



**KENTUCKY COUNCIL ON
POSTSECONDARY EDUCATION**

FINANCIAL STATEMENTS

AND

SUPPLEMENTARY INFORMATION

JUNE 30, 2020

COUNCIL ON POSTSECONDARY EDUCATION

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Blue & Co., LLC / 250 West Main Street, Suite 2900 / Lexington KY 40507 main
859.253.1100 fax 859.253.1384 email blue@blueandco.com

REPORT OF INDEPENDENT AUDITORS

To the Council Members
Council on Postsecondary Education

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Council on Postsecondary Education (the Council), a component unit of the Commonwealth of Kentucky, as of and for the year ended June 30, 2020, and the related notes to the financial statements, which collectively comprise the Council'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 auditing 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 opinions on these financial statements based on our audit. We conducted our audit 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 from 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 Council'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 Council'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 opinions.

To the Council Members
Council on Postsecondary Education

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the Council as of June 30, 2020, and the respective changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Report on Required Supplementary Information

Accounting principles generally accepted in the United States of America require that management's discussion and analysis on pages 4 through 11, the schedules of proportionate share of the net pension liability and schedules of pension contributions on pages 58 through 61, the schedules of proportionate share of the net Other Postemployment Benefits (OPEB) liability and the schedules of OPEB contributions on pages 62 through 65, and the budgetary comparison information on pages 66 through 69, 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.

Report on Supplementary Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Council's basic financial statements. The accompanying schedule of expenditures of federal awards, as required by *Title 2 U.S. Code of Federal Regulation (CFR) Part 200, Uniform Administration Requirements, Cost Principles, and Audit Requirements for Federal Awards* is presented on pages 75 and 76 for purposes of additional analysis and is not a required part of the basic financial statements. The supplementary information included in the accompanying schedules on pages 70 through 74 is also presented for purposes of additional analysis and is not a required part of the basic financial statements.

To the Council Members
Council on Postsecondary Education

The accompanying schedule of expenditures of federal awards and supplementary information are the responsibility of management and were derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such 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 and supplementary information are fairly stated in all material respects in relation to the basic financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated December 3, 2020 on our consideration of the Council'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 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 Council's internal control over financial reporting and compliance.

Blue & Co., LLC

Lexington, Kentucky
December 3, 2020

COUNCIL ON POSTSECONDARY EDUCATION

MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2020

The Council on Postsecondary Education (the Council) was established by the passage of House Bill 1 during the first 1997 extraordinary session of the Kentucky General Assembly. As a component unit of the Commonwealth of Kentucky, the Council provides direction and oversight to Kentucky's postsecondary education system.

The Council's management offers this narrative overview and analysis of the financial performance of the Council for the fiscal year (FY) ended June 30, 2020. Readers are encouraged to read this management discussion and analysis in conjunction with the Council's financial statements and the accompanying notes.

FINANCIAL HIGHLIGHTS

- The liabilities of the Council exceeded its assets at the close of FY 2020 by \$20,284,316.
- Net position increased \$1,326,074 between FY 2019 and FY 2020
- As of the close of FY 2020, the Council's governmental funds reported an ending fund balance of \$6,563,735, which includes balances in the strategic investment and incentive funding programs appropriated to the Council on behalf of the public postsecondary education institutions and agency operations.
- Total fund revenues for FY 2020 were \$18,390,070, representing a 15% decrease from FY 2019. Most of the decrease is due to the executive order made in December 2018 to move Kentucky Adult Education programs to Workforce Development with a decrease of state appropriations of approximately \$4,300,000.
- Total fund expenditures for FY 2020 were \$18,263,980, representing a 18% decrease from FY 2019.

OVERVIEW OF THE FINANCIAL STATEMENTS

The audit report consists of four parts: management's discussion and analysis (this section), the government-wide financial statements, the fund financial statements, and the accompanying notes to the financial statements.

The Council has established separate accounts to track appropriations from the Commonwealth of Kentucky to ensure they are used solely for the purposes for which they were appropriated. Activities of the Council are accounted for as governmental and fiduciary funds.

COUNCIL ON POSTSECONDARY EDUCATION

MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2020

Government-wide Financial Statements:

The Council's financial statements are designed to provide readers with a broad overview of the Council's finances, with an emphasis on the major funds within the governmental category.

The statement of net position presents information on all of the Council's assets and liabilities, with the difference between the two reported as net position.

The statement of activities presents information showing how the Council's net position changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of the related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods.

The government-wide financial statements can be found on pages 12 and 13 of this report.

Governmental Fund Financial Statements:

A fund is a grouping of related accounts used to maintain control over resources that have been segregated for specific activities or objectives. The Council, like other state and local governments, uses fund accounting to segregate appropriations designated for specific purposes. The Council reports on two fund types, governmental and fiduciary.

Under the governmental fund type, the Council's finances are displayed by discrete program or activity that also may be described as a fund group. The grouping of programs and discrete activities provides useful information by using a grouping that is more easily recognized by the reader.

Because the focus of the governmental fund financial statements is narrower than that of the government-wide financial statements, it is useful to compare the information presented in the governmental fund financial statements with similar information presented in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the Council's near-term financial decisions. Both the fund balance sheet and statement of revenues, expenditures, and changes in fund balance provide a reconciliation to facilitate this comparison. These two reconciliations can be found on pages 15 and 17 of this report.

COUNCIL ON POSTSECONDARY EDUCATION

MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2020

Notes to the Financial Statements:

The notes to the financial statements provide additional information that is essential to a full understanding of the data provided in the basic financial statements. The notes to the financial statements can be found beginning on page 19.

FINANCIAL ANALYSIS OF THE COUNCIL

Government-wide Financial Analysis:

Condensed Financial Information Statement of Net Position

	June 30, 2020	June 30, 2019
Assets:		
Current	\$ 5,351,994	\$ 5,074,801
Noncurrent	3,057,484	3,472,948
Total assets	<u>8,409,478</u>	<u>8,547,749</u>
Deferred outflows of resources	3,383,157	4,122,712
Total assets and deferrals	<u>\$ 11,792,635</u>	<u>\$ 12,670,461</u>
Liabilities:		
Current	\$ 1,228,670	\$ 1,726,928
Noncurrent	27,465,124	29,565,056
Total liabilities	<u>28,693,794</u>	<u>31,291,984</u>
Deferred inflows of resources	3,904,115	3,509,825
Total liabilities and deferrals	<u>\$ 32,597,909</u>	<u>\$ 34,801,809</u>
Net position (deficit):		
Net investment in capital assets	\$ 3,429	\$ 10,824
Restricted	1,430,240	2,450,460
Unrestricted deficit	<u>(22,238,943)</u>	<u>(24,592,632)</u>
Total net position (deficit)	<u>\$ (20,805,274)</u>	<u>\$ (22,131,348)</u>

Current assets consist primarily of program cash and cash equivalents, intergovernmental receivables, amounts due from the Federal government under the Council's Federal programs, and prepaid expenses. Noncurrent assets consist primarily of investments.

COUNCIL ON POSTSECONDARY EDUCATION

MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2020

Current liabilities consist primarily of operating accounts payable, intergovernmental payables, accrued payroll, and accrued compensated absences. As of June 30, 2020, current liabilities also include amounts due to the state investment pool (amounts temporarily advanced by the state pending reimbursement from Federal grantor agencies). The portion of accrued compensated absences not expected to be liquidated with expendable financial resources has been estimated and included as a noncurrent liability.

Net position is divided into three components: *net investment in capital assets*, which represents the Council's capital assets, net of accumulated depreciation; *restricted* net position, which primarily consists of cash and cash equivalents and investments related to the Council's strategic trust funds and other funding programs, net of outstanding liabilities; and *unrestricted net position*, which consists primarily of cash and cash equivalents and investments related to the Council's Operations and Technology Initiative Trust Funds, net of outstanding liabilities.

As of the close of the fiscal year, net position represents the difference between assets and liabilities mentioned above. Liabilities exceeded assets by approximately \$20.3 million. Total assets and deferrals decreased by approximately \$878,000, primarily in the investments and intergovernmental receivables. Total liabilities decreased by approximately \$2.6 million primarily related to a decrease in accounts and other payables and decreases to the Net Pension and Net OPEB liabilities. Therefore, net position increased \$1.3 million between FY 2019 and FY 2020.

COUNCIL ON POSTSECONDARY EDUCATION

MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2020

Condensed Financial Information Statements of Activities For the Fiscal Years Ended

	June 30, 2020	June 30, 2019
Revenues:		
Program revenues:		
Charges for services	\$ 3,114,757	\$ 2,854,081
Operating grants and contributions	4,141,627	3,715,187
Capital grants and contributions	522,054	647,068
General revenues:		
State appropriations	10,611,632	14,515,223
Loss on disposal of capital assets	(4,534)	-0-
Total revenues	18,385,536	21,731,559
Expenses:		
Strategic investment and incentive funding programs	8,135,718	11,087,104
Agency, Kentucky Adult Education, and KYVC/KYVL Operations	4,956,267	8,043,106
Federal Programs	3,484,616	3,212,768
Postsecondary Education Equine Trust Fund	480,000	600,000
Other	2,861	9,507
Total expenses	17,059,462	22,952,485
Change in net position	1,326,074	(1,220,926)
Net position (deficit), beginning of year	(22,131,348)	(20,910,422)
Net position (deficit), end of year	\$ (20,805,274)	\$ (22,131,348)

General Fund appropriations from the Commonwealth of Kentucky are the primary funding source for the activities of the Council. The Kentucky General Assembly, through the appropriations bill and other statutory provisions, directs the use of those appropriations to specific activities. The most significant changes in this year's funding was a decrease in state appropriation of \$3.9 million, a decrease of \$3.0 million in strategic investment and incentive funding programs, and a \$3.1 million decrease in Agency, Kentucky Adult Education, and KYVC/KYVL Operations expense, primarily due to the transfer of Kentucky to the Workforce Development during fiscal year 2019. The decrease in appropriations is related to the transfer of Adult Education from the Council to Workforce Development of \$4.3 million.

COUNCIL ON POSTSECONDARY EDUCATION

MANAGEMENT'S DISCUSSION AND ANALYSIS JUNE 30, 2020

Appropriations to the Council give the agency varying discretion in implementing the significant reforms adopted in 1997 and 2000. In particular, the Strategic Investment and Incentive Funding Programs are directed toward specific reform activities and implementation of the Council's strategic agenda for postsecondary education. Expenses for these programs comprise 48% of the Council's total expenses. The Strategic Investment and Incentive Funding Programs are the primary vehicles for implementation of the postsecondary education reform. Recipients include the postsecondary institutions, adult education service providers and other recipients of adult education services, and providers and businesses participating in the new economy initiatives.

Governmental Fund Financial Analysis:

As noted earlier, the Council uses fund accounting to ensure and to demonstrate compliance with finance-related and legal requirements. The focus of the Council's fund financial statements is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the Council's financing requirements. In particular, fund balances may serve as a useful measure of an agency's net resources available for program purposes at the end of the fiscal year.

Condensed Financial Information Balance Sheets

	June 30, 2020	June 30, 2019
Total assets	\$ 7,999,743	\$ 8,444,324
Total liabilities	1,436,008	2,006,679
Fund balances	6,563,735	6,437,645
Total liabilities and fund balances	\$ 7,999,743	\$ 8,444,324

The fund balance primarily represents the cash balances, investment balances, amounts due from the Federal government, and intergovernmental receivables. The fund balances of the Council increased approximately \$126,000 between fiscal years.

COUNCIL ON POSTSECONDARY EDUCATION

MANAGEMENT'S DISCUSSION AND ANALYSIS JUNE 30, 2020

Condensed Financial Information Statements of Revenues, Expenditures, and Changes in Fund Balances For the Fiscal Years Ended

	June 30, 2020	June 30, 2019
Revenues:		
State appropriations	\$ 10,611,632	\$ 14,515,223
Charges for services	3,114,757	2,854,081
Intergovernmental revenues	522,054	647,068
Federal programs	3,742,390	3,304,314
Other	350,000	300,000
Income from investments	49,237	110,873
Total revenues	<u>18,390,070</u>	<u>21,731,559</u>
Expenditures:		
Personnel services	12,130,734	12,009,632
Grants and subsidies	1,332,443	5,020,688
Intergovernmental expenditures	-0-	109,818
Other	4,800,803	5,130,885
Total expenditures	<u>18,263,980</u>	<u>22,271,023</u>
Net change in fund balances	126,090	(539,464)
Fund balances, beginning of year	<u>6,437,645</u>	<u>6,977,109</u>
Fund balances, end of year	<u>\$ 6,563,735</u>	<u>\$ 6,437,645</u>

The most significant change in this year's revenue is with a decrease in state appropriations of \$3.9 million.

Grants and subsidies primarily consist of payments to institutions, state agencies, and other service providers for costs related to discrete authorized activities. In FY 2020, grants and subsidies decreased \$3.7 million. The other expenditures are consistent between FY 2020 and FY 2019.

Other expenditures represent all other operating expenses of the Council such as postage and related services, rentals and equipment leases, supplies, travel, and dues and subscriptions, as well as contractual obligations for the Kentucky Virtual Campus/Library databases and courier services.

COUNCIL ON POSTSECONDARY EDUCATION

MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2020

BUDGETARY HIGHLIGHTS

Final budgeted revenues and expenditures remained consistent from original budgeted with minor modifications noted.

In response to economic shortfalls resulting from the COVID-19 pandemic, The Office of State Budget Director requested that all executive branch agencies develop a plan to refrain from spending a minimum of one percent of their fiscal year 2020 General Fund Appropriation. The Council achieved this one percent target through savings in the Agency Operations personnel allotment, savings in the Contract Spaces allotment due to unused spaces, and an operating allotment savings due to a reduction in rent. The plan was approved by the State Budget Director.

CONTACTING THE COUNCIL'S FINANCIAL MANAGEMENT

This financial report is designed to provide a general overview of the Council's finances. If you have any questions concerning the information provided in this report or need additional financial information, contact Mr. Bill Payne, Vice President for Finance and Administration or Leslie Brown, Director, Administrative Services, Council on Postsecondary Education, 1024 Capital Center Drive, Suite 320, Frankfort, Kentucky, 40601. Both individuals can be contacted by phone at (502) 573-1555.

COUNCIL ON POSTSECONDARY EDUCATION

STATEMENT OF NET POSITION JUNE 30, 2020

	Governmental Activities
<u>ASSETS AND DEFERRALS</u>	
Current assets:	
Cash and cash equivalents	\$ 2,853,610
Cash and cash equivalents - restricted	1,212,317
Accounts receivable	271,442
Intergovernmental receivables	62,312
Due from the Federal government	338,669
Prepaid expenses	613,644
Total current assets	5,351,994
Noncurrent assets:	
Investments	2,839,851
Investments - restricted	214,204
Capital assets - net	3,429
Total noncurrent assets	3,057,484
Total assets	8,409,478
Deferred outflows of resources	
Deferred outflows - pension	2,563,428
Deferred outflows - OPEB	819,729
Total deferred outflows of resources	3,383,157
Total assets and deferrals	\$ 11,792,635
<u>LIABILITIES AND DEFERRALS</u>	
Current liabilities:	
Accounts and other payables	\$ 169,924
Accrued expenses	674,069
Accrued compensated absences - current portion	384,677
Total current liabilities	1,228,670
Noncurrent liabilities:	
Accrued compensated absences - noncurrent portion	292,400
Net pension	23,367,036
Net OPEB	3,805,688
Total noncurrent liabilities	27,465,124
Total liabilities	28,693,794
Deferred inflows of resources	
Deferred inflows - pension	2,770,810
Deferred inflows - OPEB	1,133,305
Total deferred inflows of resources	3,904,115
Total liabilities and deferrals	\$ 32,597,909
<u>NET POSITION (DEFICIT)</u>	
Net investment in capital assets	\$ 3,429
Restricted	1,430,240
Unrestricted deficit	(22,238,943)
Total net position (deficit)	\$ (20,805,274)

COUNCIL ON POSTSECONDARY EDUCATION

STATEMENT OF ACTIVITIES YEAR ENDED JUNE 30, 2020

FUNCTIONS/PROGRAMS:	Program Revenues				Net (Expenses) Revenues and Changes in Net Position
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	
Operations	\$ 4,956,267	\$ 284,000	\$ 268,573	\$	\$ (4,403,694)
Federal Programs	3,484,616		3,473,817		(10,799)
Postsecondary Education Equine Trust Fund	480,000			522,054	42,054
Research Challenge Trust Fund	8,277		108		(8,169)
Technology Initiative Trust Fund	6,819,495	2,830,757	399,129		(3,589,609)
Assessment and Professional Development	1,307,946				(1,307,946)
Unallocated depreciation expense	2,861				(2,861)
Total governmental activities	\$ 17,059,462	\$ 3,114,757	\$ 4,141,627	\$ 522,054	(9,281,024)
General revenues:					
State appropriations					10,611,632
Loss on disposal of capital assets					(4,534)
Total general revenues					10,607,098
Change in net position					1,326,074
Net position (deficit), beginning of year					(22,131,348)
Net position (deficit), end of year					\$ (20,805,274)

COUNCIL ON POSTSECONDARY EDUCATION

BALANCE SHEET – GOVERNMENTAL FUNDS

JUNE 30, 2020

	Operations	Federal Programs	Technology Initiative Trust Fund	Other (Non-major) Governmental Funds	Total Governmental Funds
ASSETS					
Cash and cash equivalents	\$ 755,945	\$	\$ 2,097,665	\$	\$ 2,853,610
Cash and cash equivalents - restricted			1,155,299	57,018	1,212,317
Investments	2,839,851				2,839,851
Investments - restricted				214,204	214,204
Accounts receivable	1,946		269,496		271,442
Intergovernmental receivables	4,974	57,338			62,312
Due from the Federal government		338,669			338,669
Interfund receivable	150,000		57,338		207,338
Total assets	\$ 3,752,716	\$ 396,007	\$ 3,579,798	\$ 271,222	\$ 7,999,743
LIABILITIES AND FUND BALANCES					
Liabilities:					
Accounts and other payables	\$ 1,946	\$ 130,826	\$ 37,152	\$	\$ 169,924
Accrued expenses	467,311	159,857	18,605	28,296	674,069
Accrued compensated absences	330,615	47,986	3,864	2,212	384,677
Interfund payable		57,338	150,000		207,338
Total liabilities	799,872	396,007	209,621	30,508	1,436,008
Fund balances:					
Restricted:					
for Technology Initiative			798,687		798,687
for Lumina Strategy Labs Tech Assistance			37,847		37,847
for Automated residency application system			318,765		318,765
for University Equine programs				271,222	271,222
Assigned:					
for agency operations	2,952,844				2,952,844
for Technology Trust Fund			2,214,878		2,214,878
Unassigned					
Total fund balances	2,952,844		3,370,177	(30,508)	(30,508)
Total liabilities and fund balances	\$ 3,752,716	\$ 396,007	\$ 3,579,798	\$ 271,222	\$ 7,999,743

COUNCIL ON POSTSECONDARY EDUCATION

RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET TO THE STATEMENT OF NET POSITION JUNE 30, 2020

Fund balances - total governmental funds		\$	6,563,735
Amounts reported for governmental activities in the statement of net position are different because:			
The deferred outflows of resources are not current financial resources, and therefore, are not reported in the governmental funds.			
			3,383,157
Prepaid expenses are accounted for in the governmental funds as expenditures in the period of acquisition and, therefore, are not financial resources and are not reported in the governmental funds.			
Prepaid expenses			613,644
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the governmental funds.			
Governmental capital assets	5,070		
Less accumulated depreciation	<u>(1,641)</u>		3,429
The noncurrent portion of accrued compensated absences is not due and payable in the current year and, therefore, is not reported in the governmental funds.			
Accrued compensated absences - noncurrent portion			(292,400)
The deferred inflows of resources is not due and payable in the current year and, therefore, is not reported in the governmental funds.			
			(3,904,115)
The net pension liability and net OPEB liability is not due and payable in the current year and, therefore, is not reported in the governmental funds.			
			<u>(27,172,724)</u>
Net position of governmental activities		\$	<u><u>(20,805,274)</u></u>

COUNCIL ON POSTSECONDARY EDUCATION

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES – GOVERNMENTAL FUNDS YEAR ENDED JUNE 30, 2020

	Operations	Federal Programs	Technology Initiative Trust Fund	Other (Non- major) Governmental Funds	Total Governmental Funds
REVENUES:					
State appropriations	\$ 5,630,106	\$ -0-	\$ 3,628,300	\$ 1,353,226	\$ 10,611,632
Charges for services	284,000		2,830,757		3,114,757
Intergovernmental revenues				522,054	522,054
Federal programs	268,573	3,473,817			3,742,390
Other revenues			350,000		350,000
Income from investments			49,129	108	49,237
Total revenues	6,182,679	3,473,817	6,858,186	1,875,388	18,390,070
EXPENDITURES:					
Personnel services	4,982,640	2,556,139	3,929,334	662,621	12,130,734
Utilities, rental, and other services	673,679	407,317	379,262	2,745	1,463,003
Commodities and supplies	298,458	265,357	2,433,931	120,982	3,118,728
Grants and subsidies		140,664	129,314	1,062,465	1,332,443
Travel	87,116	104,340	11,480	1,136	204,072
Judgement	15,000				15,000
Total expenditures	6,056,893	3,473,817	6,883,321	1,849,949	18,263,980
Net change in fund balances	125,786	-0-	(25,135)	25,439	126,090
Fund balances, beginning of year	2,827,058	-0-	3,395,312	215,275	6,437,645
Fund balances, end of year	\$ 2,952,844	\$ -0-	\$ 3,370,177	\$ 240,714	\$ 6,563,735

COUNCIL ON POSTSECONDARY EDUCATION

RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES TO THE STATEMENT OF ACTIVITIES YEAR ENDED JUNE 30, 2020

Net change in fund balances - total governmental funds	\$	126,090
<p>Amounts reported for governmental activities in the statement of activities are different because:</p>		
<p>Governmental funds report as expenditures certain payments that benefit future periods. In the statement of activities, this future benefit is deferred until the service has been received.</p>		
Change in prepaid expenses		241,292
<p>Governmental funds report capital outlays as expenditures, however, in the statement of activities, the cost of these assets is depreciated over their estimated useful lives.</p>		
Current year depreciation expense	<u>(2,861)</u>	(2,861)
<p>Governmental funds only report the disposal of capital assets to the extent proceeds are received from the sale. In the statement of activities, a gain or loss is reported for each disposal.</p>		
Current year loss on disposal of capital assets		(4,534)
<p>Pension and OPEB expenses not payable from current year resources are not reported as expenditures of the current year. In the statement of activities these costs represent expenses of the current year.</p>		
		981,187
<p>Accrued compensated absences not payable from current year resources are not reported as expenditures of the current year. In the statement of activities these costs represent expenses of the current year.</p>		
Change in the noncurrent portion of accrued compensated absences		<u>(15,100)</u>
Change in net position of governmental activities	\$	<u>1,326,074</u>

COUNCIL ON POSTSECONDARY EDUCATION

STATEMENT OF FIDUCIARY NET POSITION JUNE 30, 2020

	<u>Agency Fund</u>
<u>ASSETS</u>	
Cash and cash equivalents - restricted	\$ 796
Investments - restricted	2,994
Prepaid expenses	-0-
	<hr/>
Total assets	\$ 3,790
	<hr/> <hr/>
<u>LIABILITIES</u>	
Accounts payable	\$ 3,790
	<hr/> <hr/>

COUNCIL ON POSTSECONDARY EDUCATION

NOTES TO THE FINANCIAL STATEMENTS JUNE 30, 2020

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Financial Reporting Entity

This summary of significant accounting policies of the Council on Postsecondary Education (the Council) is presented to assist in understanding the Council's financial statements. The financial statements and notes are representations of the Council's management who is responsible for their integrity and objectivity. These accounting policies conform to accounting principles generally accepted in the United States of America (GAAP) and have been consistently applied in the preparation of the financial statements.

The accompanying financial statements of the Council are included in the general purpose financial statements of the Commonwealth of Kentucky (the Commonwealth) as a discretely presented component unit (within component units - universities and colleges).

Council on Postsecondary Education:

The Council was created by the passage of House Bill 1 during the 1997 Extraordinary Session of the Kentucky General Assembly to provide direction and oversight to all of Kentucky's postsecondary education institutions. The Council was established as an agency, instrumentality, and political subdivision of the Commonwealth. The Council is composed of the Commissioner of Education (nonvoting ex officio member), a faculty member, a student member, and thirteen citizen members. Citizen Council members are selected from a list of nominees provided to the Governor under the nominating process set forth in the Kentucky Postsecondary Education Improvement Act of 1997. Kentucky Revised Statute Chapter 164 provides that the Council has the responsibility to develop a strategic plan for postsecondary education with advice from the Strategic Committee on Postsecondary Education; to develop an accountability system to evaluate the performance and effectiveness of the Commonwealth's postsecondary education system and its compliance with the strategic plan; to revise and approve the missions of the Commonwealth's universities and the Kentucky Community and Technical College System; and to determine the compliance of the postsecondary institutions with their academic, service, and research missions. The Council shall determine tuition and approve the minimum qualifications for admission to the postsecondary educational system. The Council shall review and approve all capital construction projects including real property acquisitions. The Council shall define and approve the offering of all postsecondary education technical, associate, baccalaureate, graduate, and professional degree, certificate, or diploma programs in the public postsecondary education institutions. Additional responsibilities include, but are not limited to, promoting employee and faculty development statewide; ensuring coordination, transferability, and connectivity of technology among the Commonwealth's postsecondary educational institutions; and identifying standardized degree programs and eliminating or making changes in existing academic programs at the Commonwealth's postsecondary educational institutions.

COUNCIL ON POSTSECONDARY EDUCATION

NOTES TO THE FINANCIAL STATEMENTS JUNE 30, 2020

Kentucky Virtual Campus:

In accordance with Kentucky Revised Statute (KRS) 164.800, the Council has established the Commonwealth Virtual Campus to make academic programs available to the citizens of the Commonwealth through the use of modern methods of communications and information dissemination as determined by the Council after consideration of the recommendations of the Distance Learning Advisory Committee and the needs expressed by regional advisory groups. The Council has established a Distance Learning Advisory Committee to advise the Council on matters relating to the Kentucky Virtual Campus. The members of the advisory committee include the Presidents of each of the nine State postsecondary education institutions, the Executive Director of the Kentucky Educational Television Network, a representative of the Association on Independent Kentucky Colleges and Universities, and other representatives as the Council deems appropriate. Regional universities shall be the primary developers and deliverers of baccalaureate and master's degree programs to be delivered by the Kentucky Virtual Campus. The Council shall determine the allocation of tuition, course offerings, source of courses, technology to be used, and other matters relating to the use of distance learning to promote education through the Kentucky Virtual Campus. The accounts of the Kentucky Virtual Campus (KYVC) include the Kentucky Virtual Library (KYVL) and are included in the accompanying financial statements.

Basis of Presentation

In accordance with Governmental Accounting Standards Board (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 Council's overall financial position and results of operations. The Council also presents two sets of financial statements: government-wide financial statements and governmental fund financial statements.

Government-Wide Financial Statements:

The government-wide financial statements (i.e., the statement of net position and the statement of activities) report information on all of the nonfiduciary activities of the Council. For the most part, the effect of interfund activity has been removed from these statements. The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function or segment. *Program revenues* include 1) charges to customers or applicants who purchase, use, or directly benefit from services or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. *General revenues* include appropriations and other items not included in program revenues.

COUNCIL ON POSTSECONDARY EDUCATION

NOTES TO THE FINANCIAL STATEMENTS JUNE 30, 2020

Fund Financial Statements:

Fund financial statements of the reporting entity are organized into funds, each of which is considered to be a separate accounting entity. Each fund is accounted for by providing a separate set of self-balancing accounts that constitute its assets, liabilities, fund balance, revenues, and expenditures. Funds reported by the Council are organized into two major categories: governmental and fiduciary. An emphasis is placed on major funds within the governmental category. A fund is considered major if it is the primary operating fund of the Council or total assets, liabilities, revenues, or expenditures of the individual governmental fund are at least ten percent of the total for all governmental funds combined. In addition, any other fund that management feels has importance to the financial statement users may be reported.

Governmental funds are those through which most of the Council's functions are financed. Governmental fund reporting focuses on the sources, uses, and balances of current financial resources. Expendable assets are assigned to the various governmental funds according to the purposes for which they may or must be used. Current liabilities are assigned to the fund from which they will be paid. The difference between governmental fund assets and liabilities is reported as fund balance. The following are the Council's major governmental funds:

Operations - Includes general agency operations for the whole agency, including those associated with KYVC/KYVL. This fund represents the general operations of the Council and accounts for all financial resources except those required to be accounted for in another fund. The Operations fund balance is available to the Council for any purpose provided it is expended or transferred according to the general laws of the Commonwealth of Kentucky.

Federal Programs - This fund represents all programs financed by a federal agency, including both grants directly awarded to the Council and grants passed through to the Council from another entity (i.e. pass-through). The Council is the recipient of the Gaining Early Awareness and Readiness for Undergraduate Programs (GEAR-UP) and pass-through funds from the Kentucky Department of Education for Statewide Longitudinal Data Systems.

Technology Initiative Trust Fund - This fund is intended to support investments in electronic technology to improve student learning throughout the Commonwealth of Kentucky. The fund also is designed to promote other programs consistent with purposes of the postsecondary education reform. The Council may establish subsidiary programs to be funded from this fund.

Other governmental funds of the Council account for appropriations, grants, and other resources whose use may be restricted for a particular purpose and include all governmental funds not meeting the criteria of a major fund. These include the Research Challenge Trust Fund, Postsecondary Education Equine Trust and Revolving Fund, and the Assessment and Professional Development Fund.

COUNCIL ON POSTSECONDARY EDUCATION

NOTES TO THE FINANCIAL STATEMENTS JUNE 30, 2020

Fiduciary funds (not included in the government-wide financial statements) include:

Agency Funds - Agency funds account for monies held by the Council for custodial purposes only. Pass-through programs currently accounted for through agency funds include:

- Cancer Research Institutions Matching Fund
- Contract Spaces Program
- Ovarian Cancer Screenings
- Cancer Research and Screenings

Measurement Focus and Basis of Accounting

Measurement focus is a term used to describe "which" transactions are recorded within the various financial statements. Basis of accounting refers to "when" transactions are recorded regardless of the measurement focus applied.

Measurement Focus:

The government-wide financial statements of the Council (i.e., the statement of net position and the statement of activities) report information on all of the activities of the Council. The government-wide financial statements are reported using the economic resources measurement focus. The accounting objectives of this measurement focus are the determination of changes in net position and financial position. All assets and liabilities (whether current or noncurrent) associated with their activities are reported.

In the governmental fund financial statements, the "current financial resources" measurement focus is used. Only current financial assets and liabilities are generally included on the balance sheet. The operating statement presents sources and uses of available spendable financial resources during a given period. These funds use fund balance as the measure of available spendable financial resources at the end of the period.

Fiduciary funds consist of Agency Funds which are custodial in nature and do not involve the measurement of results of operations. Accordingly, they present only a statement of fiduciary net position and do not present a statement of changes in fiduciary net position.

Basis of Accounting:

The government-wide financial statements and the fiduciary fund financial statements are presented using the accrual basis of accounting. Under the accrual basis of accounting, revenues are recognized when earned and expenses are recorded when the liability is incurred or economic asset used. Revenues, expenses, gains, losses, assets, and liabilities resulting from exchange and exchange-like transactions are recognized when the exchange takes place. Grants are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

COUNCIL ON POSTSECONDARY EDUCATION

NOTES TO THE FINANCIAL STATEMENTS JUNE 30, 2020

The governmental fund financial statements are presented on the modified accrual basis of accounting. Under the modified accrual basis of accounting, revenues are susceptible to accrual and are recognized in the financial statements when they are measurable and available to finance operations during the year or to liquidate liabilities existing at the end of the year. The Council defines "available" as revenues to be collected within 30 days, except for intergovernmental revenues, which are available if expected receipt is within one year. Revenues from federal, state, and other grants designated for payment of Council expenditures are recognized when the related expenditures are incurred; accordingly, when such funds are received, they are reported as deferred revenues until earned. Material revenues susceptible to accrual primarily include Federal grants. Expenditures and liabilities are recognized when obligations are incurred, except noncurrent accrued compensated absences which are accounted for in the governmental funds balance sheet and recorded as expenditures of the period when used.

Use of Estimates

The preparation of financial statements in accordance with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses/expenditures during the reporting period. Actual results could differ from those estimates.

Restricted Cash

Restricted cash and cash equivalents principally consist of funds relative to the Council's Federal and strategic investment and incentive funding programs, as well as its pass-through (fiduciary) programs.

Investments

Investments are reported at fair value as determined by quoted market prices. The equity position of the Council in the long-term portion of the Commonwealth's investment pool is reported as investments of the Council. Unrealized gains and losses are included in the government-wide statement of activities (primarily program revenues) and the governmental funds statement of revenues, expenditures, and changes in fund balances (income/loss from investments). Restricted investments principally consist of funds relative to the Council's Federal and strategic investment and incentive funding programs, as well as its pass-through (fiduciary) programs.

Intergovernmental Transactions

During the course of operations, numerous transactions occur with other state governmental entities that may result in amounts due to/from and revenues from/expenditures to other governmental entities. See Note 10 for details of such transactions.

COUNCIL ON POSTSECONDARY EDUCATION

NOTES TO THE FINANCIAL STATEMENTS JUNE 30, 2020

Due from the Federal Government

Amounts due from the Federal government represent the amounts due to the Council under its Federal awards programs. At June 30, 2020, the balance consists of amounts due under the Council's GEAR-UP program.

Prepaid Expenses

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in the government-wide financial statements. Prepaid expenses are accounted for in the governmental funds as expenditures in the period of acquisition and, therefore, are not financial resources and are not reported in the governmental funds.

Capital Assets

General capital assets are not capitalized in the funds used to acquire or construct them. Instead, capital outlay is reflected as an expenditure of the respective governmental fund, and the related assets are reported in the statement of net position. Capital assets are defined by the Council as assets with an initial individual cost of more than \$5,000 and an estimated useful life in excess of one year. All capital assets are valued at cost, less accumulated depreciation. Depreciation is calculated using the straight-line method over the estimated useful lives of the assets, ranging from five to thirty years, and is recorded in the statement of activities. The cost of normal maintenance and repairs that do not add to the value of the assets or materially extend assets' lives are reported as expenditures of the respective governmental fund.

Interfund Transactions

During the course of operations, transactions may occur between funds within Council activities that may result in amounts owed between funds. Interfund receivables and payables are eliminated in the statement of net position.

Unearned Revenue

The Council reports unearned revenue to the extent that resources have been received before the applicable revenue recognition criteria have been satisfied. Grants received before the eligibility requirements are met are recorded as unearned revenue in the governmental funds. When the eligibility requirements are met, the liability for unearned revenue is removed from the balance sheet and revenue is recognized.

Compensated Absences

All annual and compensatory leave is accrued when incurred in the government-wide financial statements. Only the accumulated annual and compensatory leave that is expected to be liquidated with expendable available financial resources is reported as an expenditure and a fund

COUNCIL ON POSTSECONDARY EDUCATION

NOTES TO THE FINANCIAL STATEMENTS JUNE 30, 2020

liability of the governmental fund that will pay it. No liability is recorded for nonvesting accumulating rights to receive sick pay benefits.

Equity Classifications

Government-Wide Financial Statements:

Equity is classified as net position and displayed in three components:

- a. Net investment in capital assets - Consists of capital assets including restricted capital assets, net of accumulated depreciation and 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.
- b. Restricted - Consists of net position with constraints placed on the use 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 - All other net position that do not meet the definition of "restricted" or "net investment in capital assets."

When both restricted and unrestricted resources are available for use, it is the Council's policy to use restricted resources first, and then unrestricted resources as they are needed.

As of June 30, 2020, Postsecondary Education Equine Trust Fund net position totaling \$271,222 is restricted by enabling legislation.

Fund Financial Statements:

Governmental fund equity is classified as fund balance. Fund balance is further classified as nonspendable, restricted, committed, assigned, or unassigned. Nonspendable fund balance cannot be spent because of its form. Restricted fund balance has limitations imposed by creditors, grantors, or contributors or by enabling legislation or constitutional provisions. Committed fund balance is a limitation imposed by the Council. Assigned fund balances are a limitation imposed by a designee of the Council members. Unassigned fund balances in the General Fund are the net resources in excess of what can be properly classified in one of the above four categories. Negative unassigned fund balance in other governmental funds represents excess expenditures incurred over the amounts restricted, committed, or assigned to those purposes.

The Council generally segregates restricted, committed, and assigned resources by account. When resources meeting more than one of these spendable classifications are commingled in an account in the Commonwealth's accounting system, the assumed order of spending is restricted

COUNCIL ON POSTSECONDARY EDUCATION

NOTES TO THE FINANCIAL STATEMENTS JUNE 30, 2020

first, committed second, and finally assigned. Once restricted resources have been exhausted, unrestricted resources will then be spent on the specific purpose.

Program Revenues

The primary sources of the Council's program revenues are revenues received from the United States Department of Education under the Council's two Federal programs and the intergovernmental revenues primarily associated with the funding of the Postsecondary Equine Trust and Revolving Fund (see Note 10).

State Appropriations

The primary funding source for the activities of the Council is legislative General Fund appropriations from the Commonwealth of Kentucky. Except for those prescribed by statute or other legislation, unexpended allotments lapse to the General Fund. The Council may, subject to appropriations from the General Fund of the Commonwealth or from funds made available to it from any other public source, provide program support restricted to the extent of its remaining unexpended funds. The Council's unexpended allotments are maintained by the Commonwealth's Finance and Administration Cabinet.

Expenses/Expenditures

Expenses are classified by function/program in the government-wide financial statements. Expenditures are classified by object category (personnel services, travel, etc.) in the governmental fund financial statements. Indirect expenses are not allocated to functions in the statement of activities.

Pension

For purposes of measuring the net pension liability, deferred outflows of resources, and deferred inflows of resources related to pensions and pension expense, information about the fiduciary net position of Kentucky Employees Retirement System (KERS) and Teachers' Retirement Systems (TRS) and addition to/deduction from KERS and TRS fiduciary net position have been determined on the same basis as they are reported by the respective retirement systems.

For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

COUNCIL ON POSTSECONDARY EDUCATION

NOTES TO THE FINANCIAL STATEMENTS JUNE 30, 2020

Postemployment Benefits Other Than Pensions (OPEB)

For purposes of measuring the liability, deferred outflows of resources and deferred inflows of resources related to OPEB, and OPEB expense, information about the fiduciary net position of the KERS and TRS and additions to/deductions from the KERS's and TRS's fiduciary net position have been determined on the same basis as they are reported by the respective retirement systems.

For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investment are reported at fair value, except for money market investments and participating interest-earning investment contracts that have a maturity at the time of purchase of one year or less, which are reported at cost. The KERS Non-hazardous Insurance Funds and TRS Insurance Funds are reported as OPEB trust funds and are accounted for on the accrual basis of accounting.

Total Columns on the Governmental Fund Financial Statements

The total columns on the governmental funds balance sheet and statement of revenues, expenditures, and changes in fund balances are presented only to facilitate financial analysis. Data in these columns does not present financial position in conformity with GAAP, nor is such data comparable to a consolidation.

2. STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

For purposes of budgeting, the Commonwealth's budgetary structure and accounting principles differ from those utilized to present financial statements in conformity with GAAP.

The budget for the biennium is prepared with two-year projections being made in light of long-range program requirements and revenue estimates. The biennial budget request is prepared by the Council and presented to the Governor for submission to the Kentucky General Assembly.

The Kentucky General Assembly is required to enact a balanced budget. Budgetary control is exercised by the Finance and Administration Cabinet on the basis of appropriation to the various cabinets. For purposes of managing budgeted appropriations, the Council controls expenditures on a functional basis. Except for those prescribed by statute or other legislation, unexpended allotments lapse to the Commonwealth's General Fund.

The Council's budgeting is dependent upon undesignated fund balances and estimated revenues in determining available funds for statutory programs and operating requirements. The budget is developed from the analysis of the above factors, prior-year performance, and new data modifying or expanding the postsecondary education program for the fiscal period in question.

COUNCIL ON POSTSECONDARY EDUCATION

NOTES TO THE FINANCIAL STATEMENTS JUNE 30, 2020

Deficit Fund Balances

The Assessment and Professional Development Fund had a negative fund balance on June 30, 2020 in the amount of \$30,508. The negative fund balances above are due to revenue recognition of the Council under the modified accrual basis of accounting. Additional revenues received in fiscal year 2021 are expected to eliminate the deficits.

3. DEPOSITS AND INVESTMENTS

All Council receipts are deposited directly in the Commonwealth's general depository or depositories designated by the State Treasurer, which has statutory responsibility and authority to safeguard the funds. At June 30, 2020, the Council's share of deposits in the Commonwealth's general depository (State investment pool) totals \$7,119,982. Agency funds held by the Council in the Commonwealth's general depository total \$3,790 at June 30, 2020.

The Commonwealth's Comprehensive Annual Financial Report (CAFR) for the year ended June 30, 2020 should be referred to for disclosures required by GASB Statement No. 3, "Deposits with Financial Institutions, Investments (including Repurchase Agreements), and Reverse Repurchase Agreements" and GASB Statement No. 40, "Deposit and Investment Risk Disclosures" (an amendment of GASB Statement No. 3).

4. CAPITAL ASSETS

Capital asset activity during the year ended June 30, 2020 is as follows:

	Balance July 1, 2019	Increases	Decreases	Balance June 30, 2020
Capital assets:				
Office equipment	\$ 32,063	\$ -0-	\$ 26,993	\$ 5,070
Data processing equipment	57,763	-0-	57,763	-0-
Capital assets at cost	<u>89,826</u>	<u>-0-</u>	<u>84,756</u>	<u>5,070</u>
Less accumulated depreciation:				
Office equipment	21,239	2,861	22,459	1,641
Data processing equipment	57,763	-0-	57,763	-0-
Total accumulated depreciation:	<u>79,002</u>	<u>2,861</u>	<u>80,222</u>	<u>1,641</u>
 Capital assets - net	 <u>\$ 10,824</u>	 <u>\$ (2,861)</u>	 <u>\$ 4,534</u>	 <u>\$ 3,429</u>

Depreciation expense for 2020 totals \$2,861.

COUNCIL ON POSTSECONDARY EDUCATION

NOTES TO THE FINANCIAL STATEMENTS JUNE 30, 2020

5. ACCRUED COMPENSATED ABSENCES

It is the Council's policy to permit employees to accumulate earned but unused annual leave, compensatory leave, and sick pay benefits. The policy of the Commonwealth of Kentucky 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. Compensatory leave is granted to authorized employees.

Activity in the liability for accrued compensated absences during the year ended June 30, 2020 is summarized as follows:

	Balance July 1, 2019	Increases	Decreases	Balance June 30, 2020
Accrued compensated absences	\$ 705,989	\$ 355,088	\$ 384,000	\$ 677,077

As of June 30, 2020, the amount estimated to be due within one year totals approximately \$385,000.

Sick Leave:

It is the policy of the Council to record 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. There is no liability recorded for sick leave at June 30, 2020. The estimated accumulated amount of unused sick leave at June 30, 2020, totals approximately \$1,078,000.

COUNCIL ON POSTSECONDARY EDUCATION

NOTES TO THE FINANCIAL STATEMENTS JUNE 30, 2020

6. FIDUCIARY FUND

The changes in assets and liabilities of the fiduciary fund during the year ended June 30, 2020 are as follows:

	Balance July 1, 2019	Increases	Decreases	Balance June 30, 2020
Assets:				
Cash and cash equivalents - restricted	\$ 5,710	\$ 9,915,480	\$ 9,920,394	\$ 796
Investments - restricted	44,275	2,994	44,275	2,994
Prepaid expenses	120,886	-0-	120,886	-0-
	\$ 170,871	\$ 9,918,474	\$ 10,085,555	\$ 3,790
Liabilities:				
Accounts payable	\$ 170,871	\$ 13,151,227	\$ 13,318,308	\$ 3,790

7. LEASE COMMITMENTS

The Council leased office space under a lease agreement through January 2020. The Council exercised its right to terminate the lease on January 31, 2020. The Council did not pay a cancellation fee due to the termination of the lease. Rentals paid under this operating lease through the cancellation date totaled approximately \$125,000.

Effective February 1, 2020, the Council leased space from the Kentucky Department for Facilities and Support Services, a related party. The lease does not have a defined term and is expected to continue in perpetuity. The Council does not hold decision making ability over the lease. Rentals paid under this lease totaled approximately \$42,000.

Future lease payments are as follows:

<u>Year ending June 30</u>	
2021	\$ 195,776
2022	195,776
2023	195,776
2024	195,776
2025	195,776
	\$ 978,880

COUNCIL ON POSTSECONDARY EDUCATION

NOTES TO THE FINANCIAL STATEMENTS JUNE 30, 2020

The Council additionally leased fleet vehicles and copiers for approximately \$43,000 for the fiscal year ending June 30, 2020. Total rentals paid under all operating leases (fleet vehicles, copiers, and office space lease) during 2020 totaled approximately \$210,000.

8. RETIREMENT PLANS

Teachers' Insurance and Annuity Association-College Retirement Equities Fund:

In accordance with KRS 61.520(2)(a) and Executive Order 74-762, professional staff may elect upon joining the staff of the Council to participate in the Teachers' Insurance and Annuity Association-College Retirement Equities Fund (TIAA-CREF) or elect to participate in the Kentucky Employees Retirement System (see below).

In order to provide the opportunity to continue participation in the TIAA-CREF, the Council has established a tax-deferred annuity plan, which requires electing participants to enter into a written salary reduction agreement with the Council in order to participate. All eligible employees may begin participation in the plan on a voluntary basis on the first day after beginning employment at the Council. Electing participants are required by the plan to contribute 5.00% of their salaries to the plan.

Currently, the Council is required to contribute 8.03% of the covered employees' salaries. The contribution requirement for the year ended June 30, 2020 totals approximately \$272,000, consisting of approximately \$168,000 from the Council and \$104,000 from employees. The contribution requirement for the year ended June 30, 2019 totaled approximately \$187,000, consisting of approximately \$115,000 from the Council and \$72,000 from employees. The contribution requirement for the year ended June 30, 2018 totaled approximately \$187,000, consisting of approximately \$115,000 from the Council and \$72,000 from employees.

Participants may also elect to make contributions on an after-tax basis. Total contributions to the plan will not exceed limits imposed by section 415 and section 403(b) of the Internal Revenue Code. These limits may be adjusted from time to time. In addition, salary reduction contributions to the plan will be further limited by Code section 402(g).

Kentucky Employees Retirement System

All employees who work more than one hundred hours per month participate in a defined benefit plan administered by the Kentucky Employees Retirement System (KERS), a cost-sharing multi-employer public employee retirement system per Kentucky Revised Statute 61.565(3).

COUNCIL ON POSTSECONDARY EDUCATION

NOTES TO THE FINANCIAL STATEMENTS JUNE 30, 2020

	Tier 1	Tier 2	Tier 3
	Participation Prior to 9/1/2008	Participation 9/1/2008 through 12/31/2013	Participation on or after 1/1/2014
Covered Employees:	Substantially all regular full-time members employed in non-hazardous and hazardous duty positions of any state department, board, or any agency directed by Executive Order to participate in KERS.		
Benefit Formula:	Final Compensation X Benefit Factor X Years of Service		Cash Balance Plan
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 do not have 13 months of credit for 1/1/1998 - 1/1/1999. 2.00% - If have 13 months of credit for 1/1/1998 - 1/1/1999.	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 = 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 board based on member's accumulated account balance.

COUNCIL ON POSTSECONDARY EDUCATION

NOTES TO THE FINANCIAL STATEMENTS JUNE 30, 2020

	Tier 1	Tier 2	Tier 3
	Participation Prior to 9/1/2008	Participation 9/1/2008 through 12/31/2013	Participation on or after 1/1/2014
Cost of Living Adjustment (COLA):	No COLA unless authorized by the Legislature with specific criteria. This impacts all retirees regardless of Tier.		
Unreduced Retirement Benefit:	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.	Rule of 87: Member must be at least age 57 and age plus earned service must equal 87 years at retirement to retire under this provision. Age 65 with 5 years of earned service. No Money Purchase calculations.	
Reduced Retirement Benefit:	Any age with 25 years of service. Age 55 with 5 years of service.	Age 60 with 10 years of service. Excludes purchased service (exception: refunds, omitted, free military).	No reduced retirement benefit.

Benefits and contribution rates are established by state statute. Per Kentucky Revised Statute 61.565, contribution requirements of the active employees and the participating organizations are established and may be amended by the Kentucky Retirement System's Board. For the fiscal years ended June 30 2020, plan employees were required to contribute 5 percent of their annual covered salary for retirement benefits. The Council was contractually required to contribute 71.03 percent of covered payroll to the nonhazardous KERS pension and insurance plans, respectively. Actuarially determined as an amount that, when combined with employees during the year, with an additional amount to finance any unfunded accrued liability. The Council's total required contributions to KERS nonhazardous pension plans for the years ended June 30, 2020 was \$1,623,900.

At June 30, 2020, the Council reported a liability of \$22,806,813 for its proportionate share of net pension liability. The net pension liability was measured as of June 30, 2019, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation performed as of June 30, 2018, rolled forward to 2019 using generally accepted actuarial principles. The Council's proportion of the net pension liability was based on projection of the Council's long-term share of contributions to the pension plan relative to the projected

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contributions of all participating entities. At June 30, 2020, the Council's proportion was 0.161487 percent.

Actuarial Assumptions

Actuarial Valuation Date	June 30, 2018
Actuarial Cost Method	Entry age normal
Amortization Method	Level percent of pay
Asset Valuation Method	20% of the difference between the market value of assets and the expected actuarial value of the assets is recognized.
Remaining Amortization Period	24 years, closed
Actuarial Assumptions:	
Investment Rate of Return	5.25%
Inflation Rate	2.30%
Projected Salary Increases	3.30% to 15.30%, varies by service
Mortality Tables:	
Active Member	Pub-2010 General Mortality tables projected with the ultimate rates from the MP-2014 mortality improvement scale using a base year of 2010.
Healthy Retired Members	System-specific mortality table based on mortality experience from 2013-2018, projected with the ultimate rates from MP-2014 mortality improvement scale using a base year of 2019.
Disable Members	PUB-2010 Disable 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.
Date of Experience Study	The period July 1, 2014 – June 30, 2018
Update Procedures Applied	The actuarial valuation date of June 30, 2018, was rolled forward from the valuation date to the plan's fiscal year end of June 30, 2019 using standard roll forward procedures.

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JUNE 30, 2020

For the year ended June 30, 2020, the Council recognized pension expenses of \$1,515,273 and deferred outflows and deferred inflows related to pension from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Difference between expected and actual experience	\$ 134,890	\$ -0-
Net difference between projected and actual earnings	59,101	105,573
Changes of assumption	694,418	-0-
Changes in proportion and differences between employer contributions and proportionate share of contributions	-0-	1,370,081
Contributions subsequent to the measurement date	<u>1,623,900</u>	<u>-0-</u>
Total	<u>\$ 2,512,309</u>	<u>\$ 1,475,654</u>

The \$1,623,900 reported as deferred outflows of resources related to pensions resulting from contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability during the year ended June 30, 2021. Other amounts reported as deferred inflows and deferred outflows of resources related to pensions will be recognized in pension expense as follows:

Deferred Amounts to be Recognized in Fiscal Years
Following the Reporting Date

<u>Fiscal Years</u>	<u>Amount</u>
2021	\$ (382,835)
2022	(188,193)
2023	(14,903)
2024	<u>(1,314)</u>
Total	<u>\$ (587,245)</u>

The long-term expected return on plan assets is reviewed as part of the regular experience studies prepared every five years for KERS. The most recent analysis, performed for the period covering fiscal years 2014 through 2018, is outlined in a report dated April 12, 2019. Several factors are considered in evaluating the long-term rate of return. Assumption including long-term historical data, estimates inherent in current market data, and a log – normal distribution analysis in which best-estimate ranges of expected future real rates of return (expected return,

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net of investment expense and inflation) were developed by the investment consultant for each major asset class. These ranges were 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 then adding expected inflation. The capital market assumptions developed by the investment consultant are intended for use over a 10-year horizon and may not be useful in setting the long-term rate of return for funding pension plans which covers a longer timeframe. The assumption is intended to be a long-term assumption and is not expected to change absent a significant change in the asset allocation, a change in the inflation assumption, or a fundamental change in the market that alters expected returns in future years.

The target asset allocation and best estimates of arithmetic nominal rates of return for each major asset class are summarized in the following table:

Kentucky Retirement Systems		
Asset Class	Target Allocation	Long-Term Nominal Rate of Return
Growth:		
US Equity	15.75%	4.30%
Non-US Equity	15.75%	4.80%
Private Equity	7.00%	6.65%
Specialty Credit/High Yield	15.00%	2.60%
Liquidity:		
Core Bonds	20.50%	1.35%
Cash	3.00%	0.20%
Diversifying Strategies:		
Real Estate	5.00%	4.85%
Opportunistic	3.00%	2.97%
Real Return	15.00%	4.10%
Total	<u>100.00%</u>	

The projection of cash flows used to determine the discount rate of 5.25% assumes that local employers would contribute the actuarially determined contribution rate of projected compensation over the remaining 24-year amortization period of the unfunded actuarial accrued liability. The actuarial determined contribution rate is adjusted to reflect the phase in of anticipated gains on actuarial value of assets over the first four years of the projection period.

June 30, 2019 is the actuarial valuation date upon which the total pension liability is based. The discount rate is defined as the single rate of return that when applied to all projected payments results in an actuarial value of projected benefits payments. A municipal bond rate was not used.

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The following presents the net pension liability of the Council, calculated using the discount rate of 5.25%, as well as what the Council's net position 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%):

	1% Decrease (4.25%)	Discount (5.25%)	1% Increase (6.25%)
The Council's proportionate share	\$ 26,144,984	\$ 22,806,813	\$ 20,048,117

Detailed information about the KERS's fiduciary net position is available in the separately issued Kentucky Employees' Retirement System's Annual Financial Report (which is a matter of public record). The Commonwealth of Kentucky's Comprehensive Annual Financial Report should be referred to for additional disclosures related to KERS. The KERS also issues a publicly available financial report that includes financial statements and required supplementary information for the KERS. The report may be obtained on-line at www.kyret.ky.gov.

Kentucky Teachers' Retirement System:

Plan description – Certain Council professional staff had participated in the Teachers' Retirement System (TRS), a cost-sharing multi-employer defined benefit pension plan with a special funding situation established to provide retirement annuity plan coverage for local school districts and other public educational agencies, prior to joining the staff of the Council. These certified employees, all employees occupying a full-time position requiring certification by the State Department of Education or graduation from a four-year college or university as a condition of employment, are required to participate in the multiple-employer cost sharing defined benefit retirement plan sponsored by the TRS. The TRS is governed by Chapter 161, Sections 220 through Chapter 161 Section 990, of the KRS.

Covered employees under TRS are employees of local school districts, Department of Education Agencies, universities, the Kentucky Community and Technical College System, and other educational organizations, who are a regular or a special teacher, or professional occupying a position requiring certification or graduation from a four year college or university.

For Members Before July 1, 2008:

Members become vested when they complete five (5) years of credited service. To qualify for monthly retirement benefits, payable for life, members must either:

1. Attain age fifty-five (55) and complete five (5) years of Kentucky service, or
2. Complete 27 years of Kentucky service.

Participants that retire before age 60 with less than 27 years of service received reduced retirement benefits. Non-university members receive monthly payments equal to 2% (service prior to July 1, 1983) and 2.5% (service after July 1, 1983) of their final average salaries for each

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year of credited service. Non-university members who became members on or after July 1, 2002 will receive monthly benefits equal to 2% of their final average salary for each year of service if, upon retirement, their total service is less than 10 years. New members after July 1, 2002 who retire with 10 or more years of total service will receive monthly benefits equal to 2.5% of their final average salary for each year of service, including the first 10 years. In addition, non-university members who retire July 1, 2004 and later with more than 30 years of service will have their multiplier increased for all years over 30 from 2.5% to 3% to be used in their benefit calculation. Effective July 1, 2008, the System has been amended to change the benefit structure for members hired on or after that date.

The final average salary is computed using the member's 5 highest annual salaries for those with less than 27 years of service. Members at least age 55 with 27 or more years of service may use their 3 highest annual salaries to compute the final average salary. For all members, the annual allowance is reduced by 5% per year from the earlier of age 60 or the date the member would have completed 27 years of service. The minimum annual service allowance is for all members is \$440 multiplied by credited service.

Cost of living increases are one and one-half (1.5) percent annually. Additional ad hoc increases and any other benefit amendments must be authorized by the General Assembly.

For Members On or After July 1, 2008:

Members become vested when they complete 5 years of credited service. To qualify for monthly retirement benefits, payable for life, members must either:

1. Attain age 60 and complete 5 years of Kentucky service, or
2. Complete 27 years of Kentucky service, or
3. Attain age 55 and complete 10 years of Kentucky service.

The annual retirement allowance for non-university members is equal to: (a) 1.7% of final average salary for each year of credited service if their service is 10 years or less; (b) 2% of final average salary for each year of credited service if their service is greater than 10 years but no more than 20 years; (c) 2.3% of final average salary for each year of credited service if their service is greater than 20 years but no more than 26 years; (d) 2.5% of final average salary for each year of credited service if their service is greater than 26 years but no more than 30 years; (e) 3% of final average salary for each year of credited service if their service is greater than 30 years.

The annual retirement allowance for university members is equal to: (a) 1.5% of final average salary for each year of credited service if their service is 10 years or less; (b) 1.7% of final average salary for each year of credited service if their service is greater than 10 years but no more than 20 years; (c) 1.85% of final average salary for each year of credited service if their service is greater than 20 years but less than 27 years; (d) 2% of final average salary for each year of credited service if their service is greater than or equal to 27 years.

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The final average salary is computed using the member's 5 highest annual salaries except members at least age 55 with 27 or more years of service may use their 3 highest annual salaries. For all members, the annual allowance is reduced by 6% per year from the earlier of age 60 or the date the member would have completed 27 years of service.

At June 30, 2020, the Council reported a liability of \$560,223 for its proportionate share of net pension liability. The net pension liability was 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 June 30, 2018. The Council's proportion of the net pension liability was based on a projection of the Council's long-term share of contributions to the pension plan relative to the projected contributions of all participating entities. At June 30, 2020, the Council's proportion was 0.0102 percent. The Council did not have any required contributions to the TRS pension plan for the year ended June 30, 2020.

Actuarial Assumptions

Actuarial Valuation Date	June 30, 2018
Actuarial Cost Method	Entry age
Actuarial assumptions: Investment rate of return	7.5%
Inflation Rate	3.00%
Projected salary increases	3.50% – 7.30%
Long-term investment rate of return	7.50%
Municipal Bond Index Rate	3.50%
Single equivalent interest rate	7.50%
Post-retirement benefit increases	1.5% annually
Mortality Tables	RP-2000 combined mortality table for males or females, as appropriate, with adjustments for mortality improvements based on a projection of scale BB to 2025 with a set forward of two years for males and one year for females.
Date of Experience Study	The period July 1, 2010 - June 30 2015.

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NOTES TO THE FINANCIAL STATEMENTS JUNE 30, 2020

For the year ended June 30, 2020, the Council recognized pension expenses of \$(723,632) and deferred outflows and deferred inflows related to pension from the following sources:

	Deferred Outflows of Resources		Deferred Inflows of Resources
Net difference between projected and actual earnings on experience	\$ 5,347	\$	4,439
Net difference between projected and actual investments earnings on pension plan investments	-0-		8,717
Change of assumptions	45,772		331,881
Changes in proportion and differences between contributions and proportionate share of contributions	-0-		950,119
Contributions subsequent to the measurement date	-0-		-0-
Total	\$ 51,119	\$	1,295,156

In fiscal year 2019, all Council employees that were contributing to the TRS plan were moved to the Kentucky Education and Workforce Development Cabinet. As such, there were no contributions made subsequent to the measurement date in fiscal year 2020 to the TRS pension plan. Therefore, there are no reported deferred outflows that will be recognized as a reduction of the net pension liability during the year ended June 30, 2021. For the year ended June 30, 2020, employers were required to contribute 12.305 percent. Other amounts reported as deferred inflows and deferred outflows of resources related to pensions will be recognized in pension expense as follows:

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Deferred Amounts to be Recognized in Fiscal Years Following the
Reporting Date

Fiscal Years	Amount
2021	\$ (724,452)
2022	(378,329)
2023	(123,373)
2024	(17,883)
2025	-0-
Total	\$ (1,244,037)

The long-term expected 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 pension plan investment expenses 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 asset allocation and best estimates of arithmetic nominal rates of return for each major asset class are summarized in the following table:

Kentucky Teachers' Retirement Systems

Asset Class	Target Allocation	Long-Term Nominal Rate of Return
U.S. Equity	40%	4.2%
International Equity	22%	5.2%
Fixed Income	15%	1.2%
Additional Categories	8%	3.3%
Real Estate	6%	3.8%
Private Equity	7%	6.3%
Cash	2%	0.9%
Total	100%	

June 30, 2018 is the actuarial valuation date upon which the total pension liability is based. An expected total pension liability is determined as of June 30, 2019 using standard roll forward techniques. The discount rate used to measure the total pension liability was 7.50 percent. The projected cash flows used to determine the discount rate assumed that plan member contributions will be made at current contributions rates and the employer contributions will be made at statutorily required rates. 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

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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. The Single Equivalent Interest Rate (SEIR) that discounts the entire projected benefit stream to the same amount as the sum of the present values of the two separate benefit payment streams was used to determine total pension liability.

The following presents the net pension liability of the Council, calculated using the discount rate of 7.50%, as well as what the Council's net position liability would be if it were calculated using a discount rate that is one percentage point lower (6.50%) or one percentage point higher (8.50%):

	1% Decrease (6.50%)	Discount (7.50%)	1% Increase (8.50%)
The Council's proportionate share	\$ 715,341	\$ 560,223	\$ 429,711

Detailed information about the TRS's fiduciary net position is available in the separately issued Teachers' Retirement System's Annual Financial Report (which is a matter of public record). The Commonwealth of Kentucky Comprehensive Annual Financial Report should be referred to for additional disclosures related to TRS. The TRS also issues a publicly available financial report that includes financial statements and required supplementary information for the TRS. The report may be obtained on-line at www.trs.ky.gov.

Deferred Compensation Retirement Plans:

In addition to the above plans, employees are also eligible to participate in two deferred compensation plans sponsored by the Commonwealth of Kentucky. These plans are organized as a Section 457 plan and as a Section 401(k) plan under the Internal Revenue Code. During the past year, employees contributed approximately \$76,000 to these plans. 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 financial report that includes financial statements and required supplementary information for the KPEDCA. The report may be obtained by writing to the Kentucky Public Employees Deferred Compensation Authority, 101 Sea Hero Road, Suite 110, Frankfort, Kentucky 40601-8862.

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9. EMPLOYMENT HEALTH CARE BENEFITS

Kentucky Employers Retirement System

All regular full-time employees who work in non-hazardous duty positions of any state department, board, agency, county, city, school board, and any eligible local agencies participate in an Other Post-employment Benefit (OPEB) plan administered by the Kentucky Employees Retirement System (KERS), a cost-sharing multi-employer public employee retirement system. The plan provides health insurance benefits to plan members and also to certain beneficiaries of plan members under prescribed circumstances.

Covered Employees: Contribution rates for employers and employees are established by Kentucky Statute KRS 21.427. The Traditional plan members do not contribute to the OPEB plan directly. Instead assets have been allocated between pension and retiree medical liabilities on the basis of accrued liability as of July 1, 2019. This amount has been bought forward from that date based on actual cash flows and prorated allocation of investment returns. The Hybrid plan member contribute 1% of their official salary. Employer contributions are determined by the budget bill.

Benefit Factor:

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 paid	Months of Service	Percent of premium paid
<48	0%	Greater than or equal to 120	\$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	\$10 per month for each year of service without regard to a maximum dollar adjusted 1.5% annually.
48 to 119 inclusive	25%				
120 to 179 inclusive	50%				
180 to 239 inclusive	75%				
240 or more	100%				

Cost of Living Adjustment (COLA): Members participating after 2008 receive 1.5% increase annually

Benefits and contribution rates are established by state statute. Per Kentucky Revised Statute 61.565, contribution requirements of the active employees and the participating organizations are established and may be amended by the Kentucky Retirement System’s Board. Employees with a participation date after 9/1/2008 were required to contribute an additional 1 percent of their salary for retiree healthcare benefits. The plan was contractually required to contribute 12.40 percent of covered payroll to the nonhazardous KERS insurance plans, Actuarially determined as an amount that, when combined with employees during the year, with an additional amount to finance any unfunded accrued liability. The plan’s total required contributions to KERS nonhazardous insurance plan for the years ended June 30, 2020 was \$283,491.

At June 30, 2020, the Council reported a liability of \$3,589,688 for its proportionate share of collective net OPEB liability. The collective net OPEB liability was measured as of June 30, 2019, and the total OPEB liability used to calculate the net collective OPEB liability was determined by an actuarial valuation performed as of June 30, 2018, rolled forward to 2019 using generally accepted actuarial principles. The Council’s proportion of the collective net OPEB liability was based on projection of the Council’s long-term share of contributions to the OPEB plan relative to the projected contributions of all participating entities, actuarially determined. At June 30, 2020, the plan’s proportion was 0.161487 percent.

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For the year ended June 30, 2020, the Council recognized OPEB expenses of \$187,955 and deferred outflows and deferred inflows related to OPEB from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Difference between expected and actual experience	\$ 15,203	\$ 572,579
Net difference between projected and actual earnings	-0-	38,746
Changes of assumption	470,763	10,797
Changes in proportion and differences between employer contributions and proportionate share of contributions	-0-	404,183
Contributions subsequent to the measurement date	<u>326,763</u>	<u>-0-</u>
Total	<u>\$ 812,729</u>	<u>\$ 1,026,305</u>

Of the total amount reported as deferred outflows of resources related to OPEB, \$283,491 resulting from Council statutorily required contributions and \$43,272 resulting from the implicit subsidy subsequent to the measurement date and before the end of the fiscal year will be included as a reduction of the collective net OPEB liability in the year ended June 30, 2021. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized in the Council's OPEB expense as follows:

Deferred Amounts to be Recognized in Fiscal Years
Following the Reporting Date

<u>Fiscal Years</u>	<u>Amount</u>
2021	\$ (113,930)
2022	(113,930)
2023	(217,306)
2024	(95,173)
2025	-0-
Total	<u>\$ (540,339)</u>

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Actuarial assumptions. The total pension liability, net pension liability, and sensitivity information shown in this report are based on an actuarial valuation performed as of collective net OPEB liability was measured based on an actuarial valuation performed as of June 30, 2018, using act actuarial assumptions shown in the table below, The total OPEB liability used to calculate the net collective OPEB liability was rolled forward from the valuation date to the plan's fiscal year end, June 30, 2019, using generally accepted actuarial principles.

Actuarial Assumptions	
Actuarial Valuation Date	June 30, 2018
Experience Study	July 1, 2008 – June 30, 2013
Actuarial Cost Method	Entry age normal, Level percentage of pay
Asset Valuation Method	5 years smoothing
Remaining amortization period	24 year, closed
Actuarial assumptions:	
Investment rate of return	6.25%
Inflation rate	2.3%
Payroll Growth Rate	0%
Salary Growth	3.30% to 15.30%, varies by service
Mortality Tables:	PUB-2010 General Mortality table projected with the ultimate rates from the MP-2014 mortality improvement scale using a base year of 2010.
Healthcare Trend Rates Pre-65	Initial trend starting at 7.00% at January 1, 2020 and gradually decreasing to an ultimate trend rate of 4.05% over a period of 12 years.
Healthcare Trend Rates Post-65	Initial trend starting at 5.00% at January 1, 2020 and gradually decreasing to an ultimate trend rate of 4.05% over a period of 10 years.

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NOTES TO THE FINANCIAL STATEMENTS JUNE 30, 2020

Updated procedures applied

The actuarial valuation date of June 30, 2018 was rolled-forward from the valuation date to the plan’s fiscal year ending June 30, 2019 using standard roll forward procedures

The long-term expected rate of return was determined by using a building-block method in which best-estimate ranges of expected future real rates of return are developed for each asset class. The ranges are combined by weighting the expected future real rates of return by the target asset allocation percentages. The target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the below table.

Kentucky Retirement Systems

Asset Class	Target Allocation	Long-Term Nominal Rate of Return
Growth:		
US Equity	18.75%	4.30%
Non-US Equity	18.75%	4.80%
Private Equity	10.00%	6.65%
Specialty Credit/High Yield	15.00%	2.60%
Liquidity:		
Core Bonds	13.50%	1.35%
Cash	1.00%	0.20%
Diversifying Strategies:		
Real Estate	5.00%	4.85%
Opportunistic	3.00%	2.97%
Real Return	15.00%	4.10%
Total	100.00%	

The projection of cash flows used to determine the discount rate of 5.73% for KERS Nonhazardous, assumed that local employers would contribute the actuarially determined contribution rate of projected compensation over the remaining 24 years (closed) amortization period of the unfunded actuarial accrued liability. The discount rate determination used an expected rate of return of 6.25%, and a municipal bond rate of 3.13%, as reported in Fidelity Index’s “20 –Year Municipal GO AA Index” as of June 28, 2019. Based on the stated assumptions and the projection of cash flows as of each fiscal year ending, the 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 retirement system. However, the cost associated with the implicit employer subsidy is not currently being included in the calculation of the System’s actuarially determined contributions, and it is our understanding that any cost associated with the implicit subsidy will not be paid out of the System’s trust. Therefore, the municipal bond rate was applied to

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future expected benefit payments associated with the implicit subsidy. The projection of cash flows used to determine the single discount rate assumes that the funds receive the required employer contributions each future year, as determined by the current funding policy established in Statute. The target asset allocation and best estimates of arithmetic nominal rates of return for each major asset class are summarized in the Commonwealth's CAFR.

Sensitivity of the Council's proportionate share of the collective net OPEB liability to changes in the discount rate. The following presents the Council's proportionate share of the collective net OPEB liability, as well as what the Council's proportionate share of the collective net OPEB liability would be if it were calculated using a discount rate that is 1-percentage-point lower (4.73 percent) or 1-percentage-point higher (6.73 percent) than the current discount rate:

	1% Decrease (4.73%)	Discount (5.73%)	1% Increase (6.73%)
The Council's proportionate share	\$ 4,274,276	\$ 3,589,688	\$ 3,026,130

Sensitivity of the Council's proportionate share of the collective net OPEB liability to changes in the healthcare cost trend rates. The following presents the Council's proportionate share of the collective net OPEB liability, as well as what the Council's proportionate share of the collective 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 (Pre-65 - Initial trend starting at 7.25 percent at January 1, 2019, and gradually decreasing to 4.05 percent over a period of 13 years and Post-65 - Initial trend starting at 5.10 percent at January 1, 2019, and gradually decreasing to 4.05 percent over a period of 11 years):

	1% Decrease	Current Healthcare Cost Trend Rate	1% Increase
The Council's proportionate share	\$ 3,049,682	\$ 3,589,688	\$ 4,242,912

Detailed information about the KERS's fiduciary net position is available in the separately issued Kentucky Employees' Retirement System's Annual Financial Report (which is a matter of public record). The Commonwealth of Kentucky's Comprehensive Annual Financial Report should be referred to for additional disclosures related to KERS.

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Teachers' Retirement System

Plan description

Plan description – Teaching-certified employees of the Kentucky School District are provided OPEBs through the Teachers' Retirement System of the State of Kentucky (TRS)—a cost-sharing multiple-employer defined benefit OPEB plan with a special funding situation established to provide retirement annuity plan coverage for local school districts and other public educational agencies in the state. TRS was created by the 1938 General Assembly and is governed by Chapter 161 Section 220 through Chapter 161 Section 990 of the Kentucky Revised Statutes (KRS). TRS is a blended component unit of the Commonwealth of Kentucky and therefore is included in the Commonwealth's financial statements. TRS issues a publicly available financial report that can be obtained at <https://trs.ky.gov/financial-reports-information>.

The Council reports a liability, deferred outflows of resources and deferred inflows of resources, and expense as a result of its statutory requirement to contribute to the TRS Medical Insurance Plan. The following information is about the TRS Medical Insurance Plan:

Medical Insurance Plan

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

Benefits provided – To be eligible for medical benefits, the member must have retired either for service or disability. The TRS Medical Insurance Fund offers coverage to members under the age of 65 through the Kentucky Employees Health Plan administered by the Kentucky Department of Employee Insurance. TRS retired members are given a supplement to be used for payment of their health insurance premium. The amount of the member's supplement is based on a contribution supplement table approved by the TRS Board of Trustees. The retired member pays premiums in excess of the monthly supplement. Once retired members and eligible spouses attain age 65 and are Medicare eligible, coverage is obtained through the TRS Medicare Eligible Health Plan.

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Contributions – In order to fund the post-retirement healthcare benefit, seven and one-half percent (7.50%) of the gross annual payroll of members is contributed. Three percent (3.75%) is paid by member contributions and three quarters percent (.75%) from state appropriation and three percent (3.00%) from the employer. The state contributes the net cost of health insurance premiums for members who retired on or after July 1, 2010 who are in the non-Medicare eligible group. Also, the premiums collected from retirees as described in the plan description and investment interest help meet the medical expenses of the plan.

OPEB Liabilities, OPEB Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEBs

At June 30, 2020, the Council reported a liability of \$216,000 for its proportionate share of the collective net OPEB liability that reflected a reduction for state OPEB support provided to the Council. The collective net OPEB liability was measured as of June 30, 2019, and the total OPEB liability used to calculate the collective net OPEB liability was based on a projection of the Council's long-term share of contributions to the OPEB plan relative to the projected contributions of all participating employers, actuarially determined. At June 30, 2020, the Council's proportion was 0.007372% percent,

The amount recognized by the Council 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 the Council were as follows:

Council's proportionate share of the net OPEB liability	\$	216,000
Commonwealth's proportionate share of the net OPEB liability associated with the Council		96,000
Total	\$	<u>312,000</u>

For the year ended June 30, 2020, the Council recognized OPEB expense of \$8,000 and expensed amounts from change in proportion and difference between employer contributions and proportionate share of contributions of \$11,000. At June 30, 2020, the Council reported deferred outflows of resources and deferred inflows of resources related to OPEBs from the following sources:

COUNCIL ON POSTSECONDARY EDUCATION

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JUNE 30, 2020

	Deferred Outflows of Resources	Deferred Inflows of Resources
Net difference between projected and actual investments earnings on OPEB plan investments	\$ 1,000	\$ -0-
Net difference between projected and actual earnings on experience	-0-	52,000
Change of assumptions	6,000	-0-
Changes in proportion and differences between contributions and proportionate share of contributions	-0-	55,000
Contributions subsequent to the measurement date	-0-	-0-
Total	\$ 7,000	\$ 107,000

In fiscal year 2019, all Council employees that were contributing to the TRS plan were moved to the Kentucky Education and Workforce Development Cabinet. As such, there were no contributions made subsequent to the measurement date in fiscal year 2020 to the TRS OPEB plan. Therefore, there are no reported deferred outflows that will be included as a reduction of the collective net OPEB liability in the year ended June 30, 2021. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized in the Council's OPEB expense as follows:

Deferred Amounts to be Recognized in Fiscal Years Following the Reporting Date	
Fiscal Years	Amount
2021	\$ (19,000)
2022	(19,000)
2023	(19,000)
2024	(19,000)
2025	(15,000)
Thereafter	(9,000)
Total	\$ (100,000)

Actuarial assumptions – The total OPEB liability in the June 30, 2018 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

COUNCIL ON POSTSECONDARY EDUCATION

NOTES TO THE FINANCIAL STATEMENTS JUNE 30, 2020

Investment rate of return	8.00%, net of OPEB plan investment expense, including inflation
Projected salary increases	3.50 – 7.20%, including inflation
Inflation rate	3.00%
Real Wage Growth	0.50%
Wage inflation	3.50%
Salary increases, including wage inflation	3.50% - 7.20%
Healthcare cost trend rates	
Under 65	7.50% for FY 2019 decreasing to an ultimate rate of 5.00% by FY 2024
Ages 65 and Older	5.50% for FY 2019 decreasing to an ultimate rate of 5.00% by FY 2021
Medicare Part B Premiums	2.63% for FY 2019 with an ultimate rate of 5.00% by 2031
Municipal bond index rate	3.50%
Discount rate	8.00%
Single equivalent interest rate	8.00%, net of OPEB plan investment expense, including inflation

Mortality rates were based on the RP-2000 Combined Mortality Table projected to 2025 with projection scale BB and set forward two years for males and one year for females is used for the period after service retirement and for dependent beneficiaries. The RP-2000 Disabled Mortality Table set forward two years for males and seven years for females is used for the period after disability retirement.

The remaining actuarial assumptions (e.g. initial per capita costs, health care cost trends, rate of plan participation, rates of plan election, etc.) used in the June 30, 2018 valuation were based on a review of recent plan experience done concurrently with the June 30, 2015 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, as provided by TRS's investment consultant, are summarized in the following table:

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NOTES TO THE FINANCIAL STATEMENTS JUNE 30, 2020

Kentucky Teachers' Retirement Systems

Asset Class	Target Allocation	Long-Term Nominal Rate of Return
Global Equity	58.0%	5.1%
Fixed Income	9.0%	1.2%
Real Estate	6.5%	3.8%
Private Equity	8.5%	6.3%
Other Additional Categories	17.0%	3.2%
Cash (LIBOR)	1.0%	0.9%
Total	100.0%	

Discount rate - The discount rate used to measure the total OPEB liability was 8.00%. 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 the employer contributions will be made at statutorily required rates. Based on those assumptions, the OPEB 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 OPEB plan investments was applied to all periods of projected benefit payments to determine the total OPEB liability.

Sensitivity of the Council's proportionate share of the collective net OPEB liability to changes in the discount rate - The following table presents the Council's proportionate share of the collective net OPEB liability of the System, calculated using the discount rate of 8.00%, as well as what the Council's proportionate share of the collective net OPEB liability would be if it were calculated using a discount rate that is 1-percentage-point lower (7.00%) or 1-percentage-point higher (9.00%) than the current rates.

	1% Decrease (7.00%)	Discount (8.00%)	1% Increase (9.00%)
The Council's proportionate share	\$ 256,000	\$ 216,000	\$ 182,000

Sensitivity of the Council's proportionate share of the collective net OPEB liability to changes in the healthcare cost trend rates - The following presents the Council's proportionate share of the collective net OPEB liability, as well as what the Council's proportionate share of the collective net OPEB liability would be if it were calculated using healthcare cost trend rates that were 1-percentage-point lower or 1-percentage-point higher than the current healthcare cost trend rates.

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NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2020

	<u>1% Decrease</u>	<u>Current Trend Rate</u>	<u>1% Increase</u>
The Council's proportionate share	\$ 176,000	\$ 216,000	\$ 265,000

10. INTERGOVERNMENTAL TRANSACTIONS

At June 30, 2020, intergovernmental receivables and intergovernmental revenue consist of the following:

Due from the General Fund of the Commonwealth of Kentucky:

Appropriations for Agency Operations	\$ 4,974
Total due from the other state agencies of the Commonwealth of Kentucky	<u>57,338</u>
Total intergovernmental receivables	<u><u>\$ 62,312</u></u>

Funding for the Postsecondary Education Equine Trust and Revolving Fund from a Special Revenue Fund of the Commonwealth of Kentucky

	<u>\$ 522,054</u>
Total intergovernmental revenues	<u><u>\$ 522,054</u></u>

11. INTERFUND RECEIVABLES AND PAYABLES

Interfund receivables and payables consist of a \$150,000 advance from the Operating Fund to the Technology Initiative Trust Fund for the purchase of broadband infrastructure plus various balances related to the expenditures of federal funds to be reimbursed between funds upon receipt of the federal funds into the Federal Program Fund.

12. RELATED PARTY TRANSACTIONS

The Council had the following transactions with the Commonwealth and its component units:

The Commonwealth Office for Technology (COT) provides technical support for State government agencies in the application of information technology including major information resource functions such as data center operations, data and voice communications (i.e. the Kentucky Information Highway), data administration, hardware selection and installation, and related end-user and customer support services. During 2020, the Council paid approximately \$395,000 to COT for services provided during the year.

COUNCIL ON POSTSECONDARY EDUCATION

NOTES TO THE FINANCIAL STATEMENTS JUNE 30, 2020

The Council received the benefit of accounting and administrative services from the Personnel Cabinet and Finance and Administration Cabinet for 2020. During 2020, the Council paid approximately \$5,000 to the Personnel Cabinet and approximately \$26,000 to the Finance and Administration Cabinet for services provided during the year.

The Council uses vehicles from the Transportation Cabinet's fleet. During 2020, the Council paid approximately \$17,000 to the Transportation Cabinet for use of their vehicles.

The Council leases office space from the Department for Facilities and Support Services. During 2020, the Council paid approximately \$62,000 to the Department for Facilities and Support Services for the leased office space and utilities. Additionally, the Council uses the Department for Facilities and Support Services for printing services and postage. During 2020, the Council paid approximately \$17,000 to the Department for Facilities and Support Services for printing and postage.

13. COMMITMENTS AND CONTINGENCIES

As of June 30, 2020, the Council is committed under certain agreements and contracts in the amount of approximately \$596,000. These commitments are largely comprised of contractual obligations for future program expenditures under the Council's strategic investment and incentive funding programs, as well as its pass-through (fiduciary) programs. These program disbursements will largely be to the Commonwealth's postsecondary education institutions, as well as the other typical recipients of the Council's program funding. As such, these commitments will be funded primarily during the subsequent fiscal year by legislative General Fund appropriations and federal program revenues.

Federal program revenue consists principally of reimbursable grants from the United States Department of Education. Grants are generally conditioned upon compliance with terms and conditions of the grant agreement and applicable federal regulations, including the expenditure of the resources for eligible purposes. Substantially all grants are subject to financial and compliance audits by the grantors. Any disallowances as a result of these audits become a liability of the Council. As of June 30, 2020, the Council estimates that no material liabilities will result from such audits.

On March 11, 2020, the World Health Organization declared Coronavirus (COVID-19) a pandemic. The continued spread of COVID-19, or any similar outbreaks in the future, may adversely impact the local, regional, national and global economies. The extent to which COVID-19 impacts the Council's operating results is dependent on the breadth and duration of the pandemic and could be affected by other factors management is not currently able to predict. Potential impacts include, but are not limited to, additional costs for responding to COVID-19, shortages of personnel, delays, loss of, or reduction to, revenue and state appropriations, and funding. Management believes the Council is taking appropriate actions to respond to the pandemic, however, the full impact is unknown and cannot be reasonably estimated at the date the financial statements were available to be issued.

COUNCIL ON POSTSECONDARY EDUCATION

NOTES TO THE FINANCIAL STATEMENTS JUNE 30, 2020

14. RISK MANAGEMENT

Torts and Errors and Omissions:

The Council manages its risks of loss related to torts and errors and omissions internally.

Injuries to Employees:

The Council is a member of the Statewide Workers' Compensation Insurance Program, a self-insurance program for the benefit of the Commonwealth's employees. The Commonwealth of Kentucky's Comprehensive Annual Financial Report should be referred to for additional disclosures related to the Workers' Compensation Insurance Program.

Theft of, Damage to, and Destruction of Assets:

The Council utilizes the Commonwealth of Kentucky's Risk Management Fund to cover the exposure to losses arising from theft of, damage to, or destruction of the Council's personal property. The Commonwealth of Kentucky's Comprehensive Annual Financial Report should be referred to for additional disclosures related to the Risk Management Fund.

15. FAIR VALUE MEASUREMENTS

The framework for measuring fair value 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) and the lowest priority to unobservable inputs (level 3). The three levels of the fair value hierarchy are described as follows:

- Level 1: Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that the Council has the ability to access
- Level 2: Inputs to the valuation methodology include quoted prices for similar assets or liabilities in active markets; quoted prices for identical or similar assets or liabilities in inactive markets; inputs other than quoted prices that are observable for the asset or liability; inputs that are derived principally from or corroborated by observable market data by correlation or other means. If the asset or liability has a specified (contractual) term, the level 2 input must be observable for substantially the full term of the asset or liability.
- Level 3: Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

The asset or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques maximize the use of relevant observable inputs and minimized the used of unobservable inputs.

COUNCIL ON POSTSECONDARY EDUCATION

NOTES TO THE FINANCIAL STATEMENTS JUNE 30, 2020

The following table sets forth by level, within the hierarchy, the Council's assets and liabilities measured at fair value on a recurring basis as of June 30, 2020 are as follows:

	Assets at Fair Value as of June 30, 2020			
	Level 1	Level 2	Level 3	Total
Commonwealth's investment pool	\$ -0-	\$ 3,054,055	\$ -0-	\$ 3,054,055
Total assets at fair value	<u>\$ -0-</u>	<u>\$ 3,054,055</u>	<u>\$ -0-</u>	<u>\$ 3,054,055</u>

The Council's policy is to recognize transfers between levels as of the actual date of the event or changes in circumstances. There were no transfers between levels during the year ended June 30, 2020.

The Council holds investments which are exposed to various risks such as interest rate, market, and credit. Due to the level of risk associated with these securities and the level of uncertainty related to changes in the value, it is at least reasonably possible that changes in the various risk factors will occur in the near term that could materially affect the amounts reported in the accompanying financial statements.

16. RECENT GASB PRONOUNCEMENTS

Management has not currently determined what, if any, effects of implementation of the following statements may have on the financial statements:

In January 2017, the GASB issued GASB Statement No. 84, *Fiduciary Activities*, which establishes criteria for identifying fiduciary activities of governmental entities. The focus of the criteria generally is on (1) whether a government entity is controlling the assets of the fiduciary activity and (2) the beneficiaries with whom a fiduciary relationship exists. Separate criteria are included to identify fiduciary component units and postemployment benefit arrangements that are fiduciary activities. An activity meeting the criteria should be reported in a fiduciary fund in the basic financial statements. As a result, pension and other postemployment benefit plans (both defined contribution plans and defined benefit plans) should now be reported within the statement of fiduciary net position and statement of changes in fiduciary net position of the governmental entity. In May 2020, the GASB issued GASB Statement No. 95, *Postponement of the Effective Dates of Certain Authoritative Guidance*, which postponed the effective date of GASB Statement No. 84, *Fiduciary Activities*, by one year. GASB Statement No. 84 will be effective for periods beginning after December 15, 2019.

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In June 2017, the GASB issued GASB Statement No. 87, *Leases*, which requires the recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. It establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. In May 2020, the GASB issued GASB Statement No. 95, *Postponement of the Effective Dates of Certain Authoritative Guidance*, which postponed the effective date of GASB Statement No. 87, *Leases*, by 18 months. GASB Statement No. 87 will be effective for periods beginning after June 15, 2021.

In May 2020, the GASB issued GASB Statement No 96, *Subscription-Based Information Technology Arrangements (SBITA)*, which requires the recognition of certain SBITA assets and liabilities for SBITA that previously were classified as an operating leases and recognized as inflows or resources or outflows of resources based on the payment provisions of the contract. The standards for SBITAs are based on the standards established in Statement No. 87, *Leases*. GASB Statement No 96 will be effective for the periods beginning after June 15, 2022.

REQUIRED SUPPLEMENTARY INFORMATION

COUNCIL ON POSTSECONDARY EDUCATION

SCHEDULE OF PROPORTIONATE SHARE OF THE NET PENSION LIABILITY KENTUCKY EMPLOYEES RETIREMENT SYSTEM

	2020	2019	2018	2017	2016	2015
Proportion of the net pension liability (asset)	0.161487%	0.176962%	0.184184%	0.191420%	0.183165%	0.169904%
Proportionate share of the net pension liability	\$ 22,806,813	\$ 24,073,513	\$ 24,659,174	\$ 21,821,203	\$ 18,374,905	\$ 15,243,442
Covered payroll	\$ 2,362,042	\$ 2,708,898	\$ 2,907,191	\$ 3,005,194	\$ 2,988,947	\$ 2,915,237
Proportionate share of the net pension liability (asset) as a percentage of its covered payroll	965.55%	888.68%	848.21%	726.12%	614.76%	522.89%
Plan fiduciary net position as a percentage of the total pension liability	13.66%	12.84%	13.32%	14.80%	18.83%	22.32%

*Note: This schedule is intended to present 10 years of the proportionate share of the net pension liability. Currently, only those years with information available are presented. The amounts presented above for the fiscal year were determined as of June 30 for the year prior (measurement date).

COUNCIL ON POSTSECONDARY EDUCATION

SCHEDULE OF PENSION CONTRIBUTIONS KENTUCKY EMPLOYEES' RETIREMENT SYSTEM

	2020	2019	2018	2017	2016	2015	2014
Statutorily required contribution	\$ 1,623,900	\$ 1,677,759	\$ 1,112,284	\$ 1,169,854	\$ 926,802	\$ 921,837	\$ 504,336
Contribution in relation to the statutorily required contribution	1,623,900	1,677,759	1,112,284	1,169,854	926,802	921,837	504,336
Contribution deficiency (excess)	\$ -0-	\$ -0-	\$ -0-	\$ -0-	\$ -0-	\$ -0-	\$ -0-
Covered payroll	\$ 2,286,217	\$ 2,362,042	\$ 2,708,898	\$ 2,907,191	\$ 3,005,194	\$ 2,988,947	\$ 2,915,237
Contribution as a percentage of covered payroll	71.03%	71.03%	41.06%	40.24%	30.84%	30.84%	17.30%

Notes to Schedule

Valuation date June 30, 2017 June 30, 2016 June 30, 2016 June 30, 2015 June 30, 2015 June 30, 2014 Not available

Methods and assumptions used to determine contributions:

Actuarial cost method	Entry Age Normal	Entry Age Normal	Entry Age Normal	Entry Age Normal	Entry Age Normal	Entry Age Normal	Not available
Experience study	July 1, 2008 - June 30, 2013	July 1, 2008 - June 30, 2013	July 1, 2008 - June 30, 2013	July 1, 2008 - June 30, 2013	July 1, 2008 - June 30, 2013	July 1, 2008 - June 30, 2013	Not available
Amortization method	Level percent of pay	Level percent of pay	Level percent of pay	Level percent of pay	Level percent of pay	Level percent of pay	Not available
Asset valuation method	20% of the difference between market value of assets and the expected actuarial value of assets is recognized	20% of the difference between market value of assets and the expected actuarial value of assets is recognized	20% of the difference between market value of assets and the expected actuarial value of assets is recognized	20% of the difference between market value of assets and the expected actuarial value of assets is recognized	Five-year smoothed market	Five-year smoothed market	Not available
Investment return	5.25%	6.75%	6.75%	6.75%	7.50%	7.75%	Not available
Inflation	2.30%	3.25%	3.25%	3.25%	3.25%	3.50%	Not available
Projected salary increase	3.55% to 15.55%, varies by service	4.0%, average	4.0%, average	4.0%, average, including inflation	4.0%, average, including inflation	4.50% per annum	Not available

Mortality

The rate of mortality for active members is based on the RP-2000 Combined Mortality Table projected to with scale BB to 2013 (multiplied by 50% for males and 30% for females). For health retired members and beneficiaries, the mortality table is the RP-2000 Combined Mortality Table projected with scale BB to 2013 (set back 1 year for females) For disabled members, the RP-2000 Combined Mortality Table projected with Scale BB to 2013 (set back 4 years for males) is used for the period after disability retirement. There is some margin in the current mortality tables for possible future improvement in mortality rates and that margin will be reviewed again when the next experience investigation is conducted.

Note: This is a 10 year schedule. Years will be added to this schedule in future fiscal years until 10 years of information is available.

COUNCIL ON POSTSECONDARY EDUCATION

SCHEDULE OF PROPORTIONATE SHARE OF THE NET PENSION LIABILITY KENTUCKY TEACHERS' RETIREMENT SYSTEM

	2020	2019	2018	2017	2016	2015
Proportion of the net pension liability (asset)	0.010250%	0.012500%	0.013000%	0.015200%	0.015200%	0.016100%
Proportionate share of the net pension liability	\$ 560,223	\$ 708,655	\$ 1,468,941	\$ 3,873,364	\$ 3,530,337	\$ 3,322,159
Covered payroll	\$ 156,808	\$ 396,637	\$ 423,461	\$ 497,443	\$ 592,673	\$ 625,000
Proportionate share of the net pension liability (asset) as a percentage of its covered payroll	357.27%	178.67%	346.89%	778.65%	595.66%	531.55%
Plan fiduciary net position as a percentage of the total pension liability	58.80%	59.30%	39.83%	35.22%	42.49%	45.59%

*Note: This schedule is intended to present 10 years of the proportionate share of the net pension liability. Currently, only those years with information available are presented. The amounts presented above for the fiscal year were determined as of June 30 for the year prior (measurement date).

COUNCIL ON POSTSECONDARY EDUCATION

SCHEDULE OF PENSION CONTRIBUTIONS KENTUCKY TEACHERS' RETIREMENT SYSTEM

	2020	2019	2018	2017	2016	2015	2014
Statutorily required contribution	\$ -0-	\$ 19,311	\$ 48,886	\$ 52,192	\$ 61,310	\$ 73,047	\$ 74,057
Contribution in relation to the statutorily required contribution	-0-	19,311	48,886	52,192	61,310	73,047	74,057
Contribution deficiency (excess)	\$ -0-	\$ -0-	\$ -0-	\$ -0-	\$ -0-	\$ -0-	\$ -0-
Covered payroll	\$ -0-	\$ 156,808	\$ 396,637	\$ 423,461	\$ 497,443	\$ 592,673	\$ 625,000
Contribution as a percentage of covered payroll	0.00%	12.32%	12.33%	12.33%	12.33%	12.33%	11.85%

Notes to Schedule

Valuation date	June 30, 2018	June 30, 2017	June 30, 2016	June 30, 2016	June 30, 2014	June 30, 2014	Not available
Methods and assumptions used to determine contributions:							
Actuarial cost method	Entry Age Normal	Entry Age Normal	Entry Age Normal	Entry Age Normal	Entry Age Normal	Entry Age Normal	Not available
Amortization method	Level percent of pay	Level percent of pay	Level percent of pay	Level percent of pay	Level percent of pay	Level percent of pay	Not available
Asset valuation method	Five-year smoothed market	Five-year smoothed market	Five-year smoothed market	Five-year smoothed market	Five-year smoothed market	Five-year smoothed market	Not available
Investment return	7.5% net of pension plan investment expense, including inflation	7.5% net of pension plan investment expense, including inflation	7.5% net of pension plan investment expense, including inflation	7.5% net of pension plan investment expense, including inflation	7.5% net of pension plan investment expense, including inflation	7.5% net of pension plan investment expense, including inflation	Not available
Inflation	3.50%	3.50%	3.50%	3.50%	3.50%	3.50%	Not available
Projected salary increase	3.50% - 7.30%	3.50% - 7.30%	3.50% - 7.30%	3.50% - 7.30%	4.0% - 8.20%	4.0% - 8.20%	Not available

Mortality

The rate of mortality is based on the RP-2000 Combined Mortality Table projected to 2020 using scale AA (set back one year for females) for death after service retirement and beneficiaries. The RP-2000 Disabled Mortality table (set back seven years for males and set forward five years for females) is used for death after disability retirement.

Note: This is a 10 year schedule. Years will be added to this schedule in future fiscal years until 10 years of information is available.

COUNCIL ON POSTSECONDARY EDUCATION

SCHEDULE OF PROPORTIONATE SHARE OF NET OPEB LIABILITY
KENTUCKY EMPLOYEES RETIREMENT SYSTEM

	2020		2019		2018		2017
	_____		_____		_____		_____
Proportion of the net OPEB liability (asset)	0.161487%		0.177214%		0.184184%		0.191420%
Proportionate share of the net OPEB liability	\$ 3,589,688	\$	4,201,588	\$	4,670,837	\$	3,953,169
Covered payroll	\$ 2,362,042	\$	2,708,898	\$	2,907,191	\$	3,005,194
Proportionate share of the net OPEB liability (asset) as a percentage of its covered payroll	151.97%		155.10%		160.66%		131.54%
Plan fiduciary net position as a percentage of the total OPEB liability	30.92%		27.32%		24.37%		24.48%

*Note: This schedule is intended to present 10 years of the proportionate share of the net OPEB liability. Currently, only those years with information available are presented. The amounts presented above for the fiscal year were determined as of June 30 for the year prior (measurement date).

COUNCIL ON POSTSECONDARY EDUCATION

SCHEDULE OF OPEB CONTRIBUTIONS KENTUCKY EMPLOYEES RETIREMENT SYSTEM

	2020	2019	2018	2017	2016
Statutorily required contribution	\$ 283,491	\$ 292,893	\$ 227,818	\$ 242,750	\$ 238,312
Contribution in relation to the statutorily required contribution	283,491	292,893	227,818	242,750	238,312
Contribution deficiency (excess)	\$ -0-	\$ -0-	\$ -0-	\$ -0-	\$ -0-
Covered payroll	\$ 2,286,217	\$ 2,362,042	\$ 2,708,898	\$ 2,907,191	\$ 3,005,194
Contribution as a percentage of covered payroll	12.40%	12.40%	8.41%	8.35%	7.93%

Notes to Schedule

Valuation date	June 30, 2017	June 30, 2016	June 30, 2016	June 30, 2015	Not available
Experience Study	July 1, 2008 - June 30, 2013	July 1, 2008 - June 30, 2013	July 1, 2008 - June 30, 2013	July 1, 2008 - June 30, 2013	
Methods and assumptions used to determine contributions:					
Actuarial cost method	Entry Age Normal	Entry Age Normal	Entry Age Normal	Entry Age Normal	Not available
Amortization method	Level percent of pay	Level percent of pay	Level percent of pay	Level percent of pay	Not available
Asset valuation method	20% of the difference between the market value of assets and the expected actuarial value of assets is recognized	20% of the difference between the market value of assets and the expected actuarial value of assets is recognized	20% of the difference between the market value of assets and the expected actuarial value of assets is recognized	20% of the difference between the market value of assets and the expected actuarial value of assets is recognized	Not available
Amortization period	26 Years, Closed	27 Years, Closed	27 Years, Closed	28 Years, Closed	Not available
Investment return	6.25%	7.50%	7.50%	7.50%	Not available
Inflation	2.30%	3.25%	3.25%	3.25%	Not available
Payroll growth rate	0.00%	4.00%	4.00%	4.00%	Not available
Projected salary increase	3.55 to 15.55, varies by service	4.00% average	4.00% average	4.00% average	Not available
Healthcare Trend Rates (Pre-65)	Initial trend starting at 7.25% at 1/1/2019 and gradually decreasing to an ultimate trend rate of 4.05% over a period of 13 years.	Initial trend starting at 7.50% and gradually decreasing to an ultimate trend rate of 5.00% over a period of 5 years.	Initial trend starting at 7.50% and gradually decreasing to an ultimate trend rate of 5.00% over a period of 5 years.	Initial trend starting at 7.50% and gradually decreasing to an ultimate trend rate of 5.00% over a period of 5 years.	Not available
Healthcare Trend Rates (Post-65)	Initial trend starting at 5.10% at 1/1/2019 and gradually decreasing to an ultimate trend rate of 4.05% over a period of 11 years.	Initial trend starting at 5.50% and gradually decreasing to an ultimate trend rate of 5.00% over a period of 2 years.	Initial trend starting at 5.50% and gradually decreasing to an ultimate trend rate of 5.00% over a period of 2 years.	Initial trend starting at 5.50% and gradually decreasing to an ultimate trend rate of 5.00% over a period of 2 years.	Not available

Mortality

RP-2000 Combined Mortality Table, projected to 2013 with Scale BB (set back 1 year for females)

Note: This is a 10 year schedule. Years will be added to this schedule in future fiscal years until 10 years of information is available.

COUNCIL ON POSTSECONDARY EDUCATION

SCHEDULE OF PROPORIONATE SHARE OF NET OPEB LIABILITY
KENTUCKY TEACHERS' RETIREMENT SYSTEM

	2020	2019	2018
Proportion of the net OPEB liability (asset)	0.007372%	0.008770%	0.009269%
Proportionate share of the net OPEB liability	\$ 216,000	\$ 304,000	\$ 331,000
Covered payroll	\$ 156,808	\$ 396,637	\$ 423,461
Proportionate share of the net OPEB liability (asset) as a percentage of its covered payroll	137.75%	76.64%	78.17%
Plan fiduciary net position as a percentage of the total OPEB liability	32.58%	25.50%	21.18%

*Note: This schedule is intended to present 10 years of the proportionate share of the net OPEB liability. Currently, only those years with information available are presented. The amounts presented above for the fiscal year were determined as of June 30 for the year prior (measurement date).

COUNCIL ON POSTSECONDARY EDUCATION

SCHEDULE OF OPEB CONTRIBUTIONS KENTUCKY TEACHERS' RETIREMENT SYSTEM

	2020	2019	2018	2017	2016
Statutorily required contribution	\$ -0-	\$ 5,880	\$ 14,874	\$ 15,880	\$ 18,654
Contribution in relation to the statutorily required contribution	-0-	5,880	14,874	15,880	18,654
Contribution deficiency (excess)	\$ -0-	\$ -0-	\$ -0-	\$ -0-	\$ -0-
Covered payroll	\$ -0-	\$ 156,808	\$ 396,637	\$ 423,461	\$ 497,443
Contribution as a percentage of covered payroll	0.00%	3.75%	3.75%	3.75%	3.75%

Notes to Schedule

Valuation date	June 30, 2018	June 30, 2017	June 30, 2016	June 30, 2016	Not available
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Methods and assumptions used to determine contributions:

Actuarial cost method	Entry Age Normal	Entry Age Normal	Entry Age Normal	Entry Age Normal	Not available
Amortization method	Level percentage of payroll	Level percentage of payroll	Level percentage of payroll	Level percentage of payroll	Not available
Amortization period	22 years, closed	23 years, closed	30 years, open	30 years, open	Not available
Asset valuation method	Five-year smoothed Market Value	Five-year smoothed Market Value	Five-year smoothed Market Value	Five-year smoothed Market Value	Not available
Inflation	3.00%	3.00%	3.00%	3.00%	Not available
Real wage growth	0.50%	0.50%	0.50%	0.50%	Not available
Wage inflation	3.50%	3.50%	3.50%	3.50%	Not available
Projected salary increase	3.50% - 7.20%	3.50% - 7.20%	3.50% - 7.20%	3.50% - 7.20%	Not available
Discount rate	8.00%	8.00%	8.00%	8.00%	Not available
Medical Insurance Fund (MIF) Health Care Cost Trends:					
Under Age 65	7.50% for FYE 2018 decreasing to an ultimate rate of 5.00% by FYE 2024	7.75% for FYE 2017 decreasing to an ultimate rate of 5.00% by FYE 2024	7.75% for FYE 2017 decreasing to an ultimate rate of 5.00% by FYE 2023	7.75% for FYE 2017 decreasing to an ultimate rate of 5.00% by FYE 2023	Not available
Age 65 and Older	5.50% for FYE 2018 decreasing to an ultimate rate of 5.00% by FYE 2021	5.75% for FYE 2017 decreasing to an ultimate rate of 5.00% by FYE 2024	5.75% for FYE 2017 decreasing to an ultimate rate of 5.00% by FYE 2020	5.75% for FYE 2017 decreasing to an ultimate rate of 5.00% by FYE 2020	Not available
Medicare Part B Premiums	0.00% for FYE 2018 with an ultimate rate of 5.00% by 2030.	1.02% for FYE 2017 with an ultimate rate of 5.00% by 2030.	1.02% for FYE 2017 with an ultimate rate of 5.00% by 2029.	1.02% for FYE 2017 with an ultimate rate of 5.00% by 2029.	Not available

Note: This is a 10 year schedule. Years will be added to this schedule in future fiscal years until 10 years of information is available.

COUNCIL ON POSTSECONDARY EDUCATION

SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES – BUDGET AND ACTUAL (BUDGETARY BASIS) – UNAUDITED YEAR ENDED JUNE 30, 2020

	Operations			Over (Under) Budget
	Original Budget	Final Budget	Actual	
Budgetary fund balance, July 1	\$ 1,573,980	\$ 602,843	\$ 3,618,367	\$ 3,015,524
REVENUES:				
State appropriations	5,830,700	5,830,700	5,630,106	(200,594)
Charges for services	300,000	300,000	284,000	(16,000)
Intergovernmental revenues				
Federal programs	400,000	400,000	268,573	(131,427)
Other revenues				
Income from investments				
Total revenues	<u>6,530,700</u>	<u>6,530,700</u>	<u>6,182,679</u>	<u>(348,021)</u>
Amount available for expenditures	8,104,680	7,133,543	9,801,046	2,667,503
EXPENDITURES:				
Personnel services	5,271,000	5,271,000	4,976,023	(294,977)
Utilities, rentals, and other services	790,800	814,400	673,679	(140,721)
Commodities and supplies	61,900	43,300	298,458	255,158
Grants and subsidies				
Travel	69,000	64,000	87,116	23,116
Judgements			15,000	15,000
Intergovernmental expenditures				
Total expenditures	<u>6,192,700</u>	<u>6,192,700</u>	<u>6,050,276</u>	<u>(142,424)</u>
Budgetary fund balance, June 30	<u>\$ 1,911,980</u>	<u>\$ 940,843</u>	<u>\$ 3,750,770</u>	<u>\$ 2,809,927</u>

COUNCIL ON POSTSECONDARY EDUCATION

SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES – BUDGET AND ACTUAL (BUDGETARY BASIS) – UNAUDITED YEAR ENDED JUNE 30, 2020

	Federal Programs			Over (Under) Budget
	Original Budget	Final Budget	Actual	
Budgetary fund balance, July 1	\$ -0-	\$ -0-	\$ 194,124	\$ 194,124
REVENUES:				
State appropriations				
Charges for services				
Intergovernmental revenues				
Federal programs	4,000,000	4,000,000	3,473,817	(526,183)
Other revenues				
Income from investments				
Total revenues	<u>4,000,000</u>	<u>4,000,000</u>	<u>3,473,817</u>	<u>(526,183)</u>
Amount available for expenditures	4,000,000	4,000,000	3,667,941	(332,059)
EXPENDITURES:				
Personnel services	1,745,000	1,745,000	2,542,420	797,420
Utilities, rentals, and other services	989,500	989,500	407,317	(582,183)
Commodities and supplies	379,000	379,000	265,357	(113,643)
Grants and subsidies			140,664	140,664
Travel	240,000	240,000	104,340	(135,660)
Judgements				
Intergovernmental expenditures				
Total expenditures	<u>3,353,500</u>	<u>3,353,500</u>	<u>3,460,098</u>	<u>106,598</u>
Budgetary fund balance, June 30	<u>\$ 646,500</u>	<u>\$ 646,500</u>	<u>\$ 207,843</u>	<u>\$ (438,657)</u>

COUNCIL ON POSTSECONDARY EDUCATION

SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES – BUDGET AND ACTUAL (BUDGETARY BASIS) – UNAUDITED YEAR ENDED JUNE 30, 2020

	Technology Initiative Trust Fund			
	Original Budget	Final Budget	Actual	Over (Under) Budget
Budgetary fund balance, July 1	\$ 5,458,256	\$ 6,519,283	\$ 3,429,564	\$ (3,089,719)
REVENUES:				
State appropriations	3,628,300	3,628,300	3,628,300	-0-
Charges for services	2,000,000	2,000,000	2,830,757	830,757
Intergovernmental revenues				
Federal programs				
Other revenues			350,000	350,000
Income from investments		96,668	49,129	(47,539)
Total revenues	<u>5,628,300</u>	<u>5,724,968</u>	<u>6,858,186</u>	<u>1,133,218</u>
Amount available for expenditures	11,086,556	12,244,251	10,287,750	(1,956,501)
EXPENDITURES:				
Personnel services	620,000	620,000	3,941,119	3,321,119
Utilities, rentals, and other services			379,262	379,262
Commodities and supplies			2,433,931	2,433,931
Grants and subsidies	5,425,000	5,425,000	129,314	(5,295,686)
Travel			11,478	11,478
Judgements				
Intergovernmental expenditures				
Total expenditures	<u>6,045,000</u>	<u>6,045,000</u>	<u>6,895,104</u>	<u>850,104</u>
Budgetary fund balance, June 30	<u>\$ 5,041,556</u>	<u>\$ 6,199,251</u>	<u>\$ 3,392,646</u>	<u>\$ (2,806,605)</u>

COUNCIL ON POSTSECONDARY EDUCATION

NOTE TO THE SCHEDULES OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES – BUDGET AND ACTUAL (BUDGETARY BASIS) – UNAUDITED
YEAR ENDED JUNE 30, 2020

Budgetary Basis Versus GAAP

The accompanying schedules of revenues, expenditures, and changes in fund balances, budget and actual (budgetary basis) - unaudited, presents comparisons of the legally adopted budget with actual data on the budgetary basis. Accounting principles applied for purposes of developing data on the budgetary basis differ from those used to present financial statements in conformity with accounting principles generally accepted in the United States of America (GAAP). An explanation of the differences between budgetary inflows and outflows and revenues and expenditures determined in accordance with GAAP follows:

	<u>Operations</u>	<u>Federal Programs</u>	<u>Technology Initiative Trust Fund</u>
Total revenues per the budgetary comparison schedule	\$ 6,182,679	\$ 3,473,817	\$ 6,858,186
Total revenues per the statement of revenues, expenditures, and changes in fund balance	<u>\$ 6,182,679</u>	<u>\$ 3,473,817</u>	<u>\$ 6,858,186</u>
Total expenditures per the budgetary comparison schedule	\$ 6,050,276	\$ 3,460,098	\$ 6,895,104
Change in accrued expenditures	43,736	6,952	(8,063)
Change in short-term compensated absences	<u>(37,119)</u>	<u>6,767</u>	<u>(3,720)</u>
Total expenditures per the statement of revenues, expenditures, and changes in fund balance	<u>\$ 6,056,893</u>	<u>\$ 3,473,817</u>	<u>\$ 6,883,321</u>

ADDITIONAL SUPPLEMENTARY INFORMATION

COUNCIL ON POSTSECONDARY EDUCATION

SUPPLEMENTARY SCHEDULE OF ASSETS, LIABILITIES, AND FUND
BALANCES – OPERATIONS
JUNE 30, 2020

	<u>Agency Operations</u>	<u>KYVC/ KYVL Operations</u>	<u>Total Operations</u>
<u>ASSETS</u>			
Cash and cash equivalents	\$ 492,853	\$ 263,092	\$ 755,945
Investments	1,851,496	988,355	2,839,851
Accounts receivable	1,946		1,946
Intergovernmental receivables	4,974		4,974
Interfund receivable	-0-	150,000	150,000
	<u> </u>	<u> </u>	<u> </u>
Total assets	<u>\$ 2,351,269</u>	<u>\$ 1,401,447</u>	<u>\$ 3,752,716</u>
<u>LIABILITIES AND FUND BALANCES</u>			
Liabilities:			
Accounts and other payables	\$ 1,946	\$ -0-	\$ 1,946
Accrued expenses	467,311		467,311
Accrued compensated absences	330,615		330,615
Total liabilities	<u>799,872</u>	<u>-0-</u>	<u>799,872</u>
Fund balances:			
Assigned:			
for agency operations	<u>1,551,397</u>	<u>1,401,447</u>	<u>2,952,844</u>
Total liabilities and fund balances	<u>\$ 2,351,269</u>	<u>\$ 1,401,447</u>	<u>\$ 3,752,716</u>

COUNCIL ON POSTSECONDARY EDUCATION

SUPPLEMENTARY SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES – OPERATIONS YEAR ENDED JUNE 30, 2020

	Agency Operations	KYVC/ KYVL Operations	Total Operations
REVENUES:			
State appropriations	\$ 5,630,106	\$ -0-	\$ 5,630,106
Charges for services	284,000		284,000
Federal programs	268,573		268,573
Total revenues	6,182,679	-0-	6,182,679
EXPENDITURES:			
Personnel services	4,982,640		4,982,640
Utilities, rentals, and other services	673,679		673,679
Commodities and supplies	298,458		298,458
Travel	87,116		87,116
Judgement	15,000		15,000
Intergovernmental expenditures			-0-
Total expenditures	6,056,893	-0-	6,056,893
Net change in fund balances	125,786	-0-	125,786
Fund balances, beginning of year	1,425,611	1,401,447	2,827,058
Fund balances, end of year	\$ 1,551,397	\$ 1,401,447	\$ 2,952,844

COUNCIL ON POSTSECONDARY EDUCATION

SUPPLEMENTARY SCHEDULE OF ASSETS, LIABILITIES, AND FUND BALANCES – NON-MAJOR FUNDS

JUNE 30, 2020

	Postsecondary Education Equine Trust Fund	Assessment and Professional Development Fund	Other (Non- major) Governmental Funds
ASSETS			
Cash and cash equivalents - restricted	\$ 57,018	\$ -0-	\$ 57,018
Investments - restricted	214,204		214,204
Total assets	\$ 271,222	\$ -0-	\$ 271,222
 LIABILITIES AND FUND BALANCES			
Liabilities:			
Accrued expenses	\$ -0-	\$ 28,296	\$ 28,296
Accrued compensated absences		2,212	2,212
Total liabilities	-0-	30,508	30,508
 Fund balances			
Restricted:			
for University Equine programs	271,222		271,222
Unassigned		(30,508)	(30,508)
Total fund balances	271,222	(30,508)	240,714
Total liabilities and fund balances	\$ 271,222	\$ -0-	\$ 271,222

COUNCIL ON POSTSECONDARY EDUCATION

SUPPLEMENTARY SCHEDULE OF REVENUE, EXPENDITURES, AND CHANGES IN FUND BALANCES – NON-MAJOR FUNDS YEAR ENDED JUNE 30, 2020

	Postsecondary Education Equine Trust	Research Challenge Trust Fund	Assessment and Professional Development	Other (Non- major) Governmental
REVENUES:				
State appropriations	\$ -0-	\$ -0-	\$ 1,353,226	\$ 1,353,226
Intergovernmental revenues	522,054			522,054
Income from investments		108		108
Total revenues	<u>522,054</u>	<u>108</u>	<u>1,353,226</u>	<u>1,875,388</u>
EXPENDITURES:				
Personnel services		2,877	659,744	662,621
Utilities, rentals and other services			2,745	2,745
Commodities and supplies			120,982	120,982
Grants and subsidies	480,000	5,401	577,064	1,062,465
Travel			1,136	1,136
Total expenditures	<u>480,000</u>	<u>8,278</u>	<u>1,361,671</u>	<u>1,849,949</u>
Net change in fund balances	42,054	(8,170)	(8,445)	25,439
Fund balances, beginning of year	<u>229,168</u>	<u>8,170</u>	<u>(22,063)</u>	<u>215,275</u>
Fund balances, end of year	<u><u>\$ 271,222</u></u>	<u><u>\$ -0-</u></u>	<u><u>\$ (30,508)</u></u>	<u><u>\$ 240,714</u></u>

COUNCIL ON POSTSECONDARY EDUCATION

**SUPPLEMENTARY SCHEDULE OF GRANTS AND SUBSIDIES
YEAR ENDED JUNE 30, 2020**

	<u>Governmental Funds</u>	<u>Fiduciary Funds</u>
Gaining Early Awareness and Readiness for Undergraduate Programs	\$ 140,664	\$ -0-
Postsecondary Education Equine Trust Fund	480,000	
Research Challenge Trust Fund:		
Lung Cancer Research Program	5,401	
Technology Initiative Trust Fund	129,314	
Assessment and Professional Development	577,064	
Cancer Research Institutions Matching Fund		3,624,655
Contract Spaces Program		5,793,821
Cancer Research Screenings		6,268,173
Ovarian Cancer Screenings		500,000
	<u> </u>	<u> </u>
Total grants and subsidies	<u>\$ 1,332,443</u>	<u>\$ 16,186,649</u>

COUNCIL ON POSTSECONDARY EDUCATION

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED JUNE 30, 2020**

	<u>Federal CFDA Number</u>	<u>Grant ID Number</u>	<u>Total Federal Expenditures</u>	<u>Passed Through to Subrecipient</u>
<u>Major Programs:</u>				
United States Department of Education:				
Gaining Early Awareness and Readiness for Undergraduate Programs				
	84.334	P334S180011	\$ 1,465,025	\$ -0-
	84.334	P334S180011 - 19	2,220,027	-0-
			<hr/>	<hr/>
Total Gaining Early Awareness and Readiness for Undergraduate Programs			3,685,052	-0-
<u>Non-Major Programs:</u>				
Pass-through from Kentucky Department of Education:				
Statewide Longitudinal Data Systems				
	84.372	R372A150039	57,338	-0-
			<hr/>	<hr/>
Total Federal Expenditures			\$ 3,742,390	\$ -0-

COUNCIL ON POSTSECONDARY EDUCATION

NOTE TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS JUNE 30, 2020

1. BASIS OF PRESENTATION

The accompanying schedule of expenditures of federal awards (the Schedule) includes the federal grant activity of the Council on Postsecondary Education (the Council). The information in this Schedule is presented in accordance with requirements of Title 2 U.S. *Code of Federal Regulations* (CFR) Part 200, *Uniform Administration Requirements, Cost Principles, and Audit Requirements, Cost Principles, and Audit Requirements for Federal Awards* (the Uniform Guidance). Some amounts presented in this Schedule may therefore differ from amounts presented in, or used in the preparation of, the basic financial statements. The Council did not elect to use the 10% de minimis indirect cost rate.

The Schedule is presented using the modified accrual basis of accounting. Under the modified accrual basis of accounting, revenues are susceptible to accrual and recognized in the financial statements when they are measurable and available to finance operations during the year or to liquidate liabilities existing at the end of the year.

The award revenues received and expended are subject to audit and adjustment. If any expenditures are disallowed by the grantor as a result of such an audit, any claim for reimbursement to the grantor would become a liability of the Council. In the opinion of management, all grant expenditures are in compliance with the terms of the grant agreements and applicable federal laws and regulations.



Blue & Co., LLC / 250 West Main Street, Suite 2900 / Lexington KY 40507 main
859.253.1100 fax 859.253.1384 email blue@blueandco.com

**REPORT OF INDEPENDENT AUDITORS 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 Council Members
Council on Postsecondary Education

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, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Council on Postsecondary Education (the Council), a component unit of the Commonwealth of Kentucky, as of and for the year ended June 30, 2020, and the related notes to the financial statements, which collectively comprise the Council's basic financial statements, and have issued our report thereon dated December 3, 2020.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Council'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 opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Council's internal control. Accordingly, we do not express an opinion on the effectiveness of the Council'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.

To the Council Members
Council on Postsecondary Education

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Council'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 matter 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.

Blue & Co., LLC

Lexington, Kentucky
December 3, 2020



Blue & Co., LLC / 250 West Main Street, Suite 2900 / Lexington KY 40507 main
859.253.1100 fax 859.253.1384 email blue@blueandco.com

**REPORT OF INDEPENDENT AUDITORS ON COMPLIANCE WITH
EACH MAJOR FEDERAL PROGRAM AND ON INTERNAL CONTROL OVER
COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE**

To the Council Members
Council on Postsecondary Education

We have audited the Council on Postsecondary Education's (the Council) compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of the Council's major federal programs for the year ended June 30, 2020. The Council's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of the Council's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 *Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Council's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of the Council's compliance.

To the Council Members
Council on Postsecondary Education

Opinion on Each Major Federal Program

In our opinion, the Council complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2020.

Report on Internal Control Over Compliance

Management of the Council is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the Council's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Council's internal control over compliance.

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

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

Blue & Co., LLC

Lexington, Kentucky
December 3, 2020

COUNCIL ON POSTSECONDARY EDUCATION

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
JUNE 30, 2020

Identification of major programs:

<u>CFDA Number</u>	<u>Name of Federal Program or Cluster</u>
84.334	Gaining Early Awareness and Readiness for Undergraduate Programs

Dollar threshold used to distinguish between type A and type B programs: \$750,000

Auditee qualified as low-risk auditee: yes no

Section II - Findings - Financial Statement Audit

None

Section III - Findings and Questioned Costs - Major Federal Awards Program Audit

None

COUNCIL ON POSTSECONDARY EDUCATION

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
JUNE 30, 2020

There were no findings reported for the year ended June 30, 2019.