



Monthly Financial Update

Kentucky State University

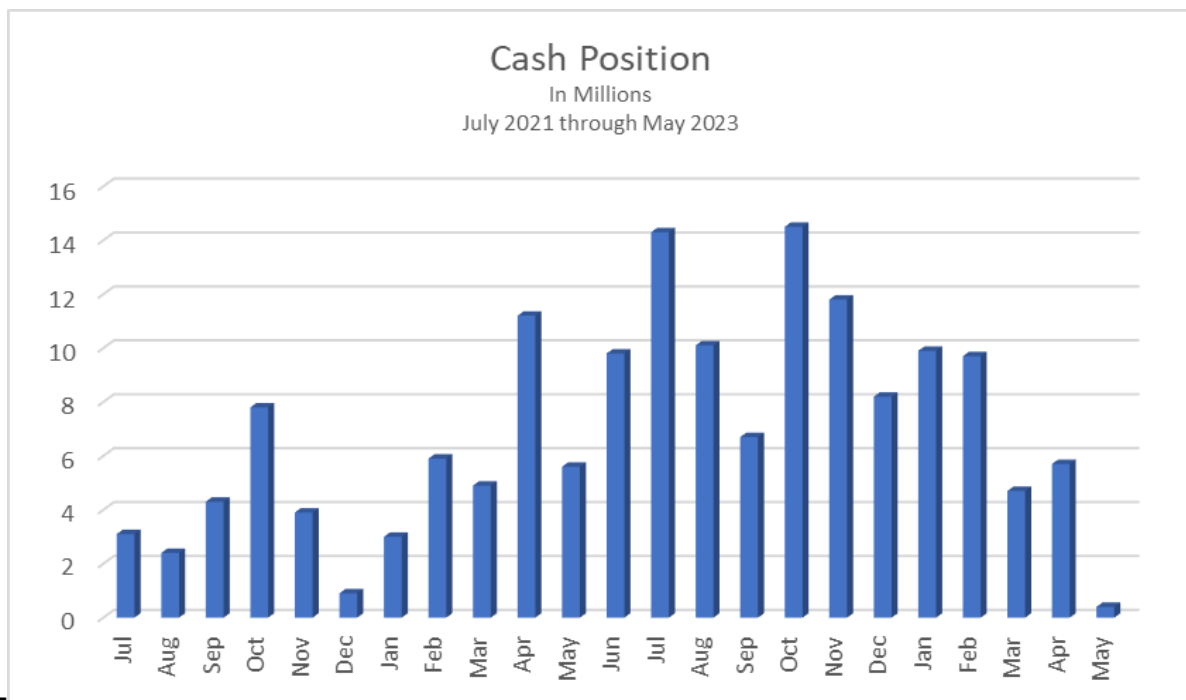
June 2023

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 balance (unaudited) on May 31, 2023, was \$390,463.19. The May cash balance includes the following items:

- \$2.0 million is reserved for asset preservation projects and is not available for general expenditure. This reserve represents the available balance of student fees collected for asset preservation projects.
- A negative balance of \$2.4 million for expenditures incurred on the "Roof Repair and Replacement Pool" capital project, which was approved to be funded with state bonds in the 2020-2022 biennial budget. A transfer is expected from the state by fiscal year-end to cover the negative balance on this capital project.
- A negative balance of \$2.9 million related to "Asset Preservation Pool" projects was approved to be funded with state bonds in the 2022-2024 biennial budget. A transfer is expected from the state by fiscal year-end to cover the negative balance on this capital project.



Days cash on hand (DCOH) decreased in May to 2 days as of May 31, 2023, which is alarming even with the forthcoming capital funding transfers and inflows of cash in June. KSU forecasts it will end the fiscal year with \$6.1 million or 31 DCOH, which is still concerning given industry standards recommend maintaining 146 days or approximately five months of cash on hand to cover expected operating expenses.



FY 2023 Financial Reporting

As shared in previous reports, CPE has contracted with a firm to provide independent verification of KSU's progress on the Management Improvement Plan, and verification work is underway for the following monthly deliverables for March through May 2023:

- Master list of budgeted positions reconciled to departmental budgets
- Budget to actual reports for E&G, Auxiliaries, Land Grant Match and Asset Preservation
- Budget projections for E&G, Auxiliaries, Land Grant Match and Asset Preservation
- 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 14 days of end of each month
- Previous month's accounting ledger closed by the 15th day of each month
- Credit card account reconciliations
- Cash position report, cash forecast and other financial information

KSU is demonstrating progress on the monthly deliverables; however, several items have not been completed or are incomplete. Some of the incompletions are likely due to the failure to provide the supporting documentation to the independent verification firm in a timely manner and we are working to see how the process can become more seamless. CPE will provide a

detailed update on KSU's progress on the Management Improvement Plan in our quarterly report to be issued in July 2023.

Related to the monthly deliverables and shared in last month's report, 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, endowment utilization/stewardship reporting, budget to actual reports and student accounts receivable aging reports.

CPE and the independent verification firm met recently with KSU staff to validate the accuracy and integrity of the procedures and internal controls related to the following key functions:

- Budget to Actual Reporting/Budget Projections
- Student Accounts Receivable and Collections Reporting
- Cash Forecasting

All three functions will greatly benefit from the optimization projects referenced previously as the functions are currently performed manually. Additionally, the processes/reports will benefit from the knowledge and experience gained from continued monthly completion and review by senior leadership, leading to refinements to the processes. KSU currently is utilizing Your Part-Time Controller, an external service provider, to assist with these processes/reports.

Moving Forward

Obtaining a complete financial reporting and assessment of the institution is still a work in progress, but the situation is improving, as reported in the March 2023 Quarterly Report. 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.

At the June 27, 2023, Board of Regents meeting, the board approved a budget for Fiscal Year 2024. The related board action item is attached. The Fiscal Year 2024 budget includes a 3% increase in tuition and fees and assumes a projected full-time undergraduate enrollment of 1,250 students, with 67% out-of-state students and 33% in-state students. The university intends to present a revised budget to the Board of Regents in September once the university has a more accurate assessment of enrollment.

Also at the June 27, 2023, Board of Regents meeting, an update was provided on the Interim Policy on Endowment Investment and Spending and the Interim Policy on Internal Endowment Agreements. The interim policies provide the necessary framework to begin utilizing the university's endowment funds; the new administration will seek approval of the related permanent policies within six months. The related board information item is attached.

Additionally, the university is working on a project to improve the endowment accounting infrastructure and should complete it soon. The KSU Endowment had a market value of \$19.6 million on May 31, 2023, and fiscal year 2024 spending distributions are estimated to be \$793,045 based on the interim spending policy.

CPE has \$10 million of House Bill 250 (2022) incentive funding to allocate in FY 2024 and has yet to determine what deliverables must be completed successfully to support the release of those funds. CPE expects that these funds will be invested in projects that will support the mission of the university and generate new revenue in the future.

KSU is communicating with the Southern Association of Colleges and Schools Commission on Colleges, 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. An update on the outcome of these communications will be provided in future reports.

As reported in last month's report, KSU selected a new permanent president, Dr. Koffi Akakpo, at the May 30, 2023, Board of Regents meeting. Dr. Akakpo begins his new role effective July 1, 2023, and CPE looks forward to discussions with President Akakpo on outstanding financial concerns and the various deliverables set forth in the Management Improvement Plan.



KENTUCKY STATE UNIVERSITY BOARD OF REGENTS

ACTION ITEM 5A

ACTION ITEM

Approval of FY 2024 Recommended Budget for Kentucky State University.

FACTS

KSU's recommended budget has been prepared in order for the University to begin its fiscal operations for the new year. Please note that this is a high-level budget. The University intends to present a revised budget to the Board of Regents in September, once the University has more accurate information regarding enrollment.

The budget structure for FY 2024 is categorized into four sections:

- Education & General
- Auxiliary
- Land Grant Match
- Asset Preservation

The Asset Preservation is listed independently and as the last section due to these funds being restricted for KSU's 15% match for capital projects.

Revenues

Revenues were derived from a projected full-time undergraduate enrollment of 1250 (Fall 2022 full time undergraduate enrollment was 1259).

The calculation for Tuition and Fees is as follows:

- 67% of the out-of-state enrollment of 1250 students multiplied by the rate of \$6,067, added to 33% of the in-state enrollment of 1250 students, multiplied by the rate of \$4,044
- The resulting revenue of \$6.7 million multiplied by 2, which equals \$13.5 million
- Mandatory fees of \$1,032,500 are included, bringing the overall total for tuition and fees to \$14.5 million

Other sources of revenue include:

- reimbursements
- rebates
- interest income
- investment income.

Based on projected enrollment and its impact on the budget, the decision was made to decrease institutional scholarships to \$2M (allocated institutional scholarships for FY23 was \$2.9M).



KENTUCKY STATE UNIVERSITY BOARD OF REGENTS

Expenses

There has been a substantial rise in expenses for FY24 compared to the previous year. Notably, the following items were not included in FY23's budget, leading to a significant increase in expenses for FY24:

- KPPA Pension Liability of \$2.3M
- Energy Savings \$1.3M
- Bond Payment of \$310K

New expenditures for FY24 totaling \$5M includes:

- EAB contract \$300k
- Sodexo Facilities \$3M
- Chiller Rental \$60K (for 12 weeks until a new chiller arrives in December)
- New Residence Hall \$1.3M
- Liquidating of Perkins Loans \$300K
- APA Auditor \$61K

BUDGETARY IMPLICATION

Due to the increase in expenditures for E&G, there is a deficit of \$3.1M. In order to maintain a balanced budget for FY24, Auxiliary surplus was used to offset the deficit.

RECOMMENDATION

Acting President Dr. Michael Daily recommends the Board of Regents approve the recommended budget for FY24.

MOTION

Approve the FY24 Recommended Budget for Kentucky State University.



**KENTUCKY STATE
UNIVERSITY**

RECOMMENDED BUDGET

FY2024



Kentucky State University
Summary of Revenue and Expenditures
2023-2024 Recommended Budget

**KENTUCKY STATE
UNIVERSITY**

	Recommended Budget 2023-2024	Percent of Total
Revenues by Source		
Educational and General		
Tuition and Fees	\$ 14,533,048	27%
State Appropriations - Operating	\$ 18,938,900	35%
State Appropriations - Debt Service	\$ 870,000	2%
Scholarships	\$ (2,000,000)	-4%
Indirect Cost Reimbursement	\$ 170,822	0%
Other Sources	\$ 914,471	2%
Non-Mandatory Fees	\$ 312,500	1%
Student Debt Relief - HEERF	\$ 1,846,045	3%
Total Educational and General	\$ 35,585,786	67%
Auxiliary		
Auxiliary Enterprises	\$ 9,033,100	
Total Auxiliary	\$ 9,033,100	17%
Land Grant Match		
Research	\$ 4,174,493	
Extension	\$ 4,707,407	
Total Land Grant Match	\$ 8,881,900	17%
Total Revenues	\$ 53,500,786	100%
Expenditures by Major Object		
Educational and General		
Personnel Services	\$ 21,260,172	40%
Operating Expenditures	\$ 1,019,875	2%
Travel Expenses	\$ 733,335	1%
Services & Contracts	\$ 6,602,224	12%
Maintenance	\$ 4,297,976	8%
Equipment	\$ 503,252	1%
Other Expenses	\$ 3,207,652	6%
Debt Service	\$ 870,000	2%
West Louisville	\$ 200,000	0%
Auxiliary	\$ 5,924,402	11%
Land Grant	\$ 8,881,900	17%
Total Expenditures by Object	\$ 53,500,786	100%



Kentucky State University
Summary of Revenue and Expenditures
2023-2024 Recommended Budget

**KENTUCKY STATE
UNIVERSITY**

Expenditures by Major Function

Educational and General

Instruction	\$ 6,852,893	13%
Academic Support	\$ 795,406	1%
Student Services	\$ 7,325,091	14%
Institutional Support	\$ 10,869,382	20%
Operation & Maintenance of Plant	\$ 10,081,712	19%
West Louisville	\$ 200,000	0.4%
Debt Service	\$ 870,000	2%
Vacant Positions	\$ 1,700,000	3%
Total E & G Expenditures	\$ 38,694,484	72%

Auxiliary

Auxiliary Enterprises	<u>\$ 5,924,402</u>	<u>11%</u>
-----------------------	---------------------	------------

Land Grant Match

Land Grant Match Expenses	<u>\$ 8,881,900</u>	<u>17%</u>
---------------------------	---------------------	------------

Total Expenditure by Function	<u>\$ 53,500,786</u>	<u>100%</u>
--------------------------------------	-----------------------------	--------------------

Asset Preservation¹

Balance Carry Forward	\$ 1,963,674	
Asset Preservation Fees collected	\$ 375,000	
Total Asset Preservation Revenue	<u>\$ 2,338,674</u>	

Restricted Funds¹



**KENTUCKY STATE
UNIVERSITY**

**Kentucky State University
Educational and General
Revenue and Expenditures Summary**

	Recommended Budget 2023-2024
Revenues	
Tuition and Fees	\$ 14,533,048
State Appropriation	\$ 19,808,900
Indirect Cost Reimbursement	\$ 170,822
Scholarships	\$ (2,000,000)
Other Sources	\$ 914,471
Student Debt Relief - HEERF	\$ 1,846,045
Non-Mandatory Fees	\$ 312,500
Total E & G Revenues	\$ 35,585,786
Expenditures	
Instruction	\$ 6,852,893
Academic Support	\$ 795,406
Student Services	\$ 7,325,091
Institutional Support	\$ 10,869,382
Operation & Maintenance of Plant	\$ 10,081,712
West Louisville	\$ 200,000
Debt Service	\$ 870,000
Vacant Positions	\$ 1,700,000
Total E & G Expenditures	\$ 38,694,484
Transfers	\$ -
Total E & G Expenditures and Transfers	\$ 38,694,484



**KENTUCKY STATE
UNIVERSITY**

**Kentucky State University
Summary of Revenue and Expenditures
FY2024 Preliminary Budget
Auxiliary**

REVENUE		
Housing ¹	\$	5,900,000
Dining ²	\$	3,133,100
TOTAL	\$	9,033,100

Notes:

¹ Housing is calculated from an enrollment of 1250 full-time students per semester with 1000 students utilizing housing (600 x \$2,250 & 400 x \$4,000)

² Dining is based on FY22 trend. (850 students @ \$1,843 = \$1,566,550 per semester)

EXPENDITURES BY CLASSIFICATION		
Services and Contracts	\$	5,924,402
TOTAL	\$	5,924,402



KENTUCKY STATE UNIVERSITY BOARD OF REGENTS

INFORMATION ITEM 4F

INFORMATION ITEM

Update on the Management and Improvement Plan's Required Actions Concerning University's Endowment.

FACTS

Kentucky State University, with active assistance from the Council of Postsecondary Education, has actively worked toward completing its deliverables for the current Management and Improvement Plan concerning the University Endowment. The majority of the endowment was funded by private donations during the "Bucks for Brains" Endowment Match Program, where the state matched public dollars to private donations at Kentucky universities. All funds, both public and private, were required to be endowed, to provide a perpetual source of funding for the activities supported. The Council on Postsecondary Education administered the program and the requests had to meet the Council's eligibility requirements.

BUDGETARY IMPLICATION

The Kentucky State University Endowment had a total value of \$19,559,653.54 on May 31, 2023. Per the Interim Endowment and Spending Policy, 4% of the 12-quarter rolling average would be available for distribution to accounts within the endowment, resulting in \$793,045 of available funds distributed at 1% per quarter drawdown among the accounts. The accounts are split into faculty endowments, departmental endowments and scholarship endowments.

RECOMMENDATION

Acting President Michael D. Dailey, PhD, recommends that the Board of Regents approve the Investment and Spending Policy and the Internal Endowment Policy before their interim statuses end.

MOTION

Not applicable.



KENTUCKY STATE UNIVERSITY POLICIES AND PROCEDURES

POLICY TITLE: Interim Policy on Internal Endowment Agreements

VOLUME, SECTION & NUMBER: 4.1.15

APPROVED BY: Acting President Michael D. Dailey, PhD

EFFECTIVE DATE: June 26, 2023 (Expected) [Interim until approved by the Board of Regents—expires 180 days from approval by the President]

REVISED FROM: Not applicable (New Policy)

PURPOSE:

Kentucky State University, through the practice of shared governance, aims to formally develop, approve, disseminate, implement, and maintain endowment agreements in a uniform process. To ensure compliance with donors' wishes, expectations, directives, restrictions, etc., each endowed account shall have a governing document.

In the absence of a signed memorandum of understanding, agreement, fund outline, or any other governing document, the University will draft Internal Endowment Agreements, which will be guided by the following principles:

Internal Endowment Agreements will:

- Support the University's mission, values, initiatives, and strategic goals;
- Align ownership with appropriate authority, responsibility, and accountability;
- Comply with applicable federal, state, and local laws and regulations, as well as all accreditation standards;
- Be consistent with other University-executed agreements;
- Be transparent; and
- Have a mechanism for amendments, revisions, changed circumstances, and repeals.

The implementation of an Interim Policy on Internal Endowment Agreements enables Kentucky State University to manage its body of endowed funds effectively and efficiently. While some endowed funds have existing agreements, each fund should have an executed governing document on file for internal controls.

POLICY STATEMENT:

Pursuant to Kentucky Revised Statutes 164.350(2), each university board has the power and duty to “adopt bylaws, rules, and regulations for the governance of” their institution. In accordance with KRS 164.350(2), *The Gold Book: Bylaws of Kentucky State University Board of Regents*, Article II, Section 2(k), reiterates that, “[the Board acts] as a policy-making body by adopting policy statements of governance and operations of the University”.

As such, the Board of Regents of Kentucky State University has declared that the University shall be governed by Board-adopted policies (“Policies”) and University-adopted procedures (“Procedures”). It is the expectation of the Board of Regents that the University President and administration will develop a system of procedures/processes that will aide in the implementation of policies that manage routine operations of the University. By way of the Policy on Policies, the Board of Regents established the process for the development, adoption, and management of all University policies. The Board retains full policy-making authority and delegates to the President the authority to approve internally developed procedures and interim policies.

House Bill 250 (2022) directed the Council on Postsecondary Education to establish a Management and Improvement Plan for the University. The Council’s Plan requires the University to review endowment agreements and execute new agreements where needed. It further instructs that when no endowment agreement exists in the University’s files, an internal agreement may be established to ensure a governing document is on file for all campus endowments.

RELATED PROCEDURES:

Procedures for Developing & Implementing Internal Endowment Agreement

Internal Endowment Agreement Template

All new Internal Endowment Agreements must use the template [See Appendix I]. The template components include the following:

- Agreement Statement: This section must identify which KSU employee is responsible for the endowed fund.
- Fund Information: This section must provide the history and other pertinent information relating to the endowed fund.
- Program Information: This section must identify what program the endowed fund supports and who will oversee the program.
- No Donor Control; No Donor Benefit: This section must demonstrate that the endowed fund is in compliance with current regulations.
- Endowment Policies: This section must identify the policies that govern the endowed fund.
- Stewardship Reports: This section must identify what reporting will occur

concerning the program.

- **Publicity:** This section must identify the expected publicity concerning the program.
- **Change in Circumstances:** This section must identify what actions can be taken if the program's situation changes.
- **Entire Agreement:** This section must identify any terms that are being incorporated from previous documents and actions, and it must state that the instant agreement reflects all terms and conditions agreed upon by the parties.
- **Amendment:** This section must identify how the agreement may be amended in the future.
- **Acceptance:** This section must identify who may sign the agreement.

Creation and Approval Process

- a. An endowed fund is identified as not having an executed agreement between the funder and the University.
- b. The Office of Institutional Advancement reviews all available historical information on file for the fund.
- c. Utilizing the internal endowment agreement template, the Office of Institutional Advancement drafts the agreement with any known restrictions from the historical documents.
- d. The Office of Institutional Advancement then submits the draft internal endowment agreement to the Office of General Counsel for review.
- e. Upon review and acceptance to form, the draft internal endowment agreement is submitted to the Vice President for Finance and Administration for acceptance.
- f. Upon acceptance, the Internal Endowment Agreement will be placed in the fund's governing folder and will remain in force until replaced.

Periodic Review of Internal Endowment Agreements

University Internal Endowment Agreements should be reviewed on a periodic basis (every three years, at a minimum) by The Office of Institutional Advancement and/or the Office of Finance and Administration. Agreements will be reviewed for the following:

- Continued relevance to the University's mission and values;
- Consistency with new Donor Agreements;
- Reflection of any changes in laws, regulations, accreditation standards, educational goals/practices, University practices, etc.;
- Errors in fact or language;
- Location of any previously unknown governing documents; and
- Any other potential problems.

If changes to the agreement are deemed necessary, the amendment process should be initiated.

Amendment Process

Substantive agreement revisions may arise through necessity, or as a result of the regular three-year review. Substantive revisions must follow the standard procedures as set forth in the *Creation and Approval* portion of this policy. Non-substantive revisions to an internal agreement do not require any review beyond the Office of Institutional Advancement. Non-substantive changes may take many forms, including but not limited to, grammar or spelling corrections, technical revisions, updated names of pertinent offices or departments, and reorganized agreement sections.

Repealing an Internal Endowment Agreement

If an Internal Endowment Agreement is identified as no longer relevant or necessary due to the locating of an original governing agreement or an executed agreement with the original funder or their designee, the Internal Endowment Agreement shall be superseded in its entirety immediately upon the filing of the existing agreement in the fund's governing folder.

Archiving an Internal Endowment Agreement

If an Internal Endowment Agreement is updated, revised, amended, or repealed, the older version of the agreement will be archived in the fund's governing folder.

DEFINITIONS:

Administrative Procedures: Operational guidelines that apply institution-wide and require approval only from University Counsel and the President.

Interim Policy: This is a provisional Policy issued when a University Policy is needed before the standard process can be completed. An Interim Policy must carry an expiration date and may be allowed to expire without additional action, extended one more time for a specified period upon special permission from the President, or replaced by a standard University Policy.

Non-substantive Internal Endowment Agreement Revisions: A revision that, as implemented, would be limited in scope insignificant in the operations of a fund or program. Examples would be grammatical clarifications, changes to employee titles or contact information, corrections of misspellings, or website/link corrections.

Internal Agreement Template: Document that sets the standard for how all policies will be written and organized.

Substantive Internal Endowment Agreement Revision: A revision that, as implemented, would result in a significant material change to an endowed fund or program.

University: Kentucky State University

University Policy: Policy that applies institution-wide and is directly tied to the legal compliance of the University.

ENTITIES AFFECTED:

All employees, students, any other individuals affiliated with the University by contract (including non-employees, such as vendors and independent contractors), and visitors.

POLICY OWNER/INTERPRETING AUTHORITY:

Office of Institutional Advancement

Office of Finance & Business Affairs/Finance & Administration

RELATED POLICIES/DOCUMENTS:

Policy on Policies

Internal Endowment Agreement Template

STATUTORY OR REGULATORY REFERENCES:

KRS 164.350

INTERNAL ENDOWMENT AGREEMENT

ENDOWED FUND/PROGRAM/SCHOLARSHIP NAME

This Agreement (the "**Agreement**") is made and entered into on _____ (the "**Effective Date**") by and between _____, in their capacity as _____ (hereinafter "**Administrator**"), and Kentucky State University (hereinafter "**University**").

1. _____ [**Fund**]. The University received a charitable contribution totaling \$ _____ to establish and support an endowed " _____ **Fund**" [in _____] (hereinafter "Fund"). Individuals, organizations, or business entities may make additional charitable contributions to the Fund at any time. The University shall receive and administer such charitable contributions in accordance with the terms of this Agreement, the policies of the University, and all applicable regulations and laws.
2. _____ [**Award Program**]. The Fund shall be used at the discretion of the _____ to create and support a _____ Award Program in _____ (the "**Program**"). The Program will include a _____ *Award* to recognize individuals who personify goodwill and demonstrate, through their work, service, mission and spirit, a dedication to the Commonwealth of Kentucky and its residents. _____ *Award* recipient(s) will receive an award medallion, and a one-time monetary donation will be made in their name to an existing University fund of their choice. _____ shall be the inaugural recipient of the _____. Thereafter, a nomination committee (the "**Committee**") appointed by _____ shall review nominations to select up to three (3) nominees for final selection by the President of the University. The Committee shall also recommend for the President of the University's approval the monetary donation amount, which amount shall not exceed the Fund's annual available spending distribution. The _____ Fund may also be used to support, among other things, costs, fees, and expenses for the Program's reception/banquet, speaker(s) and honorarium/gift(s), and/or other fees, costs and expenses related to the Program. All such uses shall be in accordance with the normal operations, policies, procedures, regulations and guidelines of the University.
3. **No Donor Control; No Donor Benefit.** Faculty and staff of the University who have contributed to the Fund shall not be a part of the award selection committee referenced above, and they shall not have control of, or direct the uses of, the contributions made pursuant to this Agreement. The University will ensure that donors to the Fund will not receive any benefit from the University, whether direct or indirect, for making their contribution(s) and will not have majority say in the disbursement of funds.
4. **Endowment Policies.** The University shall invest, manage, and administer the Fund in accordance with the University's endowment investment and spending policies approved by the University's Board of Regents. Any unused spending distribution may be returned to the Fund following established protocols and procedures.
5. **Stewardship Reports.** The University agrees, upon request, to provide annual stewardship reports to Fund donor(s) regarding the specific uses of contributions made pursuant to this Agreement upon request.
6. **Publicity.** The University may publicize this agreement and expenditures of the fund. Publicity may include, but is not limited to, University communications, which may be

accessed by various local, state and national news media following established University policies and procedures.

7. **Change in Circumstances.** It is desired that the Fund will be administered to benefit the University in perpetuity. However, should the fulfillment of the purpose stated in this Agreement become unlawful, impracticable, impossible to achieve, wasteful, or obsolete, as determined by the Board of Regents of the University or their designee, then the Fund shall be expended to the point of exhaustion, or the spending distribution redirected for another purpose to support an initiative similar to the original purpose upon recommendation of the University's President after consultation with the Office of Institutional Advancement.
8. **Entire Agreement.** This Agreement contains the entire agreement of the parties with respect to the subject matter hereof and supersedes any prior oral or written agreements or communications between the parties regarding this purpose. However, if an executed original agreement is located, it shall supersede this agreement from the date of filing in the fund's governing folder or a new agreement is executed with the original funder or their designee.
9. **Amendment.** This Agreement may not be changed orally, but only by an amendment in writing signed by the parties hereto.
10. **Acceptance.** This Agreement may be executed in one or more counterparts, including by electronic signature, each of which shall be deemed to be an original, but all of which shall constitute one and the same instrument. A signed copy of this Agreement transmitted by facsimile, email or other means of electronic transmission shall be deemed to have the same effect as delivery of an original executed copy.

[Signature page follows]

IN WITNESS WHEREOF, the parties have entered into this Agreement as of the Effective Date listed above.

ADMINISTRATOR

[Insert Name]
Title

KENTUCKY STATE UNIVERSITY

RECOMMENDED FOR APPROVAL BY:

Reviewed as to Form
Office of General Counsel
Kentucky State University

[Insert Name]
Interim Executive Vice President for Finance
and Administration & Chief of Staff

[Insert Name]
General Counsel

[Insert Name]
Controller



KENTUCKY STATE UNIVERSITY POLICIES AND PROCEDURES

POLICY TITLE: Interim Policy on Endowment Investment & Spending

VOLUME, SECTION & NUMBER: 4.1.16

APPROVED BY: Acting President Michael D. Dailey, PhD

EFFECTIVE DATE: June 26, 2023 (Expected) [Interim until approved by the Board of Regents—expires 180 days from approval by the President]

REVISED FROM: Endowment Investment Policy (2012) & Endowment Spending Policy (2018)

PURPOSE:

This policy is to outline a philosophy that will guide the management of investment assets toward the desired results. It is intended to be sufficiently specific as to be meaningful, yet flexible enough to be practical.

This Interim Endowment Investment & Spending Policy is set forth in order to:

- a. Define and assign responsibilities.
- b. Establish a clear understanding of the investment goals and objectives of the Endowment assets.
- c. Offer guidance and limitations regarding the investment and spending of Endowment assets.
- d. Establish a basis of evaluating investment results.
- e. Manage the Endowment's assets according to industry best practices and applicable laws.

The Interim Endowment Investment & Spending Policy shall be formally reviewed annually and at such other times as desired by the Board of Regents, or the Board's designated Committee, and the University's administration. Any modifications to the policy shall be approved by the Board following their initial approval. This Interim Endowment Investment & Spending Policy shall supersede all existing Kentucky State University Endowment Investment Policies and Endowment Spending Policies.

POLICY STATEMENT:

I. General

The Kentucky State University Endowment (“Endowment”) is an aggregation of funds comprised of gifts from donors and grants from the Commonwealth of Kentucky, with the requirement that they be invested in perpetuity to generate a reliable and steadily growing revenue stream to support the mission of Kentucky State University (“University”) both now and in the future. The revenue stream, or annual spending distributions, supports scholarships, chairs, professorships, and departments, as defined by the executed Endowment agreements. The Endowment is expected to provide fiscal stability because the principal is invested for long-term growth and spending distributions are generated annually.

The University has a fiduciary responsibility to prudently manage and preserve the long-term purchasing power of the Endowment, as well as the individual endowment funds, in order to evenly support present and future beneficiaries. This fiduciary responsibility constitutes both a legal and moral obligation to donors and the Commonwealth of Kentucky, who intend that their gifts and grants provide support for the University into perpetuity.

The Endowment is considered open and can welcome additional funds from current or future donors with the expectation that they be invested on a long-term basis.

II. Delegation of Authority

The Board of Regents delegates to the administration the following investment-related activities.

Hiring/Monitoring of Investment Manager (Firm)

In collaboration with the President, the administration will appoint, monitor, and evaluate the external investment manager (firm) (following the appropriate regulations and guidelines) for the investment asset allocation and strategies approved by the Board of Regents or its designated Committee. The administration will provide updates to the Board/Committee on the ongoing monitoring and evaluation of the firm at each meeting and at other times as requested by the Board/Committee. The administration may implement temporary investments as needed due to the firm’s investment strategy, portfolio structure changes, and/or global conditions.

Management of Endowment Assets

The firm will exercise discretion over the securities or assets in accordance with specified investment guidelines. Investment managers will follow the approved asset allocation guidelines.

III. Financial and Investment Objectives

The following financial and investment objectives have been established for the University Endowment:

1. To preserve the long-term purchasing power of the Endowment assets and the related annual spending distributions over time to evenly allocate support between current and future beneficiaries (intergenerational equity).
2. To earn an average annual spending distribution, after expenses, of at least 5.0% per year over full economic market cycles.

Kentucky Uniform Prudent Management of Institutional Funds Act (KRS 273.600 to 273.645)

Endowment assets will be managed by the Board of Regents or its designated Committee in accordance with the provisions of the Kentucky Uniform Prudent Management of Institutional Funds Act (KRS 273.600 to 273.645).

Annual Spending Distribution Policy

A spending distribution policy has been established that is based on a rolling average of market values in order to reduce adverse budgetary impact due to market volatility of the endowment assets. The annual spending distribution will be calculated by a smoothing formula based on a rolling three-year average of the quarterly market values. Ending market values for the last 12 quarters are averaged, and the result is then multiplied by the 4% spending rate (1% per quarter) to determine the total amount to be distributed. This amount is then allocated to participating funds based on their pro-rata share of the total investment pool.

Note: the calculated annual spending distribution rate must fall between 3.5% and 5% of the current market value of the Endowment. Should the rolling three-year average be outside the range, it will be raised to 3.5% or lowered to 5%. The Board of Regents reserves the right to freeze, lower or increase the annual spending distribution in an extraordinary financial situation.

Management Fee

Eligible Endowment funds will be assessed an annual management fee of 0.50% of the current market value (assessed monthly or quarterly) to support administrative costs.

The Board of Regents may temporarily increase the management fee to support additional expenses associated with Endowment, fundraising, or administrative activities. At no time shall the management fee exceed 1.00% annually.

Underwater Endowment Funds

The target annual spending distribution rate and management fee represent maximum amounts that can be withdrawn annually from individual Endowment funds. The administration, at their discretion, may reduce or suspend withdrawals from individual endowment funds that are underwater. The administration will define underwater endowment funds annually.

Spending distributions and management fee withdrawals will be suspended on all Endowment funds underwater by more than 20%. Endowment funds that are underwater more than 10% will undergo a formal review by the Office of the Controller and appropriate staff members to determine the appropriate level of spending distributions in accordance with the following factors set forth in the Kentucky Uniform Prudent Management of Institutional Funds Act:

- the duration and preservation of the Endowment fund;
- the purposes of the Institution and the Endowment fund;
- general economic conditions;
- the possible effect of inflation or deflation;
- the expected total return from income and the appreciation of investments;
- other resources of the institution; and
- the investment policy of the Institution

New Endowment Funds

Spending distributions on new Endowment funds will be delayed for at least one year in order to build a reserve for future spending distributions. The administration may modify this requirement depending on partial year returns.

IV. Investment Policies

Diversification

Disciplined management of the asset allocation is necessary and desirable. Diversification of investments among assets that are not similarly affected by economic, political, or social developments is highly desirable. The general policy shall be to diversify investments so as to provide a balance that will enhance total return, while avoiding undue risk concentrations in any single asset or investment category.

Asset Allocation

To ensure broad diversification, the asset allocation will be set with the following target percentages and within the following ranges:

<u>ASSET CATEGORY</u>	<u>TARGET</u>	<u>RANGE</u>
GLOBAL EQUITY	61%	35 – 70%
<i>Public</i>	38	
<i>Private</i>	23	
FIXED INCOME	12	5 – 25%
<i>Public Fixed Income</i>	10	
<i>Private Credit</i>	2	
REAL ASSETS	12	5 – 20%
<i>Public</i>	3	
<i>Private</i>	9	
DIVERSIFYING STRATEGIES	15	5 – 20%

Note: Sub-asset category (e.g., Public Equity) figures reflect working targets. Investment Management Firm has flexibility to adjust sub-asset category exposures within broader, asset category (e.g., Global Equity) ranges, based on market conditions and ongoing research.

Global Equity – The allocation will consist of public and private equity-oriented funds managed by external investment firms. This is expected to be the highest risk, highest return asset category of the four, and the primary driver of portfolio growth over time. The allocation will be diversified by factors including security, sector, geography, market capitalization, and manager style. Private equity investments will be made with the expectation that long-term returns materially exceed those of the public markets.

Fixed Income –The allocation will consist of obligations of sovereign nations and corporations, mortgage- and asset-backed securities, money market instruments, and bank deposits. The allocation will consist of two broad categories: 1) public fixed income and 2) private credit. The primary role of the public fixed income portfolio is to provide a partial hedge in the event of economic contraction, deflation, and/or severe flight to safety/quality. It is expected that this portion of the portfolio would serve as one of the primary sources of spending during such periods, when the prices of other assets in the portfolio may decline. Therefore, while the public fixed income allocation may include some investments rated below investment-grade, it is generally expected to have a high quality rating on average (typically “A” or better by a recognized bond rating agency). The private credit allocation may include obligations of any credit quality and is expected to generate long-term returns that materially exceed those of the public credit markets.

Real Assets – The allocation will consist of public and private assets. Public real assets may include Real Estate Investment Trusts (REITs), Master Limited Partnerships

(MLPs), natural resource equities, commodities, and Treasury Inflation-Protected Securities (TIPS). Private real assets may include real estate, natural resources, and infrastructure. Private real assets are expected to generate long-term returns that materially exceed those of public real asset alternatives. Private assets may include real estate near the University campus which is deemed to have strategic value for the University. For diversification purposes, not more than 2% of the portfolio will be invested in local real estate as opposed to external managers. The 2% maximum will be defined as the market value of the portfolio at the time of investment. All real assets are expected to provide inflation protection as well as generate positive real rates of return.

Diversifying Strategies – The allocation will consist of a diverse group of managers and strategies with a goal of earning positive returns over time, but with moderate sensitivity to the public equity markets. Included in this category are strategies such as long/short equity, low-beta equity, event-driven and special situations investing, merger and capital structure arbitrage, quantitative strategies, global macro, long/short credit, and distressed securities. The diversifying strategies portfolio is expected to generate a long-term return between equities and bonds (closer to equities), with less volatility than equities. Returns should generally be better than equities when equity markets fall significantly, and behind equities when equity markets rise significantly.

Rebalancing

Rebalancing is a term that describes the periodic movement of funds from one asset class or category to another for the purpose of realigning the assets with the asset allocation target. A rebalancing strategy is an important element of asset allocation policy. Systematic rebalancing will ensure that the portfolio's risk profile remains consistent with this Interim Endowment Investment & Spending Policy. However, excessively tight ranges and frequent rebalancing can lead to unnecessary transaction costs.

The rebalancing policy is governed by allocation ranges rather than time periods. The ranges, specified in the table above, are a function of the volatility and liquidity of each asset class and the proportion of the total fund allocated to the asset category. While the allocation to all asset categories remains within these limits, staff will first use cash flows, as available, to prudently manage allocations relative to the target. When an asset category violates the lower or upper limits, public market funds will be actively rebalanced back to the target.

When any one of the public market asset categories hits a trigger point, the entire fund may be rebalanced back to asset category target allocations with the understanding that it may be impractical to return the private asset categories precisely to target in the short term. Accordingly, qualitative considerations (e.g., transaction costs, liquidity needs, investment time horizons, etc.) will be considered in determining the potential timing and extent of rebalancing.

Investment Management Firm is responsible for developing and implementing a rebalancing plan that is appropriate for existing market conditions, with a primary objective of minimizing transaction costs and portfolio disruptions. In the event an allocation trigger point is not reached, staff may still make minor changes among asset categories and within individual asset categories, as needed, to more effectively implement the program and to maintain proper exposure to the approved asset allocation and asset category portfolio structures. Staff will report the results of all rebalancing activity to the Board or its designated Committee at the regular meetings.

Liquidity

The Endowment is intended to provide a reliable and steadily growing revenue stream to support the mission of the University into perpetuity. As a result, the Endowment has a long-term orientation. In addition, the withdrawal rate from an Endowment fund is well defined, predictable, and of modest size relative to the total assets. The administration is responsible for managing the liquidity of the portfolio to fund spending distributions and capital calls, while maintaining the appropriate market exposure.

Certain appropriate investment options, particularly in alternative asset classes, involve fund structures with liquidity constraints that align with less liquid portfolio holdings. The tradeoff between return opportunities and liquidity will be considered throughout the portfolio construction process.

Sufficient liquidity should be maintained to fulfill the spending distributions and operating objectives of the Pool. Portfolio liquidity will be monitored using a three-tier system:

Liquid: available within 90 days

Semi-liquid: available in 90 days or more, but less than 2 years

Illiquid: available only in 2 years or more

Classification of Asset	Guideline
Liquid	no less than 35%
Combined:	Semi-liquid & Illiquid - no more than 65%
Illiquid	no more than 40%

New commitments will be made to illiquid/private capital investments with the intent to keep current market value of liquid holdings above 35% of the total fund. Illiquid percentages will be calculated based on current market value. The administration, assisted by the Investment Management Firm, will complete annual forecasting and make appropriate commitments to reach and maintain the approved policy allocation and liquidity while ensuring diversification across vintage year, strategy, geography, etc.

It is recognized that significant changes in investment market values could cause the portfolio to be positioned outside of these guidelines. If this occurs, staff will communicate this to the Board or its designated Committee and develop a plan to

reposition the portfolio consistent with these guidelines over a reasonable time frame.

Proxy Voting

The Board delegates full authority for proxy voting to the administration for the securities under their discretionary authority and requires the investment managers to vote all proxies in the best interest of the Endowment. In addition, when requested, the administration will report to the Board regarding their proxy-voting policies and activities behalf of the Endowment.

Transaction Costs

The Board requires the Investment Management Firm, in their capacity as fiduciaries, to manage the transactions costs they incur on the Endowment's behalf in the best interests of the University. When requested, the firm will report to the Board or its designated Committee regarding the transactions costs incurred and the brokers used on the Endowment's behalf.

V. Performance Evaluation

Endowment performance will be monitored and reviewed over short and long-term time periods, with an emphasis on longer-term periods in order to include full market cycles and reflect the Endowment's long-term investment strategy. Performance will be evaluated at two levels: total Endowment and asset class. The levels will include a market index and peer group measurement review. Performance will be reviewed on a gross and net return basis and will include risk metrics and risk-adjusted returns.

Performance Benchmarks

The total Endowment performance will be measured against two principal benchmarks:

1. The primary performance objective of achieving a long-term total return, net of fees and expenses, of at least 5.0%. It is expected that portfolio performance will vary significantly from this benchmark over shorter periods. Therefore, performance compared to this benchmark will be evaluated only over very long periods (ten years or more).
2. A Policy benchmark consisting of market indexes reflecting the Endowment's "strategic target" asset allocation percentages. Performance compared to this benchmark will be evaluated over rolling three- to five-year periods. The current Policy Benchmark appears in the following table:

<u>ASSET CATEGORY</u>	<u>TARGET</u>	<u>INDEX</u>
GLOBAL EQUITY	61%	
Public	38	MSCI All Country World Index
Private	23	Cambridge Associates Private Equity and Venture Capital indices
FIXED INCOME	12%	
Public Fixed Income	10	Barclays Aggregate Bond Index
Private Credit	2	Cambridge Associates Private Credit and Distressed indices
REAL ASSETS	12%	
Public	3	1/3 each Bloomberg Barclays U.S. TIPS Index, NAREIT Index and Alerian MLP Index
Private	9	Cambridge Associates Private Real Estate and Natural Resources indices
DIVERSIFYING STRATEGIES	15%	HFRI Fund of Funds Composite

In addition to these principal benchmarks, performance may from time-to-time be compared to a peer group of similar institutions.

The asset class performance will be measured against:

1. The asset class' index.
2. A peer group universe of similar asset classes.

Performance Expectations

It is expected that, at each level, the Endowment and the asset class should exceed the index return and should be above median against the appropriate peer group universes over full market cycles. It is expected that risk (and risk-adjusted returns) will be in line with the risk associated with the specific market benchmarks over full market cycles.

RELATED PROCEDURES:

See Gift Acceptance and Donor Recognition Policy.

The University shall follow all applicable state procurement procedures and regulations in the selection of the firm.

DEFINITION:

University: Kentucky State University

ENTITIES AFFECTED:

All employees, students, individuals affiliated with the University by contract (including non-employees, such as vendors and independent contractors), and funders.

POLICY OWNER/INTERPRETING AUTHORITY:

Office of Finance & Business Affairs/Finance & Administration

Office of Institutional Advancement

RELATED POLICIES/DOCUMENTS:

Gift Acceptance and Donor Recognition Policy

STATUTORY OR REGULATORY REFERENCES:

KRS 164A.550 to KRS 164A.630 & KRS 273.600 to 273.645