



Monthly Financial Update

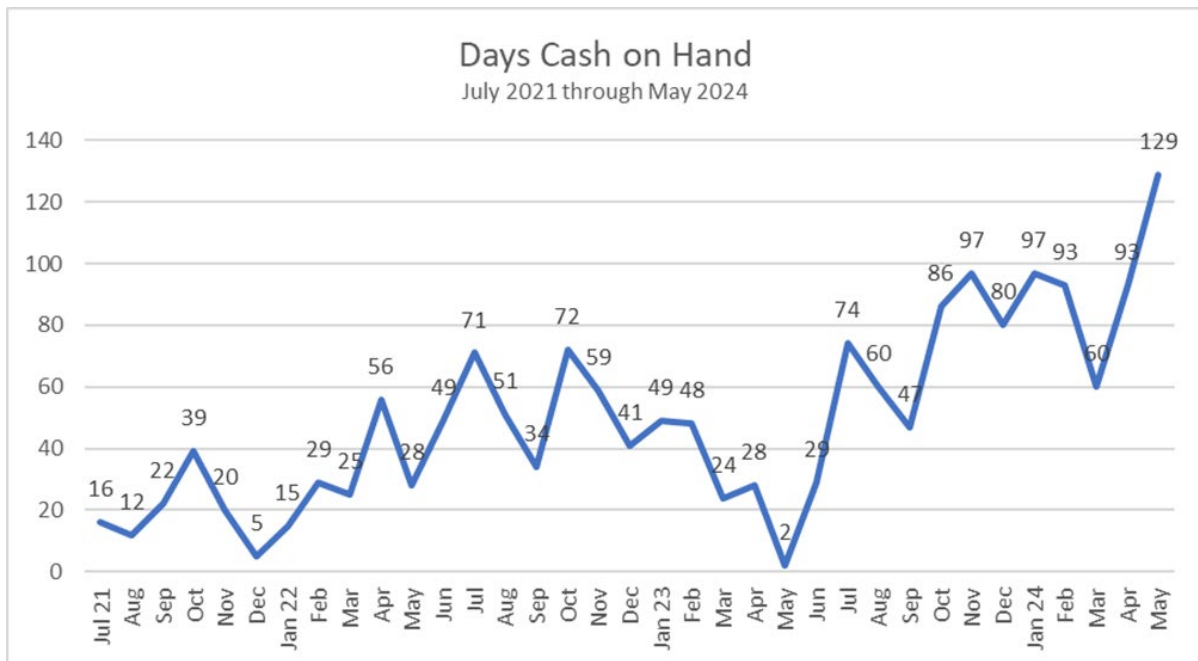
Kentucky State University

June 2024

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 May 31, 2024 was \$25,809,396, representing 129 days cash on hand (DCOH) to support future operations and capital projects. The May 2024 cash position represents the highest month-end cash position in the last three fiscal years, as depicted below.



The May 31, 2024 cash position includes \$20.9 million of reserves for the following items:

- \$8.1 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 biennial budget.
- \$1.3 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.
- \$8.8 million in grant funds from CPE is held by KSU and reserved for specific projects.
- \$2.7 million in other grant funds is held by KSU and reserved for specific projects.
- \$0.1 million is held by KSU and reserved for the closeout of KSU’s Perkins loan program.

Excluding the \$9.4 million reserved for capital projects (first two items above), DCOH available to support operations was 82 days at the end of May; however, excluding the \$20.9 million of total reserves, DCOH drops to 24 days at the end of May.

CPE will continue to closely monitor the university’s cash position and will also work with university leadership on a 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 fourth 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 Adams’ April 2024 Management Improvement Plan Monthly Validation Summary for Q3 2024, KSU implemented some of the monthly deliverables; however, several items were partially implemented, or documentation was not submitted for review. In general, less progress was made toward monthly Management Improvement Plan deliverables in Q3 2024 than in the previous quarter as Moss Adams increased its verification procedures and is requiring more documentation to mark certain deliverables as implemented. CPE requested the

additional verification procedures and continues to monitor the verification process and KSU's progress on these monthly deliverables.

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 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.

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. To bolster these efforts, the CPE Board approved a new monthly reporting package for KSU to follow effective for January 2024 reporting.

Attached is the reporting package submitted by KSU for May 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. The percentages reflected in the reports do not represent the percentage of the budget realized and should be disregarded. CPE will work with KSU to reconcile and validate the reports.
- CPE verified reported cash balances to supporting bank statements and state reports, noting minor errors in reported balances. The reported and corrected totals as of May 31, 2024 are shown below:

	Reported Totals	Corrected Totals
Total Cash Balance	\$ 25,342,595	\$ 25,809,396
Total Reserved Cash Balance	\$ (20,335,926)	\$ (20,910,980)
Available Cash Balance	\$ 5,006,669	\$ 4,898,415

See the Cash Position section above for additional comments on May cash balances.

- KSU reported total balances owed for enrolled students of \$1.3 million as of May 31, 2024, representing an increase of \$1.2 million over May 31, 2023. KSU reported total balances owed for non-enrolled students of \$2.7 million as of May 31, 2024, representing an increase of \$0.5 million over May 31, 2023. In prior reporting packages prepared by KSU, the reported balances for non-enrolled students included balances that have been written off by the institution, however this month’s reporting package correctly excludes those balances. CPE will review KSU’s plan to address the outstanding balances and provide additional details in a future report.
- KSU’s total accounts payable on May 31, 2024 was \$1.5 million, comprised of the following: 74% of invoices with purchase orders, 21% of invoices without purchase orders and 5% of credit card payables. The majority of accounts payable for invoices with and without purchase orders (PO’s) were past due as of May 31, 2024, as indicated below:

<u>Aging in Days</u>	<u>% of Total in Category</u>	
	<u>Invoices With PO's</u>	<u>Invoices Without PO's</u>
0-30	3%	12%
31-60	77%	7%
61-90	1%	20%
91-120	0%	0%
120+	19%	60%

However, KSU reported that the credit card payables were current as of May 31, 2024. 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 all deliverables are completed in a timely manner.

Related, CPE and KSU leadership recently performed a review of all remaining MIP deadlines to determine a reasonable timetable for completion by the end of fiscal year 2025 (June 30, 2025). This will allow CPE and external evaluator Moss Adams to analyze overall progress and complete the summative report due November 1, 2025 as required by HB 250. Those changes recommended by CPE staff were adopted by the Council at its June 20, 2024 meeting. Attached is the related action item approved by the CPE Board.

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>.

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 is currently transitioning to a new audit firm for the fiscal year 2023 audit and expects the audit to be completed in September 2024. Blue is assisting with the transition to the new audit firm. CPE will provide additional details on the new audit firm upon execution and approval of the related contract. 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 upon completion of the fiscal year 2023 audit.

At the June 14, 2024 Board of Regents meeting, KSU's Board approved a budget for fiscal year 2025. The related 2024-2025 Budget Overview is attached. The fiscal year 2025 budget includes a 2% increase in tuition and fees and assumes projected full-time undergraduate enrollment of 1,329 students. Total budgeted revenue for fiscal year 2025 decreased approximately \$3.4 million compared to fiscal year 2024 due mainly to increases in scholarship allowances and bad debt reserves. Fiscal year 2025 budgeted expenses include a non-mandatory transfer to reserves of \$2,000,000 and additional transfers to reserves are planned in the coming years, as indicated in the five-year budget prepared by senior leadership. The five-year budget will be presented to the Board of Regents in August 2024.