



Monthly Financial Update

Kentucky State University

June 2022

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.

Background

On April 8, 2022, HB 250 was signed by the Governor, making available a \$23 million loan to stabilize the finances of Kentucky State University (KSU). On April 12, KSU requested a first distribution of \$17.5 million to:

- Repay Revenue Anticipation Notes;
- Provide funds for payroll and operating expenses from April 15 through June 15;
- Replenish the asset preservation fund;
- Hire an accounting firm to prepare financial statements for FY 2021 and FY 2022; and
- Repay deficit state construction accounts.

On June 3, KSU requested the remaining \$5.5 million. The Council will consider this request at its June 17 meeting. Council staff has recommended approval of that request for:

- Payroll and year-end expenses from June 15 through June 30;
- Additional funds to close two remaining deficit state construction accounts; and
- Cash reserve to prevent need to borrow for cash flow during FY 2023.

Cash flow projections for FY 2023 indicate that a cash reserve of \$3 to \$5 million is needed to avoid borrowing for cash flow needs in that fiscal year. It is expected that the university will be able to hold that amount in reserve projected as of June 30, 2022.

Of the \$5 million in deficit construction accounts, \$4.98 million has been cleared as of the date of this report. The remaining accounts, totaling approximately \$220,000, are being reconciled and should be cleared by the end of the fiscal year.

Funds for land grant match and asset preservation that are available for expenditure after July 1, 2022 are being properly reserved and tracked. Changes to the chart of accounts in the university accounting system are planned to more accurately track and account for these funds.

Operational Issues – Accounting and Finance

There are several operational issues in accounting and finance that are not yet resolved. Since April 15, the following staff have left the university for various reasons (typically other positions or retirements):

- Controller
- General Accounting Manager
- Grants Accounting Manager
- Two staff accountants

These transitions have further delayed the preparation of the FY 2021 financial statements and the audit of those statements is now on hold. Recently, the university entered into a contract,

approved by the KSU Board of Regents and CPE staff, with Protiviti (a division of Robert Half International) to prepare statements for fiscal year 2021 and fiscal year 2022. This will allow statement preparation to continue and audit work to begin again while the university fills vacant accounting positions.

The university also has a contract in place with Ellucian (the provider of the university's enterprise resource management system) to analyze the implementation and use of the accounting system and to recommend changes to improve the timeliness and accuracy of financial reporting. That review has been completed and university and CPE staff are developing a plan to implement the recommendations.

Cash Position

As can be seen from the chart below, the university's cash position has improved significantly due to the resources provided in HB 250.

Cash balances shown below from January through March are supported by a \$2.5 million loan from Fifth Third Bank. This loan was repaid in May after the first allocation of \$8.6 million in funds from HB 250 to KSU. The remaining funds will be allocated to the university in June.

A portion of the current cash balance is not available for operating expenditures due to restrictions (for example, asset preservation fee proceeds).



Current Year Operations through May 31, 2022

The operational deficit appears to have improved throughout the year, although the final deficit will not be determined until year-end invoices and payroll have been posted to the accounting

system. It is likely that the cash-based operational deficit (excluding non-cash items such as depreciation and pension impacts) will be closer to \$5.5 to \$6 million instead of the \$7 million that had been projected earlier in the year. This is primarily due to the cost cutting measures implemented by the Acting President and the Chief Financial Officer.

However, CPE staff still have recommended that the entire \$23 million loan be disbursed to the university. Any surplus over the operating deficit will help rebuild a cash reserve and prevent KSU from having to borrow from their bank during the year to address cash flow timing.

Summary reports of the main budget categories as of May 31, 2022 are provided below.

Education and General (E&G)

The E&G budget incorporates revenues and expenses related to the general operations of the educational mission of the campus. Revenues include the educational portion of the state appropriation, tuition and fees, and any other general revenues. Expenditures include teaching faculty, administrative staff and costs associated with the general mission of the university.

Council staff are tracking recurring expenses and revenues separately from the resources provided in HB 250. Deficits in any of these accounts ultimately will be addressed using HB 250 loan funds.

Education and General - Revenues

State Appropriations*	\$	18,993,700	
Tuition and Fees	\$	16,877,776	
Institutional Aid**	\$	(2,216,323)	
Other	\$	878,374	
Total			\$ 34,533,527

Education and General - Expenditures

Personnel	\$	23,444,320	
Operating	\$	9,910,923	
Total			\$ 33,355,243

Surplus/Deficit	\$	1,178,284	
Less Required reserve Asset Preservation Fee	\$	447,780	
Less uncollected Tuition (estimate)	\$	1,300,000	
Net Surplus/(Deficit) as of May 31, 2022	\$	(569,496)	

* Includes recurring state appropriations only. No proceeds from the loan in HB 250 are included in this chart.

* Institutional aid should be shown as a reduction in tuition and fees, approximately \$2 to \$3 million in aid is currently included in operational costs. That will be reconciled as an audit adjustment.

Auxiliary Operations

For KSU, Auxiliary Operations include those functions like student housing, dining services, the bookstore, etc. Auxiliary funds are unrestricted but should be used primarily to support housing and dining functions.

Auxiliaries - Revenues	
Dining Revenues	\$4,077,980
Institutional Aid - Dining	\$ (163,293)
Housing Revenues	\$3,478,276
Institutional Aid - Housing	\$ (181,251)
Other Revenues	\$ 90,165
Total	<u>\$ 7,301,877</u>
Auxiliaries - Expenditures	
Personnel	\$ 100,356
Operating	<u>\$5,262,838</u>
Total	\$ 5,363,194
Surplus/(Deficit) as of May 31, 2022	\$ 1,938,683

Land Grant Match

As an 1890 Land Grant institution, KSU receives funds from the state that are used to match federal funds for agricultural research and extension. These matching funds are reserved for that purpose only. Due to the difference in the state and federal fiscal years, a portion of land grant match is reserved at the end of each fiscal year for matching uses between July 1 and September 30 of the following calendar year.

Land Grant Match - Revenues

State Appropriation*	\$ 8,210,400
Other Revenues	\$ 38
Total	<hr/> \$ 8,210,438
Land Grant Match - Expenditures	
Personnel	\$ 5,255,213
Operating	<hr/> \$ 1,747,470
Total	\$ 7,002,683
Surplus/(Deficit)	\$ 1,207,755
Plus Match appropriated in HB 1 2022 RS	<hr/> \$ 671,500
Net Surplus/(Deficit) as of May 31, 2022	\$ 1,879,255

* Additional match appropriated in 2022 RS HB 1 has not been recorded as revenue as of May 31, 2022. It is included below the line on this chart.

Asset Preservation

In 2018, the university implemented an asset preservation fee paid by all students. This fee was approved by CPE. The funds generated by this fee are restricted in use to asset preservation projects approved by the KSU Board of Regents and CPE.

These funds now are being properly tracked and reserved and no funds have been expended since the fee was implemented.

Fiscal 2022 revenues from this fee total \$447,780 and the total amount reserved on June 30, 2022 is projected to be \$1,659,854. These funds can be used as match toward the asset preservation authorization in the state/executive branch budget, HB 1 (2022).