



Monthly Financial Update

Kentucky State University

October 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 September 30, 2023, was \$9,415,558. The September cash balance includes the following reserved items:

- \$2.2 million is reserved for asset preservation projects and is not available for general expenditure. This reserve is held by Kentucky State University (KSU) and represents the available balance of student fees collected for asset preservation projects.
- \$3.7 million is held by the State and reserved for various capital projects, including \$3.4 million of "Asset Preservation Pool" projects approved to be funded with state bonds in the 2022-2024 biennial budget.



Days cash on hand (DCOH) decreased to 47 days as of September 30, 2023, consistent with the monthly decrease in September 2022. Excluding the \$5.9 million reserved for asset preservation and other capital projects, DCOH available to support operations is 18 days at the end of September. Industry standards recommend maintaining 146 days or approximately five months of cash on hand to cover expected operating expenses. As the university is well below industry standards, the Council on Postsecondary Education (CPE) will continue to closely monitor the university's cash position and work with university leadership on a plan to build cash reserves.



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 second quarter of fiscal year 2024 on the following monthly deliverables:

- 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

As reported in Moss Adam's October 2023 Management Improvement Plan Monthly Validation Summary for Q1 2024, KSU demonstrated progress on the monthly deliverables; however, several items were not implemented or were partially implemented. The related Moss Adams report is attached. In general, while there is still much work to be done, more progress was made toward monthly Management Improvement Plan deliverables than in the previous quarter. CPE is monitoring KSU's progress on these monthly deliverables and is working with KSU and Moss Adams to improve the verification process.

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, endowment utilization/stewardship reporting, budget to actual reports and student accounts receivable aging reports.

KSU is currently utilizing Your Part-Time Controller (YPTC), an external service provider, to assist with the following critical processes/functions:

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

CPE and Moss Adams met earlier this year with KSU and YPTC staff to validate the accuracy and integrity of the procedures and internal controls related to the above functions. 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.

Moss Adams will be on-site at KSU in November 2023 to meet with staff members and discuss various Management Improvement Plan deliverables. They will also provide an update on their work to CPE's Executive Committee.

Moving Forward

Obtaining a complete financial reporting and assessment of the institution is still a work in progress, but the situation is improving. 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.

As reported in Moss Adam's Management Improvement Plan Quarterly Report for Q1 2024, KSU demonstrated progress on the various deliverables due for the quarter; however, several items were not implemented or were partially implemented. The related Moss Adams report is attached. CPE is monitoring KSU's progress on the Management Improvement Plan deliverables and assisting where needed. CPE assigned a project manager to assist KSU in scheduling the completion of deliverables and submitting the related reporting for the Q1 2024 Quarterly Report, which was beneficial. Weekly meetings were held with each KSU point of contact for the corresponding deliverable to track progress and help ensure deadlines were met. CPE will continue this monitoring practice for the current quarter.

The university 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.

Blue & Co, LLC, KSU's external audit firm, issued its report on the fiscal year 2021 audit on October 27, 2023, and expects to complete the fiscal year 2022 audit by December 31, 2023. 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 and 2022 and provide an updated financial health assessment utilizing the Composite Financial Index (CFI) methodology used in CPE's November 2021 Financial Assessment Report.

One area of concern is inadequate staffing in KSU's Financial Aid Office, which is currently down to one employee and has caused delays in distributions of financial aid. To address this urgent issue, the KSU Board of Regents approved a short-term contract with Blue Icon Advisors, LLC to manage and perform financial aid operations until permanent financial staff are employed. The related Board of Regents action item is attached. The total cost of the services provided under the contract will not exceed \$200,000 unless the university opts to extend it past December 31, 2023. CPE supports this short-term contract, which will be paid for using CPE incentive funding. CPE continues to monitor what appears to be larger than normal student balances, as compared to this time in prior years and hopes that this short-term financial aid department assistance will complete the release of financial aid and significantly reduce student balances.