



Monthly Financial Update

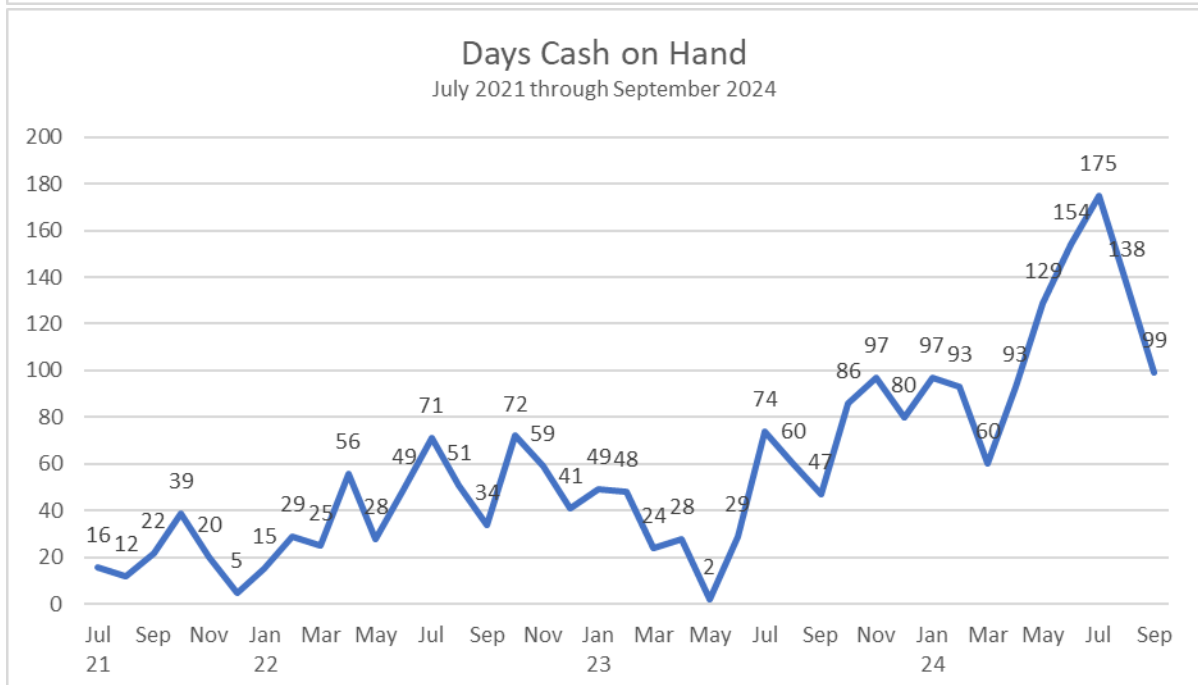
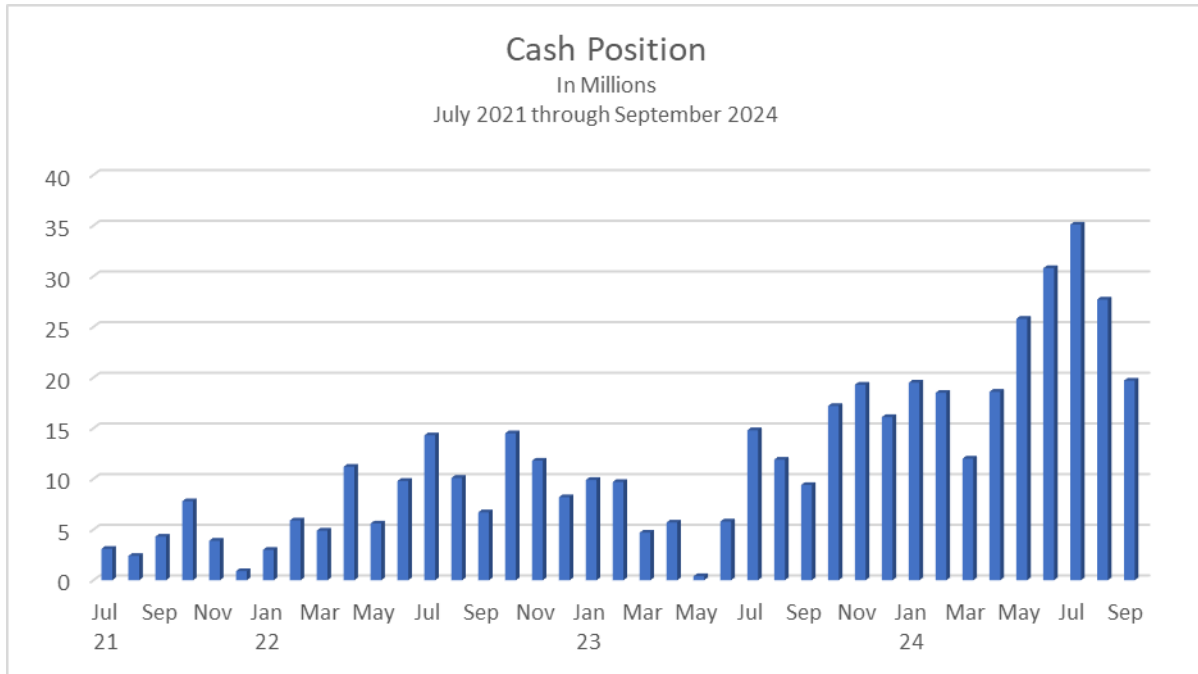
Kentucky State University

October 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 September 30, 2024 was \$19,734,294, representing 99 days cash on hand (DCOH) to support future operations and capital projects. The September 2024 cash position was down from August, consistent with the monthly trend in prior years, as depicted below.



The September 30, 2024 cash position includes \$20.6 million of reserves for the following items:

- \$13.0 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.
- \$0.7 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.
- \$6.8 million in grant funds from CPE is held and reserved by KSU for various projects. Of this amount, \$4.4 million is restricted for specific projects and \$2.4 million is unrestricted.
- \$0.04 million is held by KSU and reserved for the closeout of KSU’s Perkins loan program.

Excluding the \$13.7 million reserved for capital projects (first two items above), DCOH available to support operations was 30 days at the end of September; however, excluding the \$20.6 million of total reserves, DCOH was -4 days, which is concerning. KSU leadership offered the following perspective on the September 30th cash position:

- KSU incurred significant expenses in September, including the fall payment for the new dorm, negatively impacting the month-end balance.
- The \$6.8 million grant funds from CPE includes \$2.4 million of unrestricted funds, as noted above.
- The University’s cash position benefited from receipt of the second quarter state appropriation funding on October 1st.
- Delays in collecting student receivables.

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 second quarter of fiscal year 2025 on the following monthly deliverables, some of which were modified in order to better assist KSU with compliance while still maintaining appropriate accountability:

- 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' October 2024 Management Improvement Plan Monthly Validation Summary for Q1 2025, 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. The related Moss Adams report for Q1 2025 is attached.

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. KSU also plans to transition its payroll processing from ADP to Banner on January 1, 2025, 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.

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.

Attached is the reporting package submitted by KSU for September 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 will work with KSU to reconcile and validate 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 September cash balances.
- KSU reported total balances owed for enrolled students of \$5.6 million as of September 30, 2024, representing a decrease of \$7.8 million from August 31, 2024 balances due primarily to the application of aid. The \$5.6 million outstanding balance as of September 30, 2024 represents an increase of \$0.9 million compared to September 30, 2023. KSU reported total balances owed for non-enrolled students of \$0 as of September 30, 2024, as the institution cleared all outstanding student debt owed in June 2024 with HEERF funds and institutional aid.
- KSU's reported total accounts payable of \$1.8 million as of September 30, 2024, slightly up from \$1.7 million as of August 31, 2024. The outstanding payables at the end of September were comprised of the following: 45% of invoices with purchase orders, 50% of invoices without purchase orders, and 5% of credit card payables. The majority of payables for invoices with and without purchase orders (PO's) were current as of September 30, 2024, as reflected 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	76%	82%
31-60	21%	5%
61-90	2%	2%
91-120	2%	1%
120+	0%	9%

KSU reported that the Diners Club payable was current as of September 30, 2024, however the American Express payable was over 30 days. 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 FYs 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 FY 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 Q1 2025 is attached, which reflects continued progress on MIP deliverables. The Moss Adams team was on campus October 9th to meet with KSU staff to review outstanding deliverables and assess progress toward completion. Moss Adams also used the time to gather information to assist in the development of a final testing plan for the final report.

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 review committee recommendations will go before the SACSCOC board for final action in December 2024.

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 also executed a contract with Protiviti to provide assistance with preparation of financial statements and other tasks related to the external audit. KSU hoped the audit would be completed by the end of September 2024, but now expects it to be completed in the fourth quarter of calendar 2024. Work on the fiscal year 2024 external audit will commence upon completion of the 2023 audit, with the goal to complete by March 31, 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.

At the September 26, 2024 Board of Regents Student Affairs Committee meeting, KSU leadership reported total Fall 2024 enrollment of 2,175 students, up 28.9% compared to the same time last fall. Attached is the related enrollment update presented at the September 26th meeting. While the increase in Fall semester enrollment is positive, the institution could experience a significant decline for the Spring 25 semester if students with unpaid balances are

placed on financial hold and become ineligible for further registration, in accordance with the Board-approved Collections Policy published at the following webpage:

<https://www.kysu.edu/policies/files/Collections-Policy-4-1-19.pdf>.

On October 29, 2024, KSU announced the formation of the Kentucky State University Thoroughbreds Foundation, Inc. (“new philanthropy foundation”), a newly established 501(c)(3) organization dedicated to provide support to KSU, its students, and its programs. The formation of the new philanthropy foundation follows an ongoing dispute with the Kentucky State University Foundation, Inc. (“KSU Foundation”), which is the original philanthropy foundation formed in 1968 by the KSU Board of Regents. On April 21, 2024, Tammi Dukes, Chair of the KSU Board of Regents, announced the KSU Board had approved a freeze on the relationship with the KSU Foundation due to ongoing challenges in obtaining requested documentation from the KSU Foundation, including KSU Foundation’s legal action to keep certain records hidden from KSU and the public. For more information on the new philanthropy foundation and freeze with the KSU Foundation, see the attached press releases. Related, KSU recently executed a contract with Benefactor Group to perform a philanthropy review, including a capital campaign readiness assessment and feasibility study. Benefactor Group will also provide consulting related to the new philanthropy foundation and the ongoing dispute with the KSU Foundation.