



Kentucky Community and Technical College System

**2023 - 2024 Annual Financial Report
(A Component Unit of the Commonwealth of Kentucky)**

June 30, 2024



KENTUCKY COMMUNITY AND TECHNICAL COLLEGE SYSTEM

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Independent Auditor's Report

Board of Regents
Kentucky Community and Technical College System
Versailles, Kentucky

Report on the Audit of the Financial Statements

Opinions

We have audited the financial statements of the business-type activities and the fiduciary activities of Kentucky Community and Technical College System (System), collectively a component unit of the Commonwealth of Kentucky, as of and for the year ended June 30, 2024, and the related notes to the financial statements, which collectively comprise the System's basic financial statements as listed in the table of contents.

In our opinion, the accompanying financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities and the fiduciary activities of the System, as of June 30, 2024, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinions

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (GAAS) and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States (*Government Auditing Standards*). Our responsibilities under those standards are further described in the "Auditor's Responsibilities for the Audit of the Financial Statements" section of our report. We are required to be independent of the System, and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the System's ability to continue as a going concern for 12 months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinions. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS and *Government Auditing Standards*, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the System's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the System's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussions and analysis, pension, and other postemployment and long-term disability benefit plan information as listed in the table of contents be presented to supplement the basic financial statements. Such information is the responsibility of management and, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, which considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with GAAS, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Supplementary Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the System's basic financial statements. The schedule of expenditures of federal awards as required by Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the accompanying schedule of expenditures of federal awards is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Information

Our audit was conducted for the purpose of forming an opinion on the System's basic financial statements as a whole. The board of regents' listing is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has not been subjected to the auditing procedures applied by us in the audit of the basic financial statements, and accordingly, we do not express an opinion on it or provide any assurance on it.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated December 2, 2024 on our consideration of the System's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the System's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the System's internal control over financial reporting and compliance.

Forvis Mazars, LLP

**Louisville, Kentucky
December 2, 2024**

KENTUCKY COMMUNITY AND TECHNICAL COLLEGE SYSTEM

Management's Discussion and Analysis

June 30, 2024

Management's Discussion and Analysis of the Kentucky Community and Technical College System (KCTCS) financial statements provides an overview of the financial condition as of June 30, 2024 and 2023. This discussion has been prepared by management and is unaudited and should be read in conjunction with the financial statements and the related notes which follow this section. The financial statements, notes, and this discussion and analysis are the responsibility of management.

KCTCS reports proprietary (business-type) activity in the Statement of Net Position, Statement of Revenues, Expenses and Changes in Net Position, Statement of Cash Flows, and Notes to the Financial Statements.

KCTCS reports fiduciary activity in the Statement of Fiduciary Net Position, Statement of Changes in Fiduciary Net Position, and Notes to the Financial Statements. KCTCS' fiduciary activity comprises a postemployment benefit trust (KCTCS OPEB trust) that provides health insurance coverage to retirees and spouses.

The financial statements are prepared in accordance with accounting principles generally accepted in the United States of America (US GAAP) and as prescribed by the Governmental Accounting Standards Board (GASB). Accordingly, the accrual basis of accounting is used whereby revenues are recognized when earned and expenses are recognized when incurred, regardless of when cash is exchanged.

Financial Highlights

- KCTCS' financial position remained solid at June 30, 2024, with assets and deferred outflows of \$1.6 billion and liabilities and deferred inflows of \$385 million. Net position, which represents KCTCS' residual interest in assets and deferred outflows after liabilities and deferred inflows are deducted, was \$1.2 billion at June 30, 2024 – 76.0 percent of total assets and deferred outflows.
- Total assets and deferred outflows increased \$123.5 million (8.3 percent) primarily due to an increase in cash and cash equivalents of \$74.8 million and an increase in capital assets of \$40.3 million.
- Total liabilities and deferred inflows decreased by \$31.2 million (7.5 percent) primarily due to a decrease of \$27.3 million for net other post employment benefit liability.
- Total net position increased \$154.7 million due to an increase in unrestricted net position of \$25.9 million, an increase in restricted net position of \$81.5 million, and an increase in net investment in capital of \$47.3 million.
- Operating revenues were \$247.5 million and operating expenses were \$632.3 million, resulting in a loss from operations of \$384.9 million. When nonoperating revenues of \$438.9 million (including \$195.1 million in state appropriations) and other revenues of \$100.7 million are added, this resulted in an increase of \$154.7 million in net position.

KENTUCKY COMMUNITY AND TECHNICAL COLLEGE SYSTEM

Management's Discussion and Analysis

June 30, 2024

Reporting Entity

The Kentucky Community and Technical College System (KCTCS) is a component unit of the Commonwealth of Kentucky (Commonwealth). KCTCS was created in May 1997 by The Higher Education Improvement Act (House Bill 1) of the Kentucky General Assembly. Since its creation, KCTCS has become the largest provider of postsecondary education and workforce training in the Commonwealth.

KCTCS provides both credit and non-credit education and training primarily to Kentucky residents. In fact, for most Kentuckians, higher education begins with KCTCS at one of its 16 colleges through traditional and distance education. Offering over 11,500 online course sections annually, KCTCS is the largest provider of face-to-face, hybrid and/or online learning in the state.

KCTCS provides high quality, relevant educational programs and responsive business and industry training throughout the Commonwealth. Since its inception, KCTCS has provided the lowest tuition in the Commonwealth through a single, straightforward tuition and charge structure. KCTCS is committed to providing the best value in higher education in Kentucky.

KCTCS offers a variety of certificates, diplomas, and associate degree programs as well as customized training programs for business and industry. Through the Kentucky Fire Commission, KCTCS provides fire and rescue training, certifications for first responders and emergency medical technicians throughout the state. All KCTCS colleges are independently accredited by the Southern Association of Colleges and Schools Commission on Colleges (SACSCOC).

KCTCS has 16 colleges with over 70 locations strategically positioned throughout the Commonwealth – Ashland Community and Technical College, Big Sandy Community and Technical College, Bluegrass Community and Technical College, Elizabethtown Community and Technical College, Gateway Community and Technical College, Hazard Community and Technical College, Henderson Community College, Hopkinsville Community College, Jefferson Community and Technical College, Madisonville Community College, Maysville Community and Technical College, Owensboro Community and Technical College, Somerset Community College, Southcentral Kentucky Community and Technical College, Southeast Kentucky Community and Technical College and West Kentucky Community and Technical College. KCTCS is accessible and convenient to all Kentuckians. KCTCS colleges provide education and training in 109 program areas (104 technical program areas) with associated credentials including certificates, diplomas and associate degrees in arts, science, applied science and fine arts. The single most popular area of study is the baccalaureate transfer program (Associate in Arts/Associate in Science), designed to allow students to complete the first two-years of a four year degree at KCTCS and transfer those credits to any Kentucky or out of state university.

While continuing to emphasize its historical mission to provide general education, KCTCS has increased its focus on occupational and technical education and workforce training. KCTCS is Kentucky's primary provider of workforce training, delivering programs and services that address the full spectrum of needs faced by business and industry, as well as programs for individuals who want to learn new or upgrade current skills. These programs include apprenticeships, clinical experiences, and experience in the workplace to develop a graduate ready to enter the workforce starting their technical career.

Through Workforce Solutions units, KCTCS colleges deliver high quality, cost-effective workforce education including assessment services, customized training, and apprenticeship support. KCTCS Workforce Solutions serves Kentucky's key business and industry sectors ensuring these companies remain globally competitive and contribute to the economic viability of the Commonwealth. During the fiscal year ending June 30, 2024, KCTCS colleges developed and deployed training for 1,713 companies representing 64,120 enrollments. KCTCS also provided assessment services for 4,349 companies representing 42,445 individuals assessed.

KCTCS also provides educational enrichment opportunities through community development classes related to personal improvement, cultural activities, and fine arts. These classes are tailored to meet local needs and provide opportunities for Kentuckians to connect, learn and grow in their communities.

KENTUCKY COMMUNITY AND TECHNICAL COLLEGE SYSTEM
Management's Discussion and Analysis
June 30, 2024

Statement of Net Position: The Statement of Net Position reports financial condition at the end of the fiscal year and shows all assets, deferred outflows, liabilities, and deferred inflows. Assets and liabilities are generally reported at cost; except for investments which are reported at fair value. Condensed Statements of Net Position are shown below as of June 30 (in thousands):

Condensed Statements of Net Position

	2024	2023
Assets and Deferred Outflows		
Current assets	\$ 411,620	\$ 401,247
Noncurrent assets	1,158,821	1,036,092
Deferred outflows	35,829	45,446
Total assets and deferred outflows	1,606,270	1,482,785
Liabilities and Deferred Inflows		
Current liabilities	55,034	49,712
Noncurrent liabilities	285,580	324,278
Deferred inflows	44,336	42,193
Total liabilities and deferred inflows	384,950	416,183
Net Position		
Net investment in capital	669,072	621,800
Restricted	350,956	269,438
Unrestricted	201,292	175,364
Total net position	\$ 1,221,320	\$ 1,066,602

Total assets and deferred outflows were \$1.6 billion as of June 30, 2024, which included \$780.0 million in capital assets, net of accumulated depreciation. Cash was \$581.6 million – 36.2 percent of total assets and deferred outflows. Endowments totaled \$98.5 million – 6.1 percent of total assets and deferred outflows.

Total assets and deferred outflows increased by \$123.5 million (8.3 percent). Cash increased \$74.8 million primarily due to an increase in restricted cash for capital projects. Capital assets increased by \$40.3 million. Investments increased \$11.5 million as a result of a stronger equity market on June 30, 2024, compared to June 30, 2023.

Total liabilities and deferred inflows totaled \$385.0 million as of June 30, 2024. Net pension liability was \$151.1 million – 39.2 percent of total liabilities and deferred inflows. Notes payable totaled \$110.0 million – 28.6 percent of total liabilities and deferred inflows. Leases payable and subscription liabilities totaled \$14.5 million – 3.8 percent of total liabilities and deferred inflows. Liabilities and deferred inflows decreased by \$31.2 million (7.5 percent) primarily due to a \$27.3 million decrease of the net other postemployment benefit liability.

Total net position was \$1.2 billion as of June 30, 2024, which included net investment in capital of \$669.1 million (54.8 percent), restricted net position of \$351.0 million (28.7 percent), and unrestricted net position of \$201.3 million (16.5 percent).

KENTUCKY COMMUNITY AND TECHNICAL COLLEGE SYSTEM

Management's Discussion and Analysis

June 30, 2024

Restricted net position is subject to externally imposed restrictions governing its use. Unrestricted net position is not subject to externally imposed restrictions, however, substantially all unrestricted net position has been designated for support of instructional programs, initiatives, and working capital needs.

Total net position increased \$154.7 million due to an increase in unrestricted net position of \$25.9 million, an increase in restricted net position of \$81.5 million, and an increase in net investment in capital of \$47.3 million.

Statement of Revenues, Expenses and Changes in Net Position: The Statement of Revenues, Expenses and Changes in Net Position includes all revenues, expenses, gains, and losses.

Tuition and fees are presented net of bad debt expense, scholarship allowances, gift scholarships and institutional scholarships. Scholarship allowances are the difference between the stated charges for goods and services provided and the amount billed to students and third parties; excess aid disbursed is recognized as student financial aid expense. Institutional aid and grants-in-aid funded by federal and state grants are reported net of scholarship allowances.

State appropriations, certain grants, gifts, investment income, and endowment income are reported as nonoperating revenues. KCTCS typically reports an operating loss prior to the addition of nonoperating revenues. The change in net position is an indicator of whether the overall financial position has improved or declined.

Total operating revenues were \$247.5 million for the year ended June 30, 2024, including net student tuition and fees of \$111.6 million – 45.1 percent of total operating revenues. Grants and contracts were \$119.7 million – 48.4 percent of total operating revenues.

Operating expenses totaled \$632.3 million which includes \$581.8 million of education and general expenses comprising instruction, academic support, libraries, public service, student service, institutional support, student financial aid, and operations and maintenance, excluding depreciation.

The loss from operations for the year was \$384.9 million. Nonoperating and other revenues totaled \$539.6 million, including state appropriations of \$195.1 – 36.1 percent of nonoperating and other revenues. Net position increased by \$154.7 million.

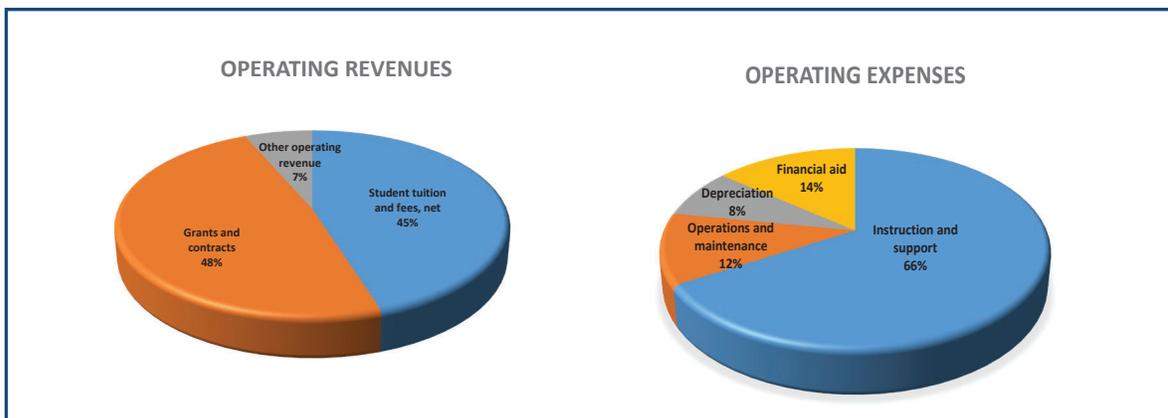
KENTUCKY COMMUNITY AND TECHNICAL COLLEGE SYSTEM
 Management's Discussion and Analysis
 June 30, 2024

Condensed Statements of Revenues, Expenses and Changes in Net Position are shown below as of June 30 (in thousands):

Condensed Statements of Revenues, Expenses and Changes in Net Position

	2024	2023
Operating revenues		
Student tuition and fees, net	\$ 111,592	\$ 115,987
Grants and contracts	119,682	106,033
Other operating revenues	16,176	16,882
Total operating revenues	247,450	238,902
 Operating expenses		
Education and general, excluding depreciation	581,775	529,887
Depreciation	50,556	44,629
Total operating expenses	632,331	574,516
 Operating loss	(384,881)	(335,614)
 Nonoperating revenues		
State appropriations	195,060	196,950
Federal and state grants and contracts	209,916	198,160
Other nonoperating revenues (expenses)	33,908	18,555
Total nonoperating revenues	438,884	413,665
 Income before other revenues, expenses, gains or losses	54,003	78,051
Capital construction appropriations	90,387	22,597
Net realized loss on disposal of capital assets	(357)	(1,943)
Additions to (reductions from) endowments	10,685	7,274
Total other revenues	100,715	27,928
 Total increase in net position	154,718	105,979
 Net position, beginning of year	1,066,602	960,623
 Net position, end of year	\$ 1,221,320	\$ 1,066,602

The following charts show operating revenues and expenses for the fiscal year ending June 30, 2024. State appropriations are nonoperating revenues, therefore, are not included in the chart below:



KENTUCKY COMMUNITY AND TECHNICAL COLLEGE SYSTEM
Management's Discussion and Analysis
June 30, 2024

Statement of Cash Flows: The Statement of Cash Flows reports cash inflows and outflows summarized by operating, capital, financing, and investing activities. This statement informs cash flow projections and financing decisions.

For the fiscal year ended June 30, 2024, major sources of cash from operating activities include student tuition and fees (\$113.3 million) and grants and contracts (\$117.1 million) and major uses of cash for operating activities include salaries and benefits (\$361.2 million), vendor and contractor payments (\$149.6 million) and student financial aid (\$89.0 million). Noncapital financing activities include federal, state, and local grants, contracts, and appropriations of \$418.7 million. For the fiscal year ended June 30, 2023, major sources of cash from operating activities include student tuition and fees (\$109.5 million) and grants and contracts (\$103.9 million) and major uses of cash for operating activities include salaries and benefits (\$339.6 million), vendor and contractor payments (\$157.1 million) and student financial aid (\$84.6 million). Noncapital financing activities include federal, state, and local grants, contracts, and appropriations of \$408.4 million.

Condensed Statements of Cash Flows are shown below for years ending June 30 (in thousands):

Condensed Statements of Cash Flows

	2024	2023
Cash provided by (used in):		
Operating activities	\$ (355,605)	\$ (352,228)
State appropriation	195,060	196,950
Other noncapital financing activities	223,593	211,407
Capital and related financing activities	(11,325)	(44,943)
Investing activities	23,032	8,246
Net increase in cash and cash equivalents	74,755	19,432
Cash and cash equivalents, beginning of year	506,891	487,459
Cash and cash equivalents, end of year	\$ 581,646	\$ 506,891

Capital Assets: Capital assets, net of accumulated depreciation, totaled \$780.0 million at June 30, 2024, an increase of \$40.3 million. Capital assets as of June 30, 2024, and significant changes are shown below (in thousands):

	Balance July 1, 2023	Net Additions (Reductions) FY 2024	Balance June 30, 2024
Land and land improvements	\$ 61,986	\$ 6,778	\$ 68,764
Buildings and infrastructure	1,073,710	39,960	1,113,670
Equipment	177,049	14,929	191,978
Library materials	45,313	587	45,900
Construction in progress	40,243	13,641	53,884
Total assets	1,398,301	75,895	1,474,196
Accumulated depreciation	(658,541)	(35,618)	(694,159)
Capital assets, net	\$ 739,760	\$ 40,277	\$ 780,037

At June 30, 2024, KCTCS had \$53.9 million in capital construction projects that are principally financed by appropriations and bond proceeds from the Commonwealth of Kentucky.

KENTUCKY COMMUNITY AND TECHNICAL COLLEGE SYSTEM
Management's Discussion and Analysis
June 30, 2024

Notes Payable: Notes payable totaled \$110.0 million at June 30, 2024, a decrease of \$7.8 million due to principal payments during the year. Notes payable for fiscal year June 30, 2024, and significant changes are shown below (in thousands):

	Balance July 1, 2023	Net Additions (Reductions) FY 2024	Balance June 30, 2024
Energy savings agreements	\$ 26,924	\$ 4,735	\$ 31,659
Building agreements	4,083	(608)	3,475
Construction, renovation and design projects	86,706	(11,886)	74,820
Notes payable	<u>\$ 117,713</u>	<u>\$ (7,759)</u>	<u>\$ 109,954</u>

Fiduciary Funds: KCTCS reports a fiduciary fund composed of a postemployment benefit trust (KCTCS OPEB Trust). The KCTCS OPEB Trust provides health insurance coverage to retirees, retiree eligible spouses and/or dependents. KCTCS' fiduciary responsibilities include ensuring assets in the trust are secure and outflows occur in accordance with the trust agreement. KCTCS reports a Statement of Fiduciary Net Position, a Statement of Changes in Fiduciary Net Position, and Notes to the financial statements for the KCTCS OPEB Trust.

Statement of Fiduciary Net Position: The Statement of Fiduciary Net Position presents assets, liabilities, and net position as of June 30, 2024.

Statement of Changes in Fiduciary Net Position: The Statement of Changes in Fiduciary Net Position presents additions received and deductions incurred during the year. Additions include interest and dividends, realized and unrealized gains and losses, and charges for investment management fees. Deductions include administrative expenses and health insurance payments for retirees and spouses.

Financial Highlights: The KCTCS OPEB Trust includes cash and investments totaling \$249.7 million and net position of \$249.7 million as of June 30, 2024. The fair value of investments increased by \$20.4 million and total deductions were \$6.3 million. Net position increased by \$20.0 million (8.7 percent) during the fiscal year ended June 30, 2024. The increase in net position was primarily due to realized and unrealized gains on investments.

KENTUCKY COMMUNITY AND TECHNICAL COLLEGE SYSTEM
Management's Discussion and Analysis
June 30, 2024

Economic Factors Impacting Future Periods

The following are existing conditions and circumstances that will affect future financial results:

- KCTCS earned \$23.1 million or 22 percent of the Performance-Based Funding Pool in state appropriation support in 2024-25. KCTCS' performance-based funding allocation is distributed based on each college's performance as calculated per KCTCS' Performance-Based Funding Model metrics. Not included in performance-based funding calculations is \$6.9 million to offset inflationary increases and \$11.7 million in dedicated funding for mandated programs (i.e., State Fire Rescue Training, KCTCS Adult Agriculture Education Program, KCTCS-TRAINS, and Fire and Tornado Insurance Premiums) which are part of KCTCS' base state appropriation. For 2024-25, the base state appropriation for KCTCS is \$184.4 million.
- The Kentucky Council on Postsecondary Education approved a tuition and fee maximum base rate increase for KCTCS of no more than \$3 per credit hour for 2024-25. The KCTCS Board of Regents approved the increase bringing the 2024-25 resident and online tuition rate to \$189 per student credit hour – a 1.6% increase over the prior year. The KCTCS Board of Regents also approved an increased nonresident tuition rate -- \$260 per student credit hour – a 4.0% increase over the prior year.
- The KCTCS Board of Regents approved the 2024-25 Operating Budget of \$1.02 billion and the 2024-25 capital authorizations of \$129.1 million. The 2024-25 Operating Budget continues KCTCS' practice of budgeting an unrestricted non-recurring emergency budget reserve, of which \$14.8 million is budgeted for 2024-25. Each college, the Kentucky Fire Commission, and Systemwide Operations and Support Programs have set aside these funds as a contingency for a state appropriation budget reduction, decline in enrollment, or other unanticipated, unavoidable costs.
- KCTCS, as with most universities and colleges, will encounter some economic factors which could impact our financial futures. The rising cost of services like maintenance, utilities, supplies, construction, and salaries continue to rise which affects students and institutions. We will encounter funding challenges within the state allocation and the end of the federal recovery funds which place constraints on our budgets to support student services and infrastructure. We are facing a future enrollment decline with less high school graduates and changes in student preferences and demographic shifts. Keeping up with emerging technologies is critical for KCTCS to ensure a quality education and stay competitive. Political interference and policy changes at both the federal and state level may significantly impact funding, regulations, and our overall operations within KCTCS.
- In December 2012, the KCTCS Board of Regents approved a recommendation to establish an irrevocable OPEB trust. KCTCS funded the trust in March 2013 with an initial contribution of \$163.7 million which offset the actuarially calculated liability. In January 2020, KCTCS reduced the contribution requirement for single coverage to one-half of the requirement for retiree coverage. In January 2022, KCTCS increased the retiree benefit to fully cover the cost for single coverage health insurance. KCTCS also reduced or eliminated the deductible for prescriptions and increased the retiree benefit to provide enhanced dental, vision, and hearing coverage. Based on the updated actuarial study for fiscal year ending 06/30/2025, it is anticipated that the following will be recorded in FY25: The trust's assets of \$249.7 million will exceed its total OPEB liability of \$206.8 million by \$42.9 million or 20.7 percent of the total OPEB liability.

KENTUCKY COMMUNITY AND TECHNICAL COLLEGE SYSTEM
Management's Discussion and Analysis
June 30, 2024

Our Mission

In everything we do, our mission is to improve the quality of life and employability of the citizens of the Commonwealth by serving as the primary provider of:

- College and workforce readiness
- Transfer education
- Workforce education and training

Vision

A world-class system of colleges educating Kentucky's globally competitive workforce.

Values

- Flexibility and innovation
- Quality and excellence
- Openness and accountability
- Continuous improvement
- Data and outcomes-driven decision making
- Inclusion, equity, respect, and global diversity
- Balance, collaboration, and teamwork

In summary, although KCTCS has and continues to face many economic challenges, KCTCS management believes that its past and current management practices have and continue to position KCTCS for long-term financial health.

KENTUCKY COMMUNITY AND TECHNICAL COLLEGE SYSTEM

Statement of Net Position

June 30, 2024

(in thousands)

ASSETS

Current Assets

Cash and cash equivalents	\$ 367,519
Loans, accounts, and pledges receivable, net of bad debt	39,655
Other current assets	4,446
Total current assets	411,620

Noncurrent Assets

Restricted cash and cash equivalents	214,127
Loans and other receivables	2,186
Endowment investments	98,527
Other long-term investments	21,334
Net other postemployment benefit asset	28,125
Subscription assets, net	5,013
Leased assets	9,472
Capital assets, net	780,037
Total noncurrent assets	1,158,821

Deferred Outflows

Deferred outflows - pension	13,052
Deferred outflows - other postemployment benefits	22,777
Total deferred outflows	35,829
Total assets and deferred outflows	1,606,270

LIABILITIES

Current Liabilities

Accounts payable and accrued expenses	26,572
Employee withholdings and deposits	2,194
Compensated absences - current	919
Unearned revenue	12,411
Subscription liabilities - current	1,308
Leases payable - current	3,615
Notes payable - current	8,015
Total current liabilities	55,034

Noncurrent Liabilities

Subscription liabilities - noncurrent	4,681
Leases payable - noncurrent	4,935
Notes payable - noncurrent	101,939
Compensated absences - noncurrent	8,271
Net pension liability	151,056
Net other postemployment benefit liability	14,698
Total noncurrent liabilities	285,580

Deferred Inflows

Deferred inflows - pension	11,566
Deferred inflows - other postemployment benefits	32,770
Total deferred inflows	44,336
Total liabilities and deferred inflows	384,950

NET POSITION

Net investment in capital	669,072
Restricted	
Nonexpendable	57,473
Expendable	293,483
Unrestricted	
Total net position	\$ 1,221,320

See accompanying notes to financial statements.

KENTUCKY COMMUNITY AND TECHNICAL COLLEGE SYSTEM
Statement of Revenues, Expenses and Changes in Net Position
Year Ended June 30, 2024
(in thousands)

OPERATING REVENUES

Student tuition and fees, net of bad debt	\$	269,333
Less: Scholarship allowances		(157,741)
Net tuition and fees		111,592
Federal grants and contracts		49,070
State and local grants and contracts		70,520
Nongovernmental grants and contracts		92
Indirect cost recoveries		2,974
Sales and services		5,345
Other operating revenues		7,857
Total operating revenues		247,450

OPERATING EXPENSES

Educational and General:

Instruction		197,478
Public service		44,661
Libraries		6,872
Academic support		27,718
Student services		63,883
Institutional support		79,399
Operation and maintenance of capital assets		72,446
Depreciation and amortization		50,556
Student financial aid		89,318
Total operating expenses		632,331
Operating loss		(384,881)

NONOPERATING REVENUES (EXPENSES)

State appropriations		195,060
Federal and local appropriations		148
Federal and state grants and contracts		209,916
Gifts		8,394
Investment income		23,888
Interest expense		(3,984)
Other nonoperating revenues		5,462
Net nonoperating revenues		438,884
Income before other revenues, expenses, gains or losses		54,003
Capital construction appropriations		90,387
Net realized gain (loss) on disposal of capital assets		(357)
Additions to endowments		10,685
Total other revenues		100,715
Increase in net position		154,718

NET POSITION

Net position - beginning of year		1,066,602
Net position - end of year		1,221,320

See accompanying notes to financial statements.

KENTUCKY COMMUNITY AND TECHNICAL COLLEGE SYSTEMStatement of Cash Flows
Year Ended June 30, 2024
(in thousands)

Cash flows from operating activities:	
Tuition and fees	\$ 113,324
Grants and contracts	117,064
Indirect cost recoveries	2,974
Sales and services	5,345
Payments on short-term leases	(1,383)
Payments to vendors and contractors	(149,621)
Student financial aid	(89,035)
Salaries, wages and benefits	(361,203)
Other receipts	6,930
Net cash used in operating activities	<u>(355,605)</u>
Cash flows from noncapital financing activities:	
State appropriations	195,060
Federal, state and local grants, contracts and appropriations	210,064
Gifts and pledges received for non-capital purposes	8,067
Other nonoperating receipts	5,462
Net cash provided by noncapital financing activities	<u>418,653</u>
Cash flows from capital and related financing activities:	
Capital appropriations	90,387
Proceeds from disposal of capital assets	109
Principal paid on notes payable	(8,072)
Interest paid on notes payable	(3,504)
Purchase of capital assets	(84,237)
Principal paid on leases	(3,913)
Interest paid on leases	(356)
Principal paid on subscription-based information technology arrangements	(1,615)
Interest paid on subscription-based information technology arrangements	(124)
Net cash used in capital and related financing activities	<u>(11,325)</u>
Cash flows from investing activities:	
Sales of investments	800
Gain on investments	22,232
Net cash provided by investing activities	<u>23,032</u>
Net change in cash	74,755
Cash and cash equivalents - beginning of year	506,891
Cash and cash equivalents - end of year	<u>\$ 581,646</u>

See accompanying notes to financial statements.

KENTUCKY COMMUNITY AND TECHNICAL COLLEGE SYSTEMStatement of Cash Flows
Year Ended June 30, 2024
(in thousands)**Reconciliation of net operating loss to net cash used in operating activities:**

Operating loss	(384,881)
Adjustments to reconcile net operating loss to net cash used in operating activities:	
Depreciation and amortization expense	50,556
Increase (decrease) in cash due to change in:	
Loans and accounts receivable, net	(2,788)
Other assets	(708)
Accounts payable and accrued liabilities	4,217
Employee withholdings and deposits	(78)
Compensated absences	242
Unearned revenue	975
Deferred outflows - pension	(2,900)
Deferred outflows - OPEB	12,517
Deferred inflows - pension	(5,685)
Deferred inflows - OPEB	7,828
Net pension liability	(5,832)
Net OPEB liability/asset	<u>(29,068)</u>
Net cash used in operating activities	<u>\$ (355,605)</u>
Non-cash capital and investing activities:	
Donated capital assets	\$ 393
Capital assets included in accounts payable and accrued liabilities	\$ 263
Lease obligation incurred for leased assets and notes payable for capital assets	\$ 1,768
Obligation incurred for subscription-based information technology arrangements	\$ 6,233
Unrealized gain on investments	\$ 12,341

See accompanying notes to financial statements.

KENTUCKY COMMUNITY AND TECHNICAL COLLEGE SYSTEM

Statement of Fiduciary Net Position
Other Postemployment Benefit Trust
June 30, 2024
(in thousands)

ASSETS

Cash and cash equivalents	\$	757
Investments:		
Public equities		140,304
Public equities - natural resources		9,609
Core bonds		26,459
High quality bond funds		62,500
Core real estate		10,047
Total investments		<u>248,920</u>
Total assets		<u>249,677</u>

LIABILITIES

Accounts payable		11
Total liabilities		<u>11</u>

NET POSITION

Restricted for postemployment benefits other than pensions	\$	<u><u>249,666</u></u>
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See accompanying notes to financial statements.

KENTUCKY COMMUNITY AND TECHNICAL COLLEGE SYSTEM
Statement of Changes in Fiduciary Net Position
Other Postemployment Benefit Trust
Year Ended June 30, 2024
(in thousands)

ADDITIONS

Investment income:		
Interest income	\$	5,389
Net increase in fair value of investments		20,898
Less investment expenses		<u>(42)</u>
Net investment income		<u>26,245</u>
Total additions		<u>26,245</u>

DEDUCTIONS

Benefit payments		6,205
Administrative expense		<u>89</u>
Total deductions		<u>6,294</u>
Increase in net position		<u>19,951</u>

NET POSITION

Beginning of year		<u>229,715</u>
End of year	\$	<u><u>249,666</u></u>

See accompanying notes to financial statements.

KENTUCKY COMMUNITY AND TECHNICAL COLLEGE SYSTEM

Notes to Financial Statements

June 30, 2024

1. Organization and Summary of Significant Accounting Policies

Reporting Entity - The Kentucky Community and Technical College System (KCTCS) is a component unit of the Commonwealth of Kentucky (Commonwealth), and its financial reports are included in the Commonwealth's Annual Comprehensive Financial Report (ACFR). KCTCS has evaluated the existence of component units (e.g., system and college foundations) and determined that there are none that meet the component unit criteria.

The following colleges are included within KCTCS: Ashland Community and Technical College, Big Sandy Community and Technical College, Bluegrass Community and Technical College, Elizabethtown Community and Technical College, Gateway Community and Technical College, Hazard Community and Technical College, Henderson Community College, Hopkinsville Community College, Jefferson Community and Technical College, Madisonville Community College, Maysville Community and Technical College, Owensboro Community and Technical College, Somerset Community College, Southcentral Kentucky Community and Technical College, Southeast Kentucky Community and Technical College and West Kentucky Community and Technical College.

Basis of Accounting and Presentation - KCTCS prepares its financial statements in accordance with accounting principles generally accepted in the United States of America as prescribed by the Governmental Accounting Standards Board (GASB). The financial statements provide a comprehensive, entity-wide perspective of financial position, changes in net position, and cash flows. Business-type activity is presented in proprietary financial statements and fiduciary activity is presented in fiduciary financial statements. Business-type activities are those that are financed by fees charged to external parties for goods or services. Fiduciary activities are those that are held and administered in a fiduciary capacity. Proprietary financial statements are included in the Commonwealth's ACFR as a business-type activity and fiduciary statements are included as a fiduciary fund. The financial statements are prepared on the accrual basis of accounting – revenues are recognized when earned and expenses are recognized when incurred. Exchange transactions are recognized when the exchange transaction takes place and non-exchange transactions are recognized when eligibility requirements are met.

Cash and Cash Equivalents - KCTCS considers all highly liquid investments purchased with an original maturity of three months or less to be cash equivalents. Noncurrent cash and cash equivalents are restricted for capital construction, grants, loans, and endowments. Proprietary cash and cash equivalents comprise deposits in banks (\$84.6 million), with the Commonwealth of Kentucky (\$493.8 million), and with the Commonfund (\$3.2 million). Deposits with banks and investments in repurchase agreements are covered by federal depository insurance or collateralized with securities held in KCTCS' name. Deposits with the Commonwealth are covered by federal depository insurance or collateralized with securities held by the Commonwealth. Fiduciary cash and cash equivalents comprise deposits in banks (\$162 thousand) and with the Commonfund (\$595 thousand).

Pooled Endowment Funds - KCTCS employs the total return concept of investment management for setting investment objectives and determining investment performance. This concept recognizes dividends, interest, and realized and unrealized gains or losses in determining the total return earned. The market value method of accounting for pooled endowment funds is employed to ensure proper distribution of market price changes, realized gains and losses on sales, accrued income earned, and distribution of investment earnings for expenditure by participating funds. The Uniform Prudent Management of Institutional Funds Act, as adopted by the Commonwealth, permits KCTCS to appropriate an amount of the endowment appreciation to support current programs. Spendable return is determined using the total return philosophy in which a prudent amount of investment income and increase in fair value of investments is recognized as spendable return. Distribution of investment earnings for expenditure is supported by interest and dividends first, followed by a transfer accumulated gains on investments. KCTCS considers the long and short-term needs, present and anticipated financial requirements, expected return on investments, price-level trends, and general economic conditions when authorizing expenditure of new appreciation of investments of endowment funds. The amount of earnings to be distributed is determined annually based on these factors. Net appreciation is required to be spent for the purposes for which the endowment was established. Net appreciation of \$32.3 million was available to spend, of which \$31.7 million was restricted for specific purposes.

Investments - Investments are stated at fair value (NAV) and money markets are measured at amortized cost. Unrealized gains and losses on the carrying value of investments are reported as a component of investment income in the Statement of Revenues, Expenses and Changes in Net Position for proprietary activity and in the Statement of Changes in Fiduciary Net Position for fiduciary activity.

KENTUCKY COMMUNITY AND TECHNICAL COLLEGE SYSTEM

Notes to Financial Statements

June 30, 2024

1. Organization and Summary of Significant Accounting Policies

Loans, Accounts, and Pledges Receivable - Accounts receivable consist of student tuition and fees and amounts due from grants and contracts. Student accounts receivable are stated net of an allowance for uncollectible accounts of \$6.6 million at June 30, 2024. The allowance for uncollectible accounts is estimated by considering relevant factors, including accounts receivable due date, previous loss history, and the condition of the economy. Accounts are written off when they are assessed as uncollectible. Grants and contracts receivable are considered fully collectible.

Pledges receivable are unconditional donor commitments for future contributions and are stated at present value of the net realizable amount. Pledges are considered fully collectible. Loans receivable primarily consist of Fire Commission loans made to volunteer fire departments that enable them to purchase equipment and facilities at low-interest rates. Loans are considered fully collectible.

Capital Assets – Capital assets are stated at cost or at acquisition value for donated assets. Equipment with a unit cost of \$5,000 or more and an estimated useful life more than one year is capitalized. Renovations that significantly increase the value or extend the useful life are capitalized. Routine repairs and maintenance are reported as operating expense in the period incurred. Depreciation is computed on a straight-line basis over the estimated useful life of the assets – 40 years for buildings and land improvements, 25 years for infrastructure, and 3 to 10 years for equipment.

Lease Assets – Lease assets are recorded at the initial measurement of the lease liability, plus lease payments made at or before the commencement of the lease term, less lease incentives received from the lessor at or before the commencement of the lease, plus initial direct costs that are necessary to place the asset into service. Lease assets are amortized on a straight-line basis over the shorter of the lease term or the useful life of the underlying asset.

Subscription Assets – Subscription assets are recorded at the initial measurement of the subscription liability, plus subscription payments made at or before the commencement of the subscription-based information technology arrangement (SBITA) term, plus capitalizable initial direct costs that are necessary to place the asset into service. Subscription assets are amortized on a straight-line basis over the shorter of the lease term or the useful life of the underlying asset.

Capital, Lease and Subscription Asset Impairments – KCTCS evaluates assets for impairment whenever events or circumstances indicate a significant and unexpected decline in service utility. There were no asset impairments during the fiscal year ended June 30, 2024.

Compensated Absences – KCTCS permits most employees to accumulate vacation and sick leave benefits that may be realized as paid time off. A maximum of 300 hours of vacation leave may be accumulated. There is no limit on sick leave which may be accumulated. One year of accumulated vacation leave may be paid in cash upon termination. Accumulated sick leave is forfeited upon termination. The expense and related liability for vacation and sick leave are recognized when earned. The liability is recorded as compensated absences in the Statement of Net Position and the expense is recorded as a component of operating expense in the Statement of Revenues, Expenses and Changes in Net Position. Compensated absence liabilities are computed using the regular pay and termination pay rates in effect at the date of the Statement of Net Position plus an additional amount for compensation-related payments such as social security and Medicare taxes computed using rates in effect at that date. The estimated compensated absences liability expected to be paid more than one year after the Statement of Net Position is included in other noncurrent liabilities.

Unearned Revenue - Unearned revenue consists of tuition and fees for summer classes in process and for funds that have been received for which terms of the grant or contract agreements have not been fulfilled as of June 30, 2024.

Pensions – The net pension liability, related account balances, and pension activity for the Kentucky Employees Retirement System (KERS) and the Kentucky Teachers Retirement System (KTRS) are measured on the same basis as they are reported by KERS and KTRS. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are recorded at fair value.

Continued

KENTUCKY COMMUNITY AND TECHNICAL COLLEGE SYSTEM

Notes to Financial Statements

June 30, 2024

1. Organization and Summary of Significant Accounting Policies

Postemployment Benefits Other Than Pensions (OPEB) - The KERS and KTRS defined benefit OPEB plans provide postemployment benefits to eligible retirees participating in the related pension plans. The net OPEB liability, related account balances, and OPEB activity are measured on the same basis as they are reported by KERS and KTRS. For this purpose, benefit payments are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

The KCTCS defined benefit OPEB plan provides postemployment benefits to eligible retirees participating in the 403(b) defined contribution plan. This plan was funded through an irrevocable trust established during the year ended June 30, 2013. The net OPEB asset, related account balances, and OPEB activity are measured based on calculations prepared by the plan's actuary. The plan recognizes benefit payments when payable in accordance with the benefit terms. Investments are reported at fair value.

Net Position – Net position for proprietary (business-type) activities is classified as follows:

Net investment in capital: Net position of \$669.1 million comprises capital assets, leased assets, and assets related to subscription-based information technology arrangements. Investment in capital is reported net of accumulated depreciation and amortization and net of liabilities to acquire the related assets.

Restricted, Nonexpendable: Net position of \$57.5 million is subject to externally imposed stipulations related to endowment fund investments that are maintained permanently.

Restricted, Expendable: Net position of \$293.5 million is subject to externally imposed stipulations that can be fulfilled or that expire over time. It comprises \$66.8 million in Scholarships, Instruction and Other, \$28.1 million in OPEB asset, \$192.4 million in Capital Projects, and \$6.2 million in Loans.

Unrestricted: Net position of \$201.3 million is not subject to externally imposed stipulations but may be designated for specific purposes by management or the Board of Regents.

Net position of \$249.7 million for fiduciary activities comprises a postemployment benefit trust and is restricted and expendable. It is subject to the requirements of the irrevocable trust which exists to provide health insurance coverage for participating retirees and their spouses.

Deferred Outflows of Resources – This account is defined as the consumption of net position that relates to a future reporting period. It is associated with obligations for defined benefit pension plans and other postemployment benefits.

Deferred Inflows of Resources – This account is defined as the acquisition of net position that relates to a future reporting period. It is associated with obligations for defined benefit pension plans and other postemployment benefits.

Student Tuition and Fees - Student tuition and fees are presented net of bad debt, scholarships and other financial aid applied to student accounts. Payments made directly to students are presented as student financial aid.

Scholarship Allowance - Scholarship allowance is the difference between the stated charge for goods and services provided and the amount paid by students or third parties on behalf of students. Student tuition and fee revenue is reported net of scholarship allowance in the Statement of Revenues, Expenses and Changes in Net Position. Revenue from grants or other programs is recorded as scholarship allowance when used to satisfy tuition, fees, and other student charges.

Continued

KENTUCKY COMMUNITY AND TECHNICAL COLLEGE SYSTEM

Notes to Financial Statements

June 30, 2024

1. Organization and Summary of Significant Accounting Policies

Federal and State Grants and Contracts - Pell grants, Supplemental Educational Opportunity grants (SEOG), College Access Program (CAP) grants and Kentucky Educational Excellence Scholarships (KEES) are nonexchange transactions and are reported as nonoperating revenue. For the year ended June 30, 2024, KCTCS recognized \$140 thousand from the Coronavirus Response and Supplemental Appropriations Act (CRRSA), and \$520 thousand from the American Rescue Plan (ARP). These funds were provided to help offset the costs of the COVID-19 pandemic and are reported as nonoperating revenue.

Operating Activities - Operating activities are exchange transactions, such as payments received for providing services and payments made to obtain goods and services. Certain revenue types comprise nonexchange transactions and are recorded as nonoperating revenue, including state appropriations, grants, gifts, and investment income.

Income Taxes - KCTCS is an agency and instrumentality of the Commonwealth of Kentucky, pursuant to Kentucky Revised Statutes sections 164.580 thru 164.600. Accordingly, KCTCS is generally exempt from federal income taxes as an organization described in Section 115 of the Internal Revenue Code of 1986.

Restricted Asset Spending Policy - KCTCS' policy is that restrictions on assets cannot be fulfilled by the expenditure of unrestricted funds. The determination of whether restricted or unrestricted funds are expended for a particular purpose is made on a case-by-case basis. Restricted funds remain restricted until spent for the intended purpose.

Use of Estimates - Financial statements prepared in conformity with accounting principles generally accepted in the United States of America require estimates and assumptions. The accompanying financial statements include estimates for items such as bad debt allowances, fair value of investments, useful lives of capital assets, accrued expenses, net pension liability, net other postemployment benefit liability and other liabilities. Actual results could differ from estimates.

Accounting Pronouncements Adopted - Accounting statements adopted by KCTCS during the fiscal year ending June 30, 2024, as required by the GASB, are described, below:

Statement 100, Accounting Changes and Error Corrections – an amendment of GASB Statement No. 62. This statement prescribes accounting and financial reporting for changes in accounting principles, changes in accounting estimates, changes to or within the financial reporting entity, and error corrections. It is effective for periods beginning after June 15, 2023. KCTCS has implemented this statement during its fiscal year ending June 30, 2024.

Recent Accounting Pronouncements – As of June 30, 2024, the GASB has issued the following statements which KCTCS has not yet implemented:

Statement 101, Compensated Absences. This statement establishes a unified model for the recognition and measurement of compensated absences. The requirements of this statement will improve the relevance and reliability of the compensated absences liability. In addition, the requirements of this statement will improve comparability across financial statements of governments. This statement is effective for periods beginning after December 15, 2023. KCTCS will implement this statement during its fiscal year ending June 30, 2025.

Statement No. 102, Certain Risk Disclosures, issued December 2023: The objective of this Statement is to provide users of government financial statements with essential information about risks related to a government's vulnerabilities due to certain concentrations or constraints. The disclosures will provide users with timely information regarding certain concentrations or constraints and related events that have occurred or have begun to occur that make a government vulnerable to a substantial impact. As a result, users will have better information with which to understand and anticipate certain risks to a government's financial condition. KCTCS will implement the requirements of this guide for its fiscal year ending June 30, 2025.

Continued

KENTUCKY COMMUNITY AND TECHNICAL COLLEGE SYSTEM

Notes to Financial Statements

June 30, 2024

1. Organization and Summary of Significant Accounting Policies

Recent Accounting Pronouncements (continued) - *Statement No. 103, Financial Reporting Model Improvements*, issued April 2024: The objective of this Statement is to improve key components of the financial reporting model to enhance its effectiveness in providing information that is essential for decision making and assessing a government's accountability. This Statement requires that the information presented in MD&A be limited to the related topics discussed in five sections: (1) Overview of the Financial Statements, (2) Financial Summary, (3) Detailed Analyses, (4) Significant Capital Asset and Long-Term Financing Activity, and (5) Currently Known Facts, Decisions, or Conditions. This Statement also describes unusual or infrequent items as transactions and other events that are either unusual in nature or infrequent in occurrence. In addition, the Statement requires that the proprietary fund statement of revenues, expenses, and changes in fund net position continue to distinguish between operating and nonoperating revenues and expenses. KCTCS will implement the requirements of this guide for its fiscal year ending June 30, 2026.

KCTCS' management has not yet determined the effect these statements will have on KCTCS' financial statements.

Coronavirus Pandemic - The coronavirus pandemic disrupted normal operations and created the need to move classes online for several months. To help offset these costs KCTCS colleges received funds from the following federal and state sources: Coronavirus Aid, Relief and Economic Security (CARES) Act, Coronavirus Response and Supplemental Appropriations (CRRSA) Act, American Rescue Plan (ARP), Governors Emergency Education Relief (GEER), State and Local Fiscal Recovery Fund (SLFRF), and Coronavirus Relief Fund (CRF). KCTCS colleges were awarded a total of \$353 million over the last four years – \$40.2 million in 2020, \$247.2 million in 2021, \$14.1 million in 2022, and \$51.5 million in 2023. Approximately \$1.2 million remained available as of June 30, 2024.

Subsequent Events - Management has evaluated subsequent events for accounting and disclosure requirements as of the report date.

2. Loans, Accounts and Pledges Receivable

Loans, accounts, and pledges receivable (net of allowances) are as follows (in thousands):

	2024
Student (net of allowances of \$6,574)	\$ 18,797
Other receivables	1,029
Reimbursement receivable – grants and contracts	19,340
Pledges receivable	242
Accrued interest receivable	41
Bridge loans	34
Loans receivable from fire districts	2,358
Total	41,841
Current portion	39,655
Non-current portion	\$ 2,186

Continued

KENTUCKY COMMUNITY AND TECHNICAL COLLEGE SYSTEM

Notes to Financial Statements

June 30, 2024

2. Loans, Accounts, and Pledges Receivable

KCTCS is required to record operating, endowment, and capital pledges as revenue when all eligibility requirements have been met. Pledges receivable of \$242 thousand are expected to be collected as follows (in thousands):

2025	\$	56
2026		25
2027		25
2028		25
2029		25
2030-2034		125
		281
Present value discount		(39)
		\$ 242

Fire commission loans receivable of \$2.4 million are expected to be collected as follows (in thousands):

2025	\$	392
2026		344
2027		298
2028		265
2029		226
2030- 2034		833
		\$ 2,358

3. Investments

Investments are stated at fair value at the date of the gift or at nominal value if fair value is unavailable. Bond and equity funds are invested in fund of funds and measured using net asset value. Other investments include real estate holdings and limited partnerships. KCTCS has the following investments as of June 30, 2024 (in thousands):

Investment Type	Proprietary	Fiduciary
Bond funds	\$ 34,648	\$ 88,960
Equity funds	63,247	149,913
Other	21,966	10,047
	\$ 119,861	\$ 248,920

KCTCS maintains an investment management agreement with the Commonfund. The Commonfund was founded in 1969 and serves more than 1,350 higher-education and non-profit organizations. It manages over \$25 billion in assets and is unrated.

As of June 30, 2024, the Commonfund managed \$119.9 million of KCTCS' proprietary investments, including money market funds of \$3.2 million which are classified as cash and cash equivalents on the Statement of Net Position. As of June 30, 2024, the Commonfund managed \$248.9 million of KCTCS' fiduciary investments, including money market funds of \$.6 million which are classified as cash and cash equivalents on the Statement of Fiduciary Net Position.

Continued

KENTUCKY COMMUNITY AND TECHNICAL COLLEGE SYSTEM

Notes to Financial Statements

June 30, 2024

3. Investments

Credit Risk - Credit risk is the risk that the issuer or other counterparty to an investment will not fulfill its obligation, causing KCTCS to experience a loss of principal. KCTCS has established investment policies by investment type to limit its exposure to credit risk as follows:

- *Overnight deposits and money market funds.* Bank deposits are in Federal Deposit Insurance Corporation (FDIC) insured financial institutions and are covered up to \$250 thousand at each FDIC insured institution. Deposits exceeding FDIC coverage are fully collateralized with specific U.S. Treasury or U.S. agency securities which have been pledged in KCTCS' name, or in U.S. Treasury or U.S. agency money market funds.
- *Long-term investments.* The long-term asset allocation ranges will be 0 to 35 percent in equity strategies and 65 – 100 percent in fixed income strategies. The asset allocation policy targets are 25 percent equities and 75 percent fixed income. Investments are routinely rebalanced to control portfolio risk. The portfolio contains no alternative investments.
- *Endowment investments.* Investments having a lock-up period of more than one year at the time of investment are limited to 20 percent of the Endowment portfolio. The long-term asset allocation range will be 65 to 85 percent in equity securities and 15 to 35 percent in fixed income securities. The target asset allocation is established at 75 percent equities and 25 percent fixed income. Investments are routinely rebalanced to control portfolio risk. Alternative investments cannot exceed 20 percent of the portfolio balance.

Concentration of Credit Risk - Concentration of credit risk is the risk of loss attributed to the magnitude of a government's investment in a single issuer. KCTCS does not have a formal policy for concentration of credit risk.

Custodial Credit Risk - Custodial credit risk is the risk that, in the event of the failure of the counterparty, KCTCS will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. KCTCS does not have a formal policy for custodial credit risk. As of June 30, 2024, all KCTCS U.S. Treasuries, U.S. Agencies, and Corporate Notes were held by the investment's counterparty.

Interest Rate Risk - Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. KCTCS' investment policy does not specifically limit investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

4. Fair Value Measurements

KCTCS categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on valuation inputs used to measure the fair value. Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs.

Investments measured at fair value using the net asset value (NAV) per share, or its equivalent as a practical expedient, are not classified in the fair value hierarchy. In instances where inputs used to measure fair value fall into different levels in the fair value hierarchy, fair value measurements in their entirety are categorized based on the lowest level input that is significant to the valuation. KCTCS' assessment of the significance of inputs to these fair value measurements requires judgment and considers factors specific to each asset or liability.

Continued

KENTUCKY COMMUNITY AND TECHNICAL COLLEGE SYSTEM
Notes to Financial Statements
June 30, 2024

4. Fair Value Measurements

Proprietary investments (in thousands) measured at net asset value (NAV):

	<u>Fair Value</u> (NAV)	<u>Unfunded</u> <u>Commitment</u>	<u>Redemption Terms</u>
Public equities	\$ 60,958	\$ -	Monthly, 5 business days notice.
Public equities - natural resources	2,289	-	Daily. (Business days only)
Fixed income equities	5,913	-	Weekly and monthly, 5 business days notice.
High quality bonds	26,307	-	Weekly and monthly, 5 business days notice.
Alternative investments	2,428	-	Monthly and quarterly, 5 - 90 days notice.
Core real estate	3,189	-	Quarterly, 120 business days notice.
Limited partnerships - natural resources	2,675	564	Upon termination of partnership.
Limited partnerships - real estate	2,658	1,213	Upon termination of partnership.
Limited partnerships - other	13,444	3,689	Upon termination of partnership.
	<u>\$ 119,861</u>	<u>\$ 5,466</u>	

Investment Objectives

<i>Public equities</i>	<i>Outperform Morgan Stanley Capital Int'l All Country World Index or Standard & Poor's (S&P) 500.</i>
<i>Public equities - natural resources</i>	<i>Generates total return by investing in equities in the natural resources sector and uses MSCI All Country</i>
<i>Fixed income equities</i>	<i>Perform at or better than Bank of America's Merrill Lynch 1-3 Year U.S. Treasury Index.</i>
<i>High quality bonds</i>	<i>Outperform Bloomberg Barclays Aggregate Bond Index.</i>
<i>Alternative investments</i>	<i>Outperform 3-month Treasury Bills by more than 400 basis points, annually.</i>
<i>Core real estate</i>	<i>Provide returns in excess of National Council of Real Estate Investment Fiduciaries Fund Index.</i>
<i>Limited partnerships - natural resources</i>	<i>Long Term Growth Focusing on Natural Resources, Energy and Renewables</i>
<i>Limited partnerships - real estate</i>	<i>Long Term Growth and Income generation utilizing a portfolio of stabilized income producing assets</i>
<i>Limited partnerships - other</i>	<i>Focus on sustained growth targeting yield based returns not straight capital gains</i>

Continued

KENTUCKY COMMUNITY AND TECHNICAL COLLEGE SYSTEM

Notes to Financial Statements

June 30, 2024

4. Fair Value Measurements

Fiduciary investments (in thousands) measured at net asset value (NAV):

	<u>Fair Value</u> (NAV)	<u>Unfunded</u> <u>Commitment</u>	<u>Redemption Terms</u>
Public equities	\$ 140,304	\$ -	Monthly, 5 days notice. Partial not permitted if total investor value would be less than \$500,000.
Public equities - natural resources	9,609	-	Daily.
High quality bonds	63,298	-	Weekly, monthly and quarterly with 5 - 60 days notice.
Alternative investments	25,662	-	Monthly and quarterly with 5 - 90 days notice.
Core real estate	10,047	-	Quarterly with 45 - 90 days notice.
	<u>\$ 248,920</u>	<u>\$ -</u>	

Investment Objectives

Public equities

Outperform Morgan Stanley Capital Int'l All Country World Index or Standard & Poor's (S&P) 500.

Public equities - natural resources

Generates total return by investing in equities in the natural resources sector and uses MSCI All Country World Commodities Index as its benchmark

High quality bonds

Outperform Bloomberg Barclays US Aggregate Bond Index.

Alternative investments

Outperform 3-month Treasury Bills by more than 400 basis points, annually.

Core real estate

Provide returns in excess of National Council of Real Estate Investment Fiduciaries Fund Index.

5. Capital, Leased and Subscription Assets, Net

Capital assets and the changes, therein, are summarized as follows (in thousands):

	<u>Beginning</u> <u>Balance</u>	<u>Additions</u>	<u>Reclass/ Reductions</u>	<u>Ending</u> <u>Balance</u>
Cost				
Land*	\$ 31,057	\$ 785	\$ (100)	\$ 31,742
Land improvements	30,929	6,093	-	37,022
Buildings and infrastructure	1,073,710	45,131	(5,171)	1,113,670
Construction in progress*	40,243	69,839	(56,198)	53,884
Equipment	177,049	18,876	(3,947)	191,978
Library materials	45,313	587	-	45,900
Total	<u>1,398,301</u>	<u>141,311</u>	<u>(65,416)</u>	<u>1,474,196</u>
Less accumulated depreciation				
Land improvements	10,187	692	-	10,879
Buildings and infrastructure	485,380	26,858	(1,398)	510,840
Equipment	119,769	12,197	(3,362)	128,604
Library materials	43,205	631	-	43,836
Total accumulated depreciation	<u>658,541</u>	<u>40,378</u>	<u>(4,760)</u>	<u>694,159</u>
Capital assets, net	<u>\$ 739,760</u>	<u>\$ 100,933</u>	<u>\$ (60,656)</u>	<u>\$ 780,037</u>

*Non-depreciable

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KENTUCKY COMMUNITY AND TECHNICAL COLLEGE SYSTEM

Notes to Financial Statements

June 30, 2024

5. Capital, Leased and Subscription Assets, Net

Leased assets and the changes, therein, are summarized as follows (in thousands):

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reclass/ Reductions</u>	<u>Ending Balance</u>
Cost				
Buildings	\$ 4,414	\$ 267	\$ (6)	\$ 4,675
Computers	2,196	396	(373)	2,219
Copiers and printers	4,430	648	(856)	4,222
Other equipment	7,721	164	(21)	7,864
Total	<u>18,761</u>	<u>1,475</u>	<u>(1,256)</u>	<u>18,980</u>
Less accumulated amortization				
Buildings	1,310	713	(5)	2,018
Computers	1,013	626	(366)	1,273
Copiers and printers	2,196	909	(846)	2,259
Other equipment	2,632	1,346	(20)	3,958
Total accumulated amortization	<u>7,151</u>	<u>3,594</u>	<u>(1,237)</u>	<u>9,508</u>
Leased assets, net	<u>\$ 11,610</u>	<u>\$ (2,119)</u>	<u>\$ (19)</u>	<u>\$ 9,472</u>

Assets related to subscription-based information technology arrangements and the changes, therein, are summarized as follows (in thousands):

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>
Subscription-based information technology arrangements	<u>\$ 3,354</u>	<u>\$ 6,353</u>	<u>\$ (2,562)</u>	<u>\$ 7,145</u>
Less accumulated amortization	<u>1,810</u>	<u>2,619</u>	<u>(2,297)</u>	<u>2,132</u>
Subscription-based information technology arrangements, net	<u>\$ 1,544</u>	<u>\$ 3,734</u>	<u>\$ (265)</u>	<u>\$ 5,013</u>

6. Unearned Revenue

Unearned revenue is as follows (in thousands):

	<u>2024</u>
Unearned summer tuition revenue	\$ 9,422
Grants and contracts	<u>2,989</u>
	<u>\$ 12,411</u>

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KENTUCKY COMMUNITY AND TECHNICAL COLLEGE SYSTEM

Notes to Financial Statements

June 30, 2024

7. Noncurrent Liabilities

Noncurrent liabilities are summarized as follows (in thousands):

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Current Portion</u>	<u>Non Current Portion</u>
Leases payable	\$ 11,008	\$ 1,455	\$ (3,913)	\$ 8,550	\$ 3,615	\$ 4,935
Subscription-based information technology arrangements	<u>1,371</u>	<u>6,233</u>	<u>(1,615)</u>	<u>5,989</u>	<u>1,308</u>	<u>4,681</u>
Total leases and subscriptions payable	<u>12,379</u>	<u>7,688</u>	<u>(5,528)</u>	<u>14,539</u>	<u>4,923</u>	<u>9,616</u>
Other liabilities						
Compensated absences	8,948	15,503	(15,261)	9,190	919	8,271
Notes payable	117,713	313	(8,072)	109,954	8,015	101,939
Net pension liability	156,888	-	(5,832)	151,056	-	151,056
Net other postemployment benefit liability	<u>41,998</u>	<u>-</u>	<u>(27,300)</u>	<u>14,698</u>	<u>-</u>	<u>14,698</u>
Total other liabilities	<u>325,547</u>	<u>15,816</u>	<u>(56,465)</u>	<u>284,898</u>	<u>8,934</u>	<u>275,964</u>
Total noncurrent liabilities	<u>\$ 337,926</u>	<u>\$ 23,504</u>	<u>\$ (61,993)</u>	<u>\$ 299,437</u>	<u>\$ 13,857</u>	<u>\$ 285,580</u>

Notes payable consist of the following (in thousands):

Energy savings agreements with 6 to 12 year remaining terms, total annual payments ranging from \$72,576 to \$1,035,057 and interest rates from 2.44% to 4.00%.	\$ 24,704
Building agreement with 9 year remaining term, total annual payments of \$432,220 and interest rates of 3.42%.	3,475
Construction, renovation and design projects with 12 to 13 year remaining terms, annual payments beginning at \$4,510,000 and increasing to \$7,680,000 and interest rates of 2.63% to 3.56%.	<u>81,775</u>
	<u>\$ 109,954</u>

Principal maturities and interest on notes payable for the next five years and in subsequent five-year periods are as follows (in thousands):

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2025	\$ 8,015	\$ 4,014	\$ 12,029
2026	8,268	3,757	12,025
2027	8,569	3,458	12,027
2028	8,892	3,134	12,026
2029	9,237	2,793	12,030
2030-2034	45,846	8,938	54,784
2035-2037	<u>21,127</u>	<u>10,649</u>	<u>31,776</u>
	<u>\$ 109,954</u>	<u>\$ 36,743</u>	<u>\$ 146,697</u>

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KENTUCKY COMMUNITY AND TECHNICAL COLLEGE SYSTEM

Notes to Financial Statements

June 30, 2024

7. Noncurrent Liabilities

Relating to notes payable, KCTCS has entered into two significant agreements with the Commonwealth of Kentucky. The purpose of these agreements is to finance construction, renovation, and design projects for campus facilities, which were approved under House Bill 235 (2014), and House Bill 303 (2016) of the General Assembly of the Commonwealth of Kentucky. KCTCS has pledged as collateral general receipts, including student registration fees, and its debt service account. The first agreement was entered into on May 1, 2016 in the amount of \$50.6 million and included a premium of \$6.0 million and bond issuance costs of \$329 thousand. The second agreement was entered into on April 12, 2017 in the amount of \$65.6 million and included a premium of \$5.5 million, bond issuance costs of \$397 thousand and prepaid insurance of \$252 thousand.

Leases and subscriptions payable consist of the following (in thousands):

Computer equipment and software leases, all with 1 to 3 year remaining terms with total annual payments ranging from \$2,000 to \$235,000 and interest rates of 4% to 6.5%	\$ 567
Building leases with 1 to 4 year remaining terms, total annual payments ranging from \$2,000 to \$640,000 and interest rates of 4% to 6.5%.	2,526
Copier and software leases, with 1 to 5 year remaining terms, total annual payments ranging from \$200 to \$300,000 and interest rates of 4% to 6.5%.	1,388
Equipment leases, with 1 to 4 year remaining terms, total annual payments ranging from \$1,300 to \$1,200,000 and interest rates of 4% to 6.5%.	4,069
Subscription-based information technology arrangements, with 1 to 5 year terms, total annual payments ranging from \$120,000 to \$4,210,000 and interest rates of 4.0%.	<u>5,989</u>
	<u><u>\$ 14,539</u></u>

Principal maturities and interest on leases and subscriptions payable for the next five years and in subsequent five-year periods are as follows (in thousands):

Fiscal Year	Principal	Interest	Total
2025	\$ 4,923	463	\$ 5,386
2026	3,560	298	3,858
2027	3,468	173	3,641
2028	1,732	70	1,802
2029	856	10	866
	<u>\$ 14,539</u>	<u>\$ 1,014</u>	<u>\$ 15,553</u>

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KENTUCKY COMMUNITY AND TECHNICAL COLLEGE SYSTEM

Notes to Financial Statements

June 30, 2024

8. Risk Management

KCTCS is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions, injuries to employees, and natural disasters. These risks are covered by (1) the State Fire and Tornado Insurance Fund (the Fund), (2) Sovereign Immunity and the State Board of Claims, or (3) in the case of risks not covered by the Fund and Sovereign Immunity, commercial insurance. The Fund covers losses to property from fire, wind, earthquake, flood, and other named perils between \$5,000 and \$1.0 million. Losses exceeding \$1.0 million are insured by commercial carriers under contract with the State Fire and Tornado Insurance Fund up to a maximum of \$1.5 billion per occurrence.

The Commonwealth of Kentucky is covered by sovereign immunity. Per KRS 44.073, state institutions of higher education, including KCTCS, under KRS Chapter 164 are considered agencies of the state. As such, KCTCS is covered by the Board of Claims for acts of negligence up to \$200,000 for a single claim and an aggregate of \$350,000 per negligent act.

The Board has primary and exclusive jurisdiction over all acts of negligence for state institutions of higher education. For risks not covered by sovereign immunity, KCTCS has purchased commercial insurance policies covering risks of loss due to damage to property and automobiles, general and automobile liability claims, employee dishonesty, and student accidents.

KCTCS has general liability insurance with an aggregate total limit of \$3.0 million and a per occurrence limit of \$1.0 million without a deductible. An umbrella policy extends the liability aggregate total limit to \$10.0 million with a per occurrence limit of \$10.0 million without a deductible.

Educator's Legal Liability coverage has been secured through commercial insurance to insure KCTCS' faculty and staff against claims arising from actions undertaken within the scope of their job responsibilities. This coverage also extends to the KCTCS Board of Regents. The limit is \$2.0 million without a deductible. There have been no significant reductions in insurance coverage from 2022 to 2023. Settlements have not exceeded insurance coverage during the past three years.

Limited Professional Liability insurance has been obtained, which covers all faculty and students who participate in allied health programs. The coverage carries a \$1.0 million per claim limit and \$3.0 million annual aggregate with a \$10,000 deductible. International Liability insurance has been obtained for employee and/or student trips to other countries that meet the required criteria. A broad list of coverages with various limits are provided by this insurance.

Cyber Liability insurance has been obtained, which covers, but is not limited to fraud loss, extortion threats, public relations expenses, ransomware loss, telecommunications loss, and business interruption costs. The coverage carries a \$1.0 million annual aggregate limit with a \$50,000 deductible.

Active Shooter/Violence in the Workplace coverage has been obtained, which provides coverage for public relations counsel, funeral and burial expenses, psychiatric care, medical/dental care, employee counseling, temporary security measures, rehabilitation expenses, personal accident expenses, and reward money for post event investigation tips. The coverage carries a \$3.0 million annual aggregate limit for an act of workplace violence event with a \$0 deductible and a \$3.0 million annual aggregate for a stalking threat event with a \$0 deductible.

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KENTUCKY COMMUNITY AND TECHNICAL COLLEGE SYSTEM

Notes to Financial Statements

June 30, 2024

9. Natural Classification

Operating expenses are shown by program on the Statement of Revenues, Expenses and Changes in Net Position. The table, below, summarizes operating expenses (income) by natural classification (in thousands):

Salaries and wages	\$ 264,959
Employee benefits - other	96,356
Employee benefits - pension and OPEB	(23,087)
Equipment, supplies and other services	99,184
Student scholarships and financial aid	89,035
Depreciation and amortization	50,556
Fire commission	40,594
Utilities	14,734
	<hr/>
	\$ 632,331

10. Pension Plans

Employees are required to participate in a retirement plan if they are full-time or part-time and work at least 25 hours per week. Employees may be an active participant in one of four plans, depending on plans available on the employee's hire date, as described below.

Upon consolidation - Upon consolidation of Kentucky's community and technical colleges into one system (KCTCS), employees had the option to enter the KCTCS 403(b) defined contribution plan or to remain in the retirement plan in which they were enrolled. Community college employees were enrolled in the University of Kentucky's (UK) 403(b) defined contribution plan and technical college employees were enrolled in the Kentucky Teacher's Retirement System (KTRS) or the Kentucky Employee's Retirement System (KERS). Participants in the UK 403(b) plan contribute 5 percent and KCTCS contributes 10 percent. UK authorized Fidelity Investments and Teachers Insurance and Annuity Association (TIAA) as carriers for the plan. KTRS and KERS Boards establish contribution rates for employees and employers.

After consolidation and until December 31, 2013 - New employees had the option to participate in KTRS, KERS or the KCTCS 403(b) plan through December 31, 2013. Vesting periods for the KCTCS 403(b) plan depend on date of hire: employees hired before July 1, 2009 are vested immediately; employees hired July 1, 2009, or later, including rehires, are vested after 5 years (60 months) of continuous service. Employee contributions vest immediately.

After December 31, 2013 - After this date, new employees only have the option to participate in the KCTCS 403(b) plan. Full-time employees may elect to participate during the first 30 days of employment. All other eligible employees, hired on or after January 1, 2014, must enroll within 180 days of the date of hire. KCTCS has authorized American Century Investments, Fidelity Investments, Voya Financial and TIAA as carriers for the plan. The 403(b) plan may be amended.

Contributions are based on the participant's eligible compensation for all plans and employer contributions forfeited prior to vesting are used to reduce future employer contributions for all plans. KCTCS contributions for all retirement plans for fiscal year ending June 30, 2024 totaled \$23.2 million. Employees contributed \$13.6 million and KCTCS total payroll costs for employees in a retirement plan were \$231.0 million for June 30, 2024.

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KENTUCKY COMMUNITY AND TECHNICAL COLLEGE SYSTEM

Notes to Financial Statements

June 30, 2024

10. Pension Plans

Kentucky Teachers Retirement System

The Kentucky Teachers Retirement System (KTRS) is a cost-sharing, multiple-employer, defined-benefit plan. The KTRS Board of Trustees is responsible for administration and management of the retirement system. The Board may adopt procedures necessary to conduct the business of the retirement system. Applicable provisions of KRS shall control if an inconsistency exists between state law and policy. KTRS issues a financial report, including financial statements and required supplementary information, which may be obtained by writing Kentucky Teacher's Retirement Systems, 479 Versailles Road, Frankfort, Kentucky 40601; by calling (502)573-3266; or by visiting <https://trs.ky.gov/>.

KTRS Pension Benefits Provided - KTRS provides retirement, disability, and death benefits. KTRS retirees are entitled to a monthly benefit based on months of service and the average salary of 5 full fiscal years (highest 5 or last 3 depending on date of participation) upon attainment of KTRS specified age (or age and service combinations). Participants are fully vested after completion of 60 months of service, 12 of which are current service. Retirement benefits are generally 2.5 percent of the employee's final 3 (or 5) year average compensation times years of service. Employees with 5 years of continuous service are eligible to retire at age 60 (or at any age with 27 years of service). Employees are eligible for service-related disability benefits regardless of years of service. Five years of service is required for nonservice-related disability eligibility. Disability benefits are determined in the same manner as retirement benefits but are payable immediately without an actuarial reduction. Retirees are covered by a \$5,000 life insurance benefit.

KTRS Pension Contributions - Benefit and contribution rates are established by KRS 161.340, 161.550, and 161.565 and may be amended by the KTRS Board. For the fiscal year ended June 30, 2024, employees contributed 8.185 percent or 12.855 percent, depending on personnel classification. KCTCS' contributed 15.865 percent, 16.105 percent, or 25.72 percent, depending on personnel classification. KCTCS' contribution is an actuarially determined amount that, when combined with employee contributions, is expected to finance the cost of benefits (pension, health, and life) earned during the year with an additional amount to finance any unfunded liability. KCTCS contributed \$2.91 million for the year ended June 30, 2024.

KTRS Pension Liability, Pension Expense, Deferred Outflows and Deferred Inflows of Resources - KCTCS reported a liability for its proportionate share of the net pension liability that reflected a reduction in support from the State as follows:

KCTCS proportionate share of the net pension liability	\$ 45,972,849
State's proportionate share of the net pension liability associated with KCTCS	<u>57,062,332</u>
Total	<u>\$ 103,035,181</u>

KCTCS' net pension liability was measured as of June 30, 2023 and total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of June 30, 2022. KCTCS' proportion of net pension liability was based on actual contributions during the measurement period of July 1, 2022 through June 30, 2023. At June 30, 2024, KCTCS' proportion was 0.26 percent and the Commonwealth's proportion was 0.32 percent.

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KENTUCKY COMMUNITY AND TECHNICAL COLLEGE SYSTEM

Notes to Financial Statements

June 30, 2024

10. Pension Plans

KTRS Pension Liability, Pension Expense, Deferred Outflows and Deferred Inflows of Resources (continued) - For the year ended June 30, 2024, KCTCS recognized pension expense related to KTRS of \$8.0 million which is reduced by \$7.0 million for support provided by the Commonwealth. KCTCS reported deferred outflows and deferred inflows of resources at June 30, 2024 as follows:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual experience	\$ 10,648	\$ -
Changes in assumptions	2,180,721	-
Net difference between projected and actual earnings on pension plan investments	1,185,427	-
Changes in proportion and differences between KCTCS contributions and proportionate share of contributions	3,953,360	6,888,045
KCTCS contributions subsequent to the measurement date	<u>3,057,439</u>	<u>-</u>
Total	<u>\$ 10,387,595</u>	<u>\$ 6,888,045</u>

KCTCS reported \$3.1 million as deferred outflows of resources resulting from KCTCS' pension contributions subsequent to the measurement date, which will be recognized as a reduction of the net pension liability in the year ending June 30, 2025. Other amounts reported as deferred outflows and deferred inflows of resources will be recognized in pension (income) expense for years ending June 30:

2025	\$ (1,430,975)
2026	(1,416,979)
2027	3,497,420
2028	<u>(207,355)</u>
	<u>\$ 442,111</u>

KTRS Pension Actuarial Assumptions - Total pension liability in the June 30, 2023 measurement was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Actuarial valuation date	June 30, 2022
Inflation	2.50%
Salary increases	3.00% - 7.50%, average, including inflation
Investment rate of return	7.10%, net of pension plan investment expense, including inflation
Municipal bond index rate	3.66%
Single equivalent interest rate	7.10%

Mortality rates were based on the Pub2010 (Teachers Benefit-Weighted) Mortality Table projected generationally with MP-2020 with various set-forwards, set-backs, and adjustments for each of the group's service, retirees, contingent annuitants, disabled retirees, and active members. The actuarial assumptions used were based on an actuarial experience study for the period July 1, 2015 - June 30, 2020 adopted by the KTRS Board on September 20, 2021.

The long-term expected rate of return on pension plan investments was determined using a log-normal distribution analysis in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class.

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KENTUCKY COMMUNITY AND TECHNICAL COLLEGE SYSTEM

Notes to Financial Statements

June 30, 2024

10. Pension Plans

KTRS Pension Actuarial Assumptions (continued) - These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation.

The target allocation and best estimates of arithmetic real rates of return for each major asset class for the June 30, 2022 measurements as provided by KTRS' investment consultant, are summarized below:

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
U.S. Equity	38%	5.25%
International Equity	16%	5.50%
Fixed Income	15%	1.90%
Additional Categories*	15%	4.50%
Real Estate	7%	3.20%
Private Equity	7%	8.00%
Cash	2%	1.60%
Total	<u>100%</u>	

KTRS Pension Changes in Assumptions and Benefit Terms Since Prior Measurement Date – For fiscal year 2024, the municipal bond index rate was increased from 3.37 percent to 3.66 percent.

KTRS Pension Changes Since Measurement Date - There were no changes between the measurement date of the collective net pension liability and KCTCS' reporting date that are expected to have a significant effect on KCTCS' proportionate share of the collective net pension liability.

KTRS Pension Discount Rate - The discount rate used to measure the TPL was 7.10 percent at June 30, 2024. The projection of cash flows used to determine the discount rate assumed that plan member contributions will be made at the current contribution rates and that employer contributions will be made at the actuarially determined contribution rates for all fiscal years in the future. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

KTRS Pension Sensitivity of KCTCS' Proportionate Share of the Net Pension Liability to Changes in the Discount Rate - The following presents the net pension liability as well as what the net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower or 1-percentage-point higher than the current discount rate:

	1% Decrease (6.10%)	Current Discount Rate (7.10%)	1% Increase (8.10%)
KCTCS' proportionate share of the collective net pension liability	\$59,105,224	\$45,972,849	\$35,081,613

KTRS Pension Plan Fiduciary Net Position – Details about the plan's fiduciary net position are available in separately issued KTRS financial reports.

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KENTUCKY COMMUNITY AND TECHNICAL COLLEGE SYSTEM

Notes to Financial Statements

June 30, 2024

10. Pension Plans

Kentucky Employees Retirement System

The Kentucky Employees Retirement System (KERS) is a cost-sharing, multiple-employer, defined benefit plan that is governed by the Kentucky Retirement Systems Board of Trustees. The Kentucky Public Pensions Authority (KPPA) provides administrative support, investment management, accounting, and legal services for state pension plans, including KERS. KERS issues a financial report, including financial statements and required supplementary information which may be obtained by writing to Kentucky Retirement Systems, Perimeter Park West, 1260 Louisville Road, Frankfort, Kentucky 40601-6124 or by calling (502)696-8800.

KERS Pension Benefits Provided - KERS provides retirement, disability, and death benefits. Participants are fully vested after completion of 60 months of service. Retirees are entitled to a monthly benefit after reaching a certain age (or age and service combination). The benefit depends on months of service and the average salary of 5 fiscal years (highest 5 or last 5, depending on date of participation). Employees hired before September 1, 2008 may retire at any age with 27 years of service or at age 65 with 4 years of service. Employees hired after September 1, 2008 may retire when their age plus years of service equals 87 (must be at least age 57) or at age 65 with 5 years of service. Employees are eligible for service-related disability benefits regardless of length of service and for non-service-related disability benefits after 5 years of service. Death benefits are based on age, months of service and whether the employee was active or retired.

KERS Pension Contributions - Benefit and contribution rates are established by state statute. Per Kentucky Revised Statute 61.565(3) contribution requirements of active employees and participating organizations are established and may be amended by the KRS Board. KERS participants hired before September 1, 2008 contribute 5 percent of covered compensation and participants hired after September 1, 2008 contribute 6 percent of their covered compensation. KCTCS contributed 9.97 percent for the year ended June 30, 2024. KCTCS' contribution is an actuarially determined amount that, when combined with employee contributions, is expected to finance the cost of benefits (7.82 percent for pension and 2.15 percent for health insurance for the year ended June 30, 2024) earned by employees during the year, with an additional amount to finance any unfunded liability. Contributions to the pension plan from KCTCS were \$1.3 million for the year ended June 30, 2024.

KERS Pension Liability, Pension Expense, Deferred Outflows and Deferred Inflows of Resources - At June 30, 2024, KCTCS reported a liability of \$105.1 million for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2023 and the TPL used to calculate the net pension liability was determined by an actuarial valuation as of June 30, 2022, rolled-forward for June 30, 2023. KCTCS' proportion of the net pension liability was based on actual contributions made to KERS during the measurement period to determine the proportionate share of each participating employer. At June 30, 2024, KCTCS' proportion was 0.85 percent.

For the year ended June 30, 2024, KCTCS recognized income of \$3.8 million related to KERS and reported deferred outflows and deferred inflows of resources as follows:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 1,299,207	\$ 1,270
Changes in assumptions	-	2,887,461
Net difference between projected and actual earnings on pension plan investments	106,877	-
Changes in proportion and differences between KCTCS contributions and proportionate share of contributions	-	1,789,459
KCTCS contributions subsequent to the measurement date	1,258,747	-
Total	\$ 2,664,831	\$ 4,678,190

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KENTUCKY COMMUNITY AND TECHNICAL COLLEGE SYSTEM

Notes to Financial Statements

June 30, 2024

10. Pension Plans

KERS Pension Liability, Pension Expense, Deferred Outflows and Deferred Inflows of Resources (continued) - As of June 30, 2024, KCTCS reported \$1.3 million as deferred outflows of resources related to pensions resulting from KCTCS' contributions subsequent to the measurement date, which will be recognized as a reduction of the net pension liability in the year ending June 30, 2025. Other amounts reported as deferred outflows and deferred inflows of resources will be recognized in pension (income) expense for years ending June 30:

2025	\$ (3,462,640)
2026	(195,138)
2027	470,140
2028	<u>(84,468)</u>
	<u>\$ (3,272,106)</u>

KERS Pension Actuarial Assumptions - The total pension liability is measured as of June 30, 2023 and was determined using the actuarial valuation as of June 30, 2022. Actuarial methods and assumptions applied to all prior periods in the measurement are described below.

Valuation date	June 30, 2022 (rolled forward)
Experience study	July 1, 2018 - June 30, 2022
Actuarial cost method	Entry age normal
Amortization method	Level percentage of payroll, closed
Remaining amortization period	30 years closed period at June 30, 2019. Gains/losses incurred after 2019 will be amortized over separate closed 20-year amortization bases.
Asset valuation method	20% of the difference between the market value of assets and the expected actuarial value of assets is recognized.
Inflation	2.30%
Salary increase	3.30% to 15.30%, varies by service
Investment rate of return	5.25%

The mortality table used for active members is PUB-2010 General Mortality table projected with ultimate rates from the MP-2020 mortality improvement scale, base year 2010. The mortality table used for healthy retired members is a system-specific mortality table based on mortality experience from 2013-2022, projected with ultimate rates from MP-2020 mortality improvement scale, base year 2023. The mortality table used for disabled members is PUB-2010 Disabled Mortality table, with rates multiplied by 150% for both male and female rates, with ultimate rates from the MP-2020 mortality improvement scale, base year 2010. The long-term expected rate of return was determined using a building-block method in which best-estimate ranges of expected future real rate of returns are developed for each asset class. The ranges are combined by weighting the expected future real rate of return by the target asset allocation percentage. The net pension liability as of June 30, 2023 is based on the June 30, 2022 actuarial valuation rolled-forward. Deferred inflows and outflows are netted and amortized over a closed five-year period.

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KENTUCKY COMMUNITY AND TECHNICAL COLLEGE SYSTEM

Notes to Financial Statements

June 30, 2024

10. Pension Plans

KERS Pension Actuarial Assumptions (continued) - The target asset allocation and best estimates of arithmetic real rates of return for each major asset class for the June 30, 2023 measurements are summarized below.

Asset Class	Target Allocation	Long-Term Nominal Rate of Return
Public Equity	33%	5.90%
Core Fixed Income	20%	2.45%
Specialty Credit	15%	3.65%
Real Estate	10%	4.99%
Real Return	10%	5.15%
Private Equity	7%	11.73%
Cash Equivalent	5%	1.39%
Total	<u>100%</u>	

KERS Pension Changes in Assumptions and Benefit Terms Since Prior Measurement Date – The KRS Board of Trustees adopted new actuarial assumptions on June 5, 2023. These assumptions are documented in the report titled “2022 Actuarial Experience Study for the Period Ending June 30, 2022”. House Bill 506 passed during the 2023 legislative session and reinstated the Partial Lump Sum option Form of payment for members who retire on and after January 1, 2024, and adjusted the minimum required separation period before a retiree may become reemployed and continue to receive their retirement allowance to one month for all circumstances.

KERS Pension Changes Since Measurement Date - There were no changes between the measurement date of the collective net pension liability and the KCTCS reporting date that are expected to have a significant effect on KCTCS proportionate share of the collective net pension liability.

KERS Pension Discount Rate - The discount rate used to measure the total pension liability was 5.25 percent at June 30, 2023. This discount rate was based on the expected rate of return on pension plan investments. Based on the stated assumptions and the projection of cash flows as of each fiscal year ending, the pension plan’s fiduciary net position and future contributions were projected to be sufficient to finance all the future benefit payments of the current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of the projected benefit payments to determine the total pension liability.

The projection of cash flows used to determine the discount rate includes an assumption regarding future employer contributions. Future contributions are projected assuming that each participating employer in each pension plan contributes the actuarially determined employer contribution each future year calculated in accordance with the current funding policy.

KERS Pension Sensitivity of KCTCS' Proportionate Share of the Net Pension Liability to Changes in the Discount Rate - The following presents the net pension liability as well as what the net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower or 1-percentage-point higher than the current discount rate:

	1% Decrease (4.25%)	Current Discount Rate (5.25%)	1% Increase (6.25%)
KCTCS' proportionate share of the collective net pension liability	\$120,782,316	\$105,083,299	\$92,073,563

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KENTUCKY COMMUNITY AND TECHNICAL COLLEGE SYSTEM

Notes to Financial Statements

June 30, 2024

10. Pension Plans

KERS Pension Plan Fiduciary Net Position - Details about the plan's fiduciary net position are available in the separately issued KERS financial reports.

The following tables summarize KCTCS' net pension liability, deferred inflows and outflows of resources and pension (income) expense recognized for the fiscal year ended June 30, 2024:

	<u>KERS</u>	<u>KTRS</u>	<u>Total</u>
Net pension liability	\$ 105,083,299	\$ 45,972,849	\$ 151,056,148
Deferred outflows of resources	\$ 2,664,831	\$ 10,387,595	\$ 13,052,426
Deferred inflows of resources	\$ 4,678,190	\$ 6,888,045	\$ 11,566,235
Pension (income) expense recognized	\$ (3,782,447)	\$ 1,110,205	\$ (2,672,242)

11. Postemployment Benefit Plans (OPEB)

KCTCS employees hired prior to July 1, 2009 participate in either the KCTCS Retiree Health OPEB Plan, the Kentucky Teachers Retirement System OPEB Plan or the Kentucky Employees Retirement System OPEB Plan depending on the retirement plan in which they participate. Employees hired after July 1, 2009 and before January 1, 2014 participate in either the Kentucky Teachers Retirement System OPEB Plan or the Kentucky Employees Retirement System OPEB Plan. Each OPEB plan is described in the following section.

Kentucky Teachers Retirement System OPEB Plan

The Kentucky Teachers Retirement System (KTRS) OPEB Plan is a cost-sharing, multiple-employer, defined-benefit OPEB plan with a special funding situation. The plan includes medical insurance and life insurance plans and is administered by the Teachers Retirement System of the State of Kentucky (TRS). TRS publishes a financial report located at <https://trs.ky.gov/financial-reports-information>. Benefit and contribution rates are established by state statute. Contribution requirements of active employees and participating organizations are established and may be amended by the TRS Board.

Medical Insurance Plan

KTRS Medical Plan Description - Kentucky Revised Statute 161.675 requires KTRS to provide post-employment healthcare benefits to eligible members and dependents. The KTRS Medical Insurance benefit is a cost-sharing, multiple-employer, defined-benefit plan with a special funding situation. Changes to the plan may be made by the KTRS Board of Trustees, the Kentucky Department of Employee Insurance, and the General Assembly.

KTRS Medical Plan Benefits Provided - The member must have retired for service or disability to be eligible for benefits. Retired members are provided a monthly supplement to be used for their health insurance which is obtained through the Kentucky Employees Health Plan or the KTRS Medicare Eligible Health Plan, depending on age and Medicare eligibility. The TRS Board approves the supplement amount. Members pay the portion of the premium that exceeds the supplement.

KTRS Medical Plan Contributions - Participants contribute 3.75 percent of their covered compensation, KCTCS contributes 3.00 percent and 0.75 percent is funded by state appropriation. The state contributes the net cost of premiums for members who retired on or after July 1, 2010 who are in the non-Medicare eligible group. Premiums collected from retirees and investment interest help meet the medical expenses of the plan. KCTCS contributed \$704,495 for the year ended June 30, 2024.

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KENTUCKY COMMUNITY AND TECHNICAL COLLEGE SYSTEM

Notes to Financial Statements

June 30, 2024

11. Postemployment Benefit Plans (OPEB)

KTRS Medical Plan Actuarial Assumptions - The total OPEB liability was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Valuation date	June 30, 2022
Measurement date	June 30, 2023
Inflation	2.50%
Real wage growth	0.25%
Wage inflation	2.75%
Salary increases	3.00% - 7.50%, including inflation
Investment rate of return	7.10%, net of OPEB plan investment expense, including inflation
Healthcare cost trend rate	6.75% for FYE2023 decreasing to an ultimate rate of 4.50% by FYE 2032
Medicare Part B premiums	1.55 % for FYE 2023 with an ultimate rate of 4.50% by FY 2034.
Municipal bond index rate	3.66%
Discount rate	7.10%
Single equivalent interest rate	7.10%, net of OPEB plan investment expense, including inflation

Mortality rates were based on the Pub2010 (Teachers Benefit-Weighted) Mortality Table projected generationally with MP-2020 with various set-forwards, set-backs, and adjustments for each of the group's service, retirees, contingent annuitants, disabled retirees, deferred vested retirees, and active members.

The remaining actuarial assumptions (e.g., initial per capita costs, health care cost trends) used in the June 30, 2022 valuation of the Health Trust were based on a review of recent plan experience done concurrently with the June 30, 2022 valuation. The health care cost trend assumption was updated for the June 30, 2022 valuation and was shown as an assumption change in the total OPEB liability roll-forward, while the change in initial per capita claims costs were included with experience in the total OPEB liability roll-forward.

The long-term expected rate of return on plan investments was determined using a log-normal distribution analysis in which best-estimate ranges of expected future real rates of return (expected returns, net of OPEB plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation.

The target allocation and best estimates of arithmetic real rates of return for each major asset class for the June 30, 2023 measurements are summarized in the following table:

Asset Class	Target Allocation	Long Term Expected Real Rate of Return
Global Equity	58.00%	5.50%
Fixed Income	9.00%	1.90%
Real Estate	6.50%	3.20%
Private Equity	8.50%	8.00%
Other Additional Categories	17.00%	3.70%
Cash (LIBOR)	1.00%	1.60%
Total	<u>100%</u>	

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KENTUCKY COMMUNITY AND TECHNICAL COLLEGE SYSTEM

Notes to Financial Statements

June 30, 2024

11. Postemployment Benefit Plans (OPEB)

KTRS Medical Plan Changes in Assumptions Since Prior Measurement Date – The municipal bond index rate increased from 3.37 percent to 3.66 percent. The healthcare cost trend rates changed from 5.125 percent to 6.7 percent for the post-65 and Medicare Part B premiums decreased from 6.97 percent to 1.55 percent.

KTRS Medical Plan Changes Since Measurement Date - There were no changes between the measurement date of the collective net OPEB liability and KCTCS' reporting date that are expected to have a significant effect on KCTCS' proportionate share of the collective net OPEB liability.

KTRS Medical Plan Discount Rate - The discount rate used to measure the total OPEB liability was 7.10 percent for fiscal year 2024. The projection of cash flows used to determine the discount rate assumed that plan member contributions will be made at current contribution rates and the employer contributions will be made at statutorily required rates. Based on those assumptions, the plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on plan investments was applied to all periods of projected benefit payments to determine the total OPEB liability.

KTRS Medical Plan Sensitivity of the Net OPEB Liability to Changes in the Discount Rate and Healthcare Cost Trend Rates - The following presents the net OPEB liability, as well as what the net OPEB liability would be if it were calculated using a discount rate that is 1-percentage-point lower or 1-percentage-point higher than the current discount rate:

	1% Decrease <u>(6.10%)</u>	Discount Rate <u>(7.10%)</u>	1% Increase <u>(8.10%)</u>
Net OPEB liability	\$7,797,000	\$6,062,000	\$4,628,000

The following presents the net OPEB liability, as well as what the net OPEB liability would be if it were calculated using healthcare cost trend rates that are 1-percentage-point lower or 1-percentage-point higher than the current healthcare cost trend rates:

	1% Decrease <u>(5.75% decreasing to 3.50%)</u>	Healthcare Cost Trend Rates <u>(6.75% decreasing to 4.50%)</u>	1% Increase <u>(7.75% decreasing to 5.50%)</u>
Net OPEB liability	\$4,364,000	\$6,062,000	\$8,176,000

KTRS Medical Plan OPEB Liability, OPEB Expense, Deferred Outflows and Deferred Inflows of Resources - At June 30, 2024, KCTCS reported a net OPEB liability of \$6.1 million for its proportionate share of the collective net OPEB liability that reflected a reduction in support from the State. The collective net OPEB liability was measured as of June 30, 2023. Total OPEB liability, used to calculate collective net OPEB liability, was based on a projection of KCTCS's long-term share of contributions to the plan relative to projected contributions of all participating employers, actuarially determined. At June 30, 2023, KCTCS's proportion was 0.25 percent.

The KCTCS proportionate share of OPEB liability, related State support and the total net OPEB liability that is associated with KCTCS were as follows:

KCTCS proportionate share of the net OPEB liability	\$ 6,062,000
State's proportionate share of the net pension OPEB associated with KCTCS	<u>2,875,000</u>
Total	<u><u>\$ 8,937,000</u></u>

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KENTUCKY COMMUNITY AND TECHNICAL COLLEGE SYSTEM

Notes to Financial Statements

June 30, 2024

11. Postemployment Benefit Plans (OPEB)

KTRS Medical Plan OPEB Liability, OPEB Expense, Deferred Outflows and Deferred Inflows of Resources (continued)
 - For the year ended June 30, 2024, KCTCS recognized OPEB income related to the plan, of \$1.9 million which includes \$223.7 thousand of support provided by the Commonwealth of Kentucky. KCTCS reported deferred outflows and inflows of resources as follows:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Net difference between projected and actual earnings on OPEB plan investments	\$ 114,000	\$ -
Change in assumptions	1,378,000	-
Difference between expected and actual experience	-	2,055,000
Changes in proportion and differences between KCTCS contributions and proportionate share of contributions	2,950,000	10,139,000
KCTCS contributions subsequent to the measurement date	<u>704,495</u>	<u>-</u>
Total	<u>\$ 5,146,495</u>	<u>\$ 12,194,000</u>

Of the total amount reported as deferred outflows of resources, \$704,495 resulting from contributions subsequent to the measurement date and before the end of the fiscal year will be included as a reduction of the net OPEB liability in the year ended June 30, 2025. Amounts reported as deferred outflows and inflows of resources will be recognized in OPEB (income) expense as follows for years ended June 30:

2025	\$ (2,029,000)
2026	(1,799,000)
2027	(1,106,000)
2028	(931,000)
2029	(1,067,000)
Thereafter	<u>(820,000)</u>
	<u>\$ (7,752,000)</u>

KTRS Medical Plan Changes of Benefit Terms - A benefit tier was added for members joining after December 31, 2021.

KTRS Medical Plan OPEB Fiduciary Net Position - Details about the plan's fiduciary net position are available in the separately issued KTRS financial report.

Life Insurance Plan

KTRS Life Plan Description - KTRS administers the life insurance plan as provided by Kentucky Revised Statute 161.655 to eligible active and retired members. The life insurance plan is a cost-sharing, multiple-employer, defined-benefit plan. Changes made to the plan may be made by the KTRS Board of Trustees and the General Assembly.

KTRS Life Plan Benefits Provided - The life insurance plan provides a benefit of \$5,000 to members who retire based on service or disability and \$2,000 to active contributing members. The life insurance benefit is payable upon the death of the member.

KTRS Life Plan Contributions – KCTCS contributes 0.08 percent of each participants covered compensation. KCTCS contributed \$13,562 for the fiscal year ended June 30, 2024.

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KENTUCKY COMMUNITY AND TECHNICAL COLLEGE SYSTEM

Notes to Financial Statements

June 30, 2024

11. Postemployment Benefit Plans (OPEB)

KTRS Life Plan Actuarial Assumptions - The total OPEB liability was determined using the following actuarial assumptions, applied to all periods included in the measurement as the health plan:

Valuation date	June 30, 2022
Measurement date	June 30, 2023
Inflation	2.50%
Real wage growth	0.25%
Wage inflation	2.75%
Salary increases	3.00% - 7.50%, including inflation
Investment rate of return	7.10%, net of OPEB plan investment expense, including inflation
Municipal bond index rate	3.66%
Discount rate	7.10%
Single equivalent interest rate	7.10%, net of OPEB plan investment expense, including inflation

Mortality rates were based on the Pub2010 (Teachers Benefit-Weighted) Mortality Table projected generationally with MP-2020 with various set-forwards, set-backs, and adjustment for each of the group's service, retirees, contingent annuitants, disabled retirees, deferred vested retirees, and active members.

The remaining actuarial assumptions (e.g., initial per capita costs) used in the June 30, 2022 valuation of the Life Trust were based on a review of recent plan experience done concurrently with the June 30, 2022 valuation. The change in initial per capita claims costs were included with experience in the TOL roll forward for the June 30, 2022 valuation.

The long-term expected rate of return on OPEB plan investments was determined using a log-normal distribution analysis in which best-estimate ranges of expected future real rates of return (expected returns, net of OPEB plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation.

The target allocation and best estimates of arithmetic real rates of return for each major asset class for the June 30, 2023 measurements are summarized in the following table:

Asset Class	Target Allocation	Long Term Expected Real Rate of Return
U.S. Equity	40.00%	5.20%
International Equity	15.00%	5.50%
Fixed Income	21.00%	1.90%
Real Estate	7.00%	3.20%
Private Equity	5.00%	8.00%
Other Additional Categories	10.00%	5.05%
Cash (LIBOR)	2.00%	1.60%
Total	<u>100%</u>	

KTRS Life Plan Changes in Assumptions Since Prior Measurement Date – The municipal bond index rate increased from 3.37 percent to 3.66 percent.

KTRS Life Plan Changes Since Measurement Date - There were no changes between the measurement date of the collective net OPEB liability and the KCTCS reporting date that are expected to have a significant effect on KCTCS' proportionate share of the collective net OPEB liability.

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KENTUCKY COMMUNITY AND TECHNICAL COLLEGE SYSTEM

Notes to Financial Statements

June 30, 2024

11. Postemployment Benefit Plans (OPEB)

KTRS Life Plan Discount Rate - The discount rate used to measure the total OPEB liability was 7.10 percent for fiscal year 2023. The projection of cash flows used to determine the discount rate assumed that employer contributions will be made at statutorily required rates. Based on those assumptions, the plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on plan investments was applied to all periods of projected benefit payments to determine the total OPEB liability.

KTRS Life Plan Sensitivity of the Net OPEB Liability to Changes in the Discount Rate - The following presents the net OPEB liability, as well as what the net OPEB liability would be if it were calculated using a discount rate that is 1-percentage-point lower or 1-percentage-point higher than the current discount rate at:

	1% Decrease <u>(6.10%)</u>	Discount Rate <u>(7.10%)</u>	1% Increase <u>(8.10%)</u>
Net OPEB liability	\$302,000	\$188,000	\$96,000

KTRS Life Plan OPEB Liability, OPEB Expense, Deferred Outflows and Deferred Inflows of Resources - At June 30, 2024, KCTCS reported a net OPEB liability of \$188,000 for its proportionate share of the collective net OPEB liability that reflected a reduction for state support provided to KCTCS. The collective net OPEB liability was measured as of June 30, 2023, and the total OPEB liability used to calculate the collective net OPEB liability was based on a projection of KCTCS's long-term share of contributions to the plan relative to the projected contributions of all participating employers, actuarially determined. At June 30, 2023, KCTCS's proportion was 0.67 percent.

The amounts recognized by KCTCS as its proportionate share of the OPEB liability, the related State support, and the total portion of the net OPEB liability that was associated with KCTCS were as follows:

KCTCS proportionate share of the net OPEB liability	\$ 188,000
State's proportionate share of the net pension OPEB associated with KCTCS	-
Total	<u>\$ 188,000</u>

For the year ended June 30, 2024, KCTCS recognized OPEB income of \$2,000 associated with the KTRS life insurance plan and reported deferred outflows and inflows of resources as follows:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Net difference between projected and actual earnings on OPEB plan investments	\$ 33,000	\$ -
Change in assumptions	-	21,000
Difference between expected and actual experience	2,000	21,000
Changes in proportion and differences between KCTCS contributions and proportionate share of contributions	-	52,000
KCTCS contributions subsequent to the measurement date	<u>13,562</u>	<u>-</u>
Total	<u>\$ 48,562</u>	<u>\$ 94,000</u>

Of the total amount reported as deferred outflows of resources, \$13,562 resulting from contributions subsequent to the measurement date and before the end of the fiscal year will be included as a reduction of the net OPEB liability in the year ending June 30, 2025.

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KENTUCKY COMMUNITY AND TECHNICAL COLLEGE SYSTEM

Notes to Financial Statements

June 30, 2024

11. Postemployment Benefit Plans (OPEB)

KTRS Life Plan OPEB Liability, OPEB Expense, Deferred Outflows and Deferred Inflows of Resources (continued) - Other amounts reported as deferred outflows and inflows of resources will be recognized in OPEB expense as follows for years ending June 30:

2025	\$ (22,000)
2026	(18,000)
2027	8,000
2028	(18,000)
2029	(7,000)
Thereafter	<u>(2,000)</u>
	<u>\$ (59,000)</u>

KTRS Life Plan Changes of Benefit Terms - A benefit tier was added for members joining after December 31, 2021.

KTRS Life Plan OPEB Fiduciary Net Position – Details about the plan's fiduciary net position are available in the separately issued KTRS financial report.

Kentucky Employees Retirement System OPEB Plan

KERS OPEB Plan Description - The KERS OPEB Plan is a cost-sharing, multiple-employer, defined-benefit OPEB plan, which was available to KCTCS employees hired prior to January 1, 2014. This plan provides medical insurance for eligible retirees and is administered by Kentucky Retirement System (KRS) who publishes a financial report located at <https://kyret.ky.gov>.

KERS OPEB Benefits Provided – Benefits provided depend on the plan tier in which a member is enrolled. There are three tiers and members are assigned to tiers depending on their participation date. Tier 1 includes members with a participation date prior to July 1, 2003. Members in Tier 1 are eligible for benefits if they are receiving a retirement payment. Tier 1 benefits include a portion of a medical premium paid by KERS. The amount of the medical premium paid is a percentage that is determined based on the number of years of service. Tier 2 includes members with participation dates of July 1, 2003 through August 31, 2008. Members in Tier 2 are eligible for benefits if they are receiving a retirement payment and have at least 120 months of service at retirement. Tier 3 includes members with a participation date after August 31, 2008. Members in Tier 3 are eligible for benefits if they are receiving a retirement payment and have at least 180 months of service at retirement. Tier 2 and Tier 3 benefits include a monthly premium allowance of \$10 for each year of service. The monthly premium allowance is increased by 1.5 percent each July 1.

KERS OPEB Contributions - Benefit and contribution rates are established by state statute. Per Kentucky Revised Statute 61.565(3) contribution requirements of active employees and participating organizations are established and may be amended by the KRS Board. KERS participants hired with an effective date on or after September 1, 2008 contribute 1 percent of their covered compensation. KERS participants hired prior to September 1, 2008 do not contribute to the plan but do receive plan benefits. KCTCS contributed 2.15 percent for the year ended June 30, 2024. This rate was actuarially determined to produce an amount that, when combined with employee contributions, is expected to finance the cost of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. KCTCS contributed \$346,075 for the year ended June 30, 2024 and the implicit subsidy was \$271,566.

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KENTUCKY COMMUNITY AND TECHNICAL COLLEGE SYSTEM

Notes to Financial Statements

June 30, 2024

11. Postemployment Benefit Plans (OPEB)

KERS OPEB Actuarial Assumptions - The total OPEB liability was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Valuation date	June 30, 2022 (rolled forward)
Measurement date	June 30, 2023
Inflation	2.50%
Payroll growth rate	0.00%
Salary increases	3.30% to 15.30%, varies by service
Investment rate of return	6.50%
Healthcare cost trend rate	Pre-65: 6.80% beginning January 1, 2025, decreasing to an ultimate trend rate of 4.05% over 13 years. Post-65: 8.50% beginning January 1, 2025, decreasing to an ultimate trend rate of 4.05% over a period of 13 years.

The mortality table used for active members is PUB-2010 General Mortality table projected with the ultimate rates from the MP-2020 mortality improvement scale using a base year of 2010. The mortality table used for non-disabled retired members is a system-specific mortality table based on mortality experience from 2013-2022, projected with the ultimate rates from MP-2020 mortality improvement scale using a base year of 2023. For disabled members, the mortality table used is PUB-2010 Disabled Mortality table, with rates multiplied by 150% for both male and female rates, projected with the ultimate rates from the MP-2020 mortality improvement scale using a base year of 2010.

The long-term expected rate of return was determined by using a building-block method in which best-estimate ranges of expected future real rate of returns are developed for each asset class. The ranges are combined by weighting the expected future real rate of return by the target asset allocation percentage. The target allocation and best estimates of arithmetic real rates of return for each major asset class for the June 30, 2023 measurements are summarized in the following table:

Asset Class	Target Allocation	Long-Term Nominal Rate of Return
Public Equity	44%	5.90%
Specialty Credit	15%	3.65%
Core Fixed Income	10%	2.45%
Real Return	10%	5.15%
Private Equity	10%	11.73%
Real Estate	10%	4.99%
Cash Equivalent	1%	1.39%
Total	100%	

KERS OPEB Changes in Assumptions and Benefit Terms Since Prior Measurement Date – For the fiscal year ended June 30, 2024, the discount rate used to calculate the total OPEB liability increased from 5.72 percent to 5.94 percent; and the healthcare cost trend rate increased from 6.20 percent to 6.80 percent for pre-65 and decreased from 9.00 percent to 8.50 percent for post-65.

House Bill 506 passed during the 2023 legislative session reinstated the Partial Lump Sum Option form of payment for members who retire on and after January 1, 2024 and adjusted the minimum required separation period before a retiree may become reemployed and continue to receive their retirement allowance to one month for all circumstances.

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KENTUCKY COMMUNITY AND TECHNICAL COLLEGE SYSTEM

Notes to Financial Statements

June 30, 2024

11. Postemployment Benefit Plans (OPEB)

KERS OPEB Changes Since Measurement Date - There were no changes between the measurement date of the collective net OPEB liability and KCTCS' reporting date that are expected to have a significant effect on KCTCS proportionate share of the collective net OPEB liability.

KERS OPEB Discount Rate - For the June 30, 2023 measurement date, the discount rate used to determine the total OPEB liability was 5.94 percent. The projection of cash flows used to determine the discount rate assumed that contributions will be made at rates equal to the actuarially determined contribution rates.

For the June 30, 2023 measurement date, the discount rate determination used an expected rate of return of 6.50 percent and a municipal bond rate of 3.86 percent, which was reported in Fidelity Index's "20 -Year Municipal GO AA Index" as of June 30, 2023.

Based on the stated assumptions and the projection of cash flows as of each fiscal year ending, each plan's fiduciary net position and future contributions were projected to be sufficient to finance the future benefit payments of the current plan members. Therefore, the long-term expected rate of return on insurance plan investments was applied to all periods of the projected benefit payments paid from the plan. However, the cost associated with the implicit employer subsidy was not included in the calculation of the actuarially determined contributions, and any cost associated with the implicit subsidy will not be paid out of the KRS' trusts. Therefore, the municipal bond rate was applied to future expected benefit payments associated with the implicit subsidy.

KERS OPEB Sensitivity of the Net OPEB Liability to Changes in the Discount Rate and Healthcare Cost Trend Rates - The following presents the net OPEB liability, as well as what the net OPEB liability would be if it were calculated using a discount rate that is 1-percentage-point lower or 1-percentage-point higher than the current discount rate:

	1% Decrease <u>(4.94%)</u>	Discount Rate <u>(5.94%)</u>	1% Increase <u>(6.94%)</u>
Net OPEB liability	\$10,658,973	\$7,925,385	\$5,626,662

The following presents the net OPEB liability, as well as what the net OPEB liability would be if it were calculated using healthcare cost trend rates that are 1-percentage-point lower or 1-percentage-point higher than the current healthcare cost trend rates:

	1% Decrease <u>(5.80% and 7.50% decreasing to 3.05%)</u>	Healthcare Cost Trend Rates <u>(6.80% and 8.50% decreasing to 4.05%)</u>	1% Increase <u>(7.80% and 9.50% decreasing to 5.05%)</u>
Net OPEB liability	\$5,809,852	\$7,925,385	\$10,486,307

Continued

KENTUCKY COMMUNITY AND TECHNICAL COLLEGE SYSTEM

Notes to Financial Statements

June 30, 2024

11. Postemployment Benefit Plans (OPEB)

KERS OPEB Liability, OPEB Expense, Deferred Outflows and Deferred Inflows of Resources – KCTCS’ net OPEB liability, measured as of June 30, 2023 was \$7.9 million. Its proportionate share of the collective net OPEB liability was 1.01 percent as of June 30, 2023 and was determined using employers’ actual contributions for fiscal year ended June 30, 2022. KCTCS recognized OPEB income of \$6.1 million for the year ended June 30, 2024.

KCTCS reported deferred outflows and inflows of resources as follows:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ -	\$ 10,777,910
Changes in assumptions	775,484	874,896
Net difference between projected and actual earnings on OPEB plan investments	1,440	-
Changes in proportion and differences between KCTCS contributions and proportionate share of contributions	2,560,965	5,129,595
KCTCS contributions subsequent to the measurement date	617,641	-
	<u>\$ 3,955,530</u>	<u>\$ 16,782,401</u>
Total		

Of the total amount reported as deferred outflows of resources related to OPEB, contributions subsequent to the measurement date are comprised of an implicit subsidy of \$271,566 and contributions after the measurement date and before the end of the fiscal year of \$346,075 which will be included as a reduction of the net OPEB liability in the year ending June 30, 2025.

Deferred outflows and inflows of resources will be recognized in OPEB expense as follows:

2025	\$ (6,060,678)
2026	(5,305,693)
2027	(1,985,143)
2028	<u>(92,998)</u>
	<u>\$ (13,444,512)</u>

KERS OPEB Plan Fiduciary Net Position – Details about the plan’s fiduciary net position are available in the separately issued KERS financial report.

KCTCS Retiree Health OPEB Plan

The KCTCS Retiree Health OPEB Plan (KCTCS OPEB Plan) is a single-employer, defined-benefit other postemployment benefit plan administered by KCTCS. The plan provides healthcare benefits for eligible retirees of the 403(b) defined contribution plan and for eligible retiree’s spouses. The KCTCS OPEB Plan was closed to new entrants as of July 1, 2009 and does not issue a stand-alone financial report. It is funded by an irrevocable trust that was established with an initial contribution of \$163.7 million during the year ended June 30, 2013. Plan participants include former University of Kentucky faculty and staff, KCTCS 403(b) participants with a hire date before July 1, 2009, and University of Kentucky opt-over retirees.

KCTCS OPEB Plan Benefits Provided - Benefits are provided through a third-party insurer and cover part of the monthly health insurance premium which is based on Medicare retiree status and rates. Pre-Medicare eligible employees have the same healthcare plan choices as active employees. Post-Medicare eligible employees receive monthly benefits determined to meet the premium obligations for the Medicare Advantage Plan.

Continued

KENTUCKY COMMUNITY AND TECHNICAL COLLEGE SYSTEM

Notes to Financial Statements

June 30, 2024

11. Postemployment Benefit Plans (OPEB)

KCTCS OPEB Plan Contributions - There were no contributions during the fiscal year ended June 30, 2024.

KCTCS OPEB Plan - The plan covered the following as of the measurement date of June 30, 2023:

Inactive employees or beneficiaries currently receiving benefit payments	1,104
Inactive employees entitled to but not yet receiving benefit payments	112
Active employees	<u>898</u>
 Total	 <u><u>2,114</u></u>

KCTCS OPEB Plan Net OPEB Asset - The net OPEB asset was measured as of June 30, 2023 and the total OPEB liability used to calculate the net OPEB asset was determined by an actuarial valuation as of June 30, 2023.

KCTCS OPEB Plan Actuarial Assumptions - The total OPEB liability was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Valuation date	July 1, 2023
Salary increases	3.0%
Investment rate of return	6.5%
Healthcare cost trend rate	7.31% KCTCS Pre-65; 7.75% KCTCS Post-65; 7.31% UK Pre-65; 10.64% UK Post-65 to an ultimate rate of 4.5% for 2034 and later years.

Mortality rates for healthy members were based on PUB-2010 Mortality Tables for “Teachers” and “General” Employees Projected Generationally with Scale MP-2021. Mortality rates for disabled members were based on PUB-2010 Disabled Retiree Table for “Non-Safety” Employees Projected Generationally with Scale MP-2021. The long-term expected rate of return on plan investments is 6.5 percent and was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of geometric real rates of return for each major asset class for the June 30, 2023 measurements are summarized below.

	Target Allocation	Long-Term Expected Real Rate of Return
Global Equity	52.00%	4.78%
Core Bonds	18.00%	1.95%
Diversifying Strategies	10.00%	1.75%
Core Real Estate	5.00%	4.09%
Credit	7.00%	4.87%
Public Natural Resources	4.00%	2.53%
REITS	<u>4.00%</u>	5.07%
Total	<u><u>100%</u></u>	

KCTCS OPEB Plan Discount Rate - The discount rate used to measure the total OPEB liability was 6.5 percent for June 30, 2023. The projection of cash flows used to determine the discount rate assumed that contributions will be made at rates equal to the actuarially determined contribution rates. Based on those assumptions, the fiduciary net position was projected to be available to make all projected payments for current active and inactive employees. Therefore, the long-term expected rate of return on the plan investments was applied to all periods of projected benefit payments to determine the total OPEB liability.

Continued

KENTUCKY COMMUNITY AND TECHNICAL COLLEGE SYSTEM

Notes to Financial Statements

June 30, 2024

11. Postemployment Benefit Plans (OPEB)

KCTCS OPEB Plan Changes in the Net OPEB Liability (Asset)

	<u>Total OPEB Liability</u>	<u>Plan Fiduciary Net Position</u>	<u>Net OPEB Liability (Asset)</u>
Balances at 6/30/23	\$ 189,179,163	\$ 215,535,900	\$ (26,356,737)
Changes for the year:			
Service cost	2,064,233	-	2,064,233
Interest	12,245,309	-	12,245,309
Changes of benefit terms	-	-	-
Differences between expected and actual experiences	(3,077,428)	-	(3,077,428)
Changes in assumptions	6,987,342	-	6,987,342
Contributions - employer	-	-	-
Contributions - employee	-	-	-
Net investment income	-	20,064,879	(20,064,879)
Benefit payments	(5,799,362)	(5,799,362)	-
Administrative expense	-	(77,300)	77,300
Net changes	<u>12,420,094</u>	<u>14,188,217</u>	<u>(1,768,123)</u>
Balances at 6/30/24	<u>\$ 201,599,257</u>	<u>\$ 229,724,117</u>	<u>\$ (28,124,860)</u>

KCTCS OPEB Plan Changes in Assumptions and Benefit Terms Since Prior Measurement Date - For the fiscal year ended June 30, 2024, claims and trend rates were updated to better reflect expected experiences of the plan.

KCTCS OPEB Plan Changes in Healthcare Cost Trend Rates – For the fiscal year ended June 30, 2024, the healthcare trend rate for KCTCS Under Age 65 increased from 6.71% to 7.31% and for KCTCS Ages 65 and Older the healthcare trend rate decreased from 8.80% to 7.75%. The healthcare trend rate for UK Under Age 65 increased from 6.34% to 7.31% and for UK Ages 65 and Older the healthcare trend rate increased from 8.67% to 10.64%.

KCTCS OPEB Plan Changes Since Measurement Date - There were no changes between the measurement date of the net OPEB asset and KCTCS' reporting date that are expected to have a significant effect on the net OPEB asset.

KCTCS OPEB Plan Sensitivity of the Net OPEB Asset to Changes in the Discount Rate and Healthcare Cost Trend Rates - The following presents the net OPEB asset, as well as what the net OPEB asset would be if it were calculated using a discount rate that is 1-percentage-point lower or 1-percentage-point higher than the current discount rate:

	<u>1% Decrease (5.5%)</u>	<u>Discount Rate (6.5%)</u>	<u>1% Increase (7.5%)</u>
Net OPEB liability (asset)	\$ 621,602	\$ (28,124,860)	\$ (51,697,522)

The following presents the net OPEB asset, as well as what the net OPEB asset would be if it were calculated using healthcare cost trend rates that are 1-percentage-point lower or 1-percentage-point higher than the current healthcare cost trend rates:

	<u>1% Decrease</u>	<u>Healthcare Cost Trend Rates (7.31%)</u>	<u>1% Increase</u>
Net OPEB liability (asset)	\$ (52,122,988)	\$ (28,124,860)	\$ 990,849

Continued

KENTUCKY COMMUNITY AND TECHNICAL COLLEGE SYSTEM

Notes to Financial Statements

June 30, 2024

11. Postemployment Benefit Plans (OPEB)

KCTCS OPEB Plan OPEB Expense, Deferred Outflows and Deferred Inflows of Resources - For the year ended June 30, 2024, KCTCS recognized OPEB expense of \$910 thousand associated with the plan and reported deferred outflows and inflows of resources as follows:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 177,230	\$ 2,186,468
Changes of assumptions	5,250,039	1,513,004
Difference between projected and actual earnings on OPEB plan investments, net of deferred outflows	<u>8,198,693</u>	<u>-</u>
Total	<u>\$ 13,625,962</u>	<u>\$ 3,699,472</u>

Deferred inflows and outflows of resources will be recognized in OPEB expense as follows:

2025	\$ 2,815,558
2026	1,296,100
2027	7,063,949
2028	<u>(1,249,117)</u>
	<u>\$ 9,926,490</u>

KCTCS OPEB Plan Payable to the Plan - KCTCS had no contributions payable to the plan as of June 30, 2024.

The following table summarizes the significant components of KCTCS' net OPEB liability (asset), deferred inflows and outflows of resources, and OPEB (income) expense for the fiscal year ended June 30, 2024:

	KTRS	KERS	KCTCS	Total
Net OPEB liability	\$ 6,250,000	\$ 7,925,385	\$ -	\$ 14,175,385
Net OPEB (asset)	\$ -	\$ -	\$ (28,124,860)	\$ (28,124,860)
Deferred outflows	\$ 5,195,057	\$ 3,955,530	\$ 13,625,962	\$ 22,776,549
Deferred inflows	\$ 12,288,000	\$ 16,782,401	\$ 3,699,472	\$ 32,769,873
OPEB (income) expense recognized	\$ (1,921,000)	\$ (6,109,010)	\$ 909,590	\$ (7,120,420)

KCTCS also maintains a long-term disability (LTD) plan for community college employees who did not opt-in to the KCTCS benefit system. This plan is funded as claims arise and the estimated liability for LTD claims totaled \$523 thousand as of June 30, 2024. The LTD plan liability is included in net other postemployment benefit liability on the Statement of Net Position.

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KENTUCKY COMMUNITY AND TECHNICAL COLLEGE SYSTEM

Notes to Financial Statements

June 30, 2024

12. Commitments and Contingencies

Construction Commitments - The estimated cost to complete construction projects under contract at June 30, 2024 is \$293.3 million. The projects are to be financed principally by appropriations from the Commonwealth of Kentucky.

Claims and Litigation - KCTCS is a party to various legal proceedings and claims that arise in the ordinary course of business. Among these matters is the "Bennett v. KCTCS, et al" class action lawsuit, which was filed on October 1, 2018 in Franklin Circuit Court. This lawsuit names KCTCS as a party defendant for how KCTCS collects debts through the Department of Revenue. As of the report date, KCTCS management is unable to estimate the likelihood or range of any potential liability, and accordingly, no amounts are recorded in the financial statements at June 30, 2024.

Government Grants - KCTCS receives financial assistance from federal and state agencies in the form of grants and awards. The expenditure of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and is subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the applicable fund. KCTCS has had no disallowed claims in the past. In the opinion of management, such potential disallowed claims, if any, would not have a material adverse effect on the overall financial position of KCTCS at June 30, 2024.

Continued

Schedule of KCTCS' Proportionate Share of the Net Pension Liability
 Kentucky Teacher's Retirement System
 (in thousands)

	2024	2023	2022	2021	2020
KCTCS' proportionate share of net pension liability	\$ 45,973	\$ 40,118	\$ 39,769	\$ 49,358	\$ 50,127
State's proportionate share of collective net pension liability	57,062	57,923	48,621	60,113	63,627
	<u>\$ 103,035</u>	<u>\$ 98,041</u>	<u>\$ 88,390</u>	<u>\$ 109,471</u>	<u>\$ 113,754</u>
KCTCS' proportion of net pension liability	4.16%	0.23%	0.29%	0.33%	0.35%
KCTCS' covered payroll	\$ 23,621	\$ 25,082	\$ 25,937	\$ 28,942	\$ 30,701
KCTCS' proportionate share of net pension liability as a percentage of its covered payroll	194.63%	159.95%	153.33%	170.54%	163.27%
Plan fiduciary net position					
as a percentage of total pension liability	57.68%	56.41%	65.59%	58.27%	58.10%

Notes:

This table represents data that is one year in arrears.

Changes in assumptions: For fiscal year 2024, the municipal bond index rate was increased from 3.37 percent to 3.66 percent. For fiscal year 2023, the municipal bond index rate was increased from 2.13 percent to 3.37 percent. For fiscal year 2022, the inflation rate decreased from 3.00% to 2.50%; salary increases changed from 3.50% - 7.30% to 3.50% - 7.50%; investment rate of return decreased from 7.50% to 7.10%; municipal bond index rate decreased from 2.19% to 2.13%; and the discount rate decreased from 7.50% to 7.10%. For fiscal year 2021, the municipal bond index rate decreased from 3.50% to 2.19%. For fiscal year 2020, the assumed municipal bond index rate decreased from 3.89% to 3.50%.

Schedule of KCTCS Pension Contribution
 Kentucky Teacher's Retirement System
 (in thousands)

	2024	2023	2022	2021	2020
Contractually required contribution	\$ 3,057	\$ 3,077	\$ 3,256	\$ 3,364	\$ 3,730
Contributions in relation to the contractually required contribution	3,057	3,077	3,256	3,364	3,730
Contribution deficiency (excess)	<u>\$ -</u>				
KCTCS covered payroll	\$ 23,018	\$ 23,621	\$ 25,082	\$ 25,937	\$ 28,942
Contributions as a percentage of covered payroll	13.28%	13.03%	12.98%	12.97%	12.89%

Schedule of KCTCS' Proportionate Share of the Net Pension Liability
Kentucky Teacher's Retirement System
(in thousands)

	2019	2018	2017	2016	2015
KCTCS' proportionate share of net pension liability	\$ 54,584	\$ 113,107	\$ 251,694	\$ 219,423	\$ 209,139
State's proportionate share of collective net pension liability	<u>56,662</u>	<u>127,090</u>	<u>34,486</u>	<u>33,391</u>	<u>36,216</u>
	<u>\$ 111,246</u>	<u>\$ 240,197</u>	<u>\$ 286,180</u>	<u>\$ 252,814</u>	<u>\$ 245,355</u>
KCTCS' proportion of net pension liability	0.40%	0.40%	0.81%	0.90%	0.97%
KCTCS' covered payroll	\$ 34,408	\$ 35,898	\$ 39,577	\$ 43,116	\$ 46,018
KCTCS' proportionate share of net pension liability as a percentage of its covered payroll	158.64%	315.08%	635.96%	508.91%	454.47%
Plan fiduciary net position					
as a percentage of total pension liability	59.30%	39.83%	35.22%	42.49%	45.59%

Notes:

This table represents data that is one year in arrears.

Changes in assumptions: For fiscal year 2019, the KTRS plan discount rate increased from 4.49% to 7.50%. For fiscal year 2018, the KTRS plan discount rate increased from 4.20 percent to 4.49 percent. For fiscal year 2017, the KTRS plan discount rate decreased from 4.88 percent to 4.20 percent. For fiscal year 2016, there was a decrease in the assumed investment rate of return from 7.75 percent to 7.50 percent; a decrease in the assumed rate of inflation from 3.50 percent to 3.25 percent; a decrease in the assumed rate of wage inflation from 1.00 percent to 0.75 percent and a decrease in the payroll growth assumption from 4.50 percent to 4.00 percent.

Schedule of KCTCS Pension Contribution
Kentucky Teacher's Retirement System
(in thousands)

	2019	2018	2017	2016	2015
Contractually required contribution	\$ 4,046	\$ 4,663	\$ 5,814	\$ 6,383	\$ 6,668
Contributions in relation to the contractually required contribution	<u>4,046</u>	<u>4,663</u>	<u>5,814</u>	<u>6,383</u>	<u>6,668</u>
Contribution deficiency (excess)	<u>\$ -</u>				
KCTCS covered payroll	\$ 30,701	\$ 34,408	\$ 35,898	\$ 39,577	\$ 43,116
Contributions as a percentage of covered payroll	13.18%	13.55%	16.20%	16.13%	15.47%

Schedule of KCTCS' Proportionate Share of the Net Pension Liability
Kentucky Employees Retirement System
(in thousands)

	2024	2023	2022	2021	2020
KCTCS' proportionate share of net pension liability	\$ 105,083	\$ 116,771	\$ 117,185	\$ 189,911	\$ 192,946
KCTCS' proportion of net pension liability	0.85%	0.88%	0.88%	1.34%	1.37%
KCTCS' covered payroll	\$ 16,195	\$ 17,777	\$ 17,639	\$ 19,148	\$ 20,008
KCTCS' proportionate share of net pension liability as a percentage of its covered payroll	648.86%	656.87%	664.35%	991.81%	964.34%
Plan fiduciary net position as a percentage of total pension liability	21.80%	18.51%	18.48%	14.01%	13.66%

Notes:

This table represents data that is one year in arrears.

Changes in assumptions and benefit terms: For fiscal year 2024 House Bill 506 passed during the 2023 legislative session and reinstated the Partial Lump Sum Optional Form of payment for members who retire on and after January 1, 2024, and adjusted the minimum required separation period before a retiree may become reemployed and continue to receive their retirement allowance to one month for all circumstances. For fiscal year 2023, House Bill 1 which passed during the 2022 legislative session provided an approximate 8% across-the-board salary increase effective July 1, 2022 for eligible employees. This salary increase may produce an actuarial loss with respect to the liability attributable to Tier 1 and Tier 2 active members (i.e. a higher total pension liability than expected based on current actuarial assumptions); however, sufficient information was not available to make an adjustment for this change at the time the roll-forward of Total Pension Liability was calculated. For fiscal year 2022, the amortization period increased from 26 to 30 years. For fiscal year 2021, Senate Bill 249 changed the funding period for the amortization of the unfunded liability to 30 years as of June 30, 2019. Gains and losses incurred in future years will be amortized over separate 20-year amortization bases. This change did not impact the calculation of Total Pension Liability and only impacts the calculation of the contribution rates payable starting July 1, 2020. House Bill 271 passed during the 2020 Legislative Session and removed provisions that reduce the monthly payment to a surviving spouse of a member whose death was due to a duty-related injury upon remarriage of the spouse. It also increased benefits for a very small number of beneficiaries. This did not have a material (or measurable) impact on the liability of the plans and therefore, we did not make any adjustment to the Total Pension Liability to reflect this legislation. There were no other material plan provision changes. For fiscal year 2020, there was an increase to the salary increase assumptions for individual members and the base retiree mortality tables were replaced with a KERS-specific mortality table developed using the actual mortality experience of non-disabled retirees in KERS. Mortality tables for disabled retirees and active members were updated with Public Retirement Mortality tables. Termination rates and rates of disability incidence were increased. Retirement rates were decreased slightly for members with a participation date prior to July 1, 2003. For members with a participation date on or after July 1, 2003, retirement rates were set equal to 80% of the retirement rates applicable for the pre July 1, 2003 participants for ages below 65.

Schedule of KCTCS' Pension Contribution
Kentucky Employees Retirement System
(in thousands)

	2024	2023	2022	2021	2020
Contractually required contribution	\$ 1,259	\$ 1,265	\$ 1,409	\$ 7,234	\$ 7,855
Contributions in relation to the contractually required contribution	1,259	1,265	1,409	7,234	7,855
Contribution deficiency (excess)	<u>\$ -</u>				
KCTCS covered payroll	\$ 15,853	\$ 16,195	\$ 17,777	\$ 17,639	\$ 19,148
Contributions as a percentage of covered payroll	7.94%	7.81%	7.93%	41.01%	41.02%

Schedule of KCTCS' Proportionate Share of the Net Pension Liability
Kentucky Employees Retirement System
(in thousands)

	2019	2018	2017	2016	2015
KCTCS' proportionate share of net pension liability	\$ 195,996	\$ 201,115	\$ 193,547	\$ 186,537	\$ 174,855
KCTCS' proportion of net pension liability	1.44%	1.50%	1.70%	1.86%	1.95%
KCTCS' covered payroll	\$ 22,028	\$ 23,258	\$ 27,453	\$ 30,224	\$ 32,208
KCTCS' proportionate share of net pension liability as a percentage of its covered payroll	889.76%	864.71%	705.01%	617.18%	542.89%
Plan fiduciary net position as a percentage of total pension liability	12.84%	13.30%	14.80%	18.83%	22.32%

Notes:

This table represents data that is one year in arrears.

Changes in assumptions: There were no changes for fiscal year 2019. For fiscal year 2018, the KERS plan discount rate and assumed investment rate of return decreased from 6.75 percent to 5.25 percent, the assumed rate of inflation decreased from 3.25 percent to 2.30 percent which also resulted in a 0.95% decrease in the salary increase assumption at all years of service. The payroll growth assumption decreased from 4.00 percent to 0.00 percent. For fiscal year 2017, the KERS plan discount rate and assumed investment rate of return decreased from 7.50 percent to 6.75 percent, the assumed rate of inflation decreased from 3.50 percent to 3.25 percent, the assumed rate of wage inflation decreased from 1.00 percent to 0.75 percent, the payroll growth assumption decreased from 4.50 percent to 4.00 percent. The assumed rates of retirement, withdrawal and disability were updated to more accurately reflect experience.

Changes in benefit terms: During the 2018 legislative session, House Bill 185 was enacted, which updated the benefit provisions for active members who die in the line of duty. Benefits paid to the spouses of deceased members have been increased from 25% of the member's final rate of pay to 75% of the member's average pay. If the member does not have a surviving spouse, benefits paid to surviving dependent children have been increased from 10% of the member's final pay rate to 50% of average pay for one child, 65% of average pay for two children, or 75% of average pay for three children. The Total Pension Liability as of June 30, 2018 is determined using these updated benefit provisions.

Schedule of KCTCS' Pension Contribution
Kentucky Employees Retirement System
(in thousands)

	2019	2018	2017	2016	2015
Contractually required contribution	\$ 8,205	\$ 9,032	\$ 9,353	\$ 10,544	\$ 11,722
Contributions in relation to the contractually required contribution	8,205	9,032	9,353	10,544	11,722
Contribution deficiency (excess)	\$ -	\$ -	\$ -	\$ -	\$ -
KCTCS covered payroll	\$ 20,008	\$ 22,028	\$ 23,258	\$ 27,453	\$ 30,224
Contributions as a percentage of covered payroll	41.01%	41.00%	40.21%	38.41%	38.78%

Schedule of KCTCS' Proportionate Share of the Net Other Postemployment Benefit Liability
 Kentucky Teacher's Retirement System - Medical Insurance Plan
 (in thousands)

	2024	2023	2022	2021
KCTCS' proportion of net OPEB liability	0.25%	0.57%	0.43%	0.49%
KCTCS' proportionate share of net OPEB liability	\$ 6,062	\$ 14,060	\$ 9,178	\$ 12,319
State's proportionate share of net OPEB liability	2,875	883	4,127	5,431
	<u>\$ 8,937</u>	<u>\$ 14,943</u>	<u>\$ 13,305</u>	<u>\$ 17,750</u>
KCTCS' covered payroll	\$ 23,621	\$ 25,082	\$ 25,937	\$ 28,942
KCTCS' proportionate share of net OPEB liability as a percentage of its covered payroll	25.66%	56.06%	35.39%	42.56%
Plan fiduciary net position as a percentage of total OPEB liability	52.97%	47.75%	51.74%	39.05%

Notes:

This table represents data that is one year in arrears.

These are 10-year schedules, however, the information in this schedule is not required to be presented retroactively. Years will be added to this schedule in future fiscal years until 10-years of information is available.

Changes in assumptions: For fiscal year 2024, the municipal bond index rate increased from 3.37 percent to 3.66 percent; the healthcare cost trend rates changed from 5.125 percent to 6.7 percent for post-65; Medicare Part B premiums decreased from 6.97 percent to 1.55 percent. For fiscal year 2023, the municipal bond index rate increased from 2.13 percent to 3.37 percent. The health care trend rates were updated to reflect future anticipated experience. For fiscal year 2022, the inflation rate decreased from 3.00% to 2.50%; real wage growth decreased from .50% to .25%; wage inflation decreased from 3.50% to 2.75%; the range of salary increases changed from 3.50% - 7.20% to 3.00% - 7.50%; investment rate of return decreased from 8.00% to 7.10%; the healthcare cost trend rates changed from 7.25% for pre-65 to 7.00% and from 5.25% to 5.00% for post-65; Medicare Part B premiums decreased from 6.49% to 4.40%; the municipal bond index rate decreased from 2.19% to 2.13%; and the discount and single equivalent interest rate decreased from 8.00% to 7.10%. For fiscal year 2021, the healthcare cost trend rate for Pre-65 decreased from 7.50 percent for fiscal year 2020 to 7.25 percent for fiscal year 2021 and Post-65 decreased from 5.50 percent for fiscal year 2020 to 5.25 percent for fiscal year 2021. Medicare Part B premiums increased to 6.49 percent for fiscal year 2021 from 2.63 percent for fiscal year 2020. The municipal bond index rate decreased from 3.50 percent to 2.19 percent.

Changes of benefit terms: For fiscal year 2024, there were no changes. For fiscal year 2023, a new benefit tier was added for members joining KTRS on and after January 1, 2022. There were no changes for fiscal years 2022 and 2021.

Schedule of KCTCS' OPEB Contribution
 Kentucky Teacher's Retirement System - Medical Insurance Plan
 (in thousands)

	2024	2023	2022	2021
Contractually required contribution	\$ 704	\$ 731	\$ 785	\$ 820
Contributions in relation to the contractually required contribution	704	731	785	820
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
KCTCS covered payroll	<u>\$ 23,018</u>	<u>\$ 23,621</u>	<u>\$ 25,082</u>	<u>\$ 25,937</u>
Contributions as a percentage of covered payroll	3.06%	3.09%	3.13%	3.16%

Notes:

These are 10-year schedules, however, the information in this schedule is not required to be presented retroactively. Years will be added to this schedule in future fiscal years until 10-years of information is available.

Schedule of KCTCS' Proportionate Share of the Net Other Postemployment Benefit Liability
 Kentucky Teacher's Retirement System - Medical Insurance Plan
 (in thousands)

	2020	2019	2018
KCTCS' proportion of net OPEB liability	0.53%	0.59%	0.64%
KCTCS' proportionate share of net OPEB liability	\$ 15,410	\$ 20,297	\$ 22,671
State's proportionate share of net OPEB liability	6,873	9,933	10,281
	<u>\$ 22,283</u>	<u>\$ 30,230</u>	<u>\$ 32,952</u>
KCTCS' covered payroll	\$ 30,701	\$ 34,408	\$ 35,898
KCTCS' proportionate share of net OPEB liability as a percentage of its covered payroll	50.19%	58.99%	63.15%
Plan fiduciary net position as a percentage of total OPEB liability	32.58%	25.50%	21.18%

Notes:

This table represents data that is one year in arrears.

These are 10-year schedules, however, the information in this schedule is not required to be presented retroactively. Years will be added to this schedule in future fiscal years until 10-years of information is available.

Changes in assumptions: For fiscal year 2020, the healthcare cost trend rate decreased from 7.75% and 5.75% to 7.50% and 5.50% for Pre-65 and Post 65, respectively. Medicare Part B premiums increased to 2.63% from 0.00%. The municipal bond index rate decreased from 3.89% to 3.50%. For fiscal year 2019, healthcare cost trend rates were decreased to 0.00% from 1.02% for Medicare Part B Premiums. The municipal bond index rate increased from 3.56% to 3.89%.

Changes of benefit terms: There were no changes for fiscal years 2020 and 2019. For fiscal year 2018, the eligibility for non-single subsidies (NSS) for the KEHP-participating members who retired prior to July 1, 2010 was restored, but the state will only finance, via its KEHP "Shared Responsibility" contributions, the costs of the NSS related to those KEHP-participating members who retired on or after July 1, 2010.

Schedule of KCTCS' OPEB Contribution
 Kentucky Teacher's Retirement System - Medical Insurance Plan
 (in thousands)

	2020	2019	2018
Contractually required contribution	\$ 923	\$ 913	\$ 908
Contributions in relation to the contractually required contribution	923	913	908
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
KCTCS covered payroll	\$ 28,942	\$ 30,701	\$ 34,408
Contributions as a percentage of covered payroll	3.19%	2.97%	2.64%

Notes:

These are 10-year schedules, however, the information in this schedule is not required to be presented retroactively. Years will be added to this schedule in future fiscal years until 10-years of information is available.

Schedule of KCTCS' Proportionate Share of the Net Other Postemployment Benefit Liability
 Kentucky Teacher's Retirement System - Life Insurance Plan
 (in thousands)

	2024	2023	2022	2021
KCTCS' proportion of net OPEB liability	0.67%	0.73%	0.77%	0.86%
KCTCS' proportionate share of net OPEB liability	\$ 188	\$ 228	\$ 101	\$ 299
KCTCS' covered payroll	\$ 23,621	\$ 25,082	\$ 25,937	\$ 30,701
KCTCS' proportionate share of net OPEB liability as a percentage of its covered payroll	0.80%	0.91%	0.39%	0.97%
Plan fiduciary net position as a percentage of total OPEB liability	76.91%	73.97%	89.15%	71.57%

Notes:

This table represents data that is one year in arrears.

These are 10-year schedules, however, the information in this schedule is not required to be presented retroactively. Years will be added to this schedule in future fiscal years until 10-years of information is available.

Changes in assumptions: For fiscal year 2024, the municipal bond index rate increased from 3.37 percent to 3.66 percent. For fiscal year 2023, the municipal bond index rate increased from 2.13 percent to 3.37 percent. The health care trend rates were updated to reflect future anticipated experience. For fiscal year 2022, the inflation rate decreased from 3.00% to 2.50%; real wage growth decreased from .50% to .25%; wage inflation decreased from 3.50% to 2.75%; the range of salary increases changed from 3.50% - 7.20% to 3.00% - 7.50%; investment rate of return decreased from 7.50% to 7.10%; the municipal bond index rate decreased from 2.19% to 2.13%; and the discount and single equivalent interest rate decreased from 7.50% to 7.10%. For fiscal year 2021, the municipal bond index rate decreased from 3.50% to 2.19%.

Changes of benefit terms: For fiscal year 2024, there were no changes. For fiscal year 2023, a new benefit tier was added for members joining KTRS on and after January 1, 2022. There were no changes for fiscal years 2022 and 2021.

Schedule of KCTCS' OPEB Contribution
 Kentucky Teacher's Retirement System - Life Insurance Plan
 (in thousands)

	2024	2023	2022	2021
Contractually required contribution	\$ 14	\$ 14	\$ 15	\$ 15
Contributions in relation to the contractually required contribution	14	14	15	15
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
KCTCS covered payroll	<u>\$ 23,018</u>	<u>\$ 23,621</u>	<u>\$ 25,082</u>	<u>\$ 25,937</u>
Contributions as a percentage of covered payroll	0.06%	0.06%	0.06%	0.06%

Notes:

These are 10-year schedules, however, the information in this schedule is not required to be presented retroactively. Years will be added to this schedule in future fiscal years until 10-years of information is available.

Schedule of KCTCS' Proportionate Share of the Net Other Postemployment Benefit Liability
 Kentucky Teacher's Retirement System - Life Insurance Plan
 (in thousands)

	2020	2019	2018
KCTCS' proportion of net OPEB liability	0.93%	1.05%	1.11%
KCTCS' proportionate share of net OPEB liability	\$ 289	\$ 297	\$ 243
KCTCS' covered payroll	\$ 30,701	\$ 34,408	\$ 35,898
KCTCS' proportionate share of net OPEB liability as a percentage of its covered payroll	0.94%	0.86%	0.68%
Plan fiduciary net position as a percentage of total OPEB liability	73.40%	75.00%	79.99%

Notes:

This table represents data that is one year in arrears.

These are 10-year schedules, however, the information in this schedule is not required to be presented retroactively. Years will be added to this schedule in future fiscal years until 10-years of information is available.

Changes in assumptions: For fiscal year 2020, the municipal bond index rate decreased from 3.89% to 3.50%. For fiscal year 2019, the municipal bond index rate increased from 3.56% to 3.89%. For fiscal year 2018, the municipal bond index rate increased from 3.56% to 3.89%. The amortization period was changed from 27 years to 30 years and the inflation rate was changed from 3.00% to 3.50%.

Changes of benefit terms: There were no changes for fiscal years 2020 and 2019. For fiscal year 2018, the eligibility for non-single subsidies (NSS) for the KEHP-participating members who retired prior to July 1, 2010 was restored, but the state will only finance, via its KEHP "Shared Responsibility" contributions, the costs of the NSS related to those KEHP-participating members who retired on or after July 1, 2010.

Schedule of KCTCS' OPEB Contribution
 Kentucky Teacher's Retirement System - Life Insurance Plan
 (in thousands)

	2020	2019	2018
Contractually required contribution	\$ 20	\$ 12	\$ 5
Contributions in relation to the contractually required contribution	20	12	5
Contribution deficiency (excess)	\$ -	\$ -	\$ -
KCTCS covered payroll	\$ 28,942	\$ 30,701	\$ 34,408
Contributions as a percentage of covered payroll	0.07%	0.04%	0.01%

Notes:

These are 10-year schedules, however, the information in this schedule is not required to be presented retroactively. Years will be added to this schedule in future fiscal years until 10-years of information is available.

Schedule of KCTCS' Proportionate Share of the Net Other Postemployment Benefit Liability
 Kentucky Employees Retirement System
 (in thousands)

	2024	2023	2022	2021
KCTCS' proportion of net OPEB liability	1.01%	1.23%	0.95%	1.34%
KCTCS' proportionate share of net OPEB liability	\$ 7,925	\$ 27,135	\$ 21,608	\$ 34,040
KCTCS' covered payroll	\$ 16,195	\$ 17,777	\$ 17,639	\$ 19,148
KCTCS' proportionate share of net OPEB liability as a percentage of its covered payroll	48.94%	152.64%	122.50%	177.77%
Plan fiduciary net position as a percentage of total OPEB liability	66.14%	38.15%	38.38%	29.47%

Notes:

This table represents data that is one year in arrears.

These are 10-year schedules, however, the information in this schedule is not required to be presented retroactively. Years will be added to this schedule in future fiscal years until 10-years of information is available.

Changes in assumptions: For fiscal year 2024, the healthcare cost trend rate increased from 6.20 percent to 6.80 percent for the pre-65 and decreased from 9.00 percent to 8.50 percent for post-65, and the discount rate used to calculate the total OPEB liability increased from 5.72 percent to 5.94 percent. For fiscal year 2023, the healthcare cost trend rate decreased from 6.25 percent to 6.20 percent for pre-65 and increased from 5.50 percent to 9.00 percent for post-65, and the discount rate used to calculate the total OPEB liability increased from 5.26 percent to 5.72 percent. For fiscal year 2022, the healthcare cost trend rate decreased from 6.40 percent to 6.25 percent for pre-65 and increased from 2.90 percent to 5.50 percent for post-65; and the discount rate used to calculate the total OPEB liability decreased from 5.43 percent to 5.26 percent. For fiscal year 2021, the assumed increase in future health care costs was reviewed during the June 30, 2019 valuation process and was updated to better reflect more current expectations relating to anticipated future increase in the medical costs.

Schedule of KCTCS' OPEB Contribution
 Kentucky Employees Retirement System
 (in thousands)

	2024	2023	2022	2021
Contractually required contribution	\$ 346	\$ 348	\$ 392	\$ 1,482
Contributions in relation to the contractually required contribution	346	348	392	1,482
Contribution deficiency (excess)	\$ -	\$ -	\$ -	\$ -
KCTCS covered payroll	\$ 15,853	\$ 16,195	\$ 17,777	\$ 17,639
Contributions as a percentage of covered payroll	2.18%	2.15%	2.21%	8.40%

Notes:

These are 10-year schedules, however, the information in this schedule is not required to be presented retroactively. Years will be added to this schedule in future fiscal years until 10-years of information is available.

Schedule of KCTCS' Proportionate Share of the Net Other Postemployment Benefit Liability
Kentucky Employees Retirement System
(in thousands)

	2020	2019	2018
KCTCS' proportion of net OPEB liability	1.37%	1.44%	1.50%
KCTCS' proportionate share of net OPEB liability	\$ 30,369	\$ 34,129	\$ 38,094
KCTCS' covered payroll	\$ 20,008	\$ 22,028	\$ 23,258
KCTCS' proportionate share of net OPEB liability as a percentage of its covered payroll	151.78%	154.93%	163.79%
Plan fiduciary net position as a percentage of total OPEB liability	30.92%	27.32%	24.40%

Notes:

This table represents data that is one year in arrears.

These are 10-year schedules, however, the information in this schedule is not required to be presented retroactively. Years will be added to this schedule in future fiscal years until 10-years of information is available.

Changes in assumptions: The June 30, 2020 actuarial information reflects the anticipated savings from the repeal of the "Cadillac Tax" and "Health Insurer Fee", which occurred in December of 2019. The assumed load on pre-Medicare premiums to reflect the cost of the Cadillac Tax was removed and the Medicare premiums were reduced by 11 percent to reflect the repeal of the Health Insurer Fee. Senate Bill 249 changed the funding period for the amortization of the unfunded liability to 30 years as of June 30, 2019. Gains and losses incurred in future years will be amortized over separate 20-year amortization bases. This change did not impact the calculation of Total OPEB Liability and only impacts the calculation of the contribution rates payable starting July 1, 2020. For fiscal year 2020, the discount rate was changed from 5.86 percent to 5.73 percent. In addition, the KERS Board of Trustees adopted new actuarial assumptions based on an actuarial experience study for the period ending June 30, 2018. Key assumption changes include replacing the base retiree mortality tables with a KERS-specific mortality table developed using the actual mortality experience of non-disabled retirees in KERS. Mortality tables for disabled retirees and active members were updated with Public Retirement Mortality tables. In addition, termination rates and rates of disability incidence were increased. Retirement rates were decreased slightly for members with a participation date prior to July 1, 2003. For members with a participation date on or after July 1, 2003, retirement rates were set equal to 80% of the retirement rates applicable for the pre July 1, 2003 participants for ages below 65. For fiscal year 2019, the discount rate was changed from 5.83 percent to 5.86 percent. For fiscal year 2018, the assumed investment rate of return was changed from 7.50 percent to 6.25 percent. The inflation assumption was changed from 3.25 percent to 2.30 percent, which also resulted in a 0.95 percent decrease in the salary assumption at all years of service. The payroll growth assumption was changed from 4.00 percent to 0.00 percent. The discount rate was changed from 6.90 percent to 5.83 percent.

Schedule of KCTCS' OPEB Contribution
Kentucky Employees Retirement System
(in thousands)

	2020	2019	2018
Contractually required contribution	\$ 1,609	\$ 1,989	\$ 1,853
Contributions in relation to the contractually required contribution	1,609	1,989	1,853
Contribution deficiency (excess)	\$ -	\$ -	\$ -
KCTCS covered payroll	\$ 19,148	\$ 20,008	\$ 22,028
Contributions as a percentage of covered payroll	8.40%	9.94%	8.41%

Notes:

These are 10-year schedules, however, the information in this schedule is not required to be presented retroactively. Years will be added to this schedule in future fiscal years until 10-years of information is available.

Schedule of Changes in the Net OPEB Liability (Asset) and Related Ratios
Kentucky Community and Technical College System
(in thousands)

	2024	2023	2022	2021
Total OPEB liability				
Service cost	\$ 2,064	\$ 1,975	\$ 2,471	\$ 2,080
Interest	\$ 12,245	11,629	11,106	10,682
Changes of benefit terms	\$ -	-	7,104	6,786
Differences between expected and actual experience	\$ (3,077)	(418)	937	(607)
Changes of assumptions	\$ 6,987	1,811	(7,997)	3,312
Contributions - employee	\$ -	-	-	-
Benefit payments	\$ (5,799)	(5,401)	(4,786)	(4,001)
Net change in total OPEB liability	\$ 12,420	\$ 9,596	\$ 8,835	\$ 18,252
Total OPEB liability - beginning	189,179	179,583	170,748	152,496
Total OPEB liability - ending	<u>\$ 201,599</u>	<u>\$ 189,179</u>	<u>\$ 179,583</u>	<u>\$ 170,748</u>
Plan fiduciary net position				
Net investment income	\$ 20,065	\$ (25,706)	\$ 48,364	\$ 2,303
Benefit payments	\$ (5,799)	(5,401)	(4,786)	(4,001)
Administrative expense	\$ (77)	(96)	(62)	(99)
Net change in plan fiduciary net position	\$ 14,188	\$ (31,203)	\$ 43,516	\$ (1,797)
Plan fiduciary net position - beginning	215,536	246,739	203,223	205,020
Plan fiduciary net position - ending	<u>\$ 229,724</u>	<u>\$ 215,536</u>	<u>\$ 246,739</u>	<u>\$ 203,223</u>
Net OPEB asset	\$ (28,125)	\$ (26,357)	\$ (67,156)	\$ (32,475)
Plan fiduciary net position as a percentage of total OPEB liability	113.95%	113.93%	137.40%	119.02%
Covered-employee payroll	\$ 59,793	\$ 63,174	\$ 67,673	\$ 70,956
Net OPEB asset as a percentage of covered-employee payroll	47.04%	41.72%	99.24%	45.77%

Notes:

This table represents data that is one year in arrears.

These are 10-year schedules, however, the information in this schedule is not required to be presented retroactively. Years will be added to this schedule in future fiscal years until 10-years of information is available.

Changes in assumptions and benefit terms: For fiscal year 2024, claims and trends were updated to better reflect expected experiences of the plan. The healthcare trend rate for KCTCS Under Age 65 increased from 6.71 percent to 7.31 percent and for KCTCS Ages 65 and Older the healthcare trend rate decreased from 8.80 percent to 7.75 percent. The healthcare trend rate for UK under age 65 increased from 6.34 percent to 7.31 percent and for UK Ages 65 and Older the healthcare trend rate increased from 8.67 percent to 10.64 percent.

For the fiscal year ended June 30, 2023, the mortality improvement scale was updated from MP-2020 to MP-2021. The healthcare trend rate for KCTCS Under Age 65 decreased from 6.95 percent to 6.71 percent and for KCTCS Ages 65 and Older the healthcare trend rate decreased from 9.31 percent to 8.80 percent. The healthcare trend rate for UK under age 65 decreased from 6.55 percent to 6.34 percent and for UK Ages 65 and Older the healthcare trend rate decreased from 9.14 percent to 8.67 percent. For fiscal year 2022, the mortality improvement scale was updated from MP-2019 to MP-2020. Claim and trend rates were updated to better reflect expected experience of the plan. Medical trend rates were developed for the new KCTCS MA post-65 plan.

For fiscal year 2021, in most cases, required retiree contributions for single only coverage was reduced by approximately 50.0 percent. Coverage for additional dependents was reduced by the same dollar amount as the single only coverage. Medical trend for UK Post-65 was updated to reflect the repeal of the health care fee. The mortality improvement scale was updated from MP-2018 to MP-2019. Expected return on assets was updated from 7.0 percent to 6.5 percent. The excise tax on high-cost health coverage is no longer valued. For fiscal year 2020, healthcare trend rates were decreased for KCTCS Post-65 from 7.35% to 7.01% and increased for UK Post-65 from 5.93% to 31.25%. Expected medical claims and health care cost aging were updated to better reflect expected experience of the plan. The base mortality table for healthy employees was updated from 2006 base rates using the RP-2014 Combined Healthy Mortality Table to PUB-2010 Mortality Tables for "Teachers" and "General" Employees. The base mortality table for disabled retirees was updated from 2006 base rates from the RP-2014 Disabled Retiree Mortality Table for "Non-Safety" Employees. The mortality improvement scale was updated from MP-2017 to MP-2018. Post-65 retirees who waived coverage are no longer assumed to later elect coverage.

Schedule of Changes in the Net OPEB Liability (Asset) and Related Ratios
Kentucky Community and Technical College System
(in thousands)

	2020	2019	2018
Total OPEB liability			
Service cost	\$ 2,877	\$ 2,902	\$ 4,839
Interest	12,131	11,324	11,366
Changes of benefit terms	-	-	-
Differences between expected and actual experience	(4,045)	-	(39,171)
Changes of assumptions	(26,946)	(2,046)	(1,929)
Contributions - employee	-	589	-
Benefit payments	(3,833)	(3,854)	(3,357)
Net change in total OPEB liability	\$ (19,816)	\$ 8,915	\$ (28,252)
Total OPEB liability - beginning	172,312	163,397	191,649
Total OPEB liability - ending	<u>\$ 152,496</u>	<u>\$ 172,312</u>	<u>\$ 163,397</u>
Plan fiduciary net position			
Net investment income	\$ 12,604	\$ 14,030	\$ 18,685
Benefit payments	(3,833)	(3,854)	(3,357)
Administrative expense	(44)	-	(144)
Net change in plan fiduciary net position	\$ 8,727	\$ 10,176	\$ 15,184
Plan fiduciary net position - beginning	196,293	186,117	170,933
Plan fiduciary net position - ending	<u>\$ 205,020</u>	<u>\$ 196,293</u>	<u>\$ 186,117</u>
Net OPEB asset	\$ (52,524)	\$ (23,981)	\$ (22,720)
Plan fiduciary net position as a percentage of total OPEB liability	134.44%	113.92%	113.90%
Covered-employee payroll	\$ 78,638	\$ 89,871	\$ 95,490
Net OPEB asset as a percentage of covered-employee payroll	66.79%	26.68%	23.79%

Notes:

This table represents data that is one year in arrears.

These are 10-year schedules, however, the information in this schedule is not required to be presented retroactively. Years will be added to this schedule in future fiscal years until 10-years of information is available.

Changes in assumptions and benefit terms:

For fiscal year 2020, healthcare trend rates were decreased for KCTCS Post-65 from 7.35% to 7.01% and increased for UK Post-65 from 5.93% to 31.25%. Expected medical claims and health care cost aging were updated to better reflect expected experience of the plan. The base mortality table for healthy employees was updated from 2006 base rates using the RP-2014 Combined Healthy Mortality Table to PUB-2010 Mortality Tables for "Teachers" and "General" Employees. The base mortality table for disabled retirees was updated from 2006 base rates from the RP-2014 Disabled Retiree Mortality Table for "Non-Safety" Employees. The mortality improvement scale was updated from MP-2017 to MP-2018. Post-65 retirees who waived coverage are no longer assumed to later elect coverage.

For fiscal year 2019, healthcare trend rates were updated from 7.5% to 7.35% for KCTCS, from 7% to 6.88% for UK Pre-65 and from 6% to 5.93% for UK Post-65. Mortality rates for healthy employees were updated from RP-2014 Combined Healthy Mortality Table for Males and Females Backed off to 2006 and Projected Generationally with Scale MP-2016 to RP-2014 Combined Healthy Mortality Table for Males and Females Backed off to 2006 and Projected Generationally with Scale MP-2017. Mortality rates for disabled employees were updated from RP-2014 Disabled Mortality Table for Males and Females Backed off to 2006 and Projected Generationally with Scale MP-2016 to RP-2014 Disabled Mortality Table for Males and Females Backed off to 2006 and Projected Generationally with Scale MP-2017.

For fiscal year 2018, the discount rate was changed from 6% to 7%. The salary increase rate was set at 3%. Health Care and Contribution trend rates were updated from 7% in fiscal 2016 and an ultimate rate of 4% in fiscal 2036 to an initial rate of 7.50%, 7% and 6% in fiscal 2018 for KCTCS, UK Pre-65, UK Post-65, respectively, and an ultimate rate of 4.50% in fiscal 2038 for all plans. The lapse rate for current and future retirees and their spouses was updated from 10% to 3%. The participation rate was updated from 95% to 90%. Retirees electing spousal coverage was updated from 30% to 15%. 75% of future KCTCS retirees who have waived coverage are assumed to stay without coverage until age 65 and to elect coverage at age 65. This was updated from 100%. The impact of the Affordable Care Act excise tax on high-cost healthcare plans was estimated and updated. KCTCS health per capita costs were updated based on updated premium and census data. Mortality for health employees was updated from RP-2014 Combined Healthy Mortality Table for Males and Females Projected Generationally with scale MP-2014 to RP-2014 Combined Healthy Mortality Table for Males and Females Backed off to 2006 and Projected Generationally with Scale MP-2016. Mortality for disabled employees was updated from RP-2014 Disabled Mortality Table for Males and Females Projected Generationally with scale MP-2014 to RP-2014 Disabled Mortality Table for Males and Females Backed off to 2006 and Projected Generationally with Scale MP-2016.

KENTUCKY COMMUNITY AND TECHNICAL COLLEGE SYSTEM
Officers of the KCTCS Board of Regents, KCTCS Board of Regents
and KCTCS President's Cabinet

Officers of the KCTCS Board of Regents

Mr. Barry K. Martin, Chair
Mr. Keith Hamilton, Vice Chair
Ms. Brianna S. Whitten, Secretary

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Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*

Independent Auditor's Report

Board of Regents
Kentucky Community and Technical College System
Versailles, Kentucky

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States (*Government Auditing Standards*), the financial statements of the business-type activities and the fiduciary activities of the Kentucky Community and Technical College System (System) as of and for the year ended June 30, 2024, and the related notes to the financial statements, which collectively comprise the System's basic financial statements, and have issued our report thereon dated December 2, 2024.

Report on Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the System's internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the System's internal control. Accordingly, we do not express an opinion on the effectiveness of the System's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses or significant deficiencies may exist that were not identified.

Report on Compliance and Other Matters

As part of obtaining reasonable assurance about whether the System's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the financial statements. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of This Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Forvis Mazars, LLP

**Louisville, Kentucky
December 2, 2024**