

AGENDA
Executive Committee

Council on Postsecondary Education
Friday, November 18, 2016
8:00 AM

Owensboro Community & Technical College, Advanced Technology Center, Addington
Seminar Room

1. Welcoming and Roll Call
2. Review FY 2015-16 Agency Audit Report 2
3. Other Business
4. Adjourn

**Central Standard Time (CST)*



**KENTUCKY COUNCIL ON
POSTSECONDARY EDUCATION**

MATTERS TO BE COMMUNICATED TO

THE COUNCIL MEMBERS

JUNE 30, 2016



Blue & Co., LLC / 250 West Main Street, Suite 2900 / Lexington, KY 40507
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November 15, 2016

To the Council Members
Council on Postsecondary Education
Frankfort, Kentucky

We have audited the financial statements of the Council on Postsecondary Education (the Council) for the year ended June 30, 2016, and have issued our report thereon dated as of the date of this letter. Professional standards require that we provide you with information about our responsibilities under auditing standards generally accepted in the United States of America, *Government Auditing Standards* and *Title 2 U.S. Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (Uniform Guidance)*, as well as certain information related to the planned scope and timing of our audit. We have communicated such information in our letter to you dated July 8, 2016. Professional standards also require that we communicate to you the following information related to our audit.

SIGNIFICANT AUDIT FINDINGS

QUALITATIVE ASPECTS OF ACCOUNTING PRACTICES

Management is responsible for the selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we will advise management about the appropriateness of accounting policies and their application. The significant accounting policies used by the Council are described in Note 1 to the financial statements. As described in Note 15, during 2016, the Council implemented **GASB Statement No. 72, Fair Value Measurements and Application**. We noted no transactions entered into by the Council during the year for which there was a lack of authoritative guidance or consensus. We noted no significant transactions that have been recognized in the financial statements in a different period than when the transaction occurred.

Accounting estimates are an integral part of the financial statements prepared by management and are based upon management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimate affecting the financial statements was:

Management's estimate of compensated leave is accrued when incurred in the government-wide financial statements. Only the accumulated annual and compensatory leave that is estimated to be liquidated with expendable available financial resources is reported as an expenditure and a fund liability of the governmental fund that will pay it. We evaluated the key factors and assumptions used to develop the estimate pertaining to compensatory leave in determining that it is reasonable in relation to the financial statements taken as a whole.

We believe the disclosures in the financial statements are neutral, consistent and clear.

DIFFICULTIES ENCOUNTERED IN PERFORMING THE AUDIT

We encountered no significant difficulties in dealing with management in performing and completing our audit.

CORRECTED AND UNCORRECTED MISSTATEMENTS

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. Management has corrected all such misstatements.

In addition, none of the misstatements detected as a result of audit procedures and corrected by management were material, either individually or in the aggregate, to the financial statements taken as a whole.

DISAGREEMENTS WITH MANAGEMENT

For purposes of this letter, professional standards define a disagreement with management as a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of the audit.

MANAGEMENT REPRESENTATIONS

We have requested certain representations from management that are included in the management representation letter dated as of the date of this letter.

MANAGEMENT CONSULTATIONS WITH OTHER INDEPENDENT ACCOUNTANTS

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the Council's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations.

OTHER AUDIT FINDINGS OR ISSUES

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the Council's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

OTHER INFORMATION IN DOCUMENTS CONTAINING AUDITED FINANCIAL STATEMENTS

With respect to the supplementary information accompanying the financial statements, we made certain inquiries of management and evaluated the form, content, and methods of preparing the information to determine that the information complies with accounting principles generally accepted in the United States of America. The method of preparing it has not changed from the prior period, and the information is appropriate and complete in relation to our audit of the financial statements. We compared and reconciled the supplementary information to the underlying accounting records used to prepare the financial statements or to the financial statements themselves.

REQUIRED SUPPLEMENTARY INFORMATION

With respect to the required supplementary information accompanying the financial statements, 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.

To the Council Members
Council on Postsecondary Education
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This communication is intended solely for the use of management, the Council Members, others within the Council, and the Auditor of Public Accounts of the Commonwealth of Kentucky, and is not intended to be and should not be used by anyone other than these specified parties.

We appreciate this opportunity to be of service and extend our thanks to everyone at the Council for their cooperation and assistance. We would be pleased to discuss any of the above matters with you at your convenience.

Blue & Co., LLC



**KENTUCKY COUNCIL ON
POSTSECONDARY EDUCATION**

FINANCIAL STATEMENTS

AND

SUPPLEMENTARY INFORMATION

JUNE 30, 2016

COUNCIL ON POSTSECONDARY EDUCATION

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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, 2016, 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 standards 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, 2016, 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.

Change in Accounting Principles

As discussed in Note 15 to the financial statements, in 2016, the Council adopted new accounting guidance, Governmental Accounting Standards Board (GASB) Statement No. 72, *Fair Value Measurement and Application*. Our opinion is not modified with respect to this matter.

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 the proportionate share of the net pension liability and schedules of contributions on pages 50 through 53, and the budgetary comparison information on pages 54 through 60, 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 68 and 69 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 61 through 67 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 November 15, 2016 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
November 15, 2016

COUNCIL ON POSTSECONDARY EDUCATION

MANAGEMENT'S DISCUSSION AND ANALYSIS JUNE 30, 2016

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, including Adult Education.

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, 2016. 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 2016 by \$14,588,233.
- Net position decreased \$3,156,490 between FY 2015 and FY 2016.
- As of the close of FY 2016, the Council's governmental funds reported an ending fund balance of \$6,158,152, 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 2016 were \$86,431,431, representing a 46% increase from FY 2015. Most of the increase is due to the capital projects fund with an increase of revenue of approximately \$25,551,000 in the current year.
- Total fund expenditures for FY 2016 were \$87,409,493, representing a 42% increase from FY 2015. The increase is due to the capital project fund.

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, 2016

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, 2016

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 Statements of Net Position

| | June 30, 2016 | June 30, 2015 |
|----------------------------------|------------------------|-----------------------|
| Assets: | | |
| Current | \$ 8,610,696 | \$ 9,757,589 |
| Noncurrent | 4,314,478 | 5,273,840 |
| Total assets | <u>12,925,174</u> | <u>15,031,429</u> |
| Deferred outflow of resources | 3,008,899 | 994,884 |
| Total assets and deferrals | <u>\$ 15,934,073</u> | <u>\$ 16,026,313</u> |
| Liabilities: | | |
| Current | 5,379,265 | 5,558,080 |
| Noncurrent | 22,134,142 | 18,789,501 |
| Total liabilities | <u>27,513,407</u> | <u>24,347,581</u> |
| Deferred inflow of resources | 331,104 | 432,680 |
| Total liabilities and deferrals | <u>\$ 27,844,511</u> | <u>\$ 24,780,261</u> |
| Net position (deficit): | | |
| Net investment in capital assets | 189,988 | 213,654 |
| Restricted | 4,213,609 | 5,587,911 |
| Unrestricted deficit | <u>(16,314,035)</u> | <u>(14,555,513)</u> |
| Total net position (deficit) | <u>\$ (11,910,438)</u> | <u>\$ (8,753,948)</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.

Current liabilities consist primarily of operating accounts payable, intergovernmental payables, accrued payroll, and accrued compensated absences. As of June 30, 2016, 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

COUNCIL ON POSTSECONDARY EDUCATION

MANAGEMENT'S DISCUSSION AND ANALYSIS JUNE 30, 2016

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 \$14.6 million. Total assets decreased by approximately \$2.1 million, primarily in the cash and cash equivalents and prepaid expenses. Total liabilities increased by approximately \$3.2 million primarily related to an increase in net pension liability. Therefore, net position decreased \$3.1 million between FY 2015 and FY 2016.

COUNCIL ON POSTSECONDARY EDUCATION

MANAGEMENT'S DISCUSSION AND ANALYSIS JUNE 30, 2016

Condensed Financial Information Statements of Activities For the Fiscal Years Ended

| | June 30, 2016 | June 30, 2015 |
|--|-----------------|----------------|
| Revenues: | | |
| Program revenues: | | |
| Charges for services | \$ 4,744,464 | \$ 784,519 |
| Operating grants and contributions | 12,614,046 | 15,488,864 |
| Capital grants and contributions | 651,657 | 638,360 |
| General revenues: | | |
| State appropriations | 68,421,264 | 42,164,752 |
| Total revenues | 86,431,431 | 59,076,495 |
| Expenses: | | |
| Strategic investment and incentive funding programs | 67,297,125 | 39,052,384 |
| Agency, Kentucky Adult Education, and KYVC/KYVL Operations | 9,065,368 | 8,404,811 |
| Federal Programs | 12,170,144 | 12,990,108 |
| Postsecondary Education Equine Trust Fund | 1,000,000 | 600,000 |
| Other | 55,284 | 46,086 |
| Total expenses | 89,587,921 | 61,093,389 |
| Change in net position | (3,156,490) | (2,016,894) |
| Net position, beginning of year (as previously stated) | (8,753,948) | 10,946,735 |
| Adjustment for net pension liability | -0- | (17,683,789) |
| Net position (deficit), beginning of year (as adjusted) | (8,753,948) | (6,737,054) |
| Net position (deficit), end of year | \$ (11,910,438) | \$ (8,753,948) |

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 an increase in state appropriations by approximately \$26.3 million. The increase in appropriations is mostly within the Capital Projects Fund.

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 74% 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

COUNCIL ON POSTSECONDARY EDUCATION

MANAGEMENT'S DISCUSSION AND ANALYSIS JUNE 30, 2016

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

| | <u>June 30, 2016</u> | <u>June 30, 2015</u> |
|--|----------------------|----------------------|
| Total assets | <u>\$ 12,266,767</u> | <u>\$ 12,847,433</u> |
| Total liabilities | 6,108,615 | 5,711,219 |
| Fund balances | <u>6,158,152</u> | <u>7,136,214</u> |
| Total liabilities and fund balances | <u>\$ 12,266,767</u> | <u>\$ 12,847,433</u> |

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 decreased approximately \$1.0 million between fiscal years. This decrease is primarily related to an increase in contractual obligations.

COUNCIL ON POSTSECONDARY EDUCATION

MANAGEMENT'S DISCUSSION AND ANALYSIS JUNE 30, 2016

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

| | June 30, 2016 | June 30, 2015 |
|---|---------------------|---------------------|
| Revenues: | | |
| State appropriations | \$ 68,421,264 | \$ 42,164,752 |
| Charges for services | 4,744,464 | 784,519 |
| Intergovernmental revenues | 651,657 | 638,360 |
| Federal programs | 12,524,874 | 13,311,905 |
| Other | 76,950 | 2,173,869 |
| Income from investments | 12,222 | 3,090 |
| Total revenues | <u>86,431,431</u> | <u>59,076,495</u> |
| Expenditures: | | |
| Personnel services | 14,889,988 | 16,886,077 |
| Grants and subsidies | 36,730,560 | 37,752,498 |
| Intergovernmental expenditures | -0- | 500,000 |
| Other | 35,788,945 | 6,295,083 |
| Total expenditures | <u>87,409,493</u> | <u>61,433,658</u> |
| Net change in fund balances | (978,062) | (2,357,163) |
| Fund balances, beginning of year | <u>7,136,214</u> | <u>9,493,377</u> |
| Fund balances, end of year | <u>\$ 6,158,152</u> | <u>\$ 7,136,214</u> |

The most significant change in this year's revenue is with state appropriation revenues and federal program revenues. State appropriations increased approximately \$26.3 million, primarily in the Capital Projects Fund.

Grants and subsidies primarily consist of payments to institutions, state agencies, and other service providers for costs related to discrete authorized activities. The most significant change in this year's expenditures is with other, resulting from an increase in capital project expenditures of \$25.5 million.

Other expenses 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.

BUDGETARY HIGHLIGHTS

Final budgeted revenues increased from original budgeted amounts by approximately \$2.5 million. The total increase is primarily related to the increase in revenue from the Technology Initiative Trust Fund.

COUNCIL ON POSTSECONDARY EDUCATION

MANAGEMENT'S DISCUSSION AND ANALYSIS JUNE 30, 2016

Final budgeted expenditures increased from original budgeted expenditures by approximately \$2.3 million. The total increase is primarily related to the increase funding for the Technology Initiative Trust Fund.

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 Rebecca Bowman, Assistant Vice President for Agency Operations, 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, 2016

| | Governmental Activities |
|---|----------------------------|
| <u>ASSETS</u> | |
| Current assets: | |
| Cash and cash equivalents | \$ 131,095 |
| Cash and cash equivalents - restricted | 3,007,104 |
| Accounts receivable | 45,394 |
| Intergovernmental receivables | 3,019,416 |
| Due from the Federal government | 1,209,918 |
| Prepaid expenses | 1,197,769 |
| Total current assets | <u>8,610,696</u> |
| Noncurrent assets: | |
| Investments | 3,621,745 |
| Investments - restricted | 502,745 |
| Capital assets - net | 189,988 |
| Total noncurrent assets | <u>4,314,478</u> |
| Total assets | <u>12,925,174</u> |
| Deferred outflow of resources | <u>3,008,899</u> |
| Total assets and deferrals | <u>\$ 15,934,073</u> |
| <u>LIABILITIES</u> | |
| Current liabilities: | |
| Accounts and other payables | \$ 4,081,630 |
| Accrued expenses | 679,102 |
| Accrued compensated absences - current portion | 618,533 |
| Total current liabilities | <u>5,379,265</u> |
| Noncurrent liabilities: | |
| Accrued compensated absences - noncurrent portion | 228,900 |
| Net pension | 21,905,242 |
| Total noncurrent liabilities | <u>22,134,142</u> |
| Total liabilities | <u>27,513,407</u> |
| Deferred inflow of resources | <u>331,104</u> |
| Total liabilities and deferrals | <u>\$ 27,844,511</u> |
| <u>NET POSITION (DEFICIT)</u> | |
| Net investment in capital assets | \$ 189,988 |
| Restricted | 4,213,609 |
| Unrestricted deficit | <u>(16,314,035)</u> |
| Total net position (deficit) | <u>\$ (11,910,438)</u> |

See accompanying notes
to the financial statements.

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COUNCIL ON POSTSECONDARY EDUCATION

STATEMENT OF ACTIVITIES YEAR ENDED JUNE 30, 2016

| 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 | \$ 9,065,368 | \$ 594,915 | \$ 306,132 | \$ | \$ (8,164,321) |
| Federal Programs | 12,170,144 | | 12,220,437 | | 50,293 |
| Postsecondary Education Equine Trust Fund | 1,000,000 | | | 651,657 | (348,343) |
| Kentucky Adult Education Funding Program | 18,800,999 | | | | (18,800,999) |
| Science and Technology Funding Program | 5,288,300 | | | | (5,288,300) |
| Research Challenge Trust Fund | 5,048,738 | | 3,377 | | (5,045,361) |
| Technology Initiative Trust Fund | 8,181,598 | 4,149,549 | 84,100 | | (3,947,949) |
| Capital Projects | 28,491,500 | | | | (28,491,500) |
| Assessment and Professional Development | 1,485,990 | | | | (1,485,990) |
| Unallocated depreciation expense | 55,284 | | | | (55,284) |
| Total governmental activities | \$ 89,587,921 | \$ 4,744,464 | \$ 12,614,046 | \$ 651,657 | \$ (71,577,754) |
| General revenues: | | | | | |
| State appropriations | | | | | \$ 68,421,264 |
| Change in net position | | | | | (3,156,490) |
| Net position, beginning of year | | | | | (8,753,948) |
| Net position, end of year | | | | | \$ (11,910,438) |

See accompanying notes
to the financial statements.

COUNCIL ON POSTSECONDARY EDUCATION

BALANCE SHEET – GOVERNMENTAL FUNDS JUNE 30, 2016

| | Operations | Federal Programs | Kentucky Adult Education Funding Program | Research Challenge Trust Fund | Technology Initiative Trust Fund | Capital Projects | Other (Non-major Governmental Funds) | Total Governmental Funds |
|--|---------------------|---------------------|--|-------------------------------------|--|------------------|--|--------------------------------|
| ASSETS | | | | | | | | |
| Cash and cash equivalents | \$ 255,014 | \$ 1,300 | | \$ 538,367 | \$ 2,323,219 | | \$ 20,299 | \$ 3,138,199 |
| Investments | 2,212,066 | | | 326,670 | 1,409,679 | | 176,075 | 4,124,490 |
| Accounts receivable | 1,685 | | | | 43,709 | | | 45,394 |
| Intergovernmental receivables | 140,419 | 129,350 | 2,654,458 | | | | 95,189 | 3,019,416 |
| Due from the Federal government | 26,573 | 1,183,345 | | | | | | 1,209,918 |
| Interfund receivable | 600,000 | | | | 129,350 | | | 729,350 |
| Total assets | <u>\$ 3,235,757</u> | <u>\$ 1,313,995</u> | <u>\$ 2,654,458</u> | <u>\$ 865,037</u> | <u>\$ 3,905,957</u> | <u>\$ -0-</u> | <u>\$ 291,563</u> | <u>\$ 12,266,767</u> |
| LIABILITIES AND FUND BALANCES | | | | | | | | |
| Liabilities: | | | | | | | | |
| Accounts and other payables | \$ 144,619 | \$ 1,041,205 | \$ 2,654,458 | \$ 7,489 | \$ 138,671 | | \$ 95,188 | \$ 4,081,630 |
| Accrued expenses | 482,684 | 142,140 | 12,123 | | 7,587 | | 34,568 | 679,102 |
| Accrued compensated absences | 544,100 | 53,987 | 13,101 | | 2,755 | | 4,590 | 618,533 |
| Interfund payable | | 129,350 | | | 600,000 | | | 729,350 |
| Total liabilities | <u>1,171,403</u> | <u>1,366,682</u> | <u>2,679,682</u> | <u>7,489</u> | <u>749,013</u> | <u>-0-</u> | <u>134,346</u> | <u>6,108,615</u> |
| Fund balances: | | | | | | | | |
| Restricted: | | | | | | | | |
| for Adult Education | | 410 | | | | | | 410 |
| for SHEEHO Multi-State Collaborative Agreement | | | | | 48,062 | | | 48,062 |
| for Technology Initiative | | | | | 2,250,022 | | | 2,250,022 |
| for Accelerating Opportunity Kentucky | | | | | 7,152 | | | 7,152 |
| for Automated residency application system | | | | | 90,021 | | | 90,021 |
| for Interstate Passport | | | | | 41,404 | | | 41,404 |
| for AACU Faculty Collaborative | | | | | 10,477 | | | 10,477 |
| for University Equine programs | | | | | | | 196,374 | 196,374 |
| for Lung Cancer Research | | | | 857,548 | | | | 857,548 |
| Assigned: | | | | | | | | |
| for agency operations | 2,064,354 | | | | | | | 2,064,354 |
| for Technology Trust Fund | | | | | 709,806 | | | 709,806 |
| Unassigned | | | | | | | | |
| Total fund balances | <u>2,064,354</u> | <u>(53,097)</u> | <u>(25,224)</u> | <u>857,548</u> | <u>3,156,944</u> | <u>-0-</u> | <u>(39,157)</u> | <u>6,158,152</u> |
| Total liabilities and fund balances | <u>\$ 3,235,757</u> | <u>\$ 1,313,995</u> | <u>\$ 2,654,458</u> | <u>\$ 865,037</u> | <u>\$ 3,905,957</u> | <u>\$ -0-</u> | <u>\$ 291,563</u> | <u>\$ 12,266,767</u> |

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COUNCIL ON POSTSECONDARY EDUCATION

RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET TO THE STATEMENT OF NET POSITION JUNE 30, 2016

| | | | |
|---|------------------|----|----------------------------|
| Fund balances - total governmental funds | | \$ | 6,158,152 |
| Amounts reported for governmental activities in the statement of net position are different because: | | | |
| The deferred outflow of resources are not current financial resources, and therefore, are not reported in the governmental funds. | | | |
| | | | 3,008,899 |
| 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 | | | 1,197,769 |
| Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the governmental funds. | | | |
| Governmental capital assets | 591,965 | | |
| Less accumulated depreciation | <u>(401,977)</u> | | 189,988 |
| 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 | | | (228,900) |
| The deferred inflow of resources is not due and payable in the current year and, therefore, is not reported in the governmental funds. | | | |
| | | | (331,104) |
| The net pension liability is not due and payable in the current year and, therefore, is not reported in the governmental funds. | | | |
| | | | <u>(21,905,242)</u> |
| Net position of governmental activities | | \$ | <u><u>(11,910,438)</u></u> |

COUNCIL ON POSTSECONDARY EDUCATION

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES – GOVERNMENTAL FUNDS YEAR ENDED JUNE 30, 2016

| | Operations | Federal Programs | Kentucky Adult Education Funding Program | Research Challenge Trust Fund | Technology Initiative Trust Fund | Capital Projects | Other (Non-major Governmental Funds) | Total Governmental Funds |
|---|---------------------|--------------------|--|-------------------------------------|--|-------------------|--|--------------------------------|
| REVENUES: | | | | | | | | |
| State appropriations | \$ 7,009,962 | \$ | \$ 18,481,002 | \$ 3,607,500 | \$ 4,075,300 | \$ 28,491,500 | \$ 6,756,000 | \$ 68,421,264 |
| Charges for services | 594,915 | | | | 4,149,549 | | | 4,744,464 |
| Intergovernmental revenues | | | | | | | 651,657 | 651,657 |
| Federal programs | 304,437 | 12,220,437 | | | | | | 12,524,874 |
| Other revenues | 1,695 | | | | 75,255 | | | 76,950 |
| Income from investments | | | | 3,377 | 8,845 | | | 12,222 |
| Total revenues | 7,911,009 | 12,220,437 | 18,481,002 | 3,610,877 | 8,308,949 | 28,491,500 | 7,407,657 | 86,431,431 |
| EXPENDITURES: | | | | | | | | |
| Personnel services | 6,070,989 | 3,167,777 | 28,923 | 14,988 | 3,246,946 | | 2,360,365 | 14,889,988 |
| Utilities, rental, and other services | 1,388,902 | 359,027 | 216,103 | | 424,876 | | | 2,388,908 |
| Commodities and supplies | 188,832 | 82,819 | 111,750 | | 4,094,552 | | 21,810 | 4,499,763 |
| Grants and subsidies | | 8,448,889 | 18,106,959 | 4,747,500 | 57,359 | | 5,369,853 | 36,730,560 |
| Travel | 121,244 | 199,497 | 19,404 | | 27,077 | | 9,933 | 377,155 |
| Capital expenditures | 31,619 | | | | | | | 31,619 |
| Capital projects | | | | | | 28,491,500 | | 28,491,500 |
| Total expenditures | 7,801,586 | 12,258,009 | 18,483,139 | 4,762,488 | 7,850,810 | 28,491,500 | 7,761,961 | 87,409,493 |
| Net change in fund balances | 109,423 | (37,572) | (2,137) | (1,151,611) | 458,139 | -0- | (354,304) | (978,062) |
| Fund balances, beginning of year | 1,954,931 | (15,115) | (23,087) | 2,009,159 | 2,698,805 | -0- | 511,521 | 7,136,214 |
| Fund balances, end of year | \$ 2,064,354 | \$ (52,687) | \$ (25,224) | \$ 857,548 | \$ 3,156,944 | \$ -0- | \$ 157,217 | \$ 6,158,152 |

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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, 2016

**Net change in fund balances -
total governmental funds** \$ (978,062)

Amounts reported for governmental activities
in the statement of activities are different
because:

Governmental funds report as expenditures
for certain payments that benefit future
periods. In the statement of activities, this
future benefit is deferred until the service
has been received.

Change in prepaid expenses (925,713)

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.

| | | |
|--|-----------------|----------|
| Current year expenditures for capital assets | 31,619 | |
| Current year depreciation expense | <u>(55,284)</u> | (23,665) |

Pension 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. (1,224,050)

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.

| | | |
|---|--|----------------|
| Change in the noncurrent portion of accrued compensated absences | | <u>(5,000)</u> |
|---|--|----------------|

Change in net position of governmental activities \$ (3,156,490)

COUNCIL ON POSTSECONDARY EDUCATION

STATEMENT OF FIDUCIARY NET POSITION JUNE 30, 2016

| | <u>Agency Fund</u> |
|--|--------------------------|
| <u>ASSETS</u> | |
| Cash and cash equivalents - restricted | \$ 620,494 |
| Intergovernmental receivables | 862 |
| Investments - restricted | 177,769 |
| Prepaid expenses | <u>199,400</u> |
| Total assets | <u><u>\$ 998,525</u></u> |
| <u>LIABILITIES</u> | |
| Accounts payable | <u><u>\$ 998,525</u></u> |

COUNCIL ON POSTSECONDARY EDUCATION

NOTES TO THE FINANCIAL STATEMENTS JUNE 30, 2016

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 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 of Kentucky. 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 State's postsecondary education system and its compliance with the strategic plan; to revise and approve the missions of the State'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 State's postsecondary educational institutions; and identifying standardized degree

COUNCIL ON POSTSECONDARY EDUCATION

NOTES TO THE FINANCIAL STATEMENTS JUNE 30, 2016

programs and eliminating or making changes in existing academic programs at the State's postsecondary educational institutions.

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.

Kentucky Adult Education:

The Adult Education Reform Act of 2000 provided the foundation for improving the educational status of adult Kentuckians who do not have a high school diploma, who function at low levels of literacy, or who want to learn the English language. With the passage of Senate Bill 105 during the 2006 Regular Session, all functions and activities associated with adult education and literacy were assigned to the Council to facilitate the program's next level of achievement. Kentucky Adult Education has developed and incorporated ten priorities for its programs and activities: Base Funding for Students, Corrections Education, English Literacy/Civics, Family Literacy, Go Higher/P-16 Communities, Kentucky Virtual Adult Education, Professional Development, Tuition Discounts, Employer Contributions, and Workforce Education Initiatives. Kentucky Adult Education will continue to create new avenues for reaching adult learners, helping them transition to postsecondary education.

COUNCIL ON POSTSECONDARY EDUCATION

NOTES TO THE FINANCIAL STATEMENTS JUNE 30, 2016

Basis of Presentation

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

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:

COUNCIL ON POSTSECONDARY EDUCATION

NOTES TO THE FINANCIAL STATEMENTS JUNE 30, 2016

Operations - Includes general agency operations for the whole agency, including those associated with KYVC/KYVL and adult education. 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 Adult Education State Administered Program, Gaining Early Awareness and Readiness for Undergraduate Programs (GEAR-UP), Improving Teacher Quality State Grant (IEQ), pass-through funds from the Kentucky Department of Education for Statewide Data Systems and Career and Technical Education-Basic Grants to States, and pass through funds from the Department for Community Based Services (DCBS) for Pilot Project Path 2 Promise for Supplemental Nutrition Assistance Program (SNAP).

Kentucky Adult Education Funding Program - Policy leadership and planning responsibility for adult education and literacy has been assigned to the Council. The Council's responsibility is to establish guidelines for the use, distribution, and administration of the fund and for the fiscal agents to assess area needs and to develop strategies to meet those needs.

Research Challenge Trust Fund - The goal of this fund is to encourage research activities at the University of Kentucky and the University of Louisville. This fund is used to administer two main programs: the Endowment Match Program and the Lung Cancer Research Program.

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.

Capital Projects Fund – The debt service associated with various postsecondary education capital construction projects authorized by the Kentucky General Assembly was appropriated to the Council.

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 Postsecondary Education Equine Trust Fund, the Science and Technology Funding Program, the Postsecondary Workforce Development Trust Fund, the Regional

COUNCIL ON POSTSECONDARY EDUCATION

NOTES TO THE FINANCIAL STATEMENTS JUNE 30, 2016

University Excellence Trust Fund, the Technology Initiative Trust Fund, and the Assessment and Professional Development Fund.

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
- Governor's Minority Student College Preparation Program
- Professional Education Preparatory Program
- Southern Regional Education Board Doctoral Scholars Program
- Kentucky Autism Training Center
- Washington Internship Program

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.

COUNCIL ON POSTSECONDARY EDUCATION

NOTES TO THE FINANCIAL STATEMENTS JUNE 30, 2016

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.

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.

COUNCIL ON POSTSECONDARY EDUCATION

NOTES TO THE FINANCIAL STATEMENTS JUNE 30, 2016

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.

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, 2016, the balance consists of amounts due under the Council's Adult Education State Administered Federal Grant Program, GEAR-UP, and IEQ.

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

COUNCIL ON POSTSECONDARY EDUCATION

NOTES TO THE FINANCIAL STATEMENTS JUNE 30, 2016

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 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.

COUNCIL ON POSTSECONDARY EDUCATION

NOTES TO THE FINANCIAL STATEMENTS JUNE 30, 2016

- 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, 2016, Postsecondary Education Equine Trust Fund net position totaling \$196,374 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 is a limitation imposed by a designee of the Council members. Unassigned fund balance in the General Fund is 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 state's accounting system, the assumed order of spending is restricted 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 four Federal programs and the intergovernmental revenues primarily associated with the funding of the Postsecondary Equine Trust and Revolving Fund (see Note 10).

COUNCIL ON POSTSECONDARY EDUCATION

NOTES TO THE FINANCIAL STATEMENTS JUNE 30, 2016

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 Kentucky Teachers' Retirement Systems (KTRS) and additional to/deduction from KERS and KTRS fiduciary net position have been determined on the same basis as they are reported by the respective retirement systems.

For the 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.

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 accounting principles generally accepted in the United States of America, nor is such data comparable to a consolidation.

COUNCIL ON POSTSECONDARY EDUCATION

NOTES TO THE FINANCIAL STATEMENTS JUNE 30, 2016

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.

Deficit Fund Balances

The Federal Programs fund had a negative fund balance on June 30, 2016 in the amount of \$52,687. The Assessment and Professional Development Fund had a negative fund balance on June 30, 2016 in the amount of \$39,157. The Kentucky Adult Education Funding Program had a negative fund balance on June 30, 2016 in the amount of \$25,224. 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 2017 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, 2016, the Council's share of deposits in the Commonwealth's general depository (State investment pool) totals \$7,262,689. Agency funds held by the Council in the Commonwealth's general depository total \$798,263 at June 30, 2016.

COUNCIL ON POSTSECONDARY EDUCATION

NOTES TO THE FINANCIAL STATEMENTS JUNE 30, 2016

The Commonwealth's Comprehensive Annual Financial Report (CAFR) for the year ended June 30, 2016 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, 2016 is as follows:

| | Balance July 1, 2015 | Increases | Decreases | Balance June 30, 2016 |
|--|-------------------------|------------------------|-------------------|--------------------------|
| Capital assets: | | | | |
| Telephone system | \$ 27,996 | \$ | \$ | \$ 27,996 |
| Office equipment | 42,432 | 31,619 | 9,921 | 64,130 |
| Data processing equipment | 382,939 | | | 382,939 |
| Vehicles | 116,900 | | | 116,900 |
| Capital assets at cost | <u>570,267</u> | <u>31,619</u> | <u>9,921</u> | <u>591,965</u> |
| Less accumulated depreciation: | | | | |
| Telephone system | 16,834 | 2,805 | | 19,639 |
| Office equipment | 21,913 | 4,498 | 9,921 | 16,490 |
| Data processing equipment | 200,967 | 47,981 | | 248,948 |
| Vehicles | 116,900 | | | 116,900 |
| Total accumulated depreciation: | <u>356,614</u> | <u>55,284</u> | <u>9,921</u> | <u>401,977</u> |
| Capital assets - net | <u>\$ 213,653</u> | <u>\$ (23,665)</u> | <u>\$ -0-</u> | <u>\$ 189,988</u> |

Depreciation expense for 2016 totals \$55,284.

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.

COUNCIL ON POSTSECONDARY EDUCATION

NOTES TO THE FINANCIAL STATEMENTS JUNE 30, 2016

Activity in the liability for accrued compensated absences during the year ended June 30, 2016 is summarized as follows:

| | Balance July 1, 2015 | Increases | Decreases | Balance June 30, 2016 |
|------------------------------|-------------------------|------------|------------|--------------------------|
| Accrued compensated absences | \$ 852,590 | \$ 634,843 | \$ 640,000 | \$ 847,433 |

As of June 30, 2016, the amount estimated to be due within one year totals approximately \$619,000.

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, 2016. The estimated accumulated amount of unused sick leave at June 30, 2016, totals approximately \$1,625,000.

6. FIDUCIARY FUND

The changes in assets and liabilities of the fiduciary fund during the year ended June 30, 2016 are as follows:

| | Balance July 1, 2015 | Increases | Decreases | Balance June 30, 2016 |
|--|-------------------------|---------------|---------------|--------------------------|
| Assets: | | | | |
| Cash and cash equivalents - restricted | \$ 602,577 | \$ 10,022,517 | \$ 10,004,600 | \$ 620,494 |
| Intergovernmental receivables | 862 | 862 | 862 | 862 |
| Investments - restricted | 58,074 | 177,769 | 58,074 | 177,769 |
| Prepaid expenses | 137,350 | 199,400 | 137,350 | 199,400 |
| Total assets | \$ 798,863 | \$ 10,400,548 | \$ 10,200,886 | \$ 998,525 |
| Liabilities: | | | | |
| Accounts payable | \$ 798,863 | \$ 998,525 | \$ 798,863 | \$ 998,525 |

COUNCIL ON POSTSECONDARY EDUCATION

NOTES TO THE FINANCIAL STATEMENTS JUNE 30, 2016

7. LEASE COMMITMENTS

The Council leases certain equipment with terms in excess of one year. Future minimum rentals remaining under these non-cancelable operating leases for the year ending June 30, 2016 are as follows:

| <u>Year ending June 30</u> | |
|----------------------------|------------------|
| 2017 | \$ 17,581 |
| 2018 | 17,581 |
| 2019 | 5,930 |
| 2020 | -0- |
| 2021 | -0- |
| | <hr/> |
| | <u>\$ 41,092</u> |

The Council also leases office space under a lease agreement with an initial lease term that ended June 30, 2009. The lease agreement provided for three yearly automatic extension periods through June 30, 2012. However, the Council gave the lessor written notice thirty days prior to the expiration, renewing for an additional two yearly automatic extension periods through June 30, 2018. Future annual rentals remaining under this cancelable office space lease (through June 30, 2018 assuming the Council does not exercise its right to terminate the lease) are \$350,404 for the years ending June 30, 2017 and 2018.

Rentals paid under all operating leases (including the office space lease) during 2016 totaled approximately \$638,000.

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.

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NOTES TO THE FINANCIAL STATEMENTS JUNE 30, 2016

Currently, the Council is required to contribute 8.03% of the covered employees' salaries. The contribution requirement for the year ended June 30, 2016 totals approximately \$216,000, consisting of approximately \$133,000 from the Council and \$83,000 from employees. The contribution requirement for the year ended June 30, 2015 totaled approximately \$236,000, consisting of approximately \$145,000 from the Council and \$91,000 from employees. The contribution requirement for the year ended June 30, 2014 totaled approximately \$259,000, consisting of approximately \$160,000 from the Council and \$99,000 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).

| | Tier 1 Participation Prior to 9/1/2008 | Tier 2 Participation 9/1/2008 through 12/31/2013 | Tier 3 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 |

COUNCIL ON POSTSECONDARY EDUCATION

NOTES TO THE FINANCIAL STATEMENTS JUNE 30, 2016

| | Tier 1 Participation Prior to 9/1/2008 | Tier 2 Participation 9/1/2008 through 12/31/2013 | Tier 3 Participation on or after 1/1/2014 |
|--|---|--|---|
| 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. |
| 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 |

COUNCIL ON POSTSECONDARY EDUCATION

NOTES TO THE FINANCIAL STATEMENTS JUNE 30, 2016

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 KRS Board. For the fiscal years ended June 30 2016, Plan employees were required to contribute 5 percent of their annual covered salary for retirement benefits. 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 30.8 percent and 7.93 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 Plan's total required contributions to KERS nonhazardous pension plans for the years ended June 30, 2016 was \$926,802.

At June 30, 2016, the Plan reported a liability of \$18,374,905 for its proportionate share of net pension liability. The net pension liability was measured as of June 30, 2015, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The Plan's proportion of the net pension liability was based on projection of the Plan's long-term share of contributions to the pension plan relative to the projected contributions of all participating entities. At June 30, 2016, the Plan's proportion was 0.183165 percent.

COUNCIL ON POSTSECONDARY EDUCATION

NOTES TO THE FINANCIAL STATEMENTS JUNE 30, 2016

Actuarial Assumptions

| | |
|--------------------------------------|--|
| Actuarial Valuation Date | June 30, 2015 |
| Actuarial Cost Method | Entry age |
| Amortization Method | Level percent closed |
| Remaining amortization period | 28 years |
| Asset valuation method | Five-year smoothed Market |
| Actuarial assumptions: | |
| Investment rate of return | 7.50% |
| Inflation rate | 3.25% |
| Projected salary increases | 4.00% |
| Mortality Tables: | |
| Active members | RP-2000 Combined Mortality Table projected with Scale BB to 2013 (multiplied by 50% for males and 30% for females) |
| Health retired members | RP-2000 Combined Mortality Table projected with Scale BB to 2013 (set back 1 year for females) |
| Disabled members | RP-2000 Combined Mortality Table projected with Scale BB to 2013 (set back 4 years for males) |
| Date of Experience Study | The period July1, 2008 - June 30 2013 |

COUNCIL ON POSTSECONDARY EDUCATION

NOTES TO THE FINANCIAL STATEMENTS JUNE 30, 2016

For the year ended June 30, 2016, the Plan recognized pension expenses of \$2,050,783 and deferred outflows and deferred inflows related to pension from the following sources:

| | Deferred Outflows of Resources | Deferred Inflows of Resources |
|---|--------------------------------------|----------------------------------|
| Difference between expected and actual experience | \$ 39,256 | \$ -0- |
| Net difference between projected and actual earnings | 52,335 | -0- |
| Changes of assumption | 880,788 | -0- |
| Changes in proportion and differences between employer contributions and proportionate share of contributions | 834,232 | -0- |
| Contributions subsequent to the measurement date | 926,802 | -0- |
| Total | \$ 2,733,413 | \$ 0 |

The \$926,802 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, 2017. 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

| Fiscal Years | Amount |
|--------------|------------|
| 2017 | \$ 783,385 |
| 2018 | 783,385 |
| 2019 | 198,626 |
| 2020 | 41,215 |
| Total | 1,806,611 |

COUNCIL ON POSTSECONDARY EDUCATION

NOTES TO THE FINANCIAL STATEMENTS JUNE 30, 2016

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 was for the period covering fiscal years 2008 through 2013, and is outlined in a report dated April 30, 2014. 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, 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 | | |
|--|--------------------------|---|
| <u>Asset Class</u> | <u>Target Allocation</u> | <u>Long-Term Nominal Rate of Return</u> |
| Combined Equity | 44% | 5.4% |
| Combined Fixed Income | 19% | 1.5% |
| Real Return (Diversified Inflation Strategies) | 10% | 3.5% |
| Real Estate | 5% | 4.5% |
| Absolute Return (Diversified Hedge Funds) | 10% | 4.3% |
| Private Equity | 10% | 8.5 |
| Cash Equivalent | 2% | -0.25% |
| Total | <u>100%</u> | |

The projection of cash flows used to determine the discount rate assumed that local employers would contribute the actuarially determined contribution rate of projected compensation over the remaining 28-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.

COUNCIL ON POSTSECONDARY EDUCATION

NOTES TO THE FINANCIAL STATEMENTS JUNE 30, 2016

June 30, 2015 is the actuarial valuation date upon which the total pension liability is based. No update procedures were used to determine the total pension liability. 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. Projected future benefit payments for all current plan members were projected through 2117.

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%):

| | <u>1% Decrease (6.5%)</u> | <u>Discount (7.5%)</u> | <u>1% Increase (8.5%)</u> |
|-----------------------------------|-------------------------------|----------------------------|-------------------------------|
| The Council's proportionate share | \$ 20,697,779 | \$ 18,374,905 | \$ 16,409,855 |

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.

Kentucky Teachers' Retirement System:

Certain Council professional staff had participated in the Kentucky Teachers' Retirement System (KTRS), 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 KTRS. The KTRS is governed by Chapter 161, Sections 220 through Chapter 161 Section 990, of the Kentucky Revised Statutes.

Covered employees under KTRS 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.

COUNCIL ON POSTSECONDARY EDUCATION

NOTES TO THE FINANCIAL STATEMENTS JUNE 30, 2016

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 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 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 for all members is \$440 multiplied by credited service.

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;

COUNCIL ON POSTSECONDARY EDUCATION

NOTES TO THE FINANCIAL STATEMENTS JUNE 30, 2016

(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.

The final average salary is 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, 2016, the Plan reported a liability of \$3,530,337 for its proportionate share of net pension liability. The net pension liability was measured as of June 30, 2015, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as June 30, 2014. The Plan's proportion of the net pension liability was based on a projection of the Plan's long-term share of contributions to the pension plan relative to the projected contributions of all participating organizations and the State, actuarially determined liability. At June 30, 2016, the Plan's proportion was 0.0152 percent.

| Actuarial Assumptions | |
|-----------------------------------|---------------|
| Actuarial Valuation Date | June 30, 2014 |
| Actuarial Cost Method | Entry age |
| Actuarial assumptions: | |
| Investment rate of return | 7.5% |
| Inflation Rate | 3.50% |
| Projected salary increases | 4% – 8.2% |

COUNCIL ON POSTSECONDARY EDUCATION

NOTES TO THE FINANCIAL STATEMENTS JUNE 30, 2016

| | |
|--|--|
| 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 AA to 2020 with a setback of 1 year for females. |
| Date of Experience Study | The period July 1, 2005 - June 30 2010 |

For the year ended June 30, 2016, the Plan recognized pension expenses of \$161,379 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 | \$ -0- | \$ 37,768 |
| Net difference between projected and actual investments earnings on pension plan investments | -0- | 87,772 |
| Change of assumptions | 214,176 | 33,396 |
| Changes in proportion and differences between contributions and proportionate share of contributions | -0- | 172,168 |
| Contributions subsequent to the measurement date | 61,310 | -0- |
| Total | \$ 275,486 | \$ 331,104 |

The \$61,310 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, 2017. For the year ended June 30, 2016 employees were required to contribute 12.855 percent the Council contributes 12.325 percent. Other amounts reported as deferred inflows and deferred outflows of resources related to pensions will be recognized in pension expense as follows:

COUNCIL ON POSTSECONDARY EDUCATION

NOTES TO THE FINANCIAL STATEMENTS JUNE 30, 2016

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

| Fiscal Years | Amount |
|--------------|-------------|
| 2017 | \$ (41,469) |
| 2018 | (41,469) |
| 2019 | (41,469) |
| 2020 | 7,278 |
| 2021 | 201 |
| Total | (116,928) |

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 | 45% | 6.4% |
| Non U.S. Equity | 17% | 6.5% |
| Fixed Income | 24% | 1.6% |
| High Yield Bonds | 4% | 3.1% |
| Real Estate | 4% | 5.8% |
| Alternatives | 4% | 6.8% |
| Cash | 2% | 1.5% |
| Total | 100% | |

June 30, 2014 is the actuarial valuation date upon which the total pension liability is based. An expected total pension liability is determined as of June 30, 2015 using standard roll forward techniques. The discount rate used to measure the total pension liability was 4.88%. 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

COUNCIL ON POSTSECONDARY EDUCATION

NOTES TO THE FINANCIAL STATEMENTS JUNE 30, 2016

of current plan members until 2039 plan year. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments through 2039 and a municipal bond index rate of 3.82% was applied to all periods of projected benefit payments after 2039. 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 4.88%, 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 (3.88%) or one percentage point higher (5.88%):

| | <u>1% Decrease (3.88%)</u> | <u>Discount (4.88%)</u> | <u>1% Increase (5.88%)</u> |
|-----------------------------------|--------------------------------|-----------------------------|--------------------------------|
| The Council's proportionate share | \$ 4,393,893 | \$ 3,530,337 | \$ 2,815,731 |

Detailed information about the KTRS's fiduciary net position is available in the separately issued Kentucky Teachers' 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 KTRS.

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 \$304,000 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 Commonwealth of Kentucky's Comprehensive Annual Financial Report should be referred to for additional disclosures related to the deferred compensation plans.

COUNCIL ON POSTSECONDARY EDUCATION

NOTES TO THE FINANCIAL STATEMENTS JUNE 30, 2016

9. POST-EMPLOYMENT HEALTH CARE BENEFITS

Retired Council employees receive some health care benefits depending on their length of service. In accordance with Kentucky Revised Statutes, these benefits are provided and advanced-funded on an actuarially determined basis through the KERS. Kentucky Retirement System issues a publicly available financial report that includes financial statements and required supplementary information for the KERS. The report may be obtained by writing to Kentucky Retirement System, Perimeter Park West, 1260 Louisville Road, Frankfort, Kentucky 40601.

| June 30, | Statutorily Required Contribution Rate (As a Percentage of Covered Payroll) | Annual OPEB Cost | Annual OPEB Cost Contributed | Percentage of Annual OPEB Cost Contributed |
|----------|---|---------------------|---------------------------------|--|
| 2016 | 7.93% | \$ 238,312 | \$ 238,312 | 100% |
| 2015 | 7.93% | \$ 237,023 | \$ 237,023 | 100% |
| 2014 | 9.50% | \$ 269,679 | \$ 269,679 | 100% |

10. INTERGOVERNMENTAL TRANSACTIONS

At June 30, 2016, intergovernmental receivables consist of the following:

Due from the General Fund of the Commonwealth of Kentucky:

| | |
|---|------------------|
| Appropriations for Agency Operations | \$ 140,419 |
| Appropriations for the Kentucky Adult Education and Literacy Incentive Funding Program | 2,654,458 |
| Appropriations for Assessment and Professional Development | <u>95,189</u> |
| Total due from the General Fund of the Commonwealth of Kentucky | <u>2,890,066</u> |

Due from other state agencies of the Commonwealth of Kentucky:

| | |
|---|----------------------------|
| Reimbursement of expenses from the Department for Community Based Services under the Supplemental Nutrition Assistance Program | 93,448 |
| Reimbursement of expenses from the Department of Education under the Perkins Grant | <u>35,902</u> |
| Total due from the other state agencies of the Commonwealth of Kentucky | <u>129,350</u> |
| Total intergovernmental receivables | <u><u>\$ 3,019,416</u></u> |

COUNCIL ON POSTSECONDARY EDUCATION

NOTES TO THE FINANCIAL STATEMENTS JUNE 30, 2016

A summary of the significant intergovernmental revenues during the year ended June 30, 2016, is as follows:

| | |
|---|-------------------|
| Funding for the Postsecondary Education Equine Trust and Revolving Fund from a Special Revenue Fund of the Commonwealth of Kentucky | <u>\$ 651,657</u> |
|---|-------------------|

11. RELATED PARTY TRANSACTIONS

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 2016, the Council paid approximately \$188,000 to COT for services provided during the year.

The Council received the benefit of accounting and administrative services from the Personnel Cabinet and Finance and Administration Cabinet for 2016. During 2016, the Council paid approximately \$5,000 to the Personnel Cabinet and approximately \$30,000 to the Finance and Administration Cabinet for services provided during the year.

The Council uses vehicles from the Transportation Cabinet's fleet. During 2016, the Council paid approximately \$36,000 to the Transportation Cabinet for use of their vehicles.

12. COMMITMENTS AND CONTINGENCIES

As of June 30, 2016, the Council is committed under certain agreements and contracts in the amount of approximately \$19,850,000. 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 State'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.

COUNCIL ON POSTSECONDARY EDUCATION

NOTES TO THE FINANCIAL STATEMENTS JUNE 30, 2016

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, 2016, the Council estimates that no material liabilities will result from such audits.

13. 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.

14. FAIR VALUE OF FINANCIAL INSTRUMENTS

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:

COUNCIL ON POSTSECONDARY EDUCATION

NOTES TO THE FINANCIAL STATEMENTS JUNE 30, 2016

- 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.

The following table set forth by level, within the hierarchy, the Council's assets and liabilities measured at fair value on a recurring basis as of June 30, 2016 are as follows:

| | Assets at Fair Value as of June 30, 2016 | | | |
|--------------------------------|---|--------------|---------|--------------|
| | Level 1 | Level 2 | Level 3 | Total |
| Commonwealth's investment pool | \$ 1,736,350 | \$ 2,388,140 | \$ -0- | \$ 4,124,490 |
| Total assets at fair value | \$ 1,736,350 | \$ 2,388,140 | \$ -0- | \$ 4,124,490 |

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, 2016.

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.

COUNCIL ON POSTSECONDARY EDUCATION

NOTES TO THE FINANCIAL STATEMENTS JUNE 30, 2016

15. NEW STANDARDS IMPLEMENTATION

During 2016, the Council implemented **GASB Statement No. 72, *Fair Value Measurements and Application***. This standard enhanced the comparability of financial statements among governments by requiring the measurement of certain assets and liabilities at fair value using a consistent and more detailed definition of fair value and accepted valuation techniques. This Statement also provides enhanced fair value application guidance and related disclosures in order to provide information to financial statement users about the impact of fair value measurements in government's financial position.

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:

GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, issued June 2015, will be effective for periods beginning after June 15, 2017. This Statement addresses accounting and financial reporting for Other Postemployment Benefits (OPEB) that is provided to the employees of state and local governmental employers. This Statement establishes standards for recognizing and measuring liabilities, deferred outflows of resources, deferred inflows of resources, and expense/expenditures. For defined benefit OPEB, this Statement identifies the methods and assumptions that are required to be used to project benefit payments, discount projected benefit payments to their actuarial present value, and attribute that present value to periods of employee service. Note disclosures and required supplementary information requirements about defined benefit OPEB will be enhanced.

GASB Statement No. 82, *Pension Issues – an amendment of GASB Statements No. 67, No. 68, and No. 73*, will be effective for periods beginning after June 15, 2016. This Statement addresses issues regarding (1) the presentation of payroll-related measures in required supplementary information, (2) the selection of assumptions and the treatment of deviations from the guidance in an Actuarial Standard of Practice for financial reporting purposes, and (3) the classification of payments made by employers to satisfy employee (plan member) contribution requirements.

REQUIRED SUPPLEMENTARY INFORMATION

COUNCIL ON POSTSECONDARY EDUCATION

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

| | <u>2016</u> | <u>2015</u> |
|--|---------------|-------------|
| Proportion of the net pension liability (asset) | 0.183165% | 0.169904% |
| Proportionate share of the net pension liability | \$ 18,374,905 | 15,243,442 |
| Covered- employee payroll | \$ 2,988,947 | 2,915,237 |
| Proportionate share of the net pension liability (asset) as a percentage of its covered-employee payroll | 614.76% | 522.89% |
| Plan fiduciary net position as a percentage of the total pension liability | 18.83% | 22.32% |

*Note: This schedule is intended to present 10 years of 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 CONTRIBUTIONS KENTUCKY EMPLOYERS' RETIREMENT SYSTEM

| | <u>2016</u> | <u>2015</u> | <u>2014</u> |
|---|----------------|----------------|----------------|
| Statutorily required contribution | \$ 926,802 | 921,837 | 504,336 |
| Contribution in relation to the statutorily required contribution | <u>926,802</u> | <u>921,837</u> | <u>504,336</u> |
| Contribution deficiency (excess) | \$ -0- | -0- | -0- |
| Covered employee payroll | \$ 3,005,194 | 2,988,947 | 2,915,237 |
| Contribution as a percentage of covered-employee payroll | 30.84% | 30.84% | 17.30% |

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

COUNCIL ON POSTSECONDARY EDUCATION

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

| | <u>2016</u> | <u>2015</u> |
|--|-------------|-------------|
| Proportion of the net pension liability (asset) | 0.015200% | 0.016100% |
| Proportionate share of the net pension liability | 3,530,337 | 3,322,159 |
| Covered- employee payroll | 592,673 | 625,000 |
| Proportionate share of the net pension liability (asset) as a percentage of its covered-employee payroll | 595.66% | 531.55% |
| Plan fiduciary net position as a percentage of the total pension liability | 42.49% | 45.59% |

*Note: This schedule is intended to present 10 years of 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 CONTRIBUTIONS KENTUCKY TEACHERS' RETIREMENT SYSTEM

| | <u>2016</u> | <u>2015</u> | <u>2014</u> |
|---|---------------|---------------|---------------|
| Statutorily required contribution | 61,310 | 73,047 | 74,057 |
| Contribution in relation to the statutorily required contribution | <u>61,310</u> | <u>73,047</u> | <u>74,057</u> |
| Contribution deficiency (excess) | -0- | -0- | -0- |
| Covered employee payroll | 497,443 | 592,673 | 625,000 |
| Contribution as a percentage of covered-employee payroll | 12.33% | 12.33% | 11.85% |

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

COUNCIL ON POSTSECONDARY EDUCATION

SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES – BUDGET AND ACTUAL (BUDGETARY BASIS) – UNAUDITED YEAR ENDED JUNE 30, 2016

| | Operations | | | Over (Under) Budget |
|--|---------------------|---------------------|---------------------|------------------------|
| | Original Budget | Final Budget | Actual | |
| Budgetary fund balance, July 1 | \$ 1,300,162 | \$ 1,300,162 | \$ 2,961,737 | \$ 1,661,575 |
| REVENUES: | | | | |
| State appropriations | 7,012,000 | 7,012,000 | 7,009,962 | (2,038) |
| Charges for services | 760,000 | 1,090,000 | 594,915 | (495,085) |
| Intergovernmental revenues | | | | |
| Federal programs | | | 304,437 | 304,437 |
| Other revenues | | | 1,695 | 1,695 |
| Income from investments | | | | |
| Total revenues | <u>7,772,000</u> | <u>8,102,000</u> | <u>7,911,009</u> | <u>(190,991)</u> |
| Amount available for expenditures | <u>9,072,162</u> | <u>9,402,162</u> | <u>10,872,746</u> | <u>1,470,584</u> |
| EXPENDITURES: | | | | |
| Personnel services | 6,429,400 | 6,106,000 | 6,051,010 | (54,990) |
| Utilities, rentals, and other services | 1,019,600 | 1,333,800 | 1,388,902 | 55,102 |
| Commodities and supplies | 82,400 | 61,800 | 188,832 | 127,032 |
| Grants and subsidies | | | | |
| Travel | 175,000 | 132,200 | 121,244 | (10,956) |
| Capital expenditures | | | 31,619 | 31,619 |
| Total expenditures | <u>7,706,400</u> | <u>7,633,800</u> | <u>7,781,607</u> | <u>147,807</u> |
| OTHER FINANCING SOURCES (USES): | | | | |
| Interfund transfers in (out) | -0- | -0- | -0- | -0- |
| Budgetary fund balance, June 30 | <u>\$ 1,365,762</u> | <u>\$ 1,768,362</u> | <u>\$ 3,091,139</u> | <u>\$ 1,322,777</u> |

COUNCIL ON POSTSECONDARY EDUCATION

SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES – BUDGET AND ACTUAL (BUDGETARY BASIS) – UNAUDITED YEAR ENDED JUNE 30, 2016

| | Federal Programs | | | Over (Under) Budget |
|--|--------------------|-----------------|------------|------------------------|
| | Original Budget | Final Budget | Actual | |
| Budgetary fund balance, July 1 | \$ -0- | \$ -0- | \$ 155,049 | \$ 155,049 |
| REVENUES: | | | | |
| State appropriations | | | | |
| Charges for services | | | | |
| Intergovernmental revenues | | | | |
| Federal programs | 18,573,800 | 18,573,800 | 12,220,437 | (6,353,363) |
| Other revenues | | | | |
| Income from investments | | | | |
| Total revenues | 18,573,800 | 18,573,800 | 12,220,437 | (6,353,363) |
| Amount available for expenditures | 18,573,800 | 18,573,800 | 12,375,486 | (6,198,314) |
| EXPENDITURES: | | | | |
| Personnel services | | | 3,141,813 | 3,141,813 |
| Utilities, rentals, and other services | | | 359,027 | 359,027 |
| Commodities and supplies | | | 82,819 | 82,819 |
| Grants and subsidies | 16,431,819 | 16,431,819 | 8,448,889 | (7,982,930) |
| Travel | | | 199,497 | 199,497 |
| Capital expenditures | | | | |
| Total expenditures | 16,431,819 | 16,431,819 | 12,232,045 | (4,199,774) |
| OTHER FINANCING SOURCES (USES): | | | | |
| Interfund transfers in (out) | -0- | -0- | -0- | -0- |
| Budgetary fund balance, June 30 | \$ 2,141,981 | \$ 2,141,981 | \$ 143,441 | \$ (1,998,540) |

COUNCIL ON POSTSECONDARY EDUCATION

SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES – BUDGET AND ACTUAL (BUDGETARY BASIS) – UNAUDITED YEAR ENDED JUNE 30, 2016

| | Kentucky Adult Education Funding Program | | | |
|--|--|---------------------|-------------------|------------------------|
| | Original Budget | Final Budget | Actual | Over (Under) Budget |
| Budgetary fund balance, July 1 | \$ 1,051,515 | \$ 1,051,515 | \$ 2,000 | \$ (1,049,515) |
| REVENUES: | | | | |
| State appropriations | 18,575,500 | 18,575,500 | 18,481,002 | (94,498) |
| Charges for services | | | | |
| Intergovernmental revenues | | | | |
| Federal programs | | | | |
| Other revenues | | | | |
| Income from investments | | | | |
| Total revenues | <u>18,575,500</u> | <u>18,575,500</u> | <u>18,481,002</u> | <u>(94,498)</u> |
| Amount available for expenditures | <u>19,627,015</u> | <u>19,627,015</u> | <u>18,483,002</u> | <u>(1,144,013)</u> |
| EXPENDITURES: | | | | |
| Personnel services | | | 28,786 | 28,786 |
| Utilities, rentals, and other services | | | 216,103 | 216,103 |
| Commodities and supplies | | | 111,750 | 111,750 |
| Grants and subsidies | 20,129,016 | 20,161,016 | 18,106,959 | (2,054,057) |
| Travel | | | 19,404 | 19,404 |
| Capital expenditures | | | | |
| Total expenditures | <u>20,129,016</u> | <u>20,161,016</u> | <u>18,483,002</u> | <u>(1,678,014)</u> |
| OTHER FINANCING SOURCES (USES): | | | | |
| Interfund transfers in (out) | <u>-0-</u> | <u>-0-</u> | <u>-0-</u> | <u>-0-</u> |
| Budgetary fund balance, June 30 | <u>\$ (502,001)</u> | <u>\$ (534,001)</u> | <u>\$ -0-</u> | <u>\$ 534,001</u> |

COUNCIL ON POSTSECONDARY EDUCATION

SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES – BUDGET AND ACTUAL (BUDGETARY BASIS) – UNAUDITED YEAR ENDED JUNE 30, 2016

| | Research Challenge Trust Fund | | | |
|--|-------------------------------|---------------------|-------------------|------------------------|
| | Original Budget | Final Budget | Actual | Over (Under) Budget |
| Budgetary fund balance, July 1 | \$ 651,503 | \$ 651,503 | \$ 2,009,159 | \$ 1,357,656 |
| REVENUES: | | | | |
| State appropriations | 4,972,500 | 4,972,500 | 3,607,500 | (1,365,000) |
| Charges for services | | | | |
| Intergovernmental revenues | | | | |
| Federal programs | | | | |
| Other revenues | 4,865,000 | 4,715,350 | | (4,715,350) |
| Income from investments | | | 3,377 | 3,377 |
| Total revenues | <u>9,837,500</u> | <u>9,687,850</u> | <u>3,610,877</u> | <u>(6,076,973)</u> |
| Amount available for expenditures | <u>10,489,003</u> | <u>10,339,353</u> | <u>5,620,036</u> | <u>(4,719,317)</u> |
| EXPENDITURES: | | | | |
| Personnel services | | | 14,988 | 14,988 |
| Utilities, rentals, and other services | | | | |
| Commodities and supplies | | | | |
| Grants and subsidies | 6,489,003 | 6,492,380 | 4,747,500 | (1,744,880) |
| Travel | | | | |
| Capital expenditures | | | | |
| Total expenditures | <u>6,489,003</u> | <u>6,492,380</u> | <u>4,762,488</u> | <u>(1,729,892)</u> |
| OTHER FINANCING SOURCES (USES): | | | | |
| Interfund transfers in (out) | -0- | -0- | -0- | -0- |
| Budgetary fund balance, June 30 | <u>\$ 4,000,000</u> | <u>\$ 3,846,973</u> | <u>\$ 857,548</u> | <u>\$ (2,989,425)</u> |

COUNCIL ON POSTSECONDARY EDUCATION

SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES – BUDGET AND ACTUAL (BUDGETARY BASIS) – UNAUDITED YEAR ENDED JUNE 30, 2016

| | Technology Initiative Trust Fund | | | |
|--|----------------------------------|-------------------|---------------------|------------------------|
| | Original Budget | Final Budget | Actual | Over (Under) Budget |
| Budgetary fund balance, July 1 | \$ 2,655,917 | \$ 2,655,917 | \$ 2,740,858 | \$ 84,941 |
| REVENUES: | | | | |
| State appropriations | 4,075,300 | 4,075,300 | 4,075,300 | -0- |
| Charges for services | 2,075,250 | 4,355,662 | 4,149,549 | (206,113) |
| Intergovernmental revenues | | | | |
| Federal programs | | | | |
| Other revenues | | | 75,255 | 75,255 |
| Income from investments | 2,000 | 8,845 | 8,845 | -0- |
| Total revenues | <u>6,152,550</u> | <u>8,439,807</u> | <u>8,308,949</u> | <u>(130,858)</u> |
| Amount available for expenditures | <u>8,808,467</u> | <u>11,095,724</u> | <u>11,049,807</u> | <u>(45,917)</u> |
| EXPENDITURES: | | | | |
| Personnel services | | | 3,278,655 | 3,278,655 |
| Utilities, rentals, and other services | | | 424,876 | 424,876 |
| Commodities and supplies | | | 4,094,552 | 4,094,552 |
| Grants and subsidies | 8,808,467 | 11,095,724 | 57,359 | (11,038,365) |
| Travel | | | 27,077 | 27,077 |
| Capital expenditures | | | | |
| Total expenditures | <u>8,808,467</u> | <u>11,095,724</u> | <u>7,882,519</u> | <u>(3,213,205)</u> |
| OTHER FINANCING SOURCES (USES): | | | | |
| Interfund transfers in (out) | -0- | -0- | -0- | -0- |
| Budgetary fund balance, June 30 | <u>\$ -0-</u> | <u>\$ -0-</u> | <u>\$ 3,167,288</u> | <u>\$ 3,167,288</u> |

COUNCIL ON POSTSECONDARY EDUCATION

SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES – BUDGET AND ACTUAL (BUDGETARY BASIS) – UNAUDITED YEAR ENDED JUNE 30, 2016

| | Capital Projects | | | Over (Under) Budget |
|--|--------------------|-----------------|------------|------------------------|
| | Original Budget | Final Budget | Actual | |
| Budgetary fund balance, July 1 | \$ -0- | \$ -0- | \$ -0- | \$ -0- |
| REVENUES: | | | | |
| State appropriations | 28,491,500 | 28,491,500 | 28,491,500 | -0- |
| Charges for services | | | | |
| Intergovernmental revenues | | | | |
| Federal programs | | | | |
| Other revenues | | | | |
| Income from investments | | | | |
| Total revenues | 28,491,500 | 28,491,500 | 28,491,500 | -0- |
| Amount available for expenditures | 28,491,500 | 28,491,500 | 28,491,500 | -0- |
| EXPENDITURES: | | | | |
| Personnel services | | | | |
| Utilities, rentals, and other services | | | | |
| Commodities and supplies | | | | |
| Grants and subsidies | | | | |
| Travel | | | | |
| Capital projects | 28,491,500 | 28,491,500 | 28,491,500 | |
| Total expenditures | 28,491,500 | 28,491,500 | 28,491,500 | -0- |
| OTHER FINANCING SOURCES (USES): | | | | |
| Interfund transfers in (out) | -0- | -0- | -0- | -0- |
| Budgetary fund balance, June 30 | \$ -0- | \$ -0- | \$ -0- | \$ -0- |

COUNCIL ON POSTSECONDARY EDUCATION

NOTE TO THE SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES – BUDGET AND ACTUAL (BUDGETARY BASIS) – UNAUDITED YEAR ENDED JUNE 30, 2016

Budgetary Basis Versus GAAP

The accompanying schedule 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 generally accepted accounting principles (GAAP). An explanation of the differences between budgetary inflows and outflows and revenues and expenditures determined in accordance with GAAP follows:

| | Operations | Federal Programs | Kentucky Adult Education Funding Program | Research Challenge Trust Fund | Technology Initiative Trust Fund | Capital Projects |
|--|--------------|------------------|--|-------------------------------|----------------------------------|------------------|
| Total revenues per the budgetary comparison schedule | \$ 7,911,009 | \$ 12,220,437 | \$ 18,481,002 | \$ 3,610,877 | \$ 8,308,949 | \$ 28,491,500 |
| Total revenues per the statement of revenues, expenditures, and changes in fund balance | \$ 7,911,009 | \$ 12,220,437 | \$ 18,481,002 | \$ 3,610,877 | \$ 8,308,949 | \$ 28,491,500 |
| Total expenditures per the budgetary comparison schedule | \$ 7,781,607 | \$ 12,232,045 | \$ 18,483,002 | \$ 4,762,488 | \$ 7,882,519 | \$ 28,491,500 |
| Change in accrued expenditures | 5,082 | 506 | 637 | | (19,175) | |
| Change in short-term compensated absences | 14,897 | 25,458 | (500) | | (12,534) | |
| Total expenditures per the statement of revenues, expenditures, and changes in fund balance | \$ 7,801,586 | \$ 12,258,009 | \$ 18,483,139 | \$ 4,762,488 | \$ 7,850,810 | \$ 28,491,500 |

ADDITIONAL SUPPLEMENTARY INFORMATION

COUNCIL ON POSTSECONDARY EDUCATION

SUPPLEMENTARY SCHEDULE OF ASSETS, LIABILITIES, AND FUND BALANCES – OPERATIONS JUNE 30, 2016

| | Agency Operations | Kentucky Adult Education Operations | KYVC/ KYVL Operations | Total Operations |
|---|----------------------------|--|----------------------------|----------------------------|
| <u>ASSETS</u> | | | | |
| Cash and cash equivalents | \$ 171,069 | \$ 1,102 | \$ 82,843 | \$ 255,014 |
| Investments | 1,483,902 | 9,560 | 718,604 | 2,212,066 |
| Accounts receivable | 1,685 | | | 1,685 |
| Intergovernmental receivables | 140,419 | | | 140,419 |
| Due from the Federal government | 26,573 | | | 26,573 |
| Interfund receivable | | | 600,000 | 600,000 |
| Total assets | <u>\$ 1,823,648</u> | <u>\$ 10,662</u> | <u>\$ 1,401,447</u> | <u>\$ 3,235,757</u> |
| <u>LIABILITIES AND FUND BALANCES</u> | | | | |
| Liabilities: | | | | |
| Accounts and other payables | \$ 144,619 | \$ | \$ | \$ 144,619 |
| Accrued expenses | 477,129 | 5,555 | | 482,684 |
| Accrued compensated absences | 544,100 | | | 544,100 |
| Total liabilities | <u>1,165,848</u> | <u>5,555</u> | <u>-0-</u> | <u>1,171,403</u> |
| Fund balances: | | | | |
| Assigned: | | | | |
| for agency operations | 657,800 | 5,107 | 1,401,447 | 2,064,354 |
| Total liabilities and fund balances | <u>\$ 1,823,648</u> | <u>\$ 10,662</u> | <u>\$ 1,401,447</u> | <u>\$ 3,235,757</u> |

See report of independent auditors.

COUNCIL ON POSTSECONDARY EDUCATION

SUPPLEMENTARY SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES – OPERATIONS YEAR ENDED JUNE 30, 2016

| | Agency Operations | Kentucky Adult Education Operations | KYVC/ KYVL Operations | Total Operations |
|---|----------------------|---|-----------------------------|---------------------|
| REVENUES: | | | | |
| State appropriations | \$ 7,009,962 | \$ | \$ | \$ 7,009,962 |
| Charges for services | 451,000 | 143,915 | | 594,915 |
| Intergovernmental revenues | | | | -0- |
| Federal programs | 304,437 | | | 304,437 |
| Other revenues | 1,685 | 10 | | 1,695 |
| Total revenues | <u>7,767,084</u> | <u>143,925</u> | <u>-0-</u> | <u>7,911,009</u> |
| EXPENDITURES: | | | | |
| Personnel services | 6,067,974 | 3,015 | | 6,070,989 |
| Utilities, rentals, and other services | 1,176,776 | 212,126 | | 1,388,902 |
| Commodities and supplies | 188,832 | | | 188,832 |
| Travel | 118,670 | 2,574 | | 121,244 |
| Capital expenditures | 31,619 | | | 31,619 |
| Total expenditures | <u>7,583,871</u> | <u>217,715</u> | <u>-0-</u> | <u>7,801,586</u> |
| Net change in fund balances | 183,213 | (73,790) | -0- | 109,423 |
| Fund balances, beginning of year | <u>474,587</u> | <u>78,897</u> | <u>1,401,447</u> | <u>1,954,931</u> |
| Fund balances, end of year | <u>\$ 657,800</u> | <u>\$ 5,107</u> | <u>\$ 1,401,447</u> | <u>\$ 2,064,354</u> |

See report of independent auditors.

COUNCIL ON POSTSECONDARY EDUCATION

SUPPLEMENTARY SCHEDULE OF ASSETS, LIABILITIES, AND FUND BALANCES – RESEARCH CHALLENGE TRUST FUND JUNE 30, 2016

| | Lung Cancer Research | Endowment Match Program | Total Research Challenge Trust Fund |
|---|-------------------------|----------------------------|---|
| <u>ASSETS</u> | | | |
| Cash and cash equivalents | \$ 538,366 | \$ 1 | \$ 538,367 |
| Investments | 326,670 | | 326,670 |
| Total assets | \$ 865,036 | \$ 1 | \$ 865,037 |
| <u>LIABILITIES AND FUND BALANCES</u> | | | |
| Liabilities: | | | |
| Accounts and other payables | \$ 7,488 | \$ 1 | \$ 7,489 |
| Intergovernmental payable | -0- | | -0- |
| Total liabilities | 7,488 | 1 | 7,489 |
| Fund balances: | | | |
| Restricted: | | | |
| for Lung Cancer Research | 857,548 | | 857,548 |
| for Research Challenge | | | -0- |
| Total fund balances | 857,548 | -0- | 857,548 |
| Total liabilities and fund balances | \$ 865,036 | \$ 1 | \$ 865,037 |

COUNCIL ON POSTSECONDARY EDUCATION

SUPPLEMENTARY SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES – RESEARCH CHALLENGE TRUST FUND YEAR ENDED JUNE 30, 2016

| | Lung Cancer Research | Endowment Match Program | Total Research Challenge Trust Fund |
|--|-------------------------|----------------------------|---|
| REVENUES: | | | |
| State appropriations | \$ 3,607,500 | \$ | \$ 3,607,500 |
| Income from investments | 3,377 | | 3,377 |
| Total revenues | <u>3,610,877</u> | <u>-0-</u> | <u>3,610,877</u> |
| EXPENDITURES: | | | |
| Personnel services | 14,988 | | 14,988 |
| Grants and subsidies | 4,747,500 | | 4,747,500 |
| Total expenditures | <u>4,762,488</u> | <u>-0-</u> | <u>4,762,488</u> |
| Excess (deficiency) of revenues over expenditures | <u>(1,151,611)</u> | <u>-0-</u> | <u>(1,151,611)</u> |
| Fund balances, beginning of year | <u>2,009,159</u> | <u>-0-</u> | <u>2,009,159</u> |
| Fund balances, end of year | <u>\$ 857,548</u> | <u>\$ -0-</u> | <u>\$ 857,548</u> |

COUNCIL ON POSTSECONDARY EDUCATION

SUPPLEMENTARY SCHEDULE OF ASSETS, LIABILITIES, AND FUND BALANCES – NON-MAJOR FUNDS JUNE 30, 2016

| | Postsecondary Education Equine Trust Fund | Assessment and Professional Development Fund | Other (Non- major) Governmental Funds |
|---|--|--|--|
| <u>ASSETS</u> | | | |
| Cash and cash equivalents | \$ 20,299 | \$ | \$ 20,299 |
| Investments | 176,075 | | 176,075 |
| Intergovernmental receivables | | 95,189 | 95,189 |
| Total assets | \$ 196,374 | \$ 95,189 | \$ 291,563 |
| <u>LIABILITIES AND FUND BALANCES</u> | | | |
| Liabilities: | | | |
| Accounts and other payables | \$ | \$ 95,188 | \$ 95,188 |
| Accrued expenses | | 34,568 | 34,568 |
| Accrued compensated absences | | 4,590 | 4,590 |
| Total liabilities | -0- | 134,346 | 134,346 |
| Restricted: | | | |
| for University Equine programs | 196,374 | | 196,374 |
| Unassigned | | (39,157) | (39,157) |
| Total fund balances | 196,374 | (39,157) | 157,217 |
| Total liabilities and fund balances | \$ 196,374 | \$ 95,189 | \$ 291,563 |

COUNCIL ON POSTSECONDARY EDUCATION

SUPPLEMENTARY SCHEDULE OF REVENUE, EXPENDITURES, AND CHANGES IN FUND BALANCES – NON-MAJOR FUNDS YEAR ENDED JUNE 30, 2016

| | Postsecondary Education Equine Trust Fund | Science and Technology Funding Program | Assessment and Professional Development Fund | Other (Non- major) Governmental Funds |
|--|--|---|--|--|
| REVENUES: | | | | |
| State appropriations | \$ | \$ 5,288,300 | \$ 1,467,700 | \$ 6,756,000 |
| Intergovernmental revenues | 651,657 | | | 651,657 |
| Total revenues | 651,657 | 5,288,300 | 1,467,700 | 7,407,657 |
| EXPENDITURES: | | | | |
| Personnel services | | 1,347,000 | 1,013,365 | 2,360,365 |
| Commodities and supplies | | | 21,810 | 21,810 |
| Grants and subsidies | 1,000,000 | 3,941,300 | 428,553 | 5,369,853 |
| Travel | | | 9,933 | 9,933 |
| Total expenditures | 1,000,000 | 5,288,300 | 1,473,661 | 7,761,961 |
| Excess (deficiency) of revenues over expenditures | (348,343) | -0- | (5,961) | (354,304) |
| Fund balances, beginning of year | 544,717 | -0- | (33,196) | 511,521 |
| Fund balances, end of year | \$ 196,374 | \$ -0- | \$ (39,157) | \$ 157,217 |

COUNCIL ON POSTSECONDARY EDUCATION

SUPPLEMENTARY SCHEDULE OF GRANTS AND SUBSIDIES YEAR ENDED JUNE 30, 2016

| | Governmental Funds | Fiduciary Funds |
|---|-----------------------|--------------------|
| Agency Operations | \$ | \$ |
| Adult Education State Grant Federal Programs | 7,215,644 | |
| Gaining Early Awareness and Readiness for Undergraduate Programs | 246,416 | |
| Improving Teacher Quality | 818,173 | |
| Perkins Grant | 75,207 | |
| SNAP Grant | 93,449 | |
| Postsecondary Education Equine Trust Fund | 1,000,000 | |
| Kentucky Adult Education Funding Program | 18,106,959 | |
| Science and Technology Funding Program | 3,941,300 | |
| Research Challenge Trust Fund: | | |
| Lung Cancer Research Program | 4,747,500 | |
| Technology Initiative Trust Fund | 57,359 | |
| Assessment and Professional Development | 428,553 | |
| Cancer Research Institutions Matching Fund | | 3,850,350 |
| Contract Spaces Program | | 5,453,835 |
| Governor's Minority Student College Preparation Program | | 173,140 |
| Professional Education Preparatory Program | | 251,900 |
| Southern Regional Education Board Doctoral Scholars Program | | 67,900 |
| Kentucky Autism Training Center | | 125,800 |
| Washington Internship Program | | 48,000 |
| | \$ 36,730,560 | \$ 9,970,925 |
| Total grants and subsidies | | |

COUNCIL ON POSTSECONDARY EDUCATION

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS YEAR ENDED JUNE 30, 2016

| | Federal CFDA Number | Grant ID Number | Total Federal Expenditures | Subrecipient Passthrough |
|---|---------------------------|--------------------|----------------------------------|-----------------------------|
| Major Programs: | | | | |
| United States Department of Education: | | | | |
| Adult Education - State Administered | 84.002 | V002A130017 | \$ 1,419,142 | \$ |
| | 84.002 | V002A140017 | 5,097,850 | |
| | 84.002 | V002A150017 | <u>1,158,191</u> | |
| Total Adult Education - State Administered | | | <u>7,675,183</u> | 7,008,679 |
| Non-Major Programs: | | | | |
| Gaining Early Awareness and Readiness for Undergraduate Programs | 84.334 | P334S110018-14 | 541,170 | |
| | 84.334 | P334S110018-15 | <u>3,199,339</u> | |
| Total Gaining Early Awareness and Readiness for Undergraduate Programs | | | <u>3,740,509</u> | 246,416 |
| Improving Teacher Quality State Grants | 84.367 | S367B130017 | 323,837 | |
| | 84.367 | S367B140017 | 221,677 | |
| | 84.367 | S367B150017 | <u>324,332</u> | |
| Total Improving Teacher Quality State Grants | | | <u>869,846</u> | 818,173 |
| Pass-through from Kentucky Department of Education: | | | | |
| Statewide Longitudinal Data Systems | 84.372 | R372A120028 | 87,456 | |
| Career and Technical Education - Basic Grants to States | 84.048 | PON254015000025461 | 96,003 | 19,532 |
| Pass-through from Kentucky Cabinet for Health and Family Services: | | | | |
| Path 2 Promise - Supplemental Nutrition Assistance Program (SNAP) | 10.596 | PON273615000019981 | <u>93,449</u> | <u>93,449</u> |
| Total Federal Expenditures | | | <u>\$ 12,562,446</u> | <u>\$ 8,186,249</u> |

COUNCIL ON POSTSECONDARY EDUCATION

NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS JUNE 30, 2016

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 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.



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**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, 2016, and the related notes to the financial statements, which collectively comprise the Council's basic financial statements, and have issued our report thereon dated November 15, 2016.

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) to determine the 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

To the Council Members
Council on Postsecondary Education

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.

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 determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

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

Blue & Co., LLC

Lexington, Kentucky
November 15, 2016



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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, 2016. 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 the requirements of laws, regulations, contracts, and grants 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.

To the Council Members
Council on Postsecondary Education

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.

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, 2016.

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.

To the Council Members
Council on Postsecondary Education

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
November 15, 2016

COUNCIL ON POSTSECONDARY EDUCATION

SCHEDULE OF FINDINGS AND QUESTIONED COSTS JUNE 30, 2016

Section I - Summary of Auditor's Results

Financial Statements

Type of auditor's report issued: unmodified

Internal control over financial reporting:

Material weakness(es)
identified? yes no

Significant deficiency(ies)
identified that are not
considered to be
material weaknesses? yes none reported

Noncompliance material to financial
statements noted? yes no

Federal Awards

Internal control over major programs:

Material weakness(es)
identified? yes no

Significant deficiency(ies)
identified that are not
considered to be
material weaknesses? yes none reported

Type of auditor's report issued on compliance for major programs: unmodified

Any audit findings disclosed that are
required to be reported in accordance
with Uniform Guidance? yes no

Identification of major programs:

| <u>CFDA Number</u> | <u>Name of Federal Program or Cluster</u> |
|--------------------|---|
| 84.002 | Adult Education - State Administered |

COUNCIL ON POSTSECONDARY EDUCATION

SCHEDULE OF FINDINGS AND QUESTIONED COSTS JUNE 30, 2016

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, 2016

There were no findings reported for the year ended June 30, 2015.