



Monthly Financial Update

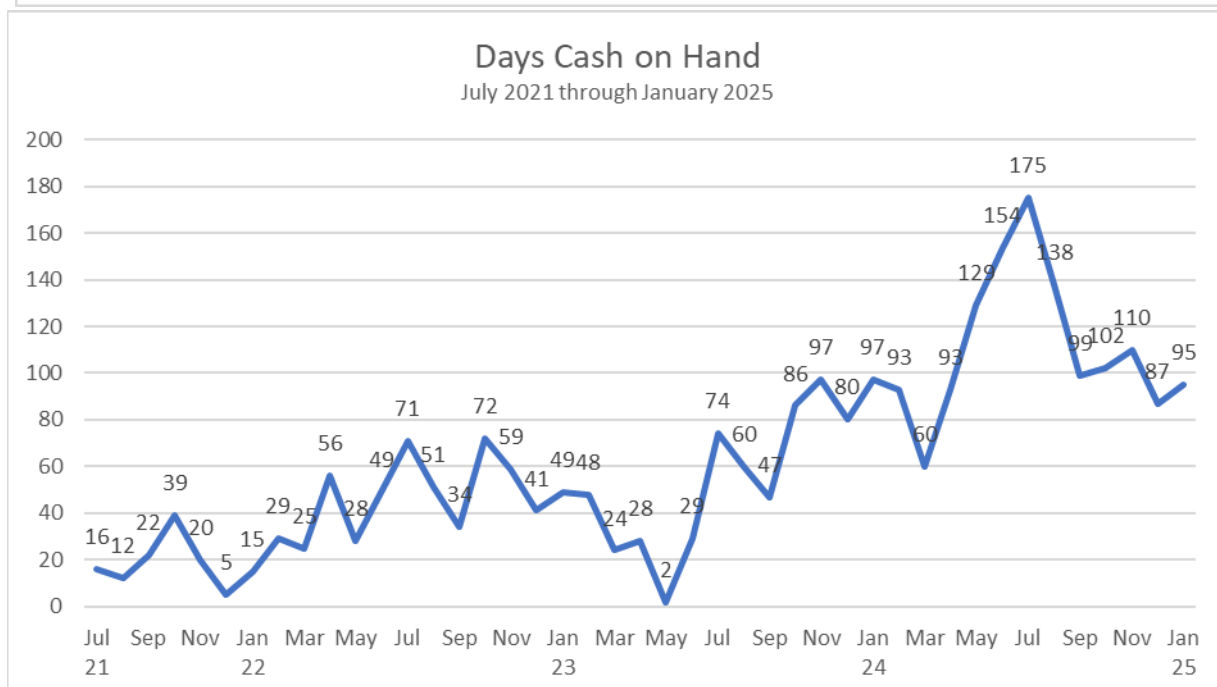
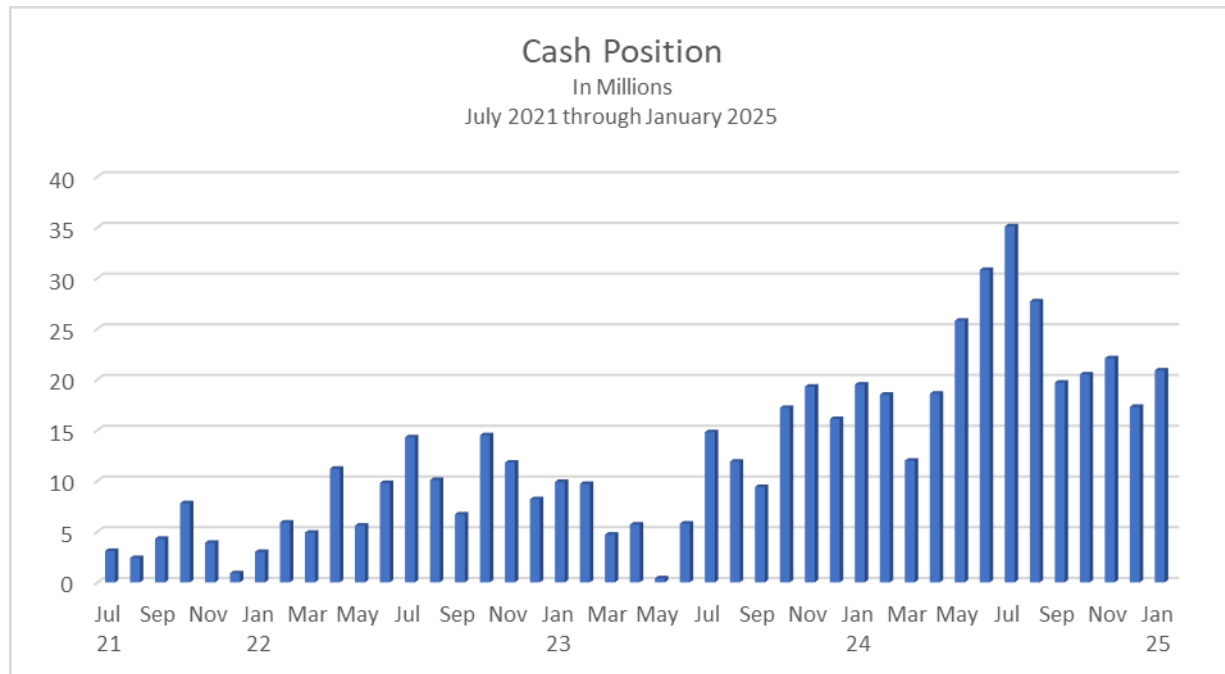
Kentucky State University

February 2025

HB 250, enacted in the 2022 Regular Session of the Kentucky General Assembly, directs the Kentucky Council on Postsecondary Education to provide a monthly financial update on Kentucky State University to the Legislative Research Commission and the Office of the Governor.

Cash Position

The university's cash position (unaudited) on January 31, 2025 was \$20,867,471, representing 95 days cash on hand (DCOH) to support future operations and capital projects. The January 2025 cash position was up from December, consistent with the monthly trend in prior years, as depicted below.



The January 31, 2025 cash position includes \$15.0 million of reserves for the following items:

- \$8.9 million is held by the State and reserved for various capital projects, including “asset preservation pool” projects approved to be funded with state bonds in the 2022-2024 and 2024-2026 biennial budgets.
- \$0.9 million is held by KSU and reserved for asset preservation projects. This reserve represents the available balance of student fees collected for asset preservation projects.
- \$5.2 million in grant funds from CPE is held and reserved by KSU for various projects.
- \$0.04 million is held by KSU and reserved for the closeout of KSU’s Perkins loan program.

Excluding the \$9.8 million reserved for capital projects (first two items above), DCOH available to support operations was 50 days at the end of January; however, excluding the \$15.0 million of total reserves, DCOH was 27 days, which is concerning. KSU leadership confirmed that delays in collecting student receivables negatively impacted the cash position. CPE will continue to closely monitor the university’s cash position and plan to build cash reserves. Industry standards recommend maintaining 146 days or approximately five months of cash on hand to cover expected operating expenses.

Financial Reporting

As shared in previous reports, CPE contracted with Moss Adams to provide independent verification of KSU’s progress on the Management Improvement Plan. Verification work is now underway for the third quarter of fiscal year 2025 on the following monthly deliverables:

- Master list of budgeted positions reconciled to departmental budgets
- Budget to actual reports for E&G and Auxiliaries
- Clearing accounts reconciled within 14 days of end of each month
- Bank accounts reconciled within 14 days of end of each month
- Monthly closing entries posted within 20 days of end of each month
- Previous month’s accounting ledger closed by the end of the following month
- Credit card account reconciliations
- Cash position report, cash forecast and other financial information

As reported in Moss Adams’ January 2025 Management Improvement Plan Monthly Validation Summary for Q2 2025 (September 2024 through November 2024), the majority of monthly deliverables were partially implemented as KSU financial staff continue to focus on completion of the 2023 audited financial statements and the Banner/Argos projects described in the following paragraph.

Related to financial reporting and shared in previous reports, KSU is completing a Banner accounting system optimization project entailing a revised chart of accounts and implementation/utilization of system-delivered reports. Additionally, KSU is completing an Argos reporting tool optimization project to automate several key management reports that are

currently generated manually. Successful completion of these optimization projects will facilitate improved accounting and reporting, including GAAP financial statements, budget to actual reports, student accounts receivable aging reports, and endowment utilization/stewardship reporting. The new chart of accounts will be implemented in July 2025, however the other components of the optimization project have been deferred until 2026. Related, KSU plans to transition its payroll processing from ADP to Banner in January 2026, which will provide improved position management and reconciliation.

KSU is currently utilizing Your Part-Time Controller (YPTC), an external service provider, to assist with certain financial tasks on an ad hoc basis. CPE will continue to monitor YPTC's involvement as the goal is to reduce or eliminate over time as KSU becomes fully staffed and trained across all finance functions and all financial reporting and related policies are current. In addition, KSU is utilizing Protiviti, a business consulting firm, to assist in compiling the 2023, and soon 2024, audited financial statements. As with YPTC, the use of Protiviti will be reduced or eliminated over time as the financial objectives in the Management Improvement Plan are completed and fully implemented to create structures that will better streamline financial audit compilations.

Moving Forward

Obtaining a complete financial reporting and assessment of the institution is still a work in progress. With successful completion of the Banner/Argos optimization projects, and completion of the monthly and other Management Improvement Plan deliverables, including audited financial statements and quarterly GAAP financial statements, CPE will be able to truly monitor the fiscal status of the institution on a month-to-month basis and provide more information in these reports each month.

Attached is the reporting package submitted by KSU for December 2024. Below are some observations based on our initial review:

- The budget to actual reports are subject to change as the reported amounts have not been fully reconciled to the approved budgets and actual results in Banner. Additionally, the audits for fiscal years 2023 and 2024 are not complete, therefore actual results in Banner are subject to adjustment. CPE staff have communicated to KSU staff several recommendations related to the budget to actual reports, as follows:
 - Reporting revenues in the proper categories;
 - Aligning the adopted budget with expenditure categories in the monthly report;
 - Submitting a revised budget to the board that is more reflective of operations for fiscal year 2025 to date.

If not addressed, these issues reduce the effectiveness of the budget to actual reports and limit the financial information available to the board and management. CPE will continue to work with KSU to reconcile, validate and improve the reports.

- CPE verified reported cash balances to supporting bank statements and state reports, noting reported balances to be accurate. See the Cash Position section above for additional comments on January cash balances.

- KSU reported total balances owed for enrolled students of \$4.5 million as of January 31, 2025, representing an increase of \$2.9 million from December 31, 2024 balances due to spring semester billing. The \$4.5 million outstanding balance as of January 31, 2025 represents a decrease of \$0.5 million compared to January 31, 2024. KSU reported total balances owed for non-enrolled students of \$0.4 million as of January 31, 2025, representing a decrease of \$0.1 million compared to December 31, 2024. The institution cleared all outstanding student debt owed in June 2024 with HEERF funds and institutional aid.
- KSU's reported total accounts payable of \$3.0 million as of January 31, 2025, up from \$2.6 million as of December 31, 2024. The outstanding payables at the end of January were comprised of the following: 28% of invoices with purchase orders, 69% of invoices without purchase orders, and 3% of credit card payables. The majority of payables for invoices with purchase orders (PO's) were current as of January 31, 2025, however the majority of invoices without PO's were past due. See below for the related aging summary:

Aging in Days	<u>% of Total in Category</u>	
	Invoice w/PO	Invoice w/o PO
0-30	99.6%	24.4%
31-60	0.2%	28.3%
61-90	0.0%	34.2%
91-120	0.0%	3.5%
120+	0.2%	9.5%

KSU reported that the American Express and Diners Club payables were current as of January 31, 2025. CPE will continue to monitor KSU's payables and strategy to address past due balances and purchases made without purchase orders.

CPE is monitoring KSU's progress on the Management Improvement Plan (MIP) deliverables and assisting where needed. CPE assigned a project manager in July 2023 to assist KSU in scheduling the completion of deliverables and submitting the related reporting for the quarterly reports, which has been beneficial. Weekly meetings are held with each KSU point of contact for the corresponding deliverable to track progress and help ensure deadlines are met. In addition, KSU has now assigned its own project manager to work with staff internally to ensure that deliverables are completed in a timely manner. Note that all deliverables related to financial incentives have been met for both fiscal years 2023 and 2024 and all funds have been distributed to KSU. CPE will continue to monitor the expenditure of those funds to ensure that the funding specifically dedicated to certain projects are only used for those purposes. All remaining outstanding objectives and deliverables have been assigned new deadlines in fiscal year 2025 as adopted by the Council. This will allow time for CPE to work with Moss Adams in completing its final report on MIP progress with final recommendations by November 1, 2025 as directed by HB 250 (2022).

Moss Adams' Management Improvement Plan Quarterly Report for Q2 2025 reflected continued progress on MIP deliverables, however many items have not been implemented or remain partially implemented. Moss Adams will be onsite at KSU in March to meet with campus

officials responsible for MIP deliverables to enhance communications on the actions and documentation needed to complete various deliverables.

The University is communicating with the Southern Association of Colleges and Schools Commission on Colleges (SACSCOC), the U.S. Department of Education, and the National Collegiate Athletics Association regarding noncompliance with various requirements. A negative outcome resulting from these communications could have an adverse financial impact on the University, although demonstration of satisfactory progress towards full compliance should assist in avoiding a major negative outcome. Related to these communications, on December 3, 2023, KSU was placed on Warning by the SACSCOC for significant non-compliance with the Core Requirements or Standards of the Principles of Accreditation, the accreditation standards of SACSCOC; failure to make timely and significant progress toward correcting the deficiencies that led to the findings of non-compliance; or failure to comply with SACSCOC policies and procedures. For more information on the Warning issued, see the following link for the SACSCOC Disclosure Statement:

<https://sacscoc.org/app/uploads/2023/12/Disclosure-Statement-KY-State-Univ-Dec-2023.pdf>.

Also, see the following link to CPE's statement regarding KSU's Warning status:

<https://content.govdelivery.com/accounts/KYCPE/bulletins/37fca46>. SACSCOC completed an on-site visit to KSU's campus in early October and was "continued on Warning" by the SACSCOC board on December 8, 2024. For more information, see the following link for the SACSCOC Disclosure Statement:

<https://sacscoc.app.box.com/s/m5bpszsmgad6dm0pyqih9xpgeihmw7be>.

Blue & Co, LLC (Blue), KSU's prior external audit firm, issued its reports on the fiscal year 2021 and 2022 audits on October 27, 2023 and April 15, 2024, respectively. KSU executed a contract with CLA for completion of the 2023 external audit. KSU hoped the audit would be completed by the end of September 2024 but now hopes that it will be completed by the end of March 2025. Work on the fiscal year 2024 external audit will commence upon completion of the 2023 audit, with the goal to complete in the second quarter of calendar 2025. The audited financial statements may be viewed upon review and acceptance by the KSU Board of Regents at the following webpage: <https://www.kysu.edu/finance-and-administration/index.php>. CPE will review the audited financial statements for fiscal years 2021-2023 and provide an updated financial health assessment utilizing the Composite Financial Index (CFI) methodology used in CPE's November 2021 Financial Assessment Report. The updated financial health assessment will be completed in conjunction with CPE's final report due by November 1, 2025.

Melissa Hicks joined KSU as Controller in late January 2025 and was appointed interim CFO in late February. Melissa is a Certified Public Accountant in Kentucky and has prior higher education and state government experience.