' proportionate share of net OPEB liability	\$ 30,369	\$ 34,129	\$ 38,094
KCTCS' covered payroll	\$ 20,008	\$ 22,028	\$ 23,258
KCTCS' proportionate share of net OPEB liability as a percentage of its covered payroll	151.78%	154.93%	163.79%
Plan fiduciary net position as a percentage of total OPEB liability	30.92%	27.32%	24.40%

Notes:

This table represents data that is one year in arrears.

These are 10-year schedules, however, the information in this schedule is not required to be presented retroactively. Years will be added to this schedule in future fiscal years until 10-years of information is available.

Changes in assumptions: For fiscal year 2020, the discount rate was changed from 5.86 percent to 5.73 percent. In addition, the KERS Board of Trustees adopted new actuarial assumptions based on an actuarial experience study for the period ending June 30, 2018. Key assumption changes include replacing the base retiree mortality tables with a KERS-specific mortality table developed using the actual mortality experience of non-disabled retirees in KERS. Mortality tables for disabled retirees and active members were updated with Public Retirement Mortality tables. In addition, termination rates and rates of disability incidence were increased. Retirement rates were decreased slightly for members with a participation date prior to July 1, 2003. For members with a participation date on or after July 1, 2003, retirement rates were set equal to 80% of the retirement rates applicable for the pre July 1, 2003 participants for ages below 65. For fiscal year 2019, the discount rate was changed from 5.83 percent to 5.86 percent. For fiscal year 2018, the assumed investment rate of return was changed from 7.50 percent to 6.25 percent. The inflation assumption was changed from 3.25 percent to 2.30 percent, which also resulted in a 0.95 percent decrease in the salary assumption at all years of service. The payroll growth assumption was changed from 4.00 percent to 0.00 percent. The discount rate was changed from 6.90 percent to 5.83 percent.

Schedule of KCTCS' OPEB Contribution
Kentucky Employees Retirement System
(in thousands)

	2020	2019	2018
Contractually required contribution	\$ 1,609	\$ 1,989	\$ 1,853
Contributions in relation to the contractually required contribution	\$ 1,609	\$ 1,989	\$ 1,853
Contribution deficiency (excess)	\$ -	\$ -	\$ -
KCTCS covered payroll	\$ 19,148	\$ 20,008	\$ 22,028
Contributions as a percentage of covered payroll	8.40%	9.94%	8.41%

Notes:

These are 10-year schedules, however, the information in this schedule is not required to be presented retroactively. Years will be added to this schedule in future fiscal years until 10-years of information is available.

Continued

KENTUCKY COMMUNITY AND TECHNICAL COLLEGE SYSTEM
Required Supplementary Information
June 30, 2020 and 2019

Schedule of Changes in the Net OPEB Liability (Asset) and Related Ratios
Kentucky Community and Technical College System
(in thousands)

	2020	2019	2018
Total OPEB liability			
Service cost	\$ 2,877	\$ 2,902	\$ 4,839
Interest	12,131	11,324	11,366
Differences between expected and actual experience	(4,045)	-	(39,171)
Changes of assumptions	(26,946)	(2,046)	(1,929)
Contributions - employee	-	589	-
Benefit payments	(3,833)	(3,854)	(3,357)
Net change in total OPEB liability	\$ (19,816)	\$ 8,915	\$ (28,252)
Total OPEB liability - beginning	172,312	163,397	191,649
Total OPEB liability - ending	<u>\$ 152,496</u>	<u>\$ 172,312</u>	<u>\$ 163,397</u>
Plan fiduciary net position			
Net investment income	\$ 12,604	\$ 14,030	\$ 18,685
Benefit payments	(3,833)	(3,854)	(3,357)
Administrative expense	(44)	-	(144)
Net change in plan fiduciary net position	\$ 8,727	\$ 10,176	\$ 15,184
Plan fiduciary net position - beginning	196,293	186,117	170,933
Plan fiduciary net position - ending	<u>\$ 205,020</u>	<u>\$ 196,293</u>	<u>\$ 186,117</u>
Net OPEB asset	(52,524)	(23,981)	(22,720)
Plan fiduciary net position as a percentage of total OPEB liability	134.44%	113.92%	113.90%
Covered-employee payroll	\$ 78,638	\$ 89,871	\$ 95,490
Net OPEB asset as a percentage of covered-employee payroll	66.79%	26.68%	23.79%

Notes:

This table represents data that is one year in arrears.

These are 10-year schedules, however, the information in this schedule is not required to be presented retroactively. Years will be added to this schedule in future fiscal years until 10-years of information is available.

Changes in assumptions: For fiscal year 2020, healthcare trend rates were decreased for KCTCS Post-65 from 7.35% to 7.01% and increased for UK Post-65 from 5.93% to 31.25%. Expected medical claims and health care cost aging were updated to better reflect expected experience of the plan. The base mortality table for healthy employees was updated from 2006 base rates using the RP-2014 Combined Healthy Mortality Table to PUB-2010 Mortality Tables for "Teachers" and "General" Employees. The base mortality table for disabled retirees was updated from 2006 base rates from the RP-2014 Disabled Retiree Mortality Table for "Non-Safety" Employees. The mortality improvement scale was updated from MP-2017 to MP-2018. Post-65 retirees who waived coverage are no longer assumed to later elect coverage.

For fiscal year 2019, healthcare trend rates were updated from 7.5% to 7.35% for KCTCS, from 7% to 6.88% for UK Pre-65 and from 6% to 5.93% for UK Post-65. Mortality rates for healthy employees were updated from RP-2014 Combined Healthy Mortality Table for Males and Females Backed off to 2006 and Projected Generationally with Scale MP-2016 to RP-2014 Combined Healthy Mortality Table for Males and Females Backed off to 2006 and Projected Generationally with Scale MP-2017. Mortality rates for disabled employees were updated from RP-2014 Disabled Mortality Table for Males and Females Backed off to 2006 and Projected Generationally with Scale MP-2016 to RP-2014 Disabled Mortality Table for Males and Females Backed off to 2006 and Projected Generationally with Scale MP-2017.

For fiscal year 2018, the discount rate was changed from 6% to 7%. The salary increase rate was set at 3%. Health Care and Contribution trend rates were updated from 7% in fiscal 2016 and an ultimate rate of 4% in fiscal 2036 to an initial rate of 7.50%, 7% and 6% in fiscal 2018 for KCTCS, UK Pre-65, UK Post-65, respectively, and an ultimate rate of 4.50% in fiscal 2038 for all plans. The lapse rate for current and future retirees and their spouses was updated from 10% to 3%. The participation rate was updated from 95% to 90%. Retirees electing spousal coverage was updated from 30% to 15%. 75% of future KCTCS retirees who have waived coverage are assumed to stay without coverage until age 65 and to elect coverage at age 65. This was updated from 100%. The impact of the Affordable Care Act excise tax on high-cost healthcare plans was estimated and updated. KCTCS health per capita costs were updated based on updated premium and census data. Mortality for health employees was updated from RP-2014 Combined Healthy Mortality Table for Males and Females Projected Generationally with scale MP-2014 to RP-2014 Combined Healthy Mortality Table for Males and Females Backed off to 2006 and Projected Generationally with Scale MP-2016. Mortality for disabled employees was updated from RP-2014 Disabled Mortality Table for Males and Females Projected Generationally with scale MP-2014 to RP-2014 Disabled Mortality Table for Males and Females Backed off to 2006 and Projected Generationally with Scale MP-2016.

KENTUCKY COMMUNITY AND TECHNICAL COLLEGE SYSTEM
Officers of the KCTCS Board of Regents, KCTCS Board of Regents
and KCTCS President's Cabinet

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Dr. Wynetta J. Fletcher, Secretary

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Independent Auditor's Report on Internal Control Over Financial Reporting and on Compliance And Other Matters Based on an Audit of Financial Statements Performed in Accordance With Government Auditing Standards

Members of the Board of Regents
Kentucky Community and Technical College System
Versailles, Kentucky

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the Kentucky Community and Technical College System (the System), a component unit 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 System's basic financial statements and have issued our report thereon dated December 17, 2020.

Internal Control over Financial Reporting

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

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

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

Compliance and Other Matters

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

Purpose of this Report

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

A handwritten signature in black ink that reads "Crowe LLP". The letters are cursive and fluid.

Crowe LLP

Lexington, Kentucky
December 17, 2020

