

**Kentucky Economic Development
Finance Authority**

Financial Statements

Years Ended June 30, 2021 and 2020

Kentucky Economic Development Finance Authority
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Independent Auditor's Report

To the Committee Members
Kentucky Economic Development Finance Authority
Frankfort, Kentucky

Report on the Financial Statements

We have audited the accompanying financial statements of the Kentucky Economic Development Finance Authority (Authority), a component unit of the Commonwealth of Kentucky, as of and for the years ended June 30, 2021 and 2020, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes 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.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with 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. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements 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 entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

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Independent Auditor's Report (Continued)

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Kentucky Economic Development Finance Authority as of June 30, 2021 and 2020, and the changes in its financial position and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matter - Required Supplemental Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis on pages 3 through 9 and the required supplemental information on pages 37 through 42 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who 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 auditing standards generally accepted in the United States of America, 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.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated August 31, 2021, on our consideration of the Authority'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 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 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 Authority's internal control over financial reporting and compliance.



Louisville, Kentucky
August 31, 2021

Kentucky Economic Development Finance Authority
Statements of Cash Flows
Years Ended June 30, 2021 and 2020

	<u>2021</u>	<u>2020</u>
Cash flows from operating activities		
Principal collected on program loans	\$ 1,346,881	\$ 1,375,713
Interest collected on program loans	172,288	206,514
Application and issuance fees collected	352,631	484,293
Other receipts collected	7,783	51,602
Program loans issued	-	(35,000,000)
Cash payments for grants	(444,080)	(387,151)
Cash payments for personnel expenses	(2,416,667)	(2,372,910)
Cash payments for goods and services	(145,107)	(149,557)
	<u>(1,126,271)</u>	<u>(35,791,496)</u>
Cash flows from non-capital financing activities		
Payments from the Commonwealth	<u>216,425</u>	<u>35,225,031</u>
Cash flows from investing activities		
Income from investments	1,779	225,928
Net maturities (purchases) of investments	<u>(174,478)</u>	<u>225,422</u>
	<u>(172,699)</u>	<u>451,350</u>
	(1,082,545)	(115,115)
Cash and cash equivalents, beginning of year	<u>21,342,130</u>	<u>21,457,245</u>
Cash and cash equivalents, end of year	<u>\$ 20,259,585</u>	<u>\$ 21,342,130</u>

Kentucky Economic Development Finance Authority
Statements of Cash Flows (Continued)
Years Ended June 30, 2021 and 2020

	<u>2021</u>	<u>2020</u>
Reconciliation of loss from operations to net cash flows from operating activities		
Loss from operations	\$ (5,006,372)	\$ (2,750,494)
Non-cash pension and other postemployment benefits liabilities adjustments	2,766,777	1,483,599
(Increase) decrease in assets		
Accounts receivable	(3,050)	1,000
Loans receivable	1,346,881	(33,624,287)
Accrued interest receivable, loans	(2,235)	6,701
(Increase) decrease in deferred outflows	469,000	(36,000)
Increase (decrease) in liabilities		
Accounts payable	(6,123)	6,123
Intergovernment payable	-	(33)
Accrued payroll expenses	(8,895)	9,539
Compensated absences	12,523	24,955
Pension and other postemployment benefits liabilities	(972,777)	(960,599)
Increase in deferred inflows	<u>278,000</u>	<u>48,000</u>
Net cash used in operating activities	<u>\$ (1,126,271)</u>	<u>\$ (35,791,496)</u>

Kentucky Economic Development Finance Authority
Notes to the Financial Statements
Years Ended June 30, 2021 and 2020

Note A - Nature of Operations

The Kentucky Development Finance Authority was established in 1958 as an independent agency of State government, in close cooperation with the Secretary of the Kentucky Cabinet for Economic Development (Cabinet), to promote economic development in Kentucky. Effective July 14, 1992, the Kentucky Economic Development Finance Authority (Authority), a component unit of the Commonwealth of Kentucky (Commonwealth), was established, having all the powers, duties, and responsibilities delegated to it by the Kentucky Economic Development Partnership or as otherwise provided by law, including all programs, powers, duties, rights, and obligations of the Kentucky Development Finance Authority and the Kentucky Rural Economic Development Authority. The legislation enacted provides that the Authority consist of a Committee of six persons appointed by the Kentucky Economic Development Partnership plus the Secretary of the Kentucky Finance and Administration Cabinet.

Pursuant to Kentucky Revised Statutes 154.20-033, the Authority is granted the powers necessary to carry out and effectuate the purposes and provisions of Kentucky Revised Statutes 154.20 through 28, 30 through 32, 34, and 60 including the administration of various tax incentive programs consisting of the Kentucky Angel Investment Act Program, the Kentucky Business Investment Program, the Kentucky Enterprise Initiative Act Program, the Kentucky Industrial Development Act Program, the Kentucky Industrial Revitalization Act Program, the Kentucky Investment Fund Act Program, the Kentucky Jobs Development Act Program, the Kentucky Jobs Retention Act Program, the Kentucky Reinvestment Act Program, the Kentucky Rural Economic Development Act Program, the Kentucky Selling Farmer Tax Credit Program, the Kentucky Small Business Tax Credit Program, the Incentives for Energy Independence Act Program, and the Tax Increment Financing Program. Certain of these tax incentive programs abate tax revenues of the Commonwealth. The abated tax revenues do not otherwise directly impact the Authority's financial position and/or results of operations. The Commonwealth's Comprehensive Annual Financial Report (CAFR) should be referred to for additional disclosures related to the tax incentive programs the Authority administers, including the disclosures required by Governmental Accounting Standards Board (GASB) Statement No. 77, *Tax Abatement Disclosures*.

The Authority is responsible for administering two loan programs, the Direct Loan Program, and the Small Business Loan Program, and three credit enhancement programs under the Kentucky Small Business Credit Initiative Program. The main objective of the Direct Loan Program is to provide, in conjunction with other financial institutions and agencies, the long-term financing needed to encourage the growth of new or expanding businesses throughout Kentucky, helping to promote and support the economic development efforts of Kentucky in cooperation with other State agencies. The purpose of the Small Business Loan Program, while similar in its objectives to the Direct Loan Program, is centered around helping Kentucky small businesses acquire the funding necessary to start or grow such businesses. The three credit enhancement programs, the Kentucky Capital Access Program, the Kentucky Collateral Support Program, and the Kentucky Loan Participation Program, are designed to generate jobs and increase the availability of credit to small businesses by reducing the risk assumed by participating lenders, credit unions, or community development financial institutions.

During the 2020 Regular Session of the General Assembly, legislation was approved which established the Rural Hospital Operations and Facilities Revolving Loan Fund Program to be administered by the Authority. The purpose of this program is to assist rural hospitals in providing the needed direct health care services for the citizens of the Commonwealth. Funding for this program of \$20,000,000, which will be available for fiscal year 2022, was first appropriated to the Authority during the 2021 Regular Session of the General Assembly.

The Authority is also responsible for administering a grant program, the Cabinet's Economic Development Funds Program, and the High-Tech Construction and Investment Pools of the Office of Entrepreneurship and Small Business Innovation.

Kentucky Economic Development Finance Authority
Notes to the Financial Statements (Continued)
Years Ended June 30, 2021 and 2020

Note A - Nature of Operations (Continued)

The Authority also acts as the issuing agent for Kentucky Economic Development Finance Authority Revenue Bonds in accordance with the statutes regarding the issuance of Industrial Revenue Bonds and Taxable Economic Development Revenue Bonds. Such bonds do not constitute a general debt, liability, or moral obligation of the Authority. Accordingly, the accompanying financial statements do not include any assets or liabilities related to the issuance of these bonds. See Note L.

Note B - Summary of Significant Accounting Policies

1. Basis of Presentation

The Authority is a component unit of the Commonwealth of Kentucky. The Authority's financial statements are included in the Commonwealth's CAFR as a discretely presented component unit.

The accompanying financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America. The activities of the Authority are accounted for as an enterprise fund on the accrual basis of accounting. Accordingly, revenues are recognized when they are earned and expenses are recognized when the liability is incurred, regardless of the timing of related cash flows.

In accordance with GASB Statement No. 34, *Basic Financial Statements-and Management's Discussion and Analysis-for State and Local Governments*, the financial statements include a Management's Discussion and Analysis (MD&A) section providing an analysis of the Authority's overall financial position and results of operations.

2. Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

3. Cash and Cash Equivalents

For purposes of the statements of cash flows, the Authority considers all highly liquid investments with a maturity of three months or less when purchased to be cash equivalents.

4. Investments

Investments are reported at fair market value. The equity position of the Authority in the State cash and investment pool of the Commonwealth of Kentucky (the Commonwealth's general depository) is reported as assets of the Authority. Unrealized gains and losses (income/loss from investments) are included in the statements of revenues, expenses, and changes in net position.

5. Allowance for Losses on Loans Receivable

Loans receivable are presented net of an allowance for uncollectible amounts. The Authority provides a valuation allowance for estimated losses on loans receivable when any significant impairment in the realization of the respective asset has occurred or is otherwise probable. Additions to the allowance are charged to operations in the period in which the asset becomes impaired.

Kentucky Economic Development Finance Authority
Notes to the Financial Statements (Continued)
Years Ended June 30, 2021 and 2020

Note B - Summary of Significant Accounting Policies (Continued)

6. Accrued Interest Receivable, Loans

Interest income is accrued on the respective outstanding loan receivable balances. Each of the respective loans are reviewed by the Authority on a regular basis and placed on non-accrual status when the loan is 90 days or more past due and/or the collection of principal or interest is unlikely. When a loan is placed on non-accrual status, any uncollected interest accrued in the current year is charged against current income. Subsequent interest on non-accrual loans is recognized as income only when collected.

7. Deferred Outflows of Resources

Deferred outflows of resources represent a consumption of net assets by the Authority that is applicable to a future reporting period. At June 30, 2021 and 2020, deferred outflows of resources relate to the following:

	<u>2021</u>	<u>2020</u>
Pension liability (see Note I)	\$ 1,248,000	\$ 1,827,000
Other postemployment benefits liability (see Note J)	<u>668,000</u>	<u>558,000</u>
Total deferred outflows of resources	<u>\$ 1,916,000</u>	<u>\$ 2,385,000</u>

8. Compensated Absences

All annual and compensatory leave pay is accrued when incurred (see Note F). The current portion is estimated based on an allocation of the annual and compensatory leave hours used during the fiscal year to the total hours remaining as of year-end. No liability is recorded for non-vesting accumulating rights to receive sick pay benefits.

9. Pension Liability

For purposes of measuring the Authority's estimated proportionate share of the collective net pension liability, deferred outflows and inflows of resources related to pensions, and pension expense under GASB Statement No. 68, *Accounting and Financial Reporting for Pensions - An Amendment of GASB Statement No. 27*, information regarding the Authority's participation in the Kentucky Employees Retirement System (KERS) has been determined on the same basis as reported by the KERS. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms.

10. Other Postemployment Benefits (OPEB) Liability

For purposes of measuring the Authority's estimated proportionate share of the collective net OPEB liability, deferred outflows and inflows of resources related to OPEB, and OPEB expense under GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, information regarding the Authority's participation in the KERS (the Insurance Fund) has been determined on the same basis as reported by the KERS. For this purpose, benefit payments are recognized when due and payable in accordance with the benefit terms.

Kentucky Economic Development Finance Authority
Notes to the Financial Statements (Continued)
Years Ended June 30, 2021 and 2020

Note B - Summary of Significant Accounting Policies (Continued)

11. Deferred Inflows of Resources

Deferred inflows of resources represent an acquisition of net assets by the Authority that is applicable to a future reporting period. At June 30, 2021 and 2020, deferred inflows of resources relate to the following:

	<u>2021</u>	<u>2020</u>
Pension liability (see Note I)	\$ 316,000	\$ 47,000
Other postemployment benefits liability (see Note J)	<u>289,000</u>	<u>280,000</u>
Total deferred inflows of resources	<u>\$ 605,000</u>	<u>\$ 327,000</u>

12. Net Position

Net position is displayed in three components (if and when applicable):

- a. Net investment in capital assets - Consists of capital assets including restricted capital assets, net of accumulated depreciation, reduced by the outstanding balances of any bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets. At June 30, 2021 and 2020, there is no such net investment in capital assets.
- b. Restricted net position - Consists of net position with constraints placed on the use thereof either by (1) external groups such as creditors, grantors, contributors, or laws or regulations of other governments; or (2) law through constitutional provisions or enabling legislation.
- c. Unrestricted net position - All other net position that does not meet the definition of net investment in capital assets or restricted.

13. Operating Revenues and Expenses

Operating revenues and expenses for enterprise funds are those that result from providing services. It also includes all revenues and expenses not related to capital and related financing, non-capital financing, or investing activities.

14. Intergovernment Revenue and Expense

During the course of operations, transactions occur with other State agencies (including the Commonwealth of Kentucky in general) that may result in non-operating revenues from/expenditures to. See Note H for the details of such transactions.

Kentucky Economic Development Finance Authority
Notes to the Financial Statements (Continued)
Years Ended June 30, 2021 and 2020

Note C - Cash and Cash Equivalents

The Kentucky Revised Statutes authorize the Authority to invest money subject to its control, at its discretion, in the permitted types of investments indicated in Note D. In addition, the Authority is allowed to participate in a cash and investment pool maintained by the Commonwealth of Kentucky.

As of June 30, 2021 and 2020, cash and cash equivalents consist of the following:

	<u>2021</u>	<u>2020</u>
Money market funds	\$ 20,205,612	\$ 21,304,541
State cash and investment pool	<u>53,973</u>	<u>37,589</u>
Total cash and cash equivalents	<u>\$ 20,259,585</u>	<u>\$ 21,342,130</u>

As of June 30, 2021 and 2020, the Authority's funds on deposit with the trustee are invested in the Fidelity Institutional Money Market Government Portfolio (Class III) money market mutual fund. Such funds are uninsured. This particular money market mutual fund is however comprised of investments in securities of the United States government and its agencies (obligations backed by the full faith and credit of the United States government) and repurchase agreements for such securities.

Note D - Investments

As of June 30, 2021 and 2020, investments consist entirely of the Authority's equity position in the State cash and investment pool (the portion that has not been classified as cash/cash equivalents). Such investments are valued at the net asset value of the Authority's equity position at year-end, a Level 2 fair value measurement (see below).

The fair value measurements framework provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy are as described below:

- Level 1 - Quoted prices in active markets for identical assets or liabilities.
- Level 2 - Observable inputs such as quoted prices in active markets for similar assets or liabilities or quoted prices for identical or similar assets or liabilities in markets that are not active or unobservable inputs that are derived principally from or corroborated by observable market data.
- Level 3 - Unobservable inputs that are based on the Authority's own assumptions as to how knowledgeable parties would price assets or liabilities that are not corroborated by market data.

There have been no changes in the methodologies used to determine fair value at June 30, 2021 and 2020.

Valuation methodologies may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. While the Authority believes its valuation methodologies are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

Kentucky Economic Development Finance Authority
Notes to the Financial Statements (Continued)
Years Ended June 30, 2021 and 2020

Note D - Investments (Continued)

Credit Risk

Under State statutes, the Authority, subject to certain limitations, is permitted to invest in the following:

- Obligations backed by the full faith and credit of the United States or a United States government agency
- Obligations of any corporation of the United States government or government sponsored enterprise
- Securities issued by a state or local government, or any instrumentality or agency thereof
- Collateralized or uncollateralized certificates of deposit or other interest-bearing accounts
- Bankers' acceptances
- Commercial paper
- Mutual funds
- Asset-backed securities
- United States dominated corporate, Yankee, and Eurodollar securities, excluding corporate stocks, issued by foreign and domestic issuers, including sovereign and supranational governments
- State and local delinquent property tax claims, which upon purchase, shall become certificates of delinquency secured by interests in real property

Concentration of Credit Risk

With the exception of certain limitations under State statutes, there is no limit on the amount the Authority may invest in any one issuer. The Authority's trustee consults with the Office of Financial Management (within the Kentucky Finance and Administration Cabinet) to determine suitable investments.

Custodial Credit Risk

For an investment, custodial credit risk is the risk that in the event of the failure of the counterparty, the Authority will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. As indicated above, as of June 30, 2021 and 2020, the Authority's investments do not consist of any investments held outside of the State cash and investment pool.

Interest Rate Risk

The Authority does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates. As previously indicated (see *Concentration of Credit Risk*), the Authority's trustee consults with the Office of Financial Management (within the Kentucky Finance and Administration Cabinet) to determine suitable investments.

Foreign Currency Risk

As indicated above, as of June 30, 2021 and 2020, the Authority's investments do not consist of any investments held outside of the State cash and investment pool. Accordingly, the Authority's investments are not otherwise believed to be subject to foreign currency risk.

Kentucky Economic Development Finance Authority
Notes to the Financial Statements (Continued)
Years Ended June 30, 2021 and 2020

Note E - Loans Receivable

As of June 30, 2021 and 2020, business and industrial park loans receivable consist of the following:

	<u>2021</u>	<u>2020</u>
Loans on real estate and equipment secured by:		
First mortgages/liens	\$ 48,466,237	\$ 48,725,545
Letters of credit	3,225,322	4,286,579
Other security/collateral	<u>13,158</u>	<u>39,474</u>
Total loans receivable	51,704,717	53,051,598
Allowance for loan losses	<u>(1,434,722)</u>	<u>(1,434,722)</u>
Loans receivable, net	50,269,995	51,616,876
Current maturities	<u>(259,870)</u>	<u>(442,502)</u>
Long-term portion	<u>\$ 50,010,125</u>	<u>\$ 51,174,374</u>

In fiscal year 2002, the Authority's Committee Members approved a loan for an amount up to \$10,950,000 to Hardin County, Kentucky to help finance the purchase of an approximately 1,600-acre tract of land for future industrial development. Hardin County and the Elizabethtown-Hardin County Industrial Foundation, Inc., along with the Cabinet, intend to market this property in order to attract a major manufacturing facility. The Cabinet and the Authority along with legislative approval of the Kentucky General Assembly shall have the right to approve the sale or transfer of the property to any such major manufacturing facility. The non-interest bearing loan was approved for a term of 10 years (subsequently extended for an additional 10 years through 2022). Collateral for the loan is a first mortgage on the property. No payments are due on the loan unless Hardin County sells the property. There exists the possibility the loan may ultimately be forgiven if a suitable major manufacturer that makes a significant investment and/or creates a significant number of jobs decides to locate a facility in Hardin County. As of June 30, 2021 and 2020, the balance of the loan receivable from Hardin County is \$10,639,585.

In fiscal year 2020, pursuant to 2020 Regular Session House Bill 99, the Commonwealth appropriated to the Cabinet \$35,000,000 (see Note H) of proceeds from new bonds (bonds issued by the State Property and Buildings Commission) to create and fund the Direct Health Care Services and Research Facilities Operations Loan to UofL Health-Louisville, Inc., the proceeds of which is to be used to provide direct health care services and research operations facilities. The loan is non-interest bearing through March 31, 2025, after which the loan bears interest at a fixed interest rate of 1.00%. Monthly interest only payments begin May 1, 2025. An annual principal payment of \$1,400,000 is due April 1, 2025. Annual principal payments of \$2,400,000 are due thereafter through the April 1, 2040 maturity date of the loan. The loan is secured by mortgages and an assignment of rents/leases with respect to four specific properties and is guaranteed by the University of Louisville, UofL Health, Inc., and UofL Health-Shelbyville, Inc. The loan is subject to certain covenants, including, but not limited to, the requirement that at any time before March 31, 2025, UofL Health-Louisville, Inc. shall have received at least \$25,000,000 in total from the Jewish Heritage Fund for Excellence and/or the Jewish Hospital & St. Mary's Healthcare Foundation, matching funds UofL Health-Louisville, Inc. shall not have an obligation to repay.

Kentucky Economic Development Finance Authority
Notes to the Financial Statements (Continued)
Years Ended June 30, 2021 and 2020

Note E - Loans Receivable (Continued)

There exists the possibility that up to 50% of the loan may be forgiven if UofL Health-Louisville, Inc., at all times on or after December 31, 2024, satisfies (a) certain job and wage requirements as defined and/or (b) the Medically Underserved Operational Requirements as defined. On December 31st of each year beginning on December 31, 2024, the Authority will determine whether UofL Health-Louisville, Inc. has complied with the debt forgiveness requirements as of such calendar year-end. If UofL Health-Louisville, Inc. has complied with the debt forgiveness requirements, 50% of the principal payment due on April 1st of the next calendar year will be forgiven. As of June 30, 2021 and 2020, the balance of the loan receivable from UofL Health-Louisville, Inc. is \$35,000,000.

In previous years, the terms of certain industrial park loans were restructured. Under the restructuring agreements, loan payments and/or interest rates were adjusted and maturity dates were extended. In addition, in lieu of the required periodic payments of principal and interest, the restructured agreements stated that amounts were due to the Authority upon the sale of the industrial park land with the Authority receiving a defined percentage of the sales price with any outstanding balance due at maturity. During fiscal year 2021, the terms of industrial park loans with outstanding balances totaling approximately \$181,000 as of June 30, 2021 were restructured. During fiscal year 2020, the terms of industrial park loans with outstanding balances totaling approximately \$1,542,000 as of June 30, 2020 were restructured. Additionally, during fiscal year 2021, the terms of other loans with outstanding balances totaling approximately \$636,000 as of June 30, 2021 were restructured.

Note F - Compensated Absences

Employees may accumulate earned but unused annual leave, compensatory leave, and sick pay benefits. The Commonwealth's policy is to only record the cost of annual and compensatory leave.

Annual and Compensatory Leave

Annual leave is accumulated at amounts ranging from 7.50 to 15.00 hours per month, determined by length of service, with maximum accumulations ranging from 30 to 60 days. The calendar year is the period used for determining accumulated leave. At June 30, 2021 and 2020, the Authority's estimated liability for accrued annual leave totals \$157,314 and \$148,503, respectively.

Compensatory leave is granted to authorized employees. At June 30, 2021 and 2020, the Authority's estimated liability for compensatory leave totals \$40,541 and \$36,829, respectively.

The activity relative to the liability for compensated absences for the years ended June 30, 2021 and 2020 is as follows:

	<u>2021</u>	<u>2020</u>
Balance, beginning of the year	\$ 185,332	\$ 160,377
Additions	110,323	121,055
Reductions	<u>(97,800)</u>	<u>(96,100)</u>
Balance, end of the year	<u>\$ 197,855</u>	<u>\$ 185,332</u>

At June 30, 2021 and 2020, the estimated amount of annual and compensatory leave due within one year totals \$97,900 and \$95,400, respectively.

Kentucky Economic Development Finance Authority
Notes to the Financial Statements (Continued)
Years Ended June 30, 2021 and 2020

Note F - Compensated Absences (Continued)

Sick Leave

The Authority records the cost of sick leave when paid. Generally, sick leave (earned one day per month with unlimited accumulation) is paid only when an employee is absent due to illness, injury, or related family death. No liability is recorded for non-vesting accumulating rights to receive sick pay benefits as of year-end. At June 30, 2021, the estimated accumulated amount of unused sick leave totals approximately \$414,000.

Note G - Restricted Net Position

During the 2000 Regular Session, the General Assembly passed House Bill 572 creating the Office of the Commissioner for the New Economy (now referred to as the Office of Entrepreneurship and Small Business Innovation) within the Cabinet. House Bill 572 also created a High-Tech Construction Pool and a High-Tech Investment Pool (Pools). The duties of the Office of Entrepreneurship and Small Business Innovation include the recommendation of projects to the Authority for approval and funding through the Pools which are maintained by the Authority.

The below table provides a history of the funding of the Pools.

<u>Legislation</u>	<u>Fiscal year(s)</u>	<u>Funding source</u>	<u>Amount</u>
2000 Regular Session House Bill 502	2001	Authority	\$ 40,000,000
2003 Regular Session House Bill 269	2003	Authority	10,000,000
2003 Regular Session House Bill 269	2003	Local Gov. Econ. Develop. Fund	1,035,000
2003 Regular Session House Bill 269	2004	bond proceeds (bonds issued by the State Prop. and Build. Comm.)	15,000,000
2003 Regular Session House Bill 269	2004	Commonwealth's General Fund	5,000,000
2003 Regular Session House Bill 269	2004	Local Gov. Econ. Develop. Fund	1,250,000
2005 Regular Session House Bill 267	2005	Authority	7,950,000
2005 Regular Session House Bill 267	2005	bond proceeds (bonds issued by the State Prop. and Build. Comm.)	2,750,000
2005 Regular Session House Bill 267	2005	Local Gov. Econ. Develop. Fund	3,625,000
2005 Regular Session House Bill 267	2006	Authority	7,485,000
2005 Regular Session House Bill 267	2006	Local Gov. Econ. Develop. Fund	3,500,000
2006 Regular Session House Bill 380	2007	Cabinet	5,000,000
2006 Regular Session House Bill 380	2008	Cabinet	5,000,000
2006 Regular Session House Bill 380/ 2010 Special Session House Bill 1/ 2017 Regular Session House Bill 482	2007-2021	bond proceeds (bonds issued by the State Prop. and Build. Comm.)	19,854,802

Through June 30, 2021, in total, the Authority has funded the High-Tech Construction and Investment Pools in the amount of \$65,435,000. Additionally, during fiscal years 2003 through 2021, the Pools have been funded through intergovernment revenues (including payments from the Commonwealth) totaling \$62,014,802.

Kentucky Economic Development Finance Authority
Notes to the Financial Statements (Continued)
Years Ended June 30, 2021 and 2020

Note G - Restricted Net Position (Continued)

As of June 30, 2021 and 2020, the net position of the Authority restricted to the Office of Entrepreneurship and Small Business Innovation High-Tech Construction and Investment Pools consists of the following:

	<u>2021</u>	<u>2020</u>
Cash and cash equivalents	\$ 2,553,250	\$ 2,781,957
Investments	117,424	108,593
Intergovernment receivables	<u>-</u>	<u>98,006</u>
Total restricted net position	<u>\$ 2,670,674</u>	<u>\$ 2,988,556</u>

Note H - Net Payments to/from the Commonwealth

The below table provides a history of the funding made available for certain loans, grants, and High-Tech Construction and Investment Pool projects, as well as the Cabinet's Economic Development Funds Program (no impact to the Authority's financial statements of funds made available with respect to the Cabinet's Economic Development Funds Program). Such funding, which is accessed from the oldest available authorization/appropriation, is provided for the loans, grants, and/or projects approved by the Authority. The sources of such funds are proceeds from bonds issued by the State Property and Buildings Commission.

<u>Legislation</u>	<u>Amount</u>
2005 Regular Session House Bill 267	\$ 10,000,000
2006 Regular Session House Bill 380	37,500,000
2010 Special Session House Bill 1	37,500,000
2014 Regular Session House Bill 235	2,250,000
2016 Regular Session House Bill 303	21,000,000
2017 Regular Session House Bill 482	15,000,000
2019 Regular Session House Bill 268	25,000,000
2020 Regular Session House Bill 99	35,000,000

Net payments (to)/from the Commonwealth, which represents the net impact of certain loans, grants, and/or projects for which the funding is to be provided by the legislation as described above, total (\$106,581) and \$34,750,000 for the year ended June 30, 2021 and 2020, respectively.

The accompanying statements of net position as of June 30, 2021 and 2020 reflect \$581,774 (\$481,774 of which is classified as a non-current asset at June 30, 2021) and \$904,780 (\$581,774 of which is classified as a non-current asset at June 30, 2020) of intergovernment receivables, respectively. Such intergovernment receivables principally consist of the funding due to the Authority with respect to the loans, grants, and High-Tech Construction and Investment Pool projects approved during the respective fiscal years, funding for which had not yet been received as of year-end (from the previously authorized/appropriated funding as summarized above).

Kentucky Economic Development Finance Authority
Notes to the Financial Statements (Continued)
Years Ended June 30, 2021 and 2020

Note I - Retirement Plans

General Information

Plan Description

All employees who average 100 or more hours per month over a calendar or fiscal year participate in the Kentucky Employees Retirement System (KERS) of the Commonwealth of Kentucky, which is a cost-sharing multiple employer defined benefit pension plan. Under the provisions of Kentucky Revised Statutes 61.645, the Kentucky Public Pensions Authority (KPPA) Board of Trustees administers the KERS. The KPPA is the successor to Kentucky Retirement Systems.

Ten-year historical trend information showing the KERS' progress in accumulating sufficient assets to pay benefits when due (as well as financial statements and other required supplementary information) is presented in the Kentucky Employees Retirement System's Annual Financial Report (which is a matter of public record). The most recent actuarial valuation is as of June 30, 2020. Such report may be obtained by writing to the Kentucky Public Pensions Authority, 1260 Louisville Road, Perimeter Park West, Frankfort, Kentucky 40601. KPPA can also be reached by telephone at 502.696.8800 or by email at kppa.mail@kyret.ky.gov. The Commonwealth's CAFR should also be referred to for additional disclosures related to the KERS.

In addition to the KERS, the Authority's employees are also eligible to participate in two deferred compensation plans sponsored by the Commonwealth. These plans are organized as a Section 457 plan and as a Section 401(k) plan under the Internal Revenue Code. Both plans permit employees to defer a portion of their salary until future years. Deferred compensation is not available to employees until termination, retirement, death, or financial hardship. The Kentucky Public Employees' Deferred Compensation Authority (KPEDCA) issues a publicly available report that includes financial statements and other required supplementary information relative to the deferred compensation plans. Such report may be obtained by writing to the Kentucky Public Employees' Deferred Compensation Authority, 501 High Street, 2nd Floor, Frankfort, Kentucky 40601. The KPEDCA can also be reached by telephone at 502.573.7925 or by email at kydcp@nationwide.com. The Commonwealth's CAFR should also be referred to for additional disclosures related to the two deferred compensation plans.

Benefits Provided

The KERS provides retirement, as well as health care, disability, and death benefits to plan members. The KERS provides for cost-of-living adjustments at the discretion of the Kentucky legislature. Benefits are established by State statute. The below information summarizes the significant benefits related provisions of the KERS non-hazardous plan. The below is not intended to be, nor should it be interpreted as, a complete account of all such provisions.

	Tier 1 employees Participation prior to September 1, 2008	Tier 2 employees Participation from September 1, 2008 to December 31, 2013	Tier 3 employees Participation on or after January 1, 2014
Covered employees	Substantially all regular, full-time members employed in non-hazardous duty positions of any State department, board, or any agency directed by Executive Order to participate in the KERS		
Benefit formula	Final compensation X benefit factor X years of service		Cash Balance Plan - hybrid plan with characteristics of both a defined benefit plan and a defined contribution plan

Kentucky Economic Development Finance Authority
Notes to the Financial Statements (Continued)
Years Ended June 30, 2021 and 2020

Note I - Retirement Plans (Continued)

General Information (Continued)

Benefits Provided (Continued)

	Tier 1 employees Participation prior to September 1, 2008	Tier 2 employees Participation from September 1, 2008 to December 31, 2013	Tier 3 employees Participation on or after January 1, 2014
Final compensation	Average of the highest 5 fiscal years (must contain at least 48 months); includes lump-sum compensation payments (before and at retirement)	5 complete fiscal years immediately preceding retirement; each year must contain 12 months; lump-sum compensation payments (before and at retirement) are not to be included in creditable compensation	No final compensation
Benefit factor	1.97% - if you do not have 12 months credit for January 1, 1998 - January 1, 1999 2.00% - if you have 13 months credit for January 1, 1998 - January 1, 1999	10 years or less - 1.10% Greater than 10 years, but no more than 20 years - 1.30% Greater than 20 years, but no more than 26 years - 1.50% Greater than 26 years, but no more than 30 years - 1.75% Additional years above 30 years - 2.00% (2.00% benefit factor only applies to service earned in excess of 30 years)	No benefit factor; a life annuity can be calculated in accordance with actuarial assumptions and a method adopted by the KPPA Board of Trustees based on the member's accumulated account balance
Cost of living adjustment	No cost of living adjustment unless authorized by the legislature with specific criteria; if authorized, the cost of living adjustment is limited to 1.50%		
Unreduced retirement	Any age with 27 years of service Age 65 with 48 months of service Money purchase for age 65 with less than 48 months based on contributions and interest	Member must be at least 57 and age plus earned service must equal 87 years at retirement to retire under the Rule of 87 Provision Age 65 with 5 years of earned service; no money purchase calculations	
Reduced retirement	Any age with 25 years of service Age 55 with 5 years of service	Age 60 with 10 years of service (excludes purchased service with certain exceptions)	No reduced retirement benefits

Kentucky Economic Development Finance Authority
Notes to the Financial Statements (Continued)
Years Ended June 30, 2021 and 2020

Note I - Retirement Plans (Continued)

General Information (Continued)

Contributions

Contribution rates are established by State statute. Pursuant to the provisions of Kentucky Revised Statutes 61.645, contribution requirements of active employees and participating employers are established and may be amended by the KPPA Board of Trustees.

The Authority, for the years ended June 30, 2021 and 2020, was required to contribute 84.43% and 83.43%, respectively, of the covered employees' salaries, 73.28% and 71.03%, respectively, of which is attributable to the pension portion while the remaining 11.15% and 12.40% is attributable to the insurance (see Note J) portion. The actuarially determined employer contribution represents the amount, that when combined with employee contributions, is expected to finance the costs of benefits earned by employees during the year, the costs of administration, and an amortized portion of any unfunded liability. The below information summarizes the significant employee contributions related provisions of the KERS non-hazardous plan. The below is not intended to be, nor should it be interpreted as, a complete account of all such provisions.

Tier 1 employees	Contributions equal 5.00% of all creditable compensation
Tier 2 employees	Contributions equal 6.00%, with 5.00% being credited to the member's account and 1% to fund the KPPA Insurance Fund (see Note K) Interest is paid each June 30th on members' accounts at a rate of 2.50% The member is entitled to a full refund of contributions and interest if employment is terminated, however, the 1.00% contribution to the KPPA Insurance Fund is non-refundable
Tier 3 employees	Contributions equal 6.00%, with 5.00% being credited to the member's account and 1% to fund the KPPA Insurance Fund (see Note K) Employee accounts are also credited with a 4.00% employer pay credit At the end of each fiscal year, interest is paid into each employee's account The account is guaranteed the 4.00% interest credit on the employee's account balance as of June 30 of the previous fiscal year-end The employee's account may be credited with additional interest if the five-year average investment return exceeds 4.00% If an employee terminates his/her employment, the employee, if fully vested (fully vested upon reaching 5 years of service), is eligible to either take a refund of his/her accumulated account balance or, if the employee is eligible for retirement benefits, he/she may annuitize the account balance If an employee terminates his/her employment prior to being fully vested and requests a refund, the employee is only eligible to receive his/her contributions plus the interest thereon, forfeiting the employer pay credit and the associated interest The 1.00% contribution to the KPPA Insurance Fund is non-refundable

Retired employees receive certain health care benefits depending on length of service. In accordance with State statutes, such benefits are provided and advanced-funded on an actuarially determined basis through the KERS. As indicated above, covered employees hired on or after September 1, 2008 are required by State statute to contribute an additional 1.00% of their salary to fund the KPPA Insurance Fund (see Note J). The related employer contribution is included in the required employer contribution rates reflected above.

Kentucky Economic Development Finance Authority
Notes to the Financial Statements (Continued)
Years Ended June 30, 2021 and 2020

Note I - Retirement Plans (Continued)

General Information (Continued)

Contributions (Continued)

The Authority's contributions (specific to the pension portion) for the years ended June 30, 2021, June 30, 2020, and June 30, 2019 total approximately \$844,000, \$818,000, and \$747,000, respectively.

Net Pension Liability, Pension Expense, and Deferred Outflows and Inflows of Resources

At June 30, 2021, the Authority's liability with respect to its estimated proportionate share of the collective net pension liability is \$11,405,000 (\$10,070,000 as of June 30, 2020). The June 30, 2021 net pension liability has been measured as of June 30, 2020 (the June 30, 2020 net pension liability has been measured as of June 30, 2019), and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The Authority's estimated proportionate share of the collective net pension liability was based on a projection of the Authority's long-term share of contributions to the pension plan relative to the projected contributions of all employer participants, as actuarially determined. At June 30, 2021 and June 30, 2020, the Authority's estimated proportionate share (as rounded) is .08% and .07%, respectively.

The Authority's estimate of pension expense with respect to the year ended June 30, 2021 totals \$1,324,000 (\$1,739,000 with respect to the year ended June 30, 2020).

At June 30, 2021, deferred outflows and inflows of resources related to pensions consist of the following:

	<u>Deferred outflows of resources</u>	<u>Deferred inflows of resources</u>
Differences between expected and actual experience in the measurement of the total pension liability	\$ 65,000	\$ -
Changes to the assumptions	128,000	-
Net difference between projected and actual earnings on pension plan investments	42,000	30,000
Changes in the proportionate share and differences between the Authority's contributions and its proportionate share of the contributions	167,000	286,000
Subsequent to measurement date contributions	<u>846,000</u>	<u>-</u>
	<u>\$ 1,248,000</u>	<u>\$ 316,000</u>

The \$846,000 of deferred outflows of resources as of June 30, 2021 (per the above table) attributable to the subsequent to measurement date contributions will be recognized as a reduction of the net pension liability in the year ending June 30, 2021.

Kentucky Economic Development Finance Authority
Notes to the Financial Statements (Continued)
Years Ended June 30, 2021 and 2020

Note I - Retirement Plans (Continued)

Net Pension Liability, Pension Expense, and Deferred Outflows and Inflows of Resources (Continued)

The other amounts reflected as net deferred outflows and inflows of resources related to pensions as of June 30, 2021 will be recognized within pension expense as follows:

<u>Year ending June 30,</u>	
2022	\$ 110,000
2023	(45,000)
2024	10,000
2025	11,000
	<u>\$ 86,000</u>

At June 30, 2020, deferred outflows and inflows of resources related to pensions consist of the following:

	<u>Deferred outflows of resources</u>	<u>Deferred inflows of resources</u>
Differences between expected and actual experience in the measurement of the total pension liability	\$ 60,000	\$ -
Changes to the assumptions	307,000	-
Net difference between projected and actual earnings on pension plan investments	26,000	47,000
Changes in the proportionate share and differences between the Authority's contributions and its proportionate share of the contributions	619,000	-
Subsequent to measurement date contributions	815,000	-
	<u>\$ 1,827,000</u>	<u>\$ 47,000</u>

Actuarial Assumptions

The total pension liability per the June 30, 2020 actuarial valuation was determined using the following actuarial assumptions:

Inflation rate - 2.30%

Projected salary increases - 3.30% to 15.30%; varies by service

Investment rate of return - 5.25%

Mortality rates -

- Active members - Pub-2010 General Mortality Table projected with the ultimate rates from the MP-2014 Mortality Improvement Scale using a base year of 2010
- Healthy retired members and beneficiaries - system-specific mortality table based on mortality experience from 2013-2018 projected with the ultimate rates from the MP-2014 Mortality Improvement Scale using a base year of 2020
- Disabled members (the period after disability retirement) - Pub-2010 Disabled Mortality Table, with a 4 year set-forward for both male and female rates, projected with the ultimate rates from the MP-2014 Mortality Improvement Scale using a base year of 2010

Kentucky Economic Development Finance Authority
Notes to the Financial Statements (Continued)
Years Ended June 30, 2021 and 2020

Note I - Retirement Plans (Continued)

Net Pension Liability, Pension Expense, and Deferred Outflows and Inflows of Resources (Continued)

Actuarial Assumptions (Continued)

The actuarial assumptions used in the June 30, 2020 and June 30, 2019 actuarial valuations were based on the results of an actuarial experience study performed with respect to the period ending June 30, 2018.

The long-term expected rate of return on pension plan assets is determined using a building-block method in which best-estimate ranges of expected future real rates of return are developed by the investment consultant for each major asset class (see below). The 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. The assumptions are generally intended to be long-term assumptions and are not expected to change absent a significant change in the asset allocation or the inflation assumption, or a fundamental change in the market that alters expected returns in future years.

The target asset allocations and best estimates of the arithmetic long-term expected real rate of return for each major asset class are as follows (with respect to the June 30, 2020 actuarial valuation):

Asset class	Target allocation	Long-term expected real rate of return
Growth		
U.S. equities	15.75%	4.50%
Non-U.S. equities	15.75%	5.25%
Specialty credit/high-yield	15.00%	3.90%
Private equity	7.00%	5.15%
Liquidity		
Core bonds	20.50%	-0.25%
Cash	3.00%	-0.75%
Diversifying strategies		
Real return	15.00%	3.95%
Real estate	5.00%	5.30%
Opportunistic	3.00%	2.25%
	100.00%	

The long-term expected rate of return on pension plan assets, which is established by the KPPA Board of Trustees, was 5.25% with respect to the June 30, 2020 actuarial valuation.

Kentucky Economic Development Finance Authority
Notes to the Financial Statements (Continued)
Years Ended June 30, 2021 and 2020

Note I - Retirement Plans (Continued)

Net Pension Liability, Pension Expense, and Deferred Outflows and Inflows of Resources (Continued)

Discount Rate

The discount rate used to measure the total pension liability per the June 30, 2020 actuarial valuation was 5.25% (also 5.25% with respect to the total pension liability per the June 30, 2019 actuarial valuation). The projection of cash flows used to determine the discount rate assumed the employers would contribute the actuarially determined contribution rate of projected compensation over the remaining 24-year (closed) amortization period of the unfunded actuarial accrued liability. The discount rate determination does not use a municipal bond rate.

Sensitivity of the Authority's Estimated Proportionate Share of the Collective Net Pension Liability to Changes in the Discount Rate

The following table presents the Authority's estimated proportionate share of the collective net pension liability as of June 30, 2021 calculated using the discount rate of 5.25%, as well as what the Authority's estimated proportionate share of the collective net pension liability would be if it were calculated using a discount rate that is one percentage point lower (4.25%) or one percentage point higher (6.25%) than the current discount rate.

	1.00% Decrease (4.25%)	Current discount rate (5.25%)	1.00% Increase (6.25%)
Authority's estimated proportionate share of the collective net pension liability	<u>\$ 13,063,000</u>	<u>\$ 11,405,000</u>	<u>\$ 10,042,000</u>

Liability to KERS

At June 30, 2021 and 2020, the liability to KERS, which represents the amount of employer contributions required to be funded as of year-end, totals approximately \$78,000 and \$81,000, respectively, approximately \$68,000 and \$69,000, respectively, of which relates to pensions. Such amounts are included within accrued payroll expenses per the accompanying statements of net position.

Note J - Other Postemployment Benefits

General Information

Plan Description

All eligible employees receiving benefits under the KERS are provided hospital and medical insurance through the KPPA Insurance Fund, a cost-sharing multiple employer defined benefit other postemployment benefits (OPEB) plan. Under the provisions of Kentucky Revised Statutes 61.645, the KPPA Board of Trustees administers the KERS, including the Insurance Fund. The KPPA is the successor to Kentucky Retirement Systems.

Ten-year historical trend information showing the KERS' progress in accumulating sufficient assets to pay benefits when due (as well as financial statements and other required supplementary information) is presented in the Kentucky Employees Retirement System's Annual Financial Report (which is a matter of public record). The most recent actuarial valuation is as of June 30, 2020. Such report may be obtained by writing to the Kentucky Public Pensions Authority, 1260 Louisville Road, Perimeter Park West, Frankfort, Kentucky 40601. KPPA can also be reached by telephone at 502.696.8800 or by email at kppa.mail@kyret.ky.gov. The Commonwealth's CAFR should also be referred to for additional disclosures related to the KERS and the Insurance Fund.

**Kentucky Economic Development Finance Authority
Notes to the Financial Statements (Continued)
Years Ended June 30, 2021 and 2020**

Note J - Other Postemployment Benefits (Continued)

General Information (Continued)

Benefits Provided

The Insurance Fund pays a prescribed contribution for whole or partial payment of required premiums to purchase hospital and medical insurance for eligible employees. The Insurance Fund provides health insurance benefits to employees and certain beneficiaries under prescribed circumstances. As a result of 2004 Regular Session House Bill 290, medical insurance benefits are calculated differently for members who began participating on, or after, July 1, 2003. The below information summarizes the significant benefits related provisions of the OPEB plan. The below is not intended to be, nor should it be interpreted as, a complete account of all such provisions.

Participation prior to July 2003		Participation between July 2003 and August 2008		Participation on or after September 2008	
Months of service	Percent of premium	Months of service	Percent of premium	Months of service	Percent of premium
< 48	0%	Greater than or equal to 120 months	\$10 per month for each year of service without regard to a maximum dollar adjusted by 1.5% annually	Greater than or equal to 180 months	\$10 per month for each year of service without regard to a maximum dollar adjusted by 1.5% annually
48 to 119 inclusive	25%				
120 to 179 inclusive	50%				
180 to 239 inclusive	75%				
240 or more	100%				

This benefit is not protected under the inviolable contract provisions of State statutes. The Kentucky General Assembly reserves the right to suspend or reduce this benefit if, in its judgment, the welfare of the Commonwealth so demands.

Contributions

Pursuant to the provisions of Kentucky Revised Statutes 61.645, contribution requirements of participating employers are established and may be amended by the KPPA Board of Trustees. The Authority was (for the years ended June 30, 2021 and 2020) required by State statute to contribute 11.15% and 12.40%, respectively, of the covered employees' salaries. Covered employees hired prior to September 1, 2008 are not required to contribute to the Insurance Fund. Covered employees hired after September 1, 2008 are required by State statute to contribute an additional 1.00% of their salary to fund the Insurance Fund. Such contributions are deposited to an account created for the payment of health insurance benefits under 26 USC Section 401(h) in the Pension Fund (Kentucky Administrative Regulation 105 KAR 1:420E).

The Authority's contributions to the Insurance Fund for the years ended June 30, 2021, June 30, 2020, and June 30, 2019 total approximately \$129,000, \$143,000, and \$131,000, respectively.

Net OPEB Liability, OPEB Expense, and Deferred Outflows and Inflows of Resources

At June 30, 2021, the Authority's liability with respect to its estimated proportionate share of the collective net OPEB liability is \$2,044,000 (\$1,585,000 as of June 30, 2020). The June 30, 2021 net OPEB liability has been measured as of June 30, 2020 (the June 30, 2020 net OPEB liability has been measured as of June 30, 2019), and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation as of that date. The Authority's estimated proportionate share of the collective net OPEB liability was based on a projection of the Authority's long-term share of contributions to the OPEB plan relative to the projected contributions of all employer participants, as actuarially determined. At June 30, 2021 and at June 30, 2020, the Authority's estimated proportionate share (as rounded) is .08% and .07%, respectively.

Kentucky Economic Development Finance Authority
Notes to the Financial Statements (Continued)
Years Ended June 30, 2021 and 2020

Note J - Other Postemployment Benefits (Continued)

Net OPEB Liability, OPEB Expense, and Deferred Outflows and Inflows of Resources (Continued)

The Authority's estimate of OPEB expense with respect to the year ended June 30, 2021 totals \$251,000 (\$187,000 with respect to the year ended June 30, 2020).

At June 30, 2021, deferred outflows and inflows of resources related to OPEB consist of the following:

	<u>Deferred outflows of resources</u>	<u>Deferred inflows of resources</u>
Differences between expected and actual experience in the measurement of the total OPEB liability	\$ 169,000	\$ 202,000
Changes to the assumptions	150,000	4,000
Net difference between projected and actual earnings on OPEB investments	39,000	11,000
Changes in the proportionate share and differences between the Authority's contributions and its proportionate share of the contributions	150,000	72,000
Subsequent to measurement date contributions	<u>160,000</u>	<u>-</u>
	<u>\$ 668,000</u>	<u>\$ 289,000</u>

The \$160,000 of deferred outflows of resources as of June 30, 2021 (per the above table) attributable to the subsequent to measurement date contributions will be recognized as a reduction of the collective net OPEB liability in the year ending June 30, 2021.

The other amounts reflected as net deferred outflows and inflows of resources related to OPEB as of June 30, 2021 will be recognized within OPEB expense as follows:

<u>Year ending June 30,</u>	
2022	\$ 114,000
2023	58,000
2024	39,000
2025	<u>8,000</u>
	<u>\$ 219,000</u>

Kentucky Economic Development Finance Authority
Notes to the Financial Statements (Continued)
Years Ended June 30, 2021 and 2020

Note J - Other Postemployment Benefits (Continued)

Net OPEB Liability, OPEB Expense, and Deferred Outflows and Inflows of Resources (Continued)

At June 30, 2020, deferred outflows and inflows of resources related to OPEB consist of the following:

	<u>Deferred outflows of resources</u>	<u>Deferred inflows of resources</u>
Differences between expected and actual experience in the measurement of the total OPEB liability	\$ -	\$ 252,000
Changes to the assumptions	208,000	5,000
Net difference between projected and actual earnings on OPEB investments	7,000	17,000
Changes in the proportionate share and differences between the Authority's contributions and its proportionate share of the contributions	182,000	6,000
Subsequent to measurement date contributions	<u>161,000</u>	<u>-</u>
	<u>\$ 558,000</u>	<u>\$ 280,000</u>

Actuarial Assumptions

The total OPEB liability per the June 30, 2020 actuarial valuation was determined using the following actuarial assumptions:

Inflation rate - 2.30%

Projected salary increases - 3.30% to 15.30%; varies by service

Investment rate of return - 6.25%

Health care cost trend rates -

- Pre-65 - Initial trend starting at 6.40% and gradually decreasing to an ultimate trend rate of 4.05% over a period of 14 years
- Post-65 - Initial trend starting at 2.90%, increasing to 6.30%, and gradually decreasing to an ultimate trend rate of 4.05% over a period of 14 years

Mortality rates -

- Active members - Pub-2010 General Mortality Table projected with the ultimate rates from the MP-2014 Mortality Improvement Scale using a base year of 2010
- Healthy retired members and beneficiaries - system-specific mortality table based on mortality experience from 2013-2018 projected with the ultimate rates from the MP-2014 Mortality Improvement Scale using a base year of 2019
- Disabled members (the period after disability retirement) - Pub-2010 Disabled Mortality Table, with a 4 year set-forward for both male and female rates, projected with the ultimate rates from the MP-2014 Mortality Improvement Scale using a base year of 2010

The actuarial assumptions used in the June 30, 2020 and June 30, 2019 actuarial valuations were based on the results of an actuarial experience study performed with respect to the period ending June 30, 2018.

Kentucky Economic Development Finance Authority
Notes to the Financial Statements (Continued)
Years Ended June 30, 2021 and 2020

Note J - Other Postemployment Benefits (Continued)

Net OPEB Liability, OPEB Expense, and Deferred Outflows and Inflows of Resources (Continued)

Actuarial Assumptions (Continued)

The long-term expected rate of return on pension plan assets is determined using a building-block method in which best-estimate ranges of expected future real rates of return are developed by the investment consultant for each major asset class (see below). The 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. The assumptions are generally intended to be long-term assumptions and are not expected to change absent a significant change in the asset allocation or the inflation assumption, or a fundamental change in the market that alters expected returns in future years.

The target asset allocations and best estimates of the arithmetic long-term expected real rate of return for each major asset class are as follows (with respect to the June 30, 2020 actuarial valuation):

Asset class	Target allocation	Long-term expected real rate of return
Growth		
U.S. equities	18.75%	4.50%
Non-U.S. equities	18.75%	5.25%
Specialty credit/high-yield	15.00%	3.90%
Private equity	10.00%	6.65%
Liquidity		
Core bonds	13.50%	-0.25%
Cash	1.00%	-0.75%
Diversifying strategies		
Real return	15.00%	3.95%
Real estate	5.00%	5.30%
Opportunistic	3.00%	2.25%
	100.00%	

The long-term expected rate of return on OPEB plan assets, which is established by the KPPA Board of Trustees, was 6.25% with respect to the June 30, 2020 actuarial valuation.

**Kentucky Economic Development Finance Authority
Notes to the Financial Statements (Continued)
Years Ended June 30, 2021 and 2020**

Note J - Other Postemployment Benefits (Continued)

Net OPEB Liability, OPEB Expense, and Deferred Outflows and Inflows of Resources (Continued)

Discount Rate

The discount rate used to measure the total OPEB liability per the June 30, 2020 actuarial valuation was 5.43% (5.73% with respect to the total OPEB liability per the June 30, 2019 actuarial valuation). The discount rate is based on the long-term expected rate of return on OPEB plan investments of 6.25% and a long-term municipal bond rate of 2.45% (fixed-income municipal bonds with 20 years to maturity that include only federally tax-exempt municipal bonds as reported in Fidelity Index's "20-Year Municipal GO AA Index" as of June 30, 2020).

Sensitivity of the Authority's Estimated Proportionate Share of the Collective Net OPEB Liability to Changes in the Discount Rate

The following table presents the Authority's estimated proportionate share of the collective net OPEB liability as of June 30, 2021 calculated using the discount rate of 5.43%, as well as what the Authority's estimated proportionate share of the collective net OPEB liability would be if it were calculated using a discount rate that is one percentage point lower (4.43%) or one percentage point higher (6.43%) than the current discount rate.

	1.00% Decrease <u>(4.43%)</u>	Current discount rate <u>(5.43%)</u>	1.00% Increase <u>(6.43%)</u>
Authority's estimated proportionate share of the collective net OPEB liability	<u>\$ 2,436,000</u>	<u>\$ 2,044,000</u>	<u>\$ 1,722,000</u>

Sensitivity of the Authority's Estimated Proportionate Share of the Collective Net OPEB Liability to Changes in the Health Care Cost Trend Rates

The following table presents the Authority's estimated proportionate share of the collective net OPEB liability as of June 30, 2021 calculated using the discount rate of 5.43%, as well as what the Authority's estimated proportionate share of the collective net OPEB liability would be if it were calculated using a health care cost trend rate that is one percentage point lower or one percentage point higher than the current health care cost trend rate.

	1.00% Decrease <u></u>	Current <u>(5.43%)</u>	1.00% Increase <u></u>
Authority's estimated proportionate share of the collective net OPEB liability	<u>\$ 1,721,000</u>	<u>\$ 2,044,000</u>	<u>\$ 2,436,000</u>

Liability to KERS

At June 30, 2021 and 2020, the liability to KERS, which represents the amount of employer contributions required to be funded as of year-end, totals approximately \$78,000 and \$81,000, respectively, approximately \$10,000 and \$12,000, respectively, of which relates to OPEB. Such amounts are included within accrued payroll expenses per the accompanying statements of net position.

Kentucky Economic Development Finance Authority
Notes to the Financial Statements (Continued)
Years Ended June 30, 2021 and 2020

Note K - Commitments

As of June 30, 2021, the Authority's Committee Members had approved loans and grants totaling approximately \$600,000 for which funds had yet to be disbursed.

Note L - Conduit Debt

As indicated in Note A, the Authority has acted as the issuing agent for Kentucky Economic Development Finance Authority Revenue Bonds in accordance with the statutes regarding the issuance of Industrial Revenue Bonds and Taxable Economic Development Revenue Bonds. Such bonds do not constitute a general debt, liability, or moral obligation of the Authority. Accordingly, the accompanying financial statements do not include any assets or liabilities related to the issuance of these bonds. Through June 30, 2021, the Authority has acted as the issuing agent for approximately \$4,000,000,000 of Kentucky Economic Development Finance Authority Revenue Bonds (those bonds with outstanding balances as of year-end). As of June 30, 2021, the balances outstanding on these bonds total approximately \$2,900,000,000.

Note M - Related Party Transactions

The Authority received the benefit of accounting and administrative services, utilities, and office space from the Cabinet during fiscal years 2021 and 2020 for which no fees were assessed.

Note N - Risk Management

The Authority is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; and errors and omissions. The Authority utilizes the Commonwealth of Kentucky's Risk Management Fund to cover the exposure to these potential losses. The Commonwealth's CAFR should be referred to for additional disclosures related to the Risk Management Fund.

Required Supplemental Information



Independent Auditor's 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*

To the Committee Members
Kentucky Economic Development Finance Authority
Frankfort, Kentucky

We have audited, in accordance with 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, the financial statements of the Kentucky Economic Development Finance Authority as of and for the year ended June 30, 2021, and the related notes to the financial statements, which collectively comprise the Kentucky Economic Development Finance Authority's basic financial statements, and have issued our report thereon dated August 31, 2021.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Kentucky Economic Development Finance Authority's internal control over financial reporting (internal control) to determine the 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 Kentucky Economic Development Finance Authority's internal control. Accordingly, we do not express an opinion of the effectiveness of the Kentucky Economic Development Finance Authority'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 may exist that have not been identified.

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**Independent Auditor's 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* (Continued)**

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Kentucky Economic Development Finance Authority's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, non-compliance with which could have a direct and material effect on the determination of financial statement amounts. 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 non-compliance 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 result 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.



Louisville, Kentucky
August 31, 2021

Kentucky Economic Development Finance Authority
Schedule of Findings
Year Ended June 30, 2021

Schedule of Auditor's Results

We have issued an unmodified opinion, dated August 31, 2021, on the financial statements of the Kentucky Economic Development Finance Authority as of and for the year ended June 30, 2021.

Our audit disclosed no instances of non-compliance which are material to the Kentucky Economic Development Finance Authority's financial statements.

Findings Relating to the Financial Statements

Our audit disclosed no findings which are required to be reported in accordance with *Government Auditing Standards*.

**Kentucky Economic Development Finance Authority
Schedule of Prior Audit Findings and Their Resolution
Year Ended June 30, 2021**

The audit as of and for the year ended June 30, 2020 disclosed no findings which were required to be reported in accordance with *Government Auditing Standards*.