



**KENTUCKY COMMUNITY AND  
TECHNICAL COLLEGE SYSTEM**

**2020-2021 ANNUAL FINANCIAL REPORT**  
**(A Component Unit of the Commonwealth of Kentucky)**



# KENTUCKY COMMUNITY AND TECHNICAL COLLEGE SYSTEM

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## 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 business-type activities and fiduciary activities of 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, 2021 and 2020, 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 opinions 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 opinions.

## **Opinions**

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities and fiduciary activities of the System, as of June 30, 2021 and 2020, 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.

## **Emphasis of Matter**

As discussed in Note 1 to the financial statements, the System has adopted GASB Statement No. 84, *Fiduciary Activities*, for the year ended June 30, 2021. Our opinions are not modified with respect to this matter.

## **Other Matters**

### ***Required Supplementary Information***

Accounting principles generally accepted in the United States of America require that management's discussion and analysis and the required supplementary information, as listed in the table of contents, 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 opinions 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 October 7, 2021 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  
October 7, 2021

## KENTUCKY COMMUNITY AND TECHNICAL COLLEGE SYSTEM

### Management's Discussion and Analysis

June 30, 2021 and 2020

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, 2021 and 2020, with comparative data to fiscal year 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, notes and this discussion and analysis are the responsibility of management.

KCTCS reports operational (proprietary/business-type) activity in the Statement of Net Position, Statement of Revenues, Expenses and Changes in Net Position, Statement of Cash Flows, and Notes to the Financial Statements.

KCTCS reports fiduciary activity in the Statement of Fiduciary Net Position, Statement of Changes in Fiduciary Net Position, and Notes to the Financial Statements. These statements are presented as a result of adopting GASB Statement No. 84, *Fiduciary Activities*, during the fiscal year ending June 30, 2021 and retroactively to June 30, 2020. KCTCS' fiduciary activity is comprised of a postemployment benefit trust (KCTCS OPEB trust) that provides health insurance coverage to retirees and spouses.

The financial statements are prepared in accordance with accounting principles generally accepted in the United States of America (US GAAP) and as prescribed 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.

### Financial Highlights

- KCTCS' financial position remained solid at June 30, 2021, with assets and deferred outflows of \$1.4 billion and liabilities and deferred inflows of \$562.1 million. Net position, which represents KCTCS' residual interest in assets and deferred outflows after liabilities and deferred inflows are deducted, was \$833.6 million at June 30, 2021 or 59.7 percent of total assets and deferred outflows.
- Total assets and deferred outflows increased \$92.6 million or 7.1 percent. The increase is primarily due to an increase in cash and cash equivalents of \$88.3 million and an increase in investments of \$22.0 million. Cash and cash equivalents increased primarily as a result of funds received under the Coronavirus Aid, Relief and Economic Security (CARES) Act (\$20.9 million), Coronavirus Response and Supplemental Appropriations (CRRSA) Act (\$72.3 million) and American Rescue Plan (ARP) Act (\$16.0 million) to help offset the costs of the COVID-19 pandemic. Investments increased as a result of increases in the market value of investments. Total liabilities and deferred inflows decreased by \$77.0 million or 12.0 percent of total liabilities and deferred inflows. The decrease is primarily due to a decrease in deferred inflows of \$65.3 million related to pension and other postemployment benefits, a decrease in leases payable of \$16.0 million and a decrease in net pension liability of \$3.8 million.
- Total net position increased \$169.6 million primarily due to unrestricted revenue over expenses of \$131.3 million and an increase in restricted expendable net assets of \$4.6 million.
- Operating revenues were \$229.8 million and operating expenses were \$549.2 million, resulting in a loss from operations of \$319.4 million. When nonoperating revenues of \$465.3 million (including \$170.5 million in state appropriations) and other revenues of \$23.7 million are added, this resulted in an increase of \$169.6 million in net position.

## KENTUCKY COMMUNITY AND TECHNICAL COLLEGE SYSTEM

Management's Discussion and Analysis

June 30, 2021 and 2020

### 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 over 12,000 online course sections annually, KCTCS is the largest provider of face-to-face, hybrid and/or online learning 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.

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 Commonwealth - from Maysville to Somerset and from Ashland to Paducah - KCTCS is accessible and convenient to all Kentuckians. KCTCS colleges offer over 115 programs (111 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 new or upgrade current skills. These programs include apprenticeships, clinical experiences, and experience in the workplace to develop a graduate ready to enter the workforce starting their technical career.

Through Workforce Solutions units, KCTCS colleges deliver high quality, cost-effective workforce education including assessment services, customized training, and apprenticeship support. KCTCS Workforce Solutions serves Kentucky's key business and industry sectors ensuring these companies remain globally competitive and contribute to the economic viability of the Commonwealth. During the fiscal year ending June 30, 2021, KCTCS colleges developed and deployed training for 1108 companies representing 33,216 enrollments. KCTCS also provided assessment services for 3,685 companies representing 43,277 individuals assessed.

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, 2021 and 2020

**Statement of Net Position:** The Statement of Net Position reports financial condition at the end of the fiscal year and shows all assets, deferred outflows, liabilities, and deferred inflows. Assets and liabilities are generally reported at cost; except for investments which are reported at fair value. Condensed Statements of Net Position are shown below as of June 30 (in thousands):

### **Condensed Statements of Net Position**

	2021	2020	2019
<b>Assets and Deferred Outflows</b>			
Current assets	\$ 386,976	\$ 301,355	\$ 273,330
Noncurrent assets	971,329	969,873	948,809
Deferred outflows	37,437	31,890	41,289
Total assets and deferred outflows	<u>1,395,742</u>	<u>1,303,118</u>	<u>1,263,428</u>
<b>Liabilities and Deferred Inflows</b>			
Current liabilities	53,166	45,154	46,265
Noncurrent liabilities	428,206	447,927	472,204
Deferred inflows	80,742	146,017	182,188
Total liabilities and deferred inflows	<u>562,114</u>	<u>639,098</u>	<u>700,657</u>
<b>Net Position</b>			
Net investment in capital	610,122	598,513	585,721
Restricted	207,480	201,154	178,467
Unrestricted	16,026	(135,647)	(201,417)
Total net position	<u>\$ 833,628</u>	<u>\$ 664,020</u>	<u>\$ 562,771</u>

*Fiscal Year Ended June 30, 2021:* Total assets and deferred outflows amounted to \$1.4 billion as of June 30, 2021. The largest asset class was investment in capital assets (net of depreciation) of \$751.5 million, or 53.8 percent of total assets and deferred outflows. Cash and cash equivalents totaled \$430.5 million or 30.8 percent of total assets and deferred outflows, and endowments totaled \$86.9 million or 6.2 percent of total assets and deferred outflows. During the year, total assets and deferred outflows increased by \$92.6 million, primarily due to an increase in cash and cash equivalents of \$88.3 million and an increase in investments of \$22.0 million.

Total liabilities and deferred inflows totaled \$562.1 million as of June 30, 2021. Net pension liability was \$239.3 million or 42.6 percent of total liabilities and deferred inflows. Capital leases totaled \$142.2 million or 25.3 percent of total liabilities and deferred inflows. Liabilities and deferred inflows decreased by \$77.0 million or 12.0 percent of total liabilities and deferred inflows. The decrease is primarily due to a decrease in deferred inflows of \$65.3 million related to pension and other postemployment benefits, a decrease in leases payable of \$16.0 million and a decrease in net pension liability of \$3.8 million.

Total net position was \$833.6 million as of June 30, 2021 which included net investment in capital, \$610.1 million (73.2 percent); restricted \$207.5 million (24.9 percent); and unrestricted \$16.0 million (1.9 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, initiatives, and working capital needs. Total net position increased \$169.6 million primarily due to unrestricted revenue over expenses of \$131.3 million and an increase in restricted expendable net assets of \$4.6 million.

## KENTUCKY COMMUNITY AND TECHNICAL COLLEGE SYSTEM

### Management's Discussion and Analysis

June 30, 2021 and 2020

*Fiscal Year Ended June 30, 2020:* Total assets and deferred outflow were \$1.3 billion as of June 30, 2020. 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 totaled \$342.2 million or 26.3 percent of total assets and deferred outflows, and endowments were \$67.3 million or 5.2 percent of total assets and deferred outflows. 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.

Total liabilities and deferred inflows were \$639.1 million as of June 30, 2020. Net pension liability totaled \$243.1 million or 38.0 percent of total liabilities and deferred inflows. Capital leases were \$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, 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.

As of June 30, 2020, total net position of \$664.0 million is recorded 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). Total net position increased by \$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.

**Statement of Revenues, Expenses and Changes in Net Position:** The Statement of Revenues, Expenses and Changes in Net Position includes all revenues, expenses, gains, and losses.

Tuition and fees are presented net of bad debt expense, scholarship allowances, gift scholarships and institutional scholarships. Scholarship allowances are the difference between the stated charges for goods and services provided and the amount billed to students and third parties; excess aid disbursed is recognized as student financial aid expense. Institutional aid and grants-in-aid funded by federal and state grants are reported net of scholarship allowances.

State appropriations, certain grants, gifts, investment income, and endowment income are reported as nonoperating revenues. KCTCS, generally, reports an operating loss prior to the addition of nonoperating revenues. The change in net assets is an indicator of whether the overall financial position has improved or declined.

*Fiscal Year Ended June 30, 2021:* Total operating revenues were \$229.8 million for the year ended June 30, 2021, including net student tuition and fees of \$106.6 million or 46.4 percent of total operating revenues, and grants and contracts of \$105.5 million or 45.9 percent of total operating revenues.

Operating expenses totaled \$549.2 million. Of this amount, \$511.4 million or 93.1 percent of total operating expenses was spent on 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 was \$319.4 million. Nonoperating and other revenues totaled \$488.9 million or 34.9 percent, including state appropriation of \$170.5. Net position increased by \$169.6 million.

*Fiscal Year Ended June 30, 2020:* Total operating revenues were \$210.4 million for the year ended June 30, 2020, including 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.

Operating expenses totaled \$514.5 million. Of this amount, \$477.6 million, or 93.0 percent of total operating expenses, was spent on educational and general programs. The loss from operations was \$304.1 million for the year ended June 30, 2020. Nonoperating revenues totaled \$405.3 million. Nonoperating revenues include state appropriations of \$174.6 million or 43.1 percent of total nonoperating revenues. Net position increased by \$101.2 million.

**KENTUCKY COMMUNITY AND TECHNICAL COLLEGE SYSTEM**

## Management's Discussion and Analysis

June 30, 2021 and 2020

Condensed Statements of Revenues, Expenses and Changes in Net Position are shown below as of June 30 (in thousands):

***Condensed Statements of Revenues, Expenses and Changes in Net Position***

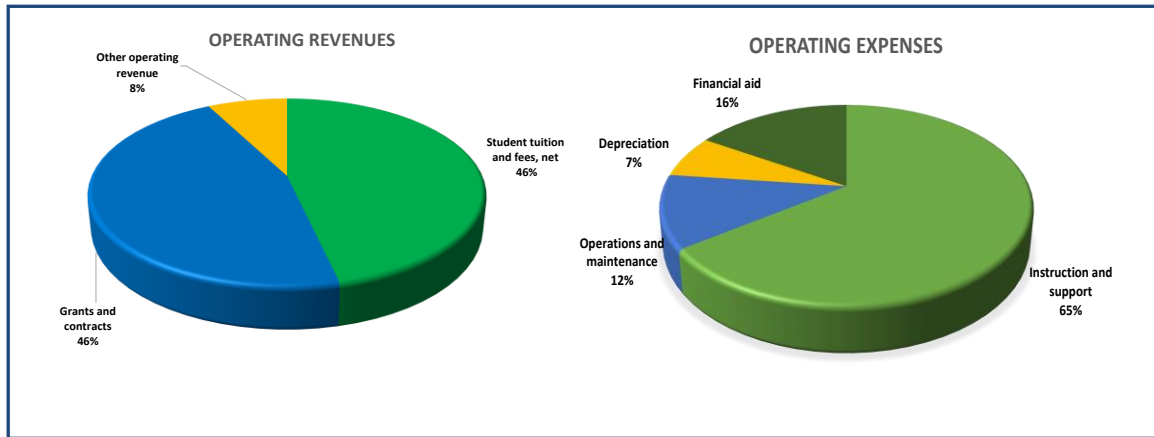
	2021	2020	2019
<b>Operating revenues</b>			
Student tuition and fees, net	\$ 106,626	\$ 103,354	\$ 102,956
Grants and contracts	105,508	97,722	99,423
Other operating revenues	17,701	9,325	9,688
Total operating revenues	229,835	210,401	212,067
<b>Operating expenses</b>			
Educational and general, excluding depreciation	511,417	477,607	473,896
Depreciation	37,807	36,873	36,227
Total operating expenses	549,224	514,480	510,123
<b>Operating loss</b>	(319,389)	(304,079)	(298,056)
<b>Nonoperating revenues</b>			
State appropriations	170,546	174,581	174,572
Federal and state grants and contracts	284,246	203,369	185,296
Other nonoperating revenues	10,464	12,928	19,327
Total nonoperating revenues	465,256	390,878	379,195
<b>Income before other revenues, expenses gains or losses</b>	145,867	86,799	81,139
Capital construction appropriations	5,764	16,978	9,577
Net realized gain (loss) on disposal of capital assets	(2,241)	(2,998)	1,198
Additions to endowments	20,218	470	3,739
Total other revenues	23,741	14,450	14,514
<b>Total increase in net position</b>	169,608	101,249	95,653
<b>Net position, beginning of year</b>	664,020	562,771	467,118
<b>Net position, end of year</b>	<u>\$ 833,628</u>	<u>\$ 664,020</u>	<u>\$ 562,771</u>

# KENTUCKY COMMUNITY AND TECHNICAL COLLEGE SYSTEM

## Management's Discussion and Analysis

June 30, 2021 and 2020

The following charts show operating revenues and expenses for the fiscal year ending June 30, 2021. State appropriations are nonoperating revenues, therefore, are not included in the chart below:



**Statement of Cash Flows:** The Statement of Cash Flows reports cash inflows and outflows summarized by operating, capital, financing, and investing activities. This statement informs future net cash flow, ability to pay obligations and requirements for external financing.

*Fiscal Year Ended June 30, 2021:* Major sources of cash received from operating activities include student tuition and fees (\$112.3 million) and grants and contracts (\$98.6 million). Major uses of cash for operating activities include salaries and benefits (\$327.3 million), vendor and contractor payments (\$141.3 million) and student financial aid (\$89.0 million). Noncapital financing activities include federal, state, and local grants, contracts, and appropriations of \$284.2 million.

*Fiscal Year Ended June 30, 2020:* Major sources of cash received from operating activities include student tuition and fees (\$103.4 million) and grants and contracts (\$98.7 million). Major uses of cash for operating activities include salaries and benefits (\$331.5 million), vendor and contractor payments (\$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.

Condensed Statements of Cash Flows are shown below for years ending June 30 (in thousands):

### Condensed Statements of Cash Flows

	2021	2020	2019
<b>Cash provided by (used in):</b>			
Operating activities	\$ (328,719)	\$ (336,021)	\$ (308,866)
State appropriation	170,546	174,581	174,572
Other noncapital financing activities	295,720	212,238	198,783
Capital and related financing activities	(48,864)	(47,286)	(57,668)
Investing activities	(411)	8,511	1,479
Net increase in cash and cash equivalents	88,272	12,023	8,300
<b>Cash and cash equivalents, beginning of year</b>	<u>342,234</u>	<u>330,211</u>	<u>321,911</u>
<b>Cash and cash equivalents, end of year</b>	<u>\$ 430,506</u>	<u>\$ 342,234</u>	<u>\$ 330,211</u>

# KENTUCKY COMMUNITY AND TECHNICAL COLLEGE SYSTEM

## Management's Discussion and Analysis

June 30, 2021 and 2020

**Capital Assets:** Capital assets, net of accumulated depreciation, totaled \$751.5 million at June 30, 2021, an increase of \$8.9 million. Capital assets as of June 30, 2021, 2020, and 2019, and significant changes are shown below (in thousands):

	Balance June 30, 2019	Net Additions FY 2020	Balance June 30, 2020	Net Additions FY 2021	Balance June 30, 2021
Land and land improvements	\$ 55,304	\$ 3,747	\$ 59,051	\$ 619	\$ 59,670
Buildings and infrastructure	960,505	43,091	1,003,596	31,025	1,034,621
Equipment	148,054	10,644	158,698	8,664	167,362
Library materials	42,792	591	43,383	609	43,992
Construction in progress	68,997	(14,381)	54,616	(15,824)	38,792
Total assets	1,275,652	43,692	1,319,344	25,093	1,344,437
Accumulated depreciation	(533,066)	(31,727)	(564,793)	(28,186)	(592,979)
Capital assets, net	<u>\$ 742,586</u>	<u>\$ 11,965</u>	<u>\$ 754,551</u>	<u>\$ (3,093)</u>	<u>\$ 751,458</u>

At June 30, 2021, KCTCS had capital construction projects in progress totaling \$38.8 million. These projects are principally financed by appropriations and bond proceeds from the Commonwealth of Kentucky.

**Fiduciary Funds:** KCTCS adopted GASB Statement No. 84, *Fiduciary Activities*, during the fiscal year ending June 30, 2021 and retroactively to June 30, 2020. This statement establishes criteria for identifying fiduciary activities and specifies reporting requirements. As a result of this statement, KCTCS identified one fiduciary fund – a postemployment benefit trust (KCTCS OPEB Trust). The KCTCS OPEB Trust provides health insurance coverage to retirees, retiree eligible spouses and/or dependents. KCTCS' fiduciary responsibilities include ensuring assets in the trust are secure and outflows occur in accordance with the trust agreement. GASB 84 requires KCTCS to report a Statement of Fiduciary Net Position and a Statement of Changes in Fiduciary Net Position. In addition, Notes to the financial statements report additional information related to the KCTCS OPEB Trust.

**Statement of Fiduciary Net Position:** The Statement of Fiduciary Net Position presents assets, liabilities, and net fiduciary position as of the end of each fiscal year.

**Statement of Changes in Fiduciary Net Position:** The Statement of Changes in Fiduciary Net Position presents additions received and deductions incurred during the year. Additions include investment income, realized and unrealized gains/losses and interest/dividends. Additions are reduced by investment management fees. Deductions include health insurance payments for retirees and spouses and administrative expenses.

**Financial Highlights:** The KCTCS OPEB Trust includes cash and investments totaling \$246.7 million and \$203.2 million as of June 30, 2021 and 2020. Net position totaled \$246.8 million and \$203.2 million as of June 30, 2021 and 2020. Total additions were \$48.4 million and \$2.3 million for the fiscal years ending June 30, 2021 and 2020. Total deductions were \$4.8 million and \$4.1 million for the fiscal years ending June 30, 2021 and 2020. Net position increased by \$43.5 million, or 21.4 percent, during the fiscal year ending June 30, 2021 primarily due to realized and unrealized gains on investments.

## KENTUCKY COMMUNITY AND TECHNICAL COLLEGE SYSTEM

### Management's Discussion and Analysis

June 30, 2021 and 2020

#### Economic Factors Impacting Future Periods

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

- After a national search, the Kentucky Community and Technical College System (KCTCS) Board of Regents selected Dr. Paul Czarapata as the new president of KCTCS on April 21, 2021. Dr. Czarapata had served as KCTCS' interim president since October 1, 2020 and, prior to that, was KCTCS' Vice-President of Technology Solutions and Chief Information Officer. He joined KCTCS in 2000 and served in technology leadership roles leading up to his appointment as Vice-President.
- For FY 2022, KCTCS earned \$3.8 million or 22 percent of the Performance-Based Funding Pool in state appropriation support. KCTCS' performance-based funding allocation is distributed based on each college's performance as calculated per KCTCS' Performance-Based Funding Model metrics. Not included in performance-based funding calculations is \$9.7 million in dedicated funding for mandated programs (i.e. Kentucky Fire Commission and State Fire Rescue Training, Kentucky Board of Emergency Medical Services, KCTCS Adult Agriculture Education Program, KCTCS-TRAINS, and Kentucky Public Pension Authority (KPPA) Employer Assistance) which is part of KCTCS' base state appropriation. For FY 2022, the base state appropriation for KCTCS is \$175.4 million.
- For FY 2022, the Kentucky Council on Postsecondary Education approved a tuition and fee maximum base rate increase for KCTCS of no more than \$5 per credit hour over two years (i.e., a 2.79% total increase over two years) and a maximum base rate increase of no more than \$3 per credit hour in any one year (i.e., a 1.68% increase in any one year). On June 11, 2021, the KCTCS Board of Regents approved the FY 2022 resident tuition rate of \$179 per student credit hour – a zero percent increase over FY 2021. Nonresident students from counties contiguous to Kentucky will pay \$358 per credit hour. Other nonresident students will pay \$627 per credit hour and students taking online courses will continue to pay \$179 per credit hour for FY 2022.
- The KCTCS Board of Regents approved the FY 2022 Operating Budget of \$1.067 billion and the FY 2022 Capital Budget of \$49.3 million. The FY 2022 Operating Budget continues KCTCS' practice of budgeting an unrestricted non-recurring emergency budget reserve, of which \$13.6 million is budgeted for FY 2022. 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 state appropriation budget reduction, decline in enrollment, or other unanticipated, unavoidable costs.
- 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, 2021, the Trust's assets of \$246.7 million exceeded the total OPEB expected pension benefit obligation liability of \$189.7 million by \$57.0 million or 23.1 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. Based on the future expected obligation costs per the 2021 actuarial analysis, KCTCS is considering moving in January 2022 to a Medicare Advantage supplemental healthcare policy for KCTCS 403(b) retirees that would cover the full out-of-pocket cost for retiree single coverage healthcare insurance as well as the reduce and/or eliminate the deductible for prescriptions, and provide enhanced dental, vision, and hearing coverage.
- KCTCS has employees in the Kentucky Teachers Retirement System (KTRS) and Kentucky Employees Retirement System (KERS). As of June 30, 2021, KCTCS had 371 employees in KERS and 362 in KTRS. With the passage of House Bill 192 of the 2021 Kentucky General Assembly, KCTCS and the other four-year public postsecondary education institutions participating in KERS retained the employer contribution rate of 49.47% versus 84.43%, through June 30, 2022. The 2021-22 enacted state budget appropriated \$854,900 in state general funds for KCTCS to help offset the increased costs of employer contributions to the Kentucky Employees Retirement System (KERS) – calculated as KCTCS' accrued liability per House Bill 8.

## KENTUCKY COMMUNITY AND TECHNICAL COLLEGE SYSTEM

### Management's Discussion and Analysis

June 30, 2021 and 2020

- KCTCS recognizes that additional revenue streams are needed to offset limited state funding, potential enrollment declines, and tuition revenue shortfalls. In acknowledgment of that fact, in spring 2021, KCTCS, through an external 3<sup>rd</sup> party vendor, conducted a system-wide affinity partnership climate assessment. From that assessment it was determined that KCTCS has the potential for several system-wide, regional, and college affinity partnership opportunities. It is anticipated that in FY 2022 a number of these potential partnerships will be pursued in hopes of establishing new long-term revenue streams.
- The COVID-19 pandemic disrupted normal operations during most of fiscal years 2020 and 2021. With the three FDA-approved COVID-19 vaccines available on June 11, 2021, the governor's office rescinded many of the public health measures which had been enacted to prevent the spread of COVID-19. The pandemic had an abrupt and major impact on both the education and the labor market. The severity of the pandemic continues to impact individuals as it relates to their educational attainment. KCTCS is primed to provide affordable and equitable access to education to the Commonwealth in the wake of the pandemic. KCTCS continues to provide students with the most affordable access to postsecondary education and workforce training in high-wage and high-demand educational programs.
- KCTCS colleges were awarded federal stimulus relief to help assist with the increased costs, disruption of operations, and lost revenue caused by the COVID-19 pandemic. KCTCS colleges were awarded approximately \$49.0 million in Coronavirus Aid, Relief and Economic Security (CARES) Act funds prior to June 30, 2020. On December 27, 2020, KCTCS colleges were awarded \$94.9 million from the Coronavirus Response and Relief Supplemental Appropriations Act of 2021 (CRRSAA). On March 11, 2021, the American Rescue Plan Act (ARP) awarded KCTCS colleges \$155.5 million in federal stimulus relief. In total, KCTCS has been awarded more than \$299.4 million in federal stimulus relief funds.

## **KENTUCKY COMMUNITY AND TECHNICAL COLLEGE SYSTEM**

Management's Discussion and Analysis

June 30, 2021 and 2020

### **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.



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# KENTUCKY COMMUNITY AND TECHNICAL COLLEGE SYSTEM

## Statements of Net Position

June 30, 2021 and 2020

(in thousands)

	<u>2021</u>	<u>2020</u>
<b>ASSETS</b>		
<b>Current Assets</b>		
Cash and cash equivalents	\$ 351,061	\$ 265,978
Loans, accounts, and pledges receivable, net of bad debt	33,174	33,095
Other current assets	2,741	2,282
Total current assets	<u>386,976</u>	<u>301,355</u>
<b>Noncurrent Assets</b>		
Restricted cash and cash equivalents	79,445	76,256
Loans and other receivables	1,272	1,885
Endowment investments	86,850	67,299
Other long-term investments	19,829	17,357
Net other postemployment benefit asset	32,475	52,525
Capital assets, net	751,458	754,551
Total noncurrent assets	<u>971,329</u>	<u>969,873</u>
<b>Deferred Outflows</b>		
Deferred outflows - pension	16,374	24,324
Deferred outflows - other postemployment benefits	21,063	7,566
Total deferred outflows	<u>37,437</u>	<u>31,890</u>
Total assets and deferred outflows	<u>1,395,742</u>	<u>1,303,118</u>
<b>LIABILITIES</b>		
<b>Current Liabilities</b>		
Accounts payable and accrued expenses	30,031	21,319
Employee withholdings and deposits	3,218	3,020
Compensated absences - current	910	970
Unearned revenue	9,931	10,640
Leases payable - current	9,076	9,205
Total current liabilities	<u>53,166</u>	<u>45,154</u>
<b>Noncurrent Liabilities</b>		
Leases payable - noncurrent	133,112	148,985
Compensated absences - noncurrent	8,188	8,734
Net pension liability	239,270	243,073
Net other postemployment benefit liability	47,636	47,135
Total noncurrent liabilities	<u>428,206</u>	<u>447,927</u>
<b>Deferred Inflows</b>		
Deferred inflows - pension	42,605	90,238
Deferred inflows - other postemployment benefits	38,137	55,779
Total deferred inflows	<u>80,742</u>	<u>146,017</u>
Total liabilities and deferred inflows	<u>562,114</u>	<u>639,098</u>
<b>NET POSITION</b>		
Net investment in capital	610,122	598,513
<b>Restricted</b>		
Nonexpendable	48,029	46,270
Expendable	159,451	154,884
<b>Unrestricted</b>	16,026	(135,647)
Total net position	<u>\$ 833,628</u>	<u>\$ 664,020</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, 2021 and 2020**  
(in thousands)

	<u>2021</u>	<u>2020</u>
<b>OPERATING REVENUES</b>		
Student tuition and fees, net of bad debt	\$ 247,390	\$ 256,933
Less: Scholarship allowances	<u>(140,764)</u>	<u>(153,579)</u>
Net tuition and fees	106,626	103,354
Federal grants and contracts	44,813	45,870
State and local grants and contracts	60,649	51,698
Nongovernmental grants and contracts	46	154
Indirect cost recoveries	10,004	2,326
Sales and services	3,908	4,762
Other operating revenues	<u>3,789</u>	<u>2,237</u>
Total operating revenues	<u>229,835</u>	<u>210,401</u>
<b>OPERATING EXPENSES</b>		
Educational and General:		
Instruction	168,288	146,263
Public service	40,234	40,158
Libraries	6,308	6,864
Academic support	26,111	23,403
Student services	51,499	52,943
Institutional support	65,036	58,071
Operation and maintenance of physical plant	64,932	66,683
Depreciation	37,807	36,873
Student financial aid	<u>89,009</u>	<u>83,222</u>
Total operating expenses	<u>549,224</u>	<u>514,480</u>
Operating loss	<u>(319,389)</u>	<u>(304,079)</u>
<b>NONOPERATING REVENUES (EXPENSES)</b>		
State appropriations	170,546	174,581
Federal and state grants and contracts	284,246	203,369
Gifts	4,159	4,105
Investment income	1,394	8,724
Interest expense - capital leases	(4,305)	(4,651)
Other nonoperating revenues	<u>9,216</u>	<u>4,750</u>
Net nonoperating revenues	465,256	390,878
Income before other revenues, expenses, gains or losses	145,867	86,799
Capital construction appropriations	5,764	16,978
Net realized loss on disposal of capital assets	(2,241)	(2,998)
Additions to endowments	<u>20,218</u>	<u>470</u>
Total other revenues	<u>23,741</u>	<u>14,450</u>
Increase in net position	169,608	101,249
<b>NET POSITION</b>		
Net position - beginning of year	664,020	562,771
Net position - end of year	<u>\$ 833,628</u>	<u>\$ 664,020</u>

See accompanying notes to financial statements.

# KENTUCKY COMMUNITY AND TECHNICAL COLLEGE SYSTEM

## Statements of Cash Flows Years Ended June 30, 2021 and 2020 (in thousands)

	2021	2020
<b>Cash flows from operating activities:</b>		
Tuition and fees	\$ 112,260	\$ 103,447
Grants and contracts	98,590	98,730
Indirect cost recoveries	10,004	2,326
Sales and services	3,908	4,762
Payments to vendors and contractors	(141,346)	(133,346)
Student financial aid	(88,963)	(83,151)
Salaries, wages and benefits	(327,337)	(331,549)
Other receipts	4,165	2,760
Net cash used in operating activities	(328,719)	(336,021)
<b>Cash flows from noncapital financing activities:</b>		
State appropriations	170,546	174,581
Federal, state and local grants, contracts and appropriations	284,246	203,369
Gifts and pledges received for non-capital purposes	2,258	4,119
Other nonoperating receipts	9,216	4,750
Net cash provided by noncapital financing activities	466,266	386,819
<b>Cash flows from capital and related financing activities:</b>		
Capital appropriations	5,764	16,978
Proceeds from disposal of capital assets	1,393	1,946
Purchase of capital assets	(35,714)	(53,476)
Principal paid on leases	(16,925)	(10,722)
Proceeds from leases	923	2,639
Interest paid on leases	(4,305)	(4,651)
Net cash used in capital and related financing activities	(48,864)	(47,286)
<b>Cash flows from investing activities:</b>		
Proceeds from sales and maturities of investments	33	14
Interest on investments	(175)	8,500
Purchase of investments	(269)	(3)
Net cash (used in) provided by investing activities	(411)	8,511
Net change in cash	88,272	12,023
Cash - beginning of year	342,234	330,211
Cash - end of year	\$ 430,506	\$ 342,234

See accompanying notes to financial statements.

# KENTUCKY COMMUNITY AND TECHNICAL COLLEGE SYSTEM

Statements of Cash Flows  
Years Ended June 30, 2021 and 2020  
(in thousands)

	<u>2021</u>	<u>2020</u>
<b>Reconciliation of net operating loss to net cash used in operating activities:</b>		
Operating loss	\$ (319,389)	\$ (304,079)
Adjustments to reconcile net operating loss to net cash used in operating activities:		
Depreciation expense	37,807	36,873
Increase (decrease) in cash due to change in:		
Loans and accounts receivable, net	(199)	2,921
Other assets	(459)	884
Accounts payable and accrued liabilities	8,712	479
Employee withholdings and deposits	198	(615)
Compensated absences	(606)	452
Unearned revenue	(709)	(1,296)
Deferred outflows - pension	7,950	10,102
Deferred outflows - OPEB	(13,497)	(703)
Deferred inflows - pension	(47,633)	(46,499)
Deferred inflows - OPEB	(17,642)	10,328
Net pension liability	(3,803)	(7,507)
Net OPEB liability	<u>20,551</u>	<u>(37,361)</u>
Net cash used in operating activities	\$ <u>(328,719)</u>	\$ <u>(336,021)</u>
<b>Non-cash capital activities:</b>		
Donated capital assets	\$ 2,634	\$ 306
Capital assets included in accounts payable and accrued liabilities	\$ 413	\$ 2,229

See accompanying notes to financial statements.

**KENTUCKY COMMUNITY AND TECHNICAL COLLEGE SYSTEM**

## Statements of Fiduciary Net Position

## Other Postemployment Benefit Trust

June 30, 2021 and 2020

(in thousands)

	<u>2021</u>	<u>2020</u>
<b>ASSETS</b>		
Cash and cash equivalents	\$ 614	\$ 2,175
Prepaid benefit payments	25	22
Investments:		
Public equities	143,813	113,342
Public equities - natural resources	9,454	7,916
Core bonds	24,256	19,490
High quality bond funds	57,511	49,611
Core real estate	11,091	10,689
Total investments	<u>246,125</u>	<u>201,048</u>
Total assets	<u>246,764</u>	<u>203,245</u>
<b>LIABILITIES</b>		
Accounts payable	<u>12</u>	<u>15</u>
Total liabilities	<u>12</u>	<u>15</u>
<b>NET POSITION</b>		
Restricted for postemployment benefits other than pensions	\$ <u>246,752</u>	\$ <u>203,230</u>

See accompanying notes to financial statements.

**KENTUCKY COMMUNITY AND TECHNICAL COLLEGE SYSTEM**  
Statements of Changes in Fiduciary Net Position  
Other Postemployment Benefit Trust  
June 30, 2021 and 2020  
(in thousands)

	<u>2021</u>	<u>2020</u>
<b>ADDITIONS</b>		
Investment income:		
Net increase in fair value of investments	\$ 48,527	\$ 2,440
Interest and dividends	-	4
Less investment expenses	<u>(156)</u>	<u>(141)</u>
Net investment income	<u>48,371</u>	<u>2,303</u>
Total additions	<u>48,371</u>	<u>2,303</u>
<b>DEDUCTIONS</b>		
Benefit payments	4,786	3,979
Administrative expense	<u>63</u>	<u>99</u>
Total deductions	<u>4,849</u>	<u>4,078</u>
Net increase (decrease) in net position	<u>43,522</u>	<u>(1,775)</u>
<b>NET POSITION</b>		
Beginning of year	<u>203,230</u>	<u>205,005</u>
End of year	\$ <u>246,752</u>	\$ <u>203,230</u>

See accompanying notes to financial statements.

# KENTUCKY COMMUNITY AND TECHNICAL COLLEGE SYSTEM

Notes to Financial Statements  
June 30, 2021 and 2020

## 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 (Commonwealth) and its financial reports are included in the Commonwealth's Comprehensive Annual Financial Report (CAFR). KCTCS has evaluated the existence of component units (e.g., system and college foundations) and determined that there are none that meet the component unit criteria.

**Basis of Accounting and 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). The financial statements provide a comprehensive, entity-wide perspective of financial position, changes in net position, and cash flows. Business-type activity is presented in proprietary financial statements and fiduciary activity is presented in fiduciary financial statements. Business-type activities are those that are financed by fees charged to external parties for goods or services. Fiduciary activities are those that are held and administered in a fiduciary capacity. Proprietary financial statements are included in the Commonwealth's CAFR as a business-type activity and fiduciary statements are included as a fiduciary fund.

The financial statements are prepared on the accrual basis of accounting – revenues and additions are recognized when earned and expenses and deductions are recognized when incurred. For proprietary financial statements, exchange transactions are recognized when the exchange transaction takes place and non-exchange transactions are recognized when all applicable eligibility requirements are met.

**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 are restricted for capital construction, grants, loans, and endowment fund cash pending transfer to the custodian for investment by the endowment fund managers.

*Proprietary cash and cash equivalents* consist of deposits in local banks of \$105.0 million, with the Commonwealth of Kentucky of \$325.5 million and with the Commonfund of \$2.7 million as of June 30, 2021 and, as of June 30, 2020, 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. 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.

*Fiduciary cash and cash equivalents* consist of deposits with the Commonfund of \$0.6 million and \$2.1 million as of June 30, 2021 and 2020.

**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.

Continued



## KENTUCKY COMMUNITY AND TECHNICAL COLLEGE SYSTEM

Notes to Financial Statements  
June 30, 2021 and 2020

### 1. Organization and Summary of Significant Accounting Policies

**Pooled Endowment Funds** (continued) - 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, 2021 and 2020, net appreciation of \$30.6 million and \$12.8 million was available to spend, of which \$30.0 million and \$12.4 million was restricted for specific purposes.

**Investments** - Investments are stated at fair value and money markets are measured at amortized cost. 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 for proprietary activity and in the Statements of Changes in Fiduciary Net Position for fiduciary activity.

**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 \$2,574 and \$5,735 at June 30, 2021 and 2020, 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, 2021 and 2020.

**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, 2021 and 2020, total interest capitalized was \$492,217 and \$341,912.

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.

Continued

## KENTUCKY COMMUNITY AND TECHNICAL COLLEGE SYSTEM

Notes to Financial Statements  
June 30, 2021 and 2020

### 1. Organization and Summary of Significant Accounting Policies

**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. 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 for proprietary (business-type) activities is classified as follows:

*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 \$48.0 million is subject to externally imposed stipulations and related endowment fund investments are maintained permanently by KCTCS.

*Restricted, Expendable:* Net assets of \$159.5 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.

Net position for fiduciary activities is comprised of a postemployment benefit trust the (KCTCS OPEB Trust) and includes one category of net position which is restricted and expendable.

*Restricted, Expendable:* Net assets of \$246.8 million whose use by KCTCS is subject to stipulations as dictated by the irrevocable trust which exists to provide health insurance coverage for participating retirees and their spouses.

**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. KCTCS also received Coronavirus Aid, Relief and Economic Security (CARES) Act funds to help offset the costs of the COVID-19 pandemic. For the years ended June 30, 2021 and 2020, KCTCS recognized \$20.9 million and \$16.3 million of CARES revenue.

Continued

# KENTUCKY COMMUNITY AND TECHNICAL COLLEGE SYSTEM

Notes to Financial Statements  
June 30, 2021 and 2020

## 1. Organization and Summary of Significant Accounting Policies

**Federal and State Grants and Contracts** (continued) – In addition, in 2021, KCTCS received Coronavirus Response and Supplemental Appropriations (CRRSA) Act funds and American Rescue Plan (ARP) Act funds to help offset the costs of the COVID-19 pandemic. KCTCS recognized \$72.3 million of CRRSA revenue and \$16.0 million of ARP revenue for the year ended June 30, 2021.

**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.

**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 require 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.

**Accounting Pronouncements Adopted** - Accounting statements adopted by KCTCS during the fiscal year ending June 30, 2021, as required by the GASB, are described, below:

*Statement 84, Fiduciary Activities.* This statement establishes criteria for identifying fiduciary activity and requires related financial statements and note disclosures. As a result of adopting this standard, KCTCS presents comparative Statements of Fiduciary Net Position and Statements of Changes in Fiduciary Net Position for its single-employer, defined benefit other postemployment benefit trust fund (KCTCS OPEB Trust). KCTCS adopted this standard as of June 30, 2021 and retroactively to June 30, 2020. There was no financial impact on KCTCS' business-type activities as a result of adopting this statement.

*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. KCTCS has determined that it does not have any such investments.

*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. Certain provisions are effective immediately and KCTCS has implemented those provisions with no material impact to its financial statements. KCTCS will implement the remainder of the provisions 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. KCTCS has implemented this standard with no material impact to its financial statements.

Continued

# KENTUCKY COMMUNITY AND TECHNICAL COLLEGE SYSTEM

Notes to Financial Statements  
June 30, 2021 and 2020

## 1. Organization and Summary of Significant Accounting Policies

### Accounting Pronouncements Adopted (continued) –

*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 – 2019–1, Implementation Guidance Update – 2019.* This guide addresses the application of various previously issued statements and implementation guides. KCTCS has implemented the provisions of this implementation guide with no material impact to its financial statements.

*Implementation Guide – 2019–2, Fiduciary Activities.* This guide provides clarification of certain requirements included in *GASB Statement 84, Fiduciary Activities*. KCTCS has implemented the requirements of this guidance as part of adoption of *GASB Statement 84, Fiduciary Activities*.

**Recent Accounting Pronouncements –** As of June 30, 2021, the GASB has issued the following statements which KCTCS has not yet implemented:

*Statement 87, Leases.* This statement revises the recognition criteria for leases and, generally, requires recognition of lease assets and liabilities for most 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 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 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.

*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.

Continued

# KENTUCKY COMMUNITY AND TECHNICAL COLLEGE SYSTEM

Notes to Financial Statements  
June 30, 2021 and 2020

## 1. Organization and Summary of Significant Accounting Policies

### Recent Accounting Pronouncements (continued) –

*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.

**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 2020 classes were all online, however, beginning in the Fall of 2020, classes were a mix of online, face-to-face and hybrid. Although colleges are following safety protocols provided by the Center for Disease Control and Prevention (CDC) and the state, enrollment is down as might be 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. To help offset these costs KCTCS Colleges received funds from the following federal and state sources: Coronavirus Aid, Relief and Economic Security (CARES) Act, Coronavirus Response and Supplemental Appropriations (CRRSA) Act, American Rescue Plan (ARP) Act, Governors Emergency Education Relief (GEER) and Coronavirus Relief Fund (CRF). In total, all sources (federal and federal flow through), KCTCS Colleges were awarded approximately \$247.2 million and \$40.2 million as of June 30, 2021 and 2020. Approximately \$143.5 million and \$23.6 million remained available as of June 30, 2021 and 2020.

**Subsequent Events** - Management has evaluated subsequent events for accounting and disclosure requirements through October 7, 2021, 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):

	2021	2020
Student (net of allowances of \$2,574 and \$5,735)	\$ 11,112	\$ 12,861
Other receivables	1,034	5,554
Reimbursement receivable – grants and contracts	20,426	13,582
Pledges receivable	571	1,304
Accrued interest receivable	21	27
Bridge loans	63	102
Loans receivable from fire districts	1,219	1,550
Total	34,446	34,980
Current portion	33,174	33,095
Non-current portion	\$ 1,272	\$ 1,885

Continued

## KENTUCKY COMMUNITY AND TECHNICAL COLLEGE SYSTEM

Notes to Financial Statements  
June 30, 2021 and 2020

### 2. Loans, Accounts and Pledges Receivable

Pledges receivable of \$0.6 million as of June 30, 2021 are expected to be collected as follows (in thousands):

2022	\$ 273
2023	83
2024	69
2025	36
2026	26
2027-2031	130
	<u>617</u>
Present value discount	<u>(46)</u>
	<u><u>\$ 571</u></u>

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

Fire commission loans receivables of \$1.2 million as of June 30, 2021 are expected to be collected primarily over the next ten years as follows (in thousands):

2022	\$ 307
2023	249
2024	203
2025	160
2026	110
2027 - 2031	190
	<u><u>\$ 1,219</u></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>Proprietary</u>		<u>Fiduciary</u>	
	<u>2021</u>	<u>2020</u>	<u>2021</u>	<u>2020</u>
Bond funds	\$ 29,387	\$ 25,692	\$ 81,767	\$ 69,101
Equity funds	63,022	49,314	153,267	121,258
Other	<u>14,270</u>	<u>9,650</u>	<u>11,091</u>	<u>10,689</u>
	<u><u>\$ 106,679</u></u>	<u><u>\$ 84,656</u></u>	<u><u>\$ 246,125</u></u>	<u><u>\$ 201,048</u></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.

Continued

## KENTUCKY COMMUNITY AND TECHNICAL COLLEGE SYSTEM

Notes to Financial Statements  
June 30, 2021 and 2020

### 3. Investments

KCTCS maintains an investment management agreement with the Commonfund. 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.

At June 30, 2021 and 2020, the Commonfund managed \$109.4 million and \$87.7 million of KCTCS' proprietary investments including money market funds of \$2.7 million and \$3.0 million which are classified as cash and cash equivalents on the Statements of Net Position. At June 30, 2021 and 2020, the Commonfund managed \$246.6 million and \$203.1 million of KCTCS' fiduciary investments including money market funds of \$0.6 million and \$2.0 million which are classified as cash and cash equivalents on the Statements of Fiduciary Net Position.

*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, 2021 and 2020, all KCTCS U.S. Treasuries, U.S. Agencies, and Corporate Notes were held by the investment's counterparty.

### 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. 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 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 inputs to these fair value measurements requires judgment and considers factors specific to each asset or liability.

Continued

# KENTUCKY COMMUNITY AND TECHNICAL COLLEGE SYSTEM

## Notes to Financial Statements

June 30, 2021 and 2020

### 4. Fair Value Measurements

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

	<u>Fair Value</u> <u>(NAV)</u>	<u>Unfunded</u> <u>Commitment</u>	<u>Redemption Terms</u>
<b><u>June 30, 2021</u></b>			
Public equities	\$ 59,527	\$ -	Monthly, 5 days notice. Partial not permitted if total investor value would be less than \$500,000.
Public equities - natural resources	3,495	-	Daily.
Fixed income equities	5,426	-	Weekly, 5 days notice. Partial not permitted if total investor value would be less than \$250,000.
High quality bonds	21,773	-	Weekly, monthly and quarterly with 5 - 60 days notice.
Alternative investments	2,187	-	Monthly and quarterly with 5 - 90 days notice.
Core real estate	3,505	800	Quarterly with 45 - 90 days notice.
Limited partnerships - natural resources	728	951	Upon termination of partnership.
Limited partnerships - real estate	1,453	2,233	Upon termination of partnership.
Limited partnerships - other	8,585	5,915	Upon termination of partnership.
	<u>\$ 106,679</u>	<u>\$ 9,899</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>	

#### **Investment Objectives**

<i>Public equities</i>	<i>Outperform Morgan Stanley Capital Int'l All Country World Index or Standard &amp; Poors (S&amp;P) 500.</i>
<i>Public equities - natural resources</i>	<i>Approximate performance of S&amp;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, 2021 and 2020

### 4. Fair Value Measurements

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

	<u>Fair Value</u> <u>(NAV)</u>	<u>Unfunded</u> <u>Commitment</u>	<u>Redemption Terms</u>
<b><u>June 30, 2021</u></b>			
Public equities	\$ 143,813	\$ -	- Monthly, 5 days notice. Partial not permitted if total investor value would be less than \$500,000.
Public equities - natural resources	9,454	-	- Daily.
Core bonds	57,511	-	- Weekly, monthly and quarterly with 5 - 60 days notice.
Alternative investments	24,256	-	- Monthly and quarterly with 5 - 90 days notice.
Core real estate	11,091	-	- Quarterly with 45 - 90 days notice.
	<u>\$ 246,125</u>	<u>\$ -</u>	

<b><u>June 30, 2020</u></b>			
Public equities	\$ 113,342	\$ -	- Monthly, 5 days notice. Partial not permitted if total investor value would be less than \$500,000.
Public equities - natural resources	7,916	-	- Daily.
Core bonds	49,611	-	- Weekly, monthly and quarterly with 5 - 60 days notice.
Alternative investments	19,490	-	- Monthly and quarterly with 5 - 90 days notice.
Core real estate	10,689	-	- Quarterly with 45 - 90 days notice.
	<u>\$ 201,048</u>	<u>\$ -</u>	

#### Investment Objectives

<i>Public equities</i>	<i>Outperform Morgan Stanley Capital Int'l All Country World Index or Standard &amp; Poors (S&amp;P) 500.</i>
<i>Public equities - natural resources</i>	<i>Approximate performance of S&amp;P Global Large Midcap Commodity and Resources 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>

Continued

# KENTUCKY COMMUNITY AND TECHNICAL COLLEGE SYSTEM

Notes to Financial Statements  
June 30, 2021 and 2020

## 5. Capital Assets, Net

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

		2021		
	Beginning Balance	Additions	Transfers/ Reductions	Ending Balance
Cost				
Land*	\$ 31,473	\$ 320	\$ -	\$ 31,793
Land improvements	27,578	299	-	27,877
Buildings and infrastructure	1,003,596	39,821	8,796	1,034,621
Construction in progress*	54,616	30,736	46,560	38,792
Equipment	158,698	13,123	4,459	167,362
Library materials	43,383	609	-	43,992
Total	1,319,344	84,908	59,815	1,344,437
Less accumulated depreciation				
Land improvements	8,377	590	-	8,967
Buildings and infrastructure	408,156	26,315	5,605	428,866
Equipment	106,483	10,487	4,016	112,954
Library materials	41,777	415	-	42,192
Total accumulated depreciation	564,793	37,807	9,621	592,979
Capital assets, net	<u>\$ 754,551</u>	<u>\$ 47,101</u>	<u>\$ 50,194</u>	<u>\$ 751,458</u>

		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	1,275,652	119,616	75,924	1,319,344
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	533,066	36,873	5,146	564,793
Capital assets, net	<u>\$ 742,586</u>	<u>\$ 82,743</u>	<u>\$ 70,778</u>	<u>\$ 754,551</u>

\*Non-depreciable

Continued

# KENTUCKY COMMUNITY AND TECHNICAL COLLEGE SYSTEM

Notes to Financial Statements  
June 30, 2021 and 2020

## 6. Unearned Revenue

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

	<u>2021</u>	<u>2020</u>
Unearned summer tuition revenue	\$ 7,437	\$ 8,072
Grants and contracts	<u>2,494</u>	<u>2,568</u>
	<u>\$ 9,931</u>	<u>\$ 10,640</u>

## 7. Noncurrent Liabilities

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

	<u>2021</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	\$ 158,190	\$ 923	\$ 16,925	\$ 142,188	\$ 9,076	\$ 133,112
Total leases payable	<u>158,190</u>	<u>923</u>	<u>16,925</u>	<u>142,188</u>	<u>9,076</u>	<u>133,112</u>
Other liabilities						
Compensated absences	9,704	10,759	11,365	9,098	910	8,188
Net pension liability	243,073	-	3,803	239,270	-	239,270
Net other postemployment benefit liability	<u>47,135</u>	<u>501</u>	<u>-</u>	<u>47,636</u>	<u>-</u>	<u>47,636</u>
Total other liabilities	<u>299,912</u>	<u>11,260</u>	<u>15,168</u>	<u>296,004</u>	<u>910</u>	<u>295,094</u>
Total noncurrent liabilities	<u>\$ 458,102</u>	<u>\$ 12,183</u>	<u>\$ 32,093</u>	<u>\$ 438,192</u>	<u>\$ 9,986</u>	<u>\$ 428,206</u>
	<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	\$ 166,273	\$ 2,639	\$ 10,722	\$ 158,190	\$ 9,205	\$ 148,985
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>

Continued

# KENTUCKY COMMUNITY AND TECHNICAL COLLEGE SYSTEM

Notes to Financial Statements  
June 30, 2021 and 2020

## 7. Noncurrent Liabilities

Capital leases consist of the following at June 30:

	<u>2021</u>	<u>2020</u>
	(in thousands)	
Computer equipment and software leases, all with 1 to 3 year remaining terms with total annual payments ranging from \$1,015 to \$204,036 and interest rates from 0.2% to 4%.	\$ 177	\$ 597
Energy savings leases with 9 to 15 year remaining terms, total annual payments ranging from \$72,576 to \$1,035,057 and interest rates from 1.59% to 2.71%.	33,890	38,519
Building leases with 2 - 13 year remaining terms, total annual payments ranging from \$432,216 to \$637,020 and interest rates ranging from 2.34% to 3.42%.	5,831	6,692
Copier and software leases, with 1 to 4 year remaining terms, total annual payments ranging from \$171 to \$133,320 and interest rates of 4%.	741	1,251
Construction, renovation and design projects with 4 to 17 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>101,549</u>	<u>111,131</u>
	<u>\$ 142,188</u>	<u>\$ 158,190</u>

Principal maturities and interest on capital leases payable for the next five years and in subsequent five-year periods as of June 30, 2021 are as follows (in thousands):

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2022	\$ 9,076	\$ 4,874	\$ 13,950
2023	8,915	4,689	13,604
2024	14,140	4,353	18,493
2025	8,294	4,070	12,364
2026	8,248	3,802	12,050
2027-2031	45,578	14,178	59,756
2032-2036	43,400	5,659	49,059
2037-2038	<u>4,537</u>	<u>111</u>	<u>4,648</u>
	<u>\$ 142,188</u>	<u>\$ 41,736</u>	<u>\$ 183,924</u>

Continued

## KENTUCKY COMMUNITY AND TECHNICAL COLLEGE SYSTEM

Notes to Financial Statements  
June 30, 2021 and 2020

### 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, 2021, the interest rate was 1.14%. 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 \$2.2 million and \$2.1 million for fiscal years ended June 30, 2021 and 2020. Future minimum lease payments as of June 30, 2021 are as follows (in thousands):

2022	\$ 2,106
2023	1,596
2024	1,522
2025	1,414
2026	1,169
Thereafter	<u>1,272</u>
	<u>\$ 9,079</u>

### 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, 2021 and 2020

### 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 Statements 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):

	2021	2020
Salaries and wages	\$ 243,546	\$ 246,102
Employee benefits - other	83,295	85,121
Employee benefits - pension and OPEB	(53,986)	(71,476)
Equipment, supplies and other services	102,580	86,843
Student scholarships and financial aid	88,963	83,151
Depreciation	37,807	36,873
Fire commission	34,312	34,200
Utilities	12,707	13,666
	<u>\$ 549,224</u>	<u>\$ 514,480</u>

Continued

## KENTUCKY COMMUNITY AND TECHNICAL COLLEGE SYSTEM

Notes to Financial Statements  
June 30, 2021 and 2020

### 10. Pension Plans

Regular full-time employees, and regular 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 and technical 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 had 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, 2021 and 2020 totaled \$28.0 million and \$29.3 million. Employees contributed \$12.8 million and \$13.4 million for June 30, 2021 and 2020. KCTCS total payroll costs for employees in a retirement plan were \$211.6 million and \$218.3 million for June 30, 2021 and 2020.

#### **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, 2021 and 2020

## 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, 2021 and 2020, 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 \$3.4 million and \$3.7 million for years ended June 30, 2021 and 2020.

*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:

	2021	2020
KCTCS proportionate share of the net pension liability	\$ 49,358,362	\$ 50,127,039
State's proportionate share of the net pension liability associated with KCTCS	60,113,460	63,626,879
Total	<u>\$ 109,471,822</u>	<u>\$ 113,753,918</u>

KCTCS' net pension liability was measured as of June 30, 2020 and total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of June 30, 2019. KCTCS' proportion of net pension liability was based on actual contributions during the measurement period of July 1, 2019 through June 30, 2020. At June 30, 2021 and 2020, KCTCS' proportion was 0.33 and 0.35 percent and the Commonwealth's proportion was 0.41 percent and 0.45 percent.

For years ended June 30, 2021 and 2020, KCTCS recognized pension income related to KTRS of \$41.5 million and \$42.8 million and income of \$6.8 million and \$6.5 million for support provided by the Commonwealth. KCTCS reported deferred outflows and deferred inflows of resources as follows at June 30:

	2021	
	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ (196,467)	\$ 971,548
Changes in assumptions	1,254,676	14,836,326
Net difference between projected and actual earnings on pension plan investments	365,319	-
Changes in proportion and differences between KCTCS contributions and proportionate share of contributions	433,779	18,329,581
KCTCS contributions subsequent to the measurement date	3,363,815	-
Total	<u>\$ 5,221,122</u>	<u>\$ 34,137,455</u>

Continued



# KENTUCKY COMMUNITY AND TECHNICAL COLLEGE SYSTEM

Notes to Financial Statements  
June 30, 2021 and 2020

## 10. Pension Plans

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

	2020	
	Deferred Outflows of Resources	Deferred Inflows of Resources
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	3,730,338	-
Total	<u>\$ 8,953,121</u>	<u>\$ 78,554,649</u>

As of June 30, 2021, KCTCS reported \$3.4 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, 2022. 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:

2022	\$ (40,862,250)
2023	(14,442,202)
2024	(451,673)
2025	<u>23,475,977</u>
	<u>\$ (32,280,148)</u>

*KTRS Pension Actuarial Assumptions* - Total pension liability (TPL) in the June 30, 2020 and 2019 measurement was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Actuarial valuation date	June 30, 2019 and 2018
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	2.19% and 3.5%
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, 2019 and 2018 valuations 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, 2021 and 2020

## 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, 2020 and 2019 measurements as provided by KTRS' investment consultant, are summarized below:

Asset Class	June 30, 2020		June 30, 2019	
	Target Allocation	Long-Term Expected Real Rate of Return	Target Allocation	Long-Term Expected Real Rate of Return
U.S. Equity	40%	4.60%	40%	4.20%
International Equity	22%	5.60%	22%	5.20%
Fixed Income	15%	0.00%	15%	1.20%
Additional Categories*	7%	2.50%	8%	3.20%
Real Estate	7%	4.30%	6%	3.80%
Private Equity	7%	7.70%	7%	6.30%
Cash	2%	-0.50%	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* – There were no changes since the prior measurement date.

*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, 2020 and 2019. 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, 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, 2021 and 2020

## 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:

	2021		
	1% Decrease (6.50%)	Current Discount Rate (7.50%)	1% Increase (8.50%)
KCTCS' proportionate share of the collective net pension liability	\$62,825,396	\$49,358,362	\$38,088,257
	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

*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. House Bill 484 (2020) and House Bill 9 (2021) made significant changes to the governance and administrative structure of the Kentucky Retirement Systems. Most notably, establishing a 9-member board of trustees called the Kentucky Retirement Systems (KRS) to oversee both KERS and the State Police Retirement System (SPRS). The administrative entity, traditionally known as KRS, is now the Kentucky Public Pensions Authority (KPPA) and will be governed by an 8-member board of trustees. KPPA will provide administrative support, investment management, accounting, and legal services.

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, 2021 and 2020

## 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, 2021 and 2020 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, 2021 and 2020) earned by employees during the year, with an additional amount to finance any unfunded accrued liability. Contributions to the pension plan from KCTCS were \$7.2 and \$7.9 million for years ended June 30, 2021 and 2020.

**KERS Pension Liability, Pension Expense, Deferred Outflows and Deferred Inflows of Resources** - At June 30, 2021 and 2020, KCTCS reported a liability of \$189.9 million and \$192.9 million for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2020 and 2019 and the TPL used to calculate the net pension liability was determined by an actuarial valuation as of June 30, 2019 and 2018, rolled-forward for June 30, 2020 and 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, 2021 and 2020, KCTCS' proportion was 1.34 percent and 1.37 percent.

For years ended June 30, 2021 and 2020, KCTCS recognized income of \$2.0 million and \$1.1 million related to KERS. KCTCS reported deferred outflows and deferred inflows of resources as follows at June 30:

	2021	
	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 1,078,875	\$ -
Changes in assumptions	2,139,354	-
Net difference between projected and actual earnings on pension plan investments	700,866	505,579
Changes in proportion and differences between KCTCS contributions and proportionate share of contributions	-	7,961,699
KCTCS contributions subsequent to the measurement date	7,233,760	-
Total	<u>\$ 11,152,855</u>	<u>\$ 8,467,278</u>

	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	<u>\$ 15,371,164</u>	<u>\$ 11,683,687</u>

Continued

## KENTUCKY COMMUNITY AND TECHNICAL COLLEGE SYSTEM

Notes to Financial Statements  
June 30, 2021 and 2020

### 10. Pension Plans

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

As of June 30, 2021, KCTCS reported \$7.2 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, 2022. Other amounts reported as deferred outflows and deferred inflows of resources will be recognized in pension (income) expense for years ended June 30:

2022	\$ (4,158,038)
2023	(729,664)
2024	164,302
2025	<u>175,217</u>
	<u>\$ (4,548,183)</u>

*KERS Pension Actuarial Assumptions* - The total pension liability (TPL) for KERS measured as of June 30, 2020 and 2019 was determined using the actuarial valuation as of June 30, 2019 and 2018. This valuation used the following actuarial methods and assumptions applied to all prior periods included in the measurement:

Valuation date	June 30, 2019 and 2018 (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	26 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	3.30% to 15.30%, varies by service
Investment rate of return	5.25%

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 2020. 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, 2020 is based on the June 30, 2019 actuarial valuation rolled-forward and the net pension liability as of June 30, 2019 is based on the June 30, 2018 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.

Continued

# KENTUCKY COMMUNITY AND TECHNICAL COLLEGE SYSTEM

Notes to Financial Statements  
June 30, 2021 and 2020

## 10. Pension Plans

*KERS Pension Actuarial Assumptions (continued)* - The target asset allocation and best estimates of arithmetic nominal rates of return for each major asset class for the June 30, 2020 and 2019 measurements are summarized in the following table:

Asset Class	June 30, 2020		June 30, 2019	
	Target Allocation	Long-Term Nominal Rate of Return	Target Allocation	Long-Term Nominal Rate of Return
Combined Equity	47%	13.65%	47%	11.70%
Global Bonds	20%	-0.25%	20%	1.35%
Core Real Estate	5%	5.30%	5%	4.85%
Opportunistic	3%	2.25%	3%	2.97%
Real Return	15%	3.95%	15%	4.10%
Private Equity	7%	5.15%	7%	6.65%
Cash Equivalent	3%	-0.75%	3%	0.20%
Total	100%		100%	

*KERS Pension Changes in Assumptions and Benefit Terms Since Prior Measurement Date* – There have been no assumption changes since June 30, 2019. 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. Senate Bill 249 passed during the 2020 Legislative Session and delayed the effective date of cessation under these provisions to June 30, 2021. Since employer's elections were unknown at the time of the actuarial valuations, no adjustments were made to the Total Pension Liability to reflect this legislation.

Senate Bill 249 also changed the funding period for the amortization of the unfunded liability to 30 years as of June 30, 2019. Gains and losses incurred in future years will be amortized over separate 20-year amortization bases. This change did not impact the calculation of Total Pension Liability and only impacts the calculation of the contribution rates payable starting July 1, 2020. Additionally, House Bill 271 passed during the 2020 Legislative Session and removed provisions that reduce the monthly payment to a surviving spouse of a member whose death was due to a duty-related injury upon remarriage of the spouse. It also increased benefits for a very small number of beneficiaries. This did not have a material (or measurable) impact on the liability of the plans and therefore, we did not make any adjustment to the Total Pension Liability to reflect this legislation. There were no other material plan provision changes.

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.

*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.

Continued

# KENTUCKY COMMUNITY AND TECHNICAL COLLEGE SYSTEM

Notes to Financial Statements  
June 30, 2021 and 2020

## 10. Pension Plans

**KERS Pension Discount Rate** - The discount rate used to measure the total pension liability was 5.25 percent at June 30, 2020 and 2019. This discount rate was based on the expected rate of return on pension plan investments. Based on the stated assumptions and the projection of cash flows as of each fiscal year ending, the pension plan's fiduciary net position and future contributions were projected to be sufficient to finance all the future benefit payments of the current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of the projected benefit payments to determine the total pension liability.

The projection of cash flows used to determine the discount rate includes an assumption regarding future employer contributions. Future contributions are projected in accordance with the current funding policy, as most recently revised by Senate Bill 249. Legislation has been enacted for multiple years (for FY 18/19, FY 19/20, and FY 20/21) that allowed certain employers (referred to as "Quasi" agencies) in the KERS Non-Hazardous Fund to contribute 41.06% of pay into the retirement fund, which is significantly less than the actuarially determined contribution rate. The discount rate used remains unchanged if these Quasi agencies were assumed to continue making contributions at a reduced rate in 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:

	2021		
	1% Decrease (4.25%)	Current Discount Rate (5.25%)	1% Increase (6.25%)
KCTCS' proportionate share of the collective net pension liability	\$217,518,025	\$189,911,168	\$167,223,562
	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

**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, 2021 and 2020

**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:

	2021		
	KERS	KTRS	Total
Net pension liability	\$ 189,911,168	\$ 49,358,362	\$ 239,269,530
Deferred outflows of resources	\$ 11,152,855	\$ 5,221,122	\$ 16,373,977
Deferred inflows of resources	\$ 8,467,278	\$ 34,137,455	\$ 42,604,733
Pension (income) expense recognized	\$ (2,032,563)	\$ (41,453,872)	\$ (43,486,435)

	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)

**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, 2021 and 2020

### 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 \$819,562 and \$923,483 for the years ended June 30, 2021 and 2020.

*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, 2019 and 2018
Measurement date	June 30, 2020 and 2019
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: 7.25% and 7.50% decreasing to an ultimate trend rate of 5.00% by FY2029. Post-65: 5.25% and 5.50% decreasing to an ultimate trend rate of 5.00% by FY2022.
Medicare Part B premiums	6.49% and 2.63% decreasing to an ultimate rate of 5.00% by FY 2031.
Municipal bond index rate	2.19% and 3.50%
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, 2019 and 2018 valuation were based on a review of recent plan experience done concurrently with the June 30, 2019 and 2018 valuation. The health care cost trend assumption was updated for the June 30, 2019 and 2018 valuations 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, 2021 and 2020

### 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, 2020		June 30, 2019	
	Target Allocation	Long Term Expected Real Rate of Return	Target Allocation	Long Term Expected Real Rate of Return
Global Equity	58.00%	5.40%	58.00%	5.10%
Fixed Income	9.00%	0.00%	9.00%	1.20%
Real Estate	6.50%	4.30%	6.50%	3.80%
Private Equity	8.50%	7.70%	8.50%	6.30%
Other Additional Categories	17.00%	2.50%	17.00%	3.20%
Cash (LIBOR)	1.00%	-0.50%	1.00%	0.90%
Total	100%		100%	

*KTRS Medical Plan Changes in Assumptions Since Prior Measurement Date* – For the fiscal year ended June 30, 2021, the healthcare cost trend rate for Pre-65 decreased from 7.50 percent for fiscal year 2020 to 7.25 percent for fiscal year 2021 and Post-65 decreased from 5.50 percent for fiscal year 2020 to 5.25 percent for fiscal year 2021. Medicare Part B premiums increased to 6.49 percent for fiscal year 2021 from 2.63 percent for fiscal year 2020. The municipal bond index rate decreased from 3.50 percent to 2.19 percent. For the fiscal year ended June 30, 2020, 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 2021 and 2020. 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.

Continued

# KENTUCKY COMMUNITY AND TECHNICAL COLLEGE SYSTEM

Notes to Financial Statements  
June 30, 2021 and 2020

## 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* - 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:

	2021		
	1% Decrease (7%)	Discount Rate (8%)	1% Increase (9%)
Net OPEB liability	\$14,889,000	\$12,319,000	\$10,173,000

	2020		
	1% Decrease (7%)	Discount Rate (8%)	1% Increase (9%)
Net OPEB liability	\$18,255,000	\$15,410,000	\$13,027,000

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:

	2021		
	1% Decrease (6.25% and 4.25% decreasing to 4%)	Healthcare Cost Trend Rates (7.25% and 5.25% decreasing to 5%)	1% Increase (8.25% and 6.25% decreasing to 6%)
Net OPEB liability	\$9,765,000	\$12,319,000	\$15,467,000

	2020		
	1% Decrease (6.50% and 4.50% decreasing to 4%)	Healthcare Cost Trend Rates (7.50% and 5.50% decreasing to 5%)	1% Increase (8.50% and 6.50% decreasing to 6%)
Net OPEB liability	\$12,544,000	\$15,410,000	\$18,933,000

*KTRS Medical Plan OPEB Liability, OPEB Expense, Deferred Outflows and Deferred Inflows of Resources* - At June 30, 2021 and 2020, KCTCS reported a net OPEB liability of \$12.3 million and \$15.4 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, 2020 and 2019. 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, 2020 and 2019, KCTCS's proportion was 0.49% and 0.53%.

Continued

# KENTUCKY COMMUNITY AND TECHNICAL COLLEGE SYSTEM

Notes to Financial Statements  
June 30, 2021 and 2020

## 11. Postemployment Benefit Plans (OPEB)

*KTRS Medical Plan OPEB Liability, OPEB Expense, Deferred Outflows and Deferred Inflows of Resources (continued)* - 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:

	2021	2020
KCTCS proportionate share of the net OPEB liability	\$ 12,319,000	\$ 15,410,000
State's proportionate share of the net pension OPEB associated with KCTCS	5,431,000	6,873,000
Total	<u>\$ 17,750,000</u>	<u>\$ 22,283,000</u>

For the years ended June 30, 2021 and 2020, KCTCS recognized OPEB income related to the plan, of \$1.6 million and \$1.0 million which includes \$0.4 million and \$0.4 million of support provided by the Commonwealth of Kentucky.

KCTCS reported deferred outflows and inflows of resources as follows at June 30:

	2021	
	Deferred Outflows of Resources	Deferred Inflows of Resources
Net difference between projected and actual earnings on OPEB plan investments	\$ 401,000	\$ -
Change in assumptions	747,000	-
Difference between expected and actual experience	-	5,252,000
Changes in proportion and differences between KCTCS contributions and proportionate share of contributions	-	3,621,000
KCTCS contributions subsequent to the measurement date	819,562	-
Total	<u>\$ 1,967,562</u>	<u>\$ 8,873,000</u>

	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	<u>\$ 1,399,483</u>	<u>\$ 6,789,000</u>

Continued

## KENTUCKY COMMUNITY AND TECHNICAL COLLEGE SYSTEM

Notes to Financial Statements  
June 30, 2021 and 2020

### 11. Postemployment Benefit Plans (OPEB)

*KTRS Medical Plan OPEB Liability, OPEB Expense, Deferred Outflows and Deferred Inflows of Resources (continued)* - Of the total amount reported as deferred outflows of resources, \$819,562 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, 2022. Amounts reported as deferred outflows and inflows of resources will be recognized in OPEB (income) expense as follows for years ended June 30:

2022	\$ (1,619,000)
2023	(1,589,000)
2024	(1,594,000)
2025	(1,392,000)
2026	(1,127,000)
Thereafter	<u>(404,000)</u>
	<u>\$ (7,725,000)</u>

*KTRS Medical Plan Changes of Benefit Terms* - There were no changes for fiscal years June 30, 2021 or 2020.

*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 \$15,430 and \$20,106 for fiscal years ended June 30, 2021 and 2020.

*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, 2019 and 2018
Measurement date	June 30, 2020 and 2019
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	2.19% and 3.50%
Discount rate	7.50%
Single equivalent interest rate	7.50%, net of OPEB plan investment expense, including inflation

Continued

# KENTUCKY COMMUNITY AND TECHNICAL COLLEGE SYSTEM

Notes to Financial Statements  
June 30, 2021 and 2020

## 11. Postemployment Benefit Plans (OPEB)

*KTRS Life Plan Actuarial Assumptions (continued)* - 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, 2019 and 2018 valuations were based on a review of recent plan experience done concurrently with the June 30, 2019 and 2018 valuations. The health care cost trend assumption was updated for the June 30, 2019 and 2018 valuations 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.

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, 2020		June 30, 2019	
	Target Allocation	Long Term Expected Real Rate of Return	Target Allocation	Long Term Expected Real Rate of Return
U.S. Equity	40.00%	4.60%	40.00%	4.30%
International Equity	23.00%	5.60%	23.00%	5.20%
Fixed Income	18.00%	0.00%	18.00%	1.20%
Real Estate	6.00%	4.30%	6.00%	3.80%
Private Equity	5.00%	7.70%	5.00%	6.30%
Other Additional Categories	6.00%	2.50%	6.00%	3.20%
Cash (LIBOR)	2.00%	-0.50%	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.

*KTRS Life Plan Changes in Assumptions Since Prior Measurement Date* – For the fiscal years ended June 30, 2021 and 2020, the municipal bond index rate decreased from 3.50 percent to 2.19 percent and from 3.89 percent to 3.50 percent, respectively.

*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 2021 and 2020. 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.

Continued

# KENTUCKY COMMUNITY AND TECHNICAL COLLEGE SYSTEM

Notes to Financial Statements  
June 30, 2021 and 2020

## 11. Postemployment Benefit Plans (OPEB)

*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:

	2021		
	1% Decrease (6.5%)	Discount Rate (7.5%)	1% Increase (8.5%)
Net OPEB liability	\$433,000	\$299,000	\$189,000

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

*KTRS Life Plan OPEB Liability, OPEB Expense, Deferred Outflows and Deferred Inflows of Resources* - At June 30, 2021 and 2020, KCTCS reported a net OPEB liability of \$299,000 and \$289,000 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, 2020 and 2019, 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, 2020 and 2019, KCTCS's proportion was 0.86% and 0.93%. 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:

	2021	2020
KCTCS proportionate share of the net OPEB liability	\$ 299,000	\$ 289,000
State's proportionate share of the net pension OPEB associated with KCTCS	-	-
Total	<u>\$ 299,000</u>	<u>\$ 289,000</u>

Continued

# KENTUCKY COMMUNITY AND TECHNICAL COLLEGE SYSTEM

Notes to Financial Statements  
June 30, 2021 and 2020

## 11. Postemployment Benefit Plans (OPEB)

*KTRS Life Plan OPEB Liability, OPEB Expense, Deferred Outflows and Deferred Inflows of Resources (continued)* - For the years ended June 30, 2021 and 2020, KCTCS recognized OPEB expense of \$33,676 and \$25,074 associated with the KTRS life insurance plan and reported deferred outflows and inflows of resources as follows at June 30:

	2021	
	Deferred Outflows of Resources	Deferred Inflows of Resources
Net difference between projected and actual earnings on OPEB plan investments	\$ 42,000	\$ -
Difference between expected and actual experience	5,000	4,000
Changes in proportion and differences between KCTCS contributions and proportionate share of contributions	-	36,000
KCTCS contributions subsequent to the measurement date	15,430	-
Total	<u>\$ 62,430</u>	<u>\$ 40,000</u>

	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>

Of the total amount reported as deferred outflows of resources, \$15,430 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, 2022. Other amounts reported as deferred outflows and inflows of resources will be recognized in OPEB expense as follows for years ended June 30:

2022	\$ 14,000
2023	5,000
2024	(4,000)
2025	(6,000)
2026	(3,000)
Thereafter	<u>1,000</u>
	<u>\$ 7,000</u>

*KTRS Life Plan Changes of Benefit Terms* - There were no changes for fiscal years ended June 30, 2021 or 2020.

*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.

Continued



## KENTUCKY COMMUNITY AND TECHNICAL COLLEGE SYSTEM

Notes to Financial Statements  
June 30, 2021 and 2020

### 11. Postemployment Benefit Plans (OPEB)

#### **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. 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, 2021 and 2020. 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 \$1.5 million and \$1.6 million for years ended June 30, 2021 and 2020 and the implicit subsidy was \$512,352 and \$366,078.

*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, 2019 and 2018 (rolled forward)
Measurement date	June 30, 2020 and 2019
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: 6.40% beginning January 1, 2022, decreasing to an ultimate trend rate of 4.05% over 14 years. Post-65: 2.90%, beginning January 1, 2023, increasing to an ultimate trend rate of 4.05% over 14 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.

Continued

# KENTUCKY COMMUNITY AND TECHNICAL COLLEGE SYSTEM

Notes to Financial Statements  
June 30, 2021 and 2020

## 11. Postemployment Benefit Plans (OPEB)

*KERS OPEB Actuarial Assumptions (continued)* - The long-term expected rate of return was determined by using a building-block method in which best-estimate ranges of expected future real rate of returns are developed for each asset class. The ranges are combined by weighting the expected future real rate of return by the target asset allocation percentage. The target 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, 2020		June 30, 2019	
	Target Allocation	Long-Term Nominal Rate of Return	Target Allocation	Long-Term Nominal Rate of Return
Combined Equity	53%	13.65%	53%	11.70%
Global Bonds	13%	-0.25%	14%	1.35%
Real Return	15%	3.95%	15%	4.10%
Private Equity	10%	6.65%	10%	6.65%
Core Real Estate	5%	5.30%	5%	4.85%
Opportunistic	3%	2.25%	3%	2.97%
Cash Equivalent	1%	-0.75%	1%	0.20%
Total	100%		100%	

*KERS OPEB Changes in Assumptions and Benefit Terms Since Prior Measurement Date* – For the fiscal year ended June 30, 2021, the assumed increase in future health care costs was reviewed during the June 30, 2019 valuation process and was updated to better reflect more current expectations relating to anticipated future increase in the medical costs. The June 30, 2020 actuarial information reflects the anticipated savings from the repeal of the “Cadillac Tax” and “Health Insurer Fee”, which occurred in December of 2019. The assumed load on pre-Medicare premiums to reflect the cost of the Cadillac Tax was removed and the Medicare premiums were reduced by 11 percent to reflect the repeal of the Health Insurer Fee. 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 KERS non-hazardous plan to elect to cease participating in the system as of June 30, 2020. Senate Bill 249 passed during the 2020 Legislative Session and delayed the effective date of cessation under these provisions to June 30, 2021. Since employer’s elections were unknown at the time of the actuarial valuations, no adjustments were made to the Total OPEB Liability to reflect this legislation.

Senate Bill 249 also changed the funding period for the amortization of the unfunded liability to 30 years as of June 30, 2019. Gains and losses incurred in future years will be amortized over separate 20-year amortization bases. This change did not impact the calculation of Total OPEB Liability and only impacts the calculation of the contribution rates payable starting July 1, 2020. 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 other material plan provision changes.

Continued

# KENTUCKY COMMUNITY AND TECHNICAL COLLEGE SYSTEM

Notes to Financial Statements  
June 30, 2021 and 2020

## 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, 2020 and 2019, the discount rate used to determine the total OPEB liability was 5.43 percent and 5.73 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, 2020 and 2019, the discount rate determination used an expected rate of return of 6.25 percent and a municipal bond rate of 2.45 percent and 3.13 percent, respectively, which was reported in Fidelity Index's "20 -Year Municipal GO AA Index" as of June 30, 2020 and June 28, 2019. 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:

	2021		
	1% Decrease (4.43%)	Discount Rate (5.43%)	1% Increase (6.43%)
Net OPEB liability	\$40,572,173	\$34,040,156	\$28,678,711

	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

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:

	2021		
	1% Decrease (5.40% and 4% decreasing to 3.05%)	Healthcare Cost Trend Rates (6.40% and 5% decreasing to 4.05%)	1% Increase (7.40% and 6% decreasing to 4.05%)
Net OPEB liability	\$28,650,459	\$34,040,156	\$40,568,371

Continued

# KENTUCKY COMMUNITY AND TECHNICAL COLLEGE SYSTEM

Notes to Financial Statements  
June 30, 2021 and 2020

## 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) -*

	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

*KERS OPEB Liability, OPEB Expense, Deferred Outflows and Deferred Inflows of Resources* – KCTCS' net OPEB liability, measured as of June 30, 2020 and 2019, was \$34.0 million and \$30.4 million. Its proportionate share of the collective net OPEB liability was 1.34 percent and 1.37 percent as of June 30, 2020 and 2019 and was determined using employers' actual contributions for fiscal years ended June 30, 2019 and 2018. KCTCS recognized OPEB (income) expense of \$0.2 million and \$(0.3) million for years ended June 30, 2021 and 2020. KCTCS reported deferred outflows and inflows of resources as follows at June 30:

	2021	
	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 2,817,200	\$ 3,380,459
Changes in assumptions	2,491,559	59,153
Net difference between projected and actual earnings on OPEB plan investments	652,971	177,786
Changes in proportion and differences between KCTCS contributions and proportionate share of contributions	-	3,070,647
KCTCS contributions subsequent to the measurement date	1,993,987	-
Total	\$ 7,955,717	\$ 6,688,045

	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

Continued

# KENTUCKY COMMUNITY AND TECHNICAL COLLEGE SYSTEM

Notes to Financial Statements  
June 30, 2021 and 2020

## 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, \$1.5 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, 2022. Other amounts reported as deferred outflows and inflows of resources will be recognized in OPEB (income) expense as follows:

2022	\$ 22,510
2023	(835,733)
2024	(52,669)
2025	<u>139,577</u>
	<u>\$ (726,315)</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 (KCTCS 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 and retiree eligible spouses and/or dependents. The KCTCS OPEB Plan was closed to new entrants as of July 1, 2009. The KCTCS OPEB 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 (KCTCS OPEB Trust).

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 during fiscal years ended June 30, 2021 and 2020.

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

	<u>2020</u>	<u>2019</u>
Inactive employees or beneficiaries currently receiving benefit payments	863	863
Inactive employees entitled to but not yet receiving benefit payments	80	80
Active employees	<u>1,338</u>	<u>1,338</u>
Total	<u>2,281</u>	<u>2,281</u>

*KCTCS OPEB Plan Net OPEB Asset* - The net OPEB asset was measured as of June 30, 2020 and 2019 and the total OPEB liability used to calculate the net OPEB asset was determined by an actuarial valuation as of June 30, 2019 which was rolled-forward for the June 30, 2020 measurement date.

Continued

# KENTUCKY COMMUNITY AND TECHNICAL COLLEGE SYSTEM

Notes to Financial Statements  
June 30, 2021 and 2020

## 11. Postemployment Benefit Plans (OPEB)

*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 (rolled forward for June 30, 2020)
Salary increases	3.0%
Investment rate of return	6.5% and 7.0%
Healthcare cost trend rate	For June 30, 2020 and 2019, 7.35% KCTCS Pre-65; 7.01% KCTCS Post-65; 6.88% UK Pre-65; 3.33% and 31.25% 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-2019. Mortality rates for disabled members were based on PUB-2010 Disabled Retiree Table for “Non-Safety” Employees Projected Generationally with Scale MP-2019.

The long-term expected rate of return on plan investments is 6.5 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, 2020		June 30, 2019	
	Target Allocation	Long-Term Expected Real Rate of Return	Target Allocation	Long-Term Expected Real Rate of Return
Global Equity	52.30%	4.78%	52.70%	4.70%
Core Bonds	17.50%	1.66%	16.90%	1.50%
Diversifying Strategies	9.60%	4.10%	10.50%	4.60%
Private Real Estate	5.30%	4.59%	8.70%	4.30%
Credit	7.00%	5.46%	6.90%	4.90%
Public Natural Resources	3.90%	4.10%	4.10%	4.40%
Cash	1.00%	0.00%	0.20%	0.00%
REITS	3.40%	4.98%	0.00%	0.00%
Total	100%		100%	

*KCTCS OPEB Plan Discount Rate* - The discount rate used to measure the total OPEB liability was 6.5 percent and 7.0 percent for June 30, 2020 and 2019. 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, 2021 and 2020

## 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 6/30/19	\$ 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>
Balances at 6/30/20	\$ 152,495,453	\$ 205,020,253	\$ (52,524,800)
Changes for the year:			
Service cost	2,079,652	-	2,079,652
Interest	10,682,592	-	10,682,592
Changes of benefit terms	6,785,833	-	6,785,833
Differences between expected and actual experience	(606,592)	-	(606,592)
Changes in assumptions	3,311,992	-	3,311,992
Net investment income	-	2,302,681	(2,302,681)
Benefit payments	(4,000,969)	(4,000,969)	-
Administrative expense	-	(98,655)	98,655
Net changes	<u>18,252,508</u>	<u>(1,796,943)</u>	<u>20,049,451</u>
Balances at 6/30/21	<u>\$ 170,747,961</u>	<u>\$ 203,223,310</u>	<u>\$ (32,475,349)</u>

*KCTCS OPEB Plan Changes in Assumptions and Benefit Terms Since Prior Measurement Date* - For the fiscal year ended June 30, 2021, required retiree contributions for single only coverage was reduced by approximately 50.0 percent in most cases. Coverage for additional dependents was reduced by the same dollar amount as the single only coverage. Medical trend for UK Post-65 was updated to reflect the repeal of the health care fee. The mortality improvement scale was updated from MP-2018 to MP-2019. Expected return on assets was updated from 7.0 percent to 6.5 percent. The excise tax on high-cost health coverage is no longer valued. For the fiscal year ended June 30, 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.

*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.

Continued

# KENTUCKY COMMUNITY AND TECHNICAL COLLEGE SYSTEM

Notes to Financial Statements  
June 30, 2021 and 2020

## 11. Postemployment Benefit Plans (OPEB)

*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:

	2021		
	1% Decrease (5.5%)	Discount Rate (6.5%)	1% Increase (7.5%)
Net OPEB liability (asset)	\$ (6,775,840)	\$ (32,475,349)	\$ (53,373,352)

	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)

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:

	2021		
	1% Decrease (6.35%, 6.01%, 5.88% and 2.33% increasing to 3.5%)	Healthcare Cost Trend Rates (7.35%, 7.01%, 6.88% and 3.33% increasing to 4.5%)	1% Increase (8.35%, 8.01%, 7.88% and 4.33% increasing to 5.5%)
Net OPEB liability (asset)	\$ (55,649,055)	\$ (32,475,349)	\$ (3,863,487)

	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)

Continued



# KENTUCKY COMMUNITY AND TECHNICAL COLLEGE SYSTEM

Notes to Financial Statements  
June 30, 2021 and 2020

## 11. Postemployment Benefit Plans (OPEB)

*KCTCS OPEB Plan OPEB Expense, Deferred Outflows and Deferred Inflows of Resources* - For the years ended June 30, 2021 and 2020, KCTCS recognized OPEB income of \$9.2 million and \$26.3 million associated with the plan and reported deferred inflows of resources as follows at June 30:

	2021	
	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ -	\$ 7,371,696
Changes of assumptions	2,419,272	15,164,237
Difference between projected and actual earnings on OPEB plan investments, net of deferred outflows	8,658,129	-
Total	<u>\$ 11,077,401</u>	<u>\$ 22,535,933</u>
	2020	
	Deferred Outflows of Resources	Deferred Inflows of Resources
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	-	1,904,138
Total	<u>\$ -</u>	<u>\$ 40,698,354</u>

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

2022	\$ (10,305,953)
2023	(4,008,549)
2024	475,137
2025	<u>2,380,833</u>
	<u>\$ (11,458,532)</u>

*KCTCS OPEB Plan Payable to the Plan* - At June 30, 2021 and 2020, KCTCS had no amounts payable for contributions to the plan.

Continued

# KENTUCKY COMMUNITY AND TECHNICAL COLLEGE SYSTEM

Notes to Financial Statements  
June 30, 2021 and 2020

## 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:

	2021			
	KTRS	KERS	KCTCS	Total
Net OPEB liability	\$ 12,618,000	\$ 34,040,156	\$ -	\$ 46,658,156
Net OPEB (asset)	\$ -	\$ -	\$ (32,475,349)	\$ (32,475,349)
Deferred outflows	\$ 2,029,992	\$ 7,955,717	\$ 11,077,401	\$ 21,063,110
Deferred inflows	\$ 8,913,000	\$ 6,688,045	\$ 22,535,933	\$ 38,136,978
OPEB (income) expense recognized	\$ (1,541,403)	\$ 232,219	\$ (9,190,371)	\$ (10,499,555)

	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)

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 \$1.0 million and \$1.1 million as of June 30, 2021 and 2020 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, 2021 is \$39.6 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 October 7, 2021, 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, 2021.

*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, 2021.

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**KENTUCKY COMMUNITY AND TECHNICAL COLLEGE SYSTEM**  
**Required Supplementary Information**  
**June 30, 2021 and 2020**

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

	2021	2020	2019	2018	2017	2016	2015
KCTCS' proportionate share of net pension liability	\$ 49,358	\$ 50,127	\$ 54,584	\$ 113,107	\$ 251,694	\$ 219,423	\$ 209,139
State's proportionate share of collective net pension liability	60,113	63,627	56,662	127,090	34,486	33,391	36,216
	<u>\$ 109,472</u>	<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	0.33%	0.35%	0.40%	0.40%	0.81%	0.90%	0.97%
KCTCS' covered payroll	\$ 28,942	\$ 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	170.54%	163.27%	158.64%	315.08%	635.96%	508.91%	454.47%
Plan fiduciary net position as a percentage of total pension liability	58.27%	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 2021, the municipal bond index rate decreased from 3.50% to 2.19%. 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)

	2021	2020	2019	2018	2017	2016	2015
Contractually required contribution	\$ 3,364	\$ 3,730	\$ 4,046	\$ 4,663	\$ 5,814	\$ 6,383	\$ 6,668
Contributions in relation to the contractually required contribution	<u>\$ 3,364</u>	<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>	<u>\$ -</u>
KCTCS covered payroll	\$ 25,937	\$ 28,942	\$ 30,701	\$ 34,408	\$ 35,898	\$ 39,577	\$ 43,116
Contributions as a percentage of covered payroll	12.97%	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, 2021 and 2020**

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

	2021	2020	2019	2018	2017	2016	2015
KCTCS' proportionate share of net pension liability	\$ 189,911	\$ 192,946	\$ 195,996	\$ 201,115	\$ 193,547	\$ 186,537	\$ 174,855
KCTCS' proportion of net pension liability	1.34%	1.37%	1.44%	1.50%	1.70%	1.86%	1.95%
KCTCS' covered payroll	\$ 19,148	\$ 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	991.81%	964.34%	889.76%	864.71%	705.01%	617.18%	542.89%
Plan fiduciary net position as a percentage of total pension liability	14.01%	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 2021, Senate Bill 249 changed the funding period for the amortization of the unfunded liability to 30 years as of June 30, 2019. Gains and losses incurred in future years will be amortized over separate 20-year amortization bases. This change did not impact the calculation of Total Pension Liability and only impacts the calculation of the contribution rates payable starting July 1, 2020. House Bill 271 passed during the 2020 Legislative Session and removed provisions that reduce the monthly payment to a surviving spouse of a member whose death was due to a duty-related injury upon remarriage of the spouse. It also increased benefits for a very small number of beneficiaries. This did not have a material (or measurable) impact on the liability of the plans and therefore, we did not make any adjustment to the Total Pension Liability to reflect this legislation. There were no other material plan provision changes. 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)

	2021	2020	2019	2018	2017	2016	2015
Contractually required contribution	\$ 7,234	\$ 7,855	\$ 8,205	\$ 9,032	\$ 9,353	\$ 10,544	\$ 11,722
Contributions in relation to the contractually required contribution	\$ 7,234	\$ 7,855	\$ 8,205	\$ 9,032	\$ 9,353	\$ 10,544	\$ 11,722
Contribution deficiency (excess)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
KCTCS covered payroll	\$ 17,639	\$ 19,148	\$ 20,008	\$ 22,028	\$ 23,258	\$ 27,453	\$ 30,224
Contributions as a percentage of covered payroll	41.01%	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, 2021 and 2020**

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

	2021	2020	2019	2018
KCTCS' proportion of net OPEB liability	0.49%	0.53%	0.59%	0.64%
KCTCS' proportionate share of net OPEB liability	\$ 12,319	\$ 15,410	\$ 20,297	\$ 22,671
State's proportionate share of net OPEB liability	5,431	6,873	9,933	10,281
	<u>\$ 17,750</u>	<u>\$ 22,283</u>	<u>\$ 30,230</u>	<u>\$ 32,952</u>
KCTCS' covered payroll	\$ 28,942	\$ 30,701	\$ 34,408	\$ 35,898
KCTCS' proportionate share of net OPEB liability as a percentage of its covered payroll	42.56%	50.19%	58.99%	63.15%
Plan fiduciary net position as a percentage of total OPEB liability	39.05%	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 ended June 30, 2021, the healthcare cost trend rate for Pre-65 decreased from 7.50 percent for fiscal year 2020 to 7.25 percent for fiscal year 2021 and Post-65 decreased from 5.50 percent for fiscal year 2020 to 5.25 percent for fiscal year 2021. Medicare Part B premiums increased to 6.49 percent for fiscal year 2021 from 2.63 percent for fiscal year 2020. The municipal bond index rate decreased from 3.50 percent to 2.19 percent. 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 2021, 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)

	2021	2020	2019	2018
Contractually required contribution	\$ 820	\$ 923	\$ 913	\$ 908
Contributions in relation to the contractually required contribution	<u>\$ 820</u>	<u>\$ 923</u>	<u>\$ 913</u>	<u>\$ 908</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
KCTCS covered payroll	\$ 25,937	\$ 28,942	\$ 30,701	\$ 34,408
Contributions as a percentage of covered payroll	3.16%	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, 2021 and 2020**

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

	2021	2020	2019	2018
KCTCS' proportion of net OPEB liability	0.86%	0.93%	1.05%	1.11%
KCTCS' proportionate share of net OPEB liability	\$ 299	\$ 289	\$ 297	\$ 243
KCTCS' covered payroll	\$ 28,942	\$ 30,701	\$ 34,408	\$ 35,898
KCTCS' proportionate share of net OPEB liability as a percentage of its covered payroll	1.03%	0.94%	0.86%	0.68%
Plan fiduciary net position as a percentage of total OPEB liability	71.57%	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 2021, the municipal bond index rate decreased from 3.50% to 2.19%. 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%. 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)

	2021	2020	2019	2018
Contractually required contribution	\$ 15	\$ 20	\$ 12	\$ 5
Contributions in relation to the contractually required contribution	\$ 15	\$ 20	\$ 12	\$ 5
Contribution deficiency (excess)	\$ -	\$ -	\$ -	\$ -
KCTCS covered payroll	\$ 25,937	\$ 28,942	\$ 30,701	\$ 34,408
Contributions as a percentage of covered payroll	0.06%	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, 2021 and 2020**

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

	2021	2020	2019	2018
KCTCS' proportion of net OPEB liability	1.34%	1.37%	1.44%	1.50%
KCTCS' proportionate share of net OPEB liability	\$ 34,040	\$ 30,369	\$ 34,129	\$ 38,094
KCTCS' covered payroll	\$ 19,148	\$ 20,008	\$ 22,028	\$ 23,258
KCTCS' proportionate share of net OPEB liability as a percentage of its covered payroll	177.77%	151.78%	154.93%	163.79%
Plan fiduciary net position as a percentage of total OPEB liability	29.47%	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 2021, the assumed increase in future health care costs was reviewed during the June 30, 2019 valuation process and was updated to better reflect more current expectations relating to anticipated future increase in the medical costs. The June 30, 2020 actuarial information reflects the anticipated savings from the repeal of the "Cadillac Tax" and "Health Insurer Fee", which occurred in December of 2019. The assumed load on pre-Medicare premiums to reflect the cost of the Cadillac Tax was removed and the Medicare premiums were reduced by 11 percent to reflect the repeal of the Health Insurer Fee. Senate Bill 249 changed the funding period for the amortization of the unfunded liability to 30 years as of June 30, 2019. Gains and losses incurred in future years will be amortized over separate 20-year amortization bases. This change did not impact the calculation of Total OPEB Liability and only impacts the calculation of the contribution rates payable starting July 1, 2020. 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)

	2021	2020	2019	2018
Contractually required contribution	\$ 1,482	\$ 1,609	\$ 1,989	\$ 1,853
Contributions in relation to the contractually required contribution	\$ 1,482	\$ 1,609	\$ 1,989	\$ 1,853
Contribution deficiency (excess)	\$ -	\$ -	\$ -	\$ -
KCTCS covered payroll	\$ 17,639	\$ 19,148	\$ 20,008	\$ 22,028
Contributions as a percentage of covered payroll	8.40%	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, 2021 and 2020**

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

	2021	2020	2019	2018
<b>Total OPEB liability</b>				
Service cost	\$ 2,080	\$ 2,877	\$ 2,902	\$ 4,839
Interest	10,682	12,131	11,324	11,366
Changes of benefit terms	6,786	-	-	-
Differences between expected and actual experience	(607)	(4,045)	-	(39,171)
Changes of assumptions	3,312	(26,946)	(2,046)	(1,929)
Contributions - employee	-	-	589	-
Benefit payments	(4,001)	(3,833)	(3,854)	(3,357)
Net change in total OPEB liability	\$ 18,252	\$ (19,816)	\$ 8,915	\$ (28,252)
Total OPEB liability - beginning	152,496	172,312	163,397	191,649
Total OPEB liability - ending	<u>\$ 170,748</u>	<u>\$ 152,496</u>	<u>\$ 172,312</u>	<u>\$ 163,397</u>
<b>Plan fiduciary net position</b>				
Net investment income	\$ 2,303	\$ 12,604	\$ 14,030	\$ 18,685
Benefit payments	(4,001)	(3,833)	(3,854)	(3,357)
Administrative expense	(99)	(44)	-	(144)
Net change in plan fiduciary net position	\$ (1,797)	\$ 8,727	\$ 10,176	\$ 15,184
Plan fiduciary net position - beginning	205,020	196,293	186,117	170,933
Plan fiduciary net position - ending	<u>\$ 203,223</u>	<u>\$ 205,020</u>	<u>\$ 196,293</u>	<u>\$ 186,117</u>
<b>Net OPEB asset</b>	\$ (32,475)	\$ (52,524)	\$ (23,981)	\$ (22,720)
Plan fiduciary net position as a percentage of total OPEB liability	119.02%	134.44%	113.92%	113.90%
Covered-employee payroll	\$ 70,956	\$ 78,638	\$ 89,871	\$ 95,490
Net OPEB asset as a percentage of covered-employee payroll	45.77%	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 2021, in most cases, required retiree contributions for single only coverage was reduced by approximately 50.0 percent. Coverage for additional dependents was reduced by the same dollar amount as the single only coverage. Medical trend for UK Post-65 was updated to reflect the repeal of the health care fee. The mortality improvement scale was updated from MP-2018 to MP-2019. Expected return on assets was updated from 7.0 percent to 6.5 percent. The excise tax on high-cost health coverage is no longer valued. 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

**Officers of the KCTCS Board of Regents**

Dr. Gail R. Henson, Chair  
Ms. Lisa V. Desmarais, Vice-Chair  
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 business-type activities and fiduciary activities 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, 2021, and the related notes to the financial statements, which collectively comprise the System's basic financial statements and have issued our report thereon dated October 7, 2021.

**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 opinions 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.

  
Crowe LLP

Lexington, Kentucky  
October 7, 2021