

# **AGENDA**

Executive Committee

Council on Postsecondary Education

Friday, November 3, 2017

8:00 AM

Elizabethtown Community & Technical College, RPC Rm 200C

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1. Welcoming
2. Approval of Minutes 2
3. Review FY 2016-17 Agency Audit Report 4
4. Other Business
5. Adjourn

**DRAFT MINUTES**  
Council on Postsecondary Education Executive Committee  
June 16, 2017

The Executive Committee of the Council on Postsecondary Education met June 16, 2017, at 8:00 a.m. ET at Spalding University in Louisville, Kentucky.

**WELCOMING AND ROLL CALL**           The following members attended: Ron Beal, Ben Brandstetter, Joe Ellis, Donna Moore, and Sherrill Zimmerman.

Heather Faesy and Robert L. King from the Council staff attended.

**REVIEW PRESIDENT EVALUATION SURVEY RESPONSES**           The purpose of the meeting was to discuss the results of the president evaluation surveys in preparation for the report to the full Council at its June 16 meeting. The committee members reviewed the survey responses with President King. Chair Zimmerman gave an overview of the process and the Committee discussed the results. The following groups were surveyed:

- Governor his staff,
- Leaders representing statewide education and policy organizations
- Members of the General Assembly
- University presidents, the president of KCTCS, and the president of AIKCU;
- Members of the Council on Postsecondary Education; and
- Senior members of the staff of the Council on Postsecondary Education

President King received an overall positive evaluation. Chair Zimmerman praised the CPE staff and President King for their work on performance funding and other areas of the 2016-17 work plan. Other members of the committee echoed her sentiments and added additional comments on what they would like to see in the next fiscal year. President King discussed his self-evaluation and the success of the last year.

**OTHER BUSINESS**           Other matters briefly discussed included Governor Bevin’s Executive Order 2017-334 and its implications on CPE, CPE members attending institutional board meetings to observe and develop relationships with their board members.

**ADJOURNMENT**           The meeting adjourned at 8:50 a.m.

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Robert L. King  
President

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Heather M. Faesy  
Associate, Board Relations & Special  
Projects

**DRAFT MINUTES**  
Council on Postsecondary Education Executive Committee  
September 19, 2017

The Executive Committee of the Council on Postsecondary Education met September 19, 2017, at Noon, ET at the Council offices in Frankfort, KY.

**WELCOMING**           The following committee members attended via phone conference: Ron Beal, Ben Brandstetter, Joe Ellis, Donna Moore, and Sherrill Zimmerman.

Council staff members in attendance were Heather Faesy, Robert L. King, Shaun McKiernan, Lee Nimocks, Bill Payne, Travis Powell, and Aaron Thompson.

**DISCUSS**           The purpose of the meeting was to discuss the letter dated September 7, 2017 from State Budget Director John Chilton requesting a draft plan  
**AGENCY**           describing the actions that would be taken to implement a proposed  
**BUDGET**           expenditure reduction of 17.4 percent of non-exempt General Fund  
**MATTERS**          appropriations in FY 2017-18.

President King stated that CPE was committed to working with the Governor, the Office of State Budget Director, the General Assembly, the postsecondary institutions, and other stakeholders to minimize the impact of the budget cut on statewide education programs and services, while continuing to work with partners to control costs, maintain quality and make the education system more productive and efficient.

The plan for the current fiscal year, should a 17.4% cut be instituted (over \$7 million), would require reductions in personnel and operating expenses in all areas of the CPE budget – including agency staff positions, pass-through and related programs, and strategic investment and incentive funding programs.

Council staff are to submit a formal response to State Budget Director Chilton by September 25, 2017 outlining the impact of the proposed appropriations reduction.

**ADJOURNMENT**    The meeting adjourned at 12:45 p.m.

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Robert L. King  
President

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Heather M. Faesy  
Associate, Board Relations & Special  
Projects



**KENTUCKY COUNCIL ON  
POSTSECONDARY EDUCATION**

MATTERS TO BE COMMUNICATED TO

THE COUNCIL MEMBERS

JUNE 30, 2017



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

November 2, 2017

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, 2017, 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 November 2, 2017. 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. No new accounting policies were adopted and the application of existing policies was not changed during the year. 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 estimates affecting the financial statements were:

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.

Management's estimate of the net pension liability and related deferred inflows and outflows of resources determined by an actuary. We evaluated key factors and assumptions used to develop the net pension liability 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.

## **OUR RECOMMENDATIONS FOR YOUR CORPORATION**

During the course of an audit, we frequently become aware of matters which are opportunities to strengthen internal controls or improve operating efficiency or effectiveness.

### **CURRENT YEAR RECOMMENDATIONS**

During the course of our 2017 audit, we have developed the following additional recommendations for your consideration.

#### **Recording and Reconciling Pass-Through Federal Programs to eMARS**

The Council uses spreadsheets maintained by the Kentucky Adult Education Director to invoice for the Supplemental Nutrition Assistance Program (SNAP) and Perkins grants. During the 2017 audit, we noted that there were some immaterial discrepancies between the spreadsheets and the eMARS database in revenue and expenditures in the Operations Fund, the Federal Program Fund, and the Technology Initiative Fund which required the Council to correct and make journal entries across funds to correctly reclassify revenue and expenditures. We recommend that the Council reconcile invoiced expenditures and revenue monthly to the eMARS system.

#### **Timely Request for Reimbursement of Pass-Through Federal Grants**

The Supplemental Nutrition Assistance Program (SNAP) and Perkins pass-through grants specify the Council invoice their primary federal grantee state agency monthly. During the 2017 audit, we noted the Council submitted invoices on these pass-through grants quarterly. Accordingly, funds were not reimbursed as frequently as permitted and the Council was required to use cash from the Technology Initiative Trust Fund (TTF) to pay for federal grant expenditures. The TTF is in an interest bearing account and the Council missed the opportunity to collect interest because the reimbursement was not submitted as frequently as permitted. We recommend that the Council submit to invoices to the primary awarding state agency on a monthly basis.

#### **Improve Subrecipient Monitoring for Supplemental Nutrition Assistance Program (SNAP)**

During the 2017 audit, we reviewed the subrecipient monitoring under the SNAP program. We noted that all subrecipients of SNAP were also subrecipients of the Kentucky Adult Education federal program. The Council obtained and reviewed all the audit reports of the subrecipients and made note of any issues in the subrecipient audit report relating to the federal funds received from the Council under the Kentucky Adult Education program. However, the Council did not document a review of the SNAP funding provided to the subrecipient. During our review of the subrecipient audit reports, we noted some incorrect CFDA numbers used for SNAP, however, we noted there were no findings in the subrecipient audit reports relating to the SNAP program. As the SNAP funding levels increase in 2018, we recommend that during the subrecipient monitoring process the Council

To the Council Members  
Council on Postsecondary Education  
Page 5

specifically document SNAP related findings identified in the subrecipient audit reports and document the Council's follow-up on these findings.

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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, 2017

COUNCIL ON POSTSECONDARY EDUCATION

TABLE OF CONTENTS  
JUNE 30, 2017

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	Page
<b>Report of Independent Auditors</b> .....	1
<b>Management’s Discussion and Analysis</b> .....	4
<b>Basic Financial Statements:</b>	
Statement of Net Position.....	12
Statement of Activities .....	13
Balance Sheet - Governmental Funds .....	14
Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Position.....	15
Statement of Revenues, Expenditures, and Changes in Fund Balances - Governmental Funds .....	16
Reconciliation of the Governmental Funds Statement of Revenues, Expenditures, and Changes in Fund Balances to the Statement of Activities.....	17
Statement of Fiduciary Net Position .....	18
Notes to the Financial Statements.....	19
<b>Required Supplementary Information:</b>	
Schedule of Proportionate Share of the Net Pension Liability Kentucky Employees’ Retirement System .....	50
Schedule of Contributions Kentucky Employees’ Retirement System .....	51
Schedule of Proportionate Share of the Net Pension Liability Kentucky Teachers’ Retirement System .....	52
Schedule of Contributions Kentucky Teachers’ Retirement System .....	53
Schedule of Revenues, Expenditures, and Changes in Fund Balances - Budget and Actual (Budgetary Basis) - Unaudited .....	54

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COUNCIL ON POSTSECONDARY EDUCATION

TABLE OF CONTENTS

JUNE 30, 2017

---

	Page
<b>Required Supplementary Information (Continued):</b>	
Note to the Schedule of Revenues, Expenditures, and Changes in Fund Balances - Budget and Actual (Budgetary Basis) - Unaudited .....	60
<b>Additional Supplementary Information:</b>	
Supplementary Schedule of Assets, Liabilities, and Fund Balances - Operations .....	61
Supplementary Schedule of Revenues, Expenditures, and Changes in Fund Balances - Operations.....	62
Supplementary Schedule of Assets, Liabilities, and Fund Balances - Research Challenge Trust Fund .....	63
Supplementary Schedule of Revenues, Expenditures, and Changes in Fund Balances - Research Challenge Trust Fund.....	64
Supplementary Schedule of Assets, Liabilities, and Fund Balances - Non-major Funds .....	65
Supplementary Schedule of Revenues, Expenditures, and Changes in Fund Balances - Non-major Funds.....	66
Supplementary Schedule of Grants and Subsidies.....	67
Schedule of Expenditures of Federal Awards .....	68
Notes to the Schedule of Expenditures of Federal Awards .....	69
<b>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 <i>Government Auditing Standards</i> .....</b>	<b>70</b>
<b>Report of Independent Auditors on Compliance with Each Major Federal Program and on Internal Control Over Compliance Required By Uniform Guidance .....</b>	<b>72</b>
<b>Schedule of Findings and Questioned Costs.....</b>	<b>74</b>
<b>Summary Schedule of Prior Audit Findings.....</b>	<b>76</b>

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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, 2017, and the related notes to the financial statements, which collectively comprise the Council's basic financial statements as listed in the table of contents.

### Management's Responsibility for the Financial Statements

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

### Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Council's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Council's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

To the Council Members  
Council on Postsecondary Education

### Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the Council as of June 30, 2017, and the respective changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

### Report on Required Supplementary Information

Accounting principles generally accepted in the United States of America require that management's discussion and analysis on pages 4 through 11, the schedules of 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 2, 2017 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 2, 2017

# COUNCIL ON POSTSECONDARY EDUCATION

## MANAGEMENT'S DISCUSSION AND ANALYSIS JUNE 30, 2017

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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, 2017. 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 2017 by \$17,360,584.
- Net position decreased \$1,099,123 between FY 2016 and FY 2017.
- As of the close of FY 2017, the Council's governmental funds reported an ending fund balance of \$7,724,763, 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 2017 were \$56,194,052, representing a 35% decrease from FY 2016. Most of the increase is due to the capital projects fund with an decrease of revenue of approximately 25,551,000 in the current year.
- Total fund expenditures for FY 2017 were \$54,627,441, representing a 38% decrease from FY 2016. The decrease 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, 2017

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### **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, 2017

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## 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, 2017	June 30, 2016
<b>Assets:</b>		
Current	\$ 7,016,777	\$ 8,610,696
Noncurrent	4,513,163	4,314,478
Total assets	<u>11,529,940</u>	<u>12,925,174</u>
Deferred outflow of resources	4,913,707	3,008,899
Total assets and deferrals	<u>\$ 16,443,647</u>	<u>\$ 15,934,073</u>
<b>Liabilities:</b>		
Current	\$ 2,914,857	\$ 5,379,265
Noncurrent	25,975,667	22,134,142
Total liabilities	<u>28,890,524</u>	<u>27,513,407</u>
Deferred inflow of resources	562,684	331,104
Total liabilities and deferrals	<u>\$ 29,453,208</u>	<u>\$ 27,844,511</u>
<b>Net position (deficit):</b>		
Net investment in capital assets	\$ 133,117	\$ 189,988
Restricted	4,416,970	4,213,609
Unrestricted deficit	<u>(17,559,648)</u>	<u>(16,314,035)</u>
Total net position (deficit)	<u>\$ (13,009,561)</u>	<u>\$ (11,910,438)</u>

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

# COUNCIL ON POSTSECONDARY EDUCATION

## MANAGEMENT'S DISCUSSION AND ANALYSIS JUNE 30, 2017

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Current liabilities consist primarily of operating accounts payable, intergovernmental payables, accrued payroll, and accrued compensated absences. As of June 30, 2017, current liabilities also include amounts due to the state investment pool (amounts temporarily advanced by the state pending reimbursement from Federal grantor agencies). The portion of accrued compensated absences not expected to be liquidated with expendable financial resources has been estimated and included as a noncurrent liability.

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

As of the close of the fiscal year, net position represents the difference between assets and liabilities mentioned above. Liabilities exceeded assets by approximately \$17.4 million. Total assets and deferrals increased by approximately \$500 thousand, primarily in the cash and cash equivalents and prepaid expenses. Total liabilities increased by approximately \$1.4 million primarily related to an increase in net pension liability. Total deferred outflows of resources increased by \$1.9 million relating to an increase in net pension liability. Therefore, net position decreased \$1.1 million between FY 2016 and FY 2017.

# COUNCIL ON POSTSECONDARY EDUCATION

## MANAGEMENT'S DISCUSSION AND ANALYSIS JUNE 30, 2017

	June 30, 2017	June 30, 2016
<b>Condensed Financial Information</b>		
<b>Statements of Activities</b>		
<b>For the Fiscal Years Ended</b>		
	<u>June 30, 2017</u>	<u>June 30, 2016</u>
<b>Revenues:</b>		
Program revenues:		
Charges for services	\$ 3,938,465	\$ 4,744,464
Operating grants and contributions	14,181,210	12,614,046
Capital grants and contributions	684,863	651,657
General revenues:		
State appropriations	37,389,514	68,421,264
Loss on disposal of capital assets	(6,717)	-0-
Total revenues	<u>56,187,335</u>	<u>86,431,431</u>
<b>Expenses:</b>		
Strategic investment and incentive funding programs	34,482,137	67,297,125
Agency, Kentucky Adult Education, and KYVC/KYVL Operations	9,363,684	9,065,368
Federal Programs	12,640,272	12,170,144
Postsecondary Education Equine Trust Fund	750,211	1,000,000
Other	50,154	55,284
Total expenses	<u>57,286,458</u>	<u>89,587,921</u>
<b>Change in net position</b>	(1,099,123)	(3,156,490)
<b>Net position (deficit), beginning of year</b>	<u>(11,910,438)</u>	<u>(8,753,948)</u>
<b>Net position (deficit), end of year</b>	<u>\$ (13,009,561)</u>	<u>\$ (11,910,438)</u>

General Fund appropriations from the Commonwealth of Kentucky are the primary funding source for the activities of the Council. The Kentucky General Assembly, through the appropriations bill and other statutory provisions, directs the use of those appropriations to specific activities. The most significant changes in this year's funding was a decrease in state appropriations by approximately \$31.0 million. The decrease 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 60% of the Council's

# COUNCIL ON POSTSECONDARY EDUCATION

## MANAGEMENT'S DISCUSSION AND ANALYSIS JUNE 30, 2017

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total expenses. The Strategic Investment and Incentive Funding Programs are the primary vehicles for implementation of the postsecondary education reform. Recipients include the postsecondary institutions, adult education service providers and other recipients of adult education services, and providers and businesses participating in the new economy initiatives.

### **Governmental Fund Financial Analysis:**

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

### **Condensed Financial Information Balance Sheets**

	<u>June 30, 2017</u>	<u>June 30, 2016</u>
<b>Total assets</b>	<u>\$ 11,429,191</u>	<u>\$ 12,266,767</u>
<b>Total liabilities</b>	3,704,428	6,108,615
<b>Fund balances</b>	<u>7,724,763</u>	<u>6,158,152</u>
<b>Total liabilities and fund balances</b>	<u>\$ 11,429,191</u>	<u>\$ 12,266,767</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 increased approximately \$1.6 million between fiscal years. This increase is primarily related to a decrease in contractual obligations.

# COUNCIL ON POSTSECONDARY EDUCATION

MANAGEMENT'S DISCUSSION AND ANALYSIS  
JUNE 30, 2017

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

	June 30, 2017	June 30, 2016
<b>Revenues:</b>		
State appropriations	\$ 37,389,514	\$ 68,421,264
Charges for services	3,938,465	4,744,464
Intergovernmental revenues	1,549,863	651,657
Federal programs	12,867,022	12,524,874
Other	414,785	76,950
Income from investments	34,403	12,222
Total revenues	<u>56,194,052</u>	<u>86,431,431</u>
<b>Expenditures:</b>		
Personnel services	14,715,181	14,889,988
Grants and subsidies	33,378,748	36,730,560
Intergovernmental expenditures	211	-0-
Other	6,533,301	35,788,945
Total expenditures	<u>54,627,441</u>	<u>87,409,493</u>
<b>Net change in fund balances</b>	1,566,611	(978,062)
<b>Fund balances, beginning of year</b>	<u>6,158,152</u>	<u>7,136,214</u>
<b>Fund balances, end of year</b>	<u>\$ 7,724,763</u>	<u>\$ 6,158,152</u>

The most significant change in this year's revenue is with state appropriation revenues and federal program revenues. State appropriations decrease approximately \$31.0 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 decrease in capital project expenditures of \$32.8 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.

# COUNCIL ON POSTSECONDARY EDUCATION

MANAGEMENT'S DISCUSSION AND ANALYSIS  
JUNE 30, 2017

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## **BUDGETARY HIGHLIGHTS**

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

Final budgeted expenditures decreased from original budgeted expenditures by approximately \$300 thousand. The total decrease is primarily related to the increase in Federal Program and Postsecondary Education Equine Trust Fund and Revolving Program of a combined \$1.35 million offset with a decrease of \$1.65 million in 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, 2017

	Governmental Activities
<b><u>ASSETS</u></b>	
<b>Current assets:</b>	
Cash and cash equivalents	\$ 400,612
Cash and cash equivalents - restricted	3,884,157
Accounts receivable	271,597
Intergovernmental receivables	783,133
Due from the Federal government	920,075
Prepaid expenses	757,203
Total current assets	7,016,777
<b>Noncurrent assets:</b>	
Investments	3,527,437
Investments - restricted	852,609
Capital assets - net	133,117
Total noncurrent assets	4,513,163
Total assets	11,529,940
Deferred outflow of resources	4,913,707
Total assets and deferrals	\$ 16,443,647
<b><u>LIABILITIES</u></b>	
<b>Current liabilities:</b>	
Accounts and other payables	\$ 1,654,102
Intergovernmental payables	3,865
Accrued expenses	698,127
Accrued compensated absences - current portion	558,763
Total current liabilities	2,914,857
<b>Noncurrent liabilities:</b>	
Accrued compensated absences - noncurrent portion	281,100
Net pension	25,694,567
Total noncurrent liabilities	25,975,667
Total liabilities	28,890,524
Deferred inflow of resources	562,684
Total liabilities and deferrals	\$ 29,453,208
<b><u>NET POSITION (DEFICIT)</u></b>	
<b>Net investment in capital assets</b>	\$ 133,117
<b>Restricted</b>	4,416,970
<b>Unrestricted deficit</b>	(17,559,648)
Total net position (deficit)	\$ (13,009,561)

See accompanying notes  
to the financial statements.

**COUNCIL ON POSTSECONDARY EDUCATION**

STATEMENT OF ACTIVITIES  
YEAR ENDED JUNE 30, 2017

	Expenses	Program Revenues			Net (Expenses) Revenues and Changes in Net Position
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	
<b><u>FUNCTIONS/PROGRAMS:</u></b>					
Operations	\$ 9,363,684	\$ 491,020	\$ 406,375	\$	\$ (8,466,289)
Federal Programs	12,640,272		12,460,647		(179,625)
Postsecondary Education Equine Trust Fund	750,211			684,863	(65,348)
Kentucky Adult Education Funding Program	15,353,912				(15,353,912)
Science and Technology Funding Program	4,974,600				(4,974,600)
Regional University Excellence Trust Fund	865,000		865,007		7
Research Challenge Trust Fund	4,641,097		7,718		(4,633,379)
Technology Initiative Trust Fund	7,204,188	3,447,445	441,463		(3,315,280)
Assessment and Professional Development	1,443,340				(1,443,340)
Unallocated depreciation expense	50,154				(50,154)
Total governmental activities	<u>\$ 57,286,458</u>	<u>\$ 3,938,465</u>	<u>\$ 14,181,210</u>	<u>\$ 684,863</u>	<u>(38,481,920)</u>
<b>General revenues:</b>					
State appropriations					37,389,514
Investment loss on unrestricted Agency accounts					-0-
Loss on disposal of capital assets					(6,717)
Total general revenues					<u>37,382,797</u>
Change in net position					(1,099,123)
Net position, beginning of year					<u>(11,910,438)</u>
Net position, end of year					<u>\$ (13,009,561)</u>

25

# COUNCIL ON POSTSECONDARY EDUCATION

## BALANCE SHEET – GOVERNMENTAL FUNDS

JUNE 30, 2017

	Operations	Federal Programs	Postsecondary Education Equine Trust and Revolving Fund	Kentucky Adult Education Funding Program	Research Challenge Trust Fund	Technology Initiative Trust Fund	Other (Non- major) Governmental Funds	Total Governmental Funds
<b>ASSETS</b>								
Cash and cash equivalents	\$ 239,681	\$ -0-	\$ 46,192	\$ -0-	\$ 1,107,496	\$ 2,891,395	\$ 5	\$ 4,284,769
Investments	2,619,486		504,834		347,773	907,951	2	4,380,046
Accounts receivable	745	-0-				270,852	-0-	271,597
Intergovernmental receivables	168,131	233,938	0	304,812		-0-	76,252	783,133
Due from the Federal government	241,092	678,983					-0-	920,075
Interfund receivable	492,745	38,630		25,000		233,196	-0-	789,571
Total assets	<u>\$ 3,761,880</u>	<u>\$ 951,551</u>	<u>\$ 551,026</u>	<u>\$ 329,812</u>	<u>\$ 1,455,269</u>	<u>\$ 4,303,394</u>	<u>\$ 76,259</u>	<u>\$ 11,429,191</u>
<b>LIABILITIES AND FUND BALANCES</b>								
<b>Liabilities:</b>								
Accounts and other payables	\$ 193,081	\$ 547,231	\$ 420,000	\$ 304,812	\$ -0-	\$ 112,726	\$ 76,252	\$ 1,654,102
Intergovernmental payable		3,865			-0-		-0-	3,865
Accrued expenses	494,626	131,752		12,866		32,433	26,450	698,127
Accrued compensated absences	470,683	50,588		13,629		17,750	6,113	558,763
Interfund payable		272,568		0		517,003	-0-	789,571
Total liabilities	<u>1,158,390</u>	<u>1,006,004</u>	<u>420,000</u>	<u>331,307</u>	<u>-0-</u>	<u>679,912</u>	<u>108,815</u>	<u>3,704,428</u>
<b>Fund balances:</b>								
Restricted:								-0-
for Adult Education		-0-					-0-	-0-
for SHEEHO Multi-State Collaborative Agreement						47,418	-0-	47,418
for Technology Initiative						2,421,705	-0-	2,421,705
for Accelerating Opportunity Kentucky						7,152	-0-	7,152
for Automated residency application system						172,806	-0-	172,806
for Interstate Passport						35,020	-0-	35,020
for AACU Faculty Collaborative						10,717	-0-	10,717
for James Graham Brown Foundation						35,646	-0-	35,646
for University Equine programs			131,026				-0-	131,026
for Lung Cancer Research					1,455,267		-0-	1,455,267
for Research Challenge					2		-0-	2
for Regional University Excellence							7	7
Assigned:							-0-	-0-
for agency operations	2,603,490						-0-	2,603,490
for Technology Trust Fund						893,018	-0-	893,018
Unassigned		(54,453)		(1,495)		-0-	(32,563)	(88,511)
Total fund balances	<u>2,603,490</u>	<u>(54,453)</u>	<u>131,026</u>	<u>(1,495)</u>	<u>1,455,269</u>	<u>3,623,482</u>	<u>(32,556)</u>	<u>7,724,763</u>
Total liabilities and fund balances	<u>\$ 3,761,880</u>	<u>\$ 951,551</u>	<u>\$ 551,026</u>	<u>\$ 329,812</u>	<u>\$ 1,455,269</u>	<u>\$ 4,303,394</u>	<u>\$ 76,259</u>	<u>\$ 11,429,191</u>

See accompanying notes  
to the financial statements.

# COUNCIL ON POSTSECONDARY EDUCATION

## RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET TO THE STATEMENT OF NET POSITION JUNE 30, 2017

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<b>Fund balances - total governmental funds</b>		\$	7,724,763
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.			
			4,913,707
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			757,203
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the governmental funds.			
Governmental capital assets	563,969		
Less accumulated depreciation	<u>(430,852)</u>		133,117
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			(281,100)
The deferred inflow of resources is not due and payable in the current year and, therefore, is not reported in the governmental funds.			
			(562,684)
The net pension liability is not due and payable in the current year and, therefore, is not reported in the governmental funds.			
			<u>(25,694,567)</u>
<b>Net position of governmental activities</b>		\$	<u><u>(13,009,561)</u></u>

## COUNCIL ON POSTSECONDARY EDUCATION

### STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES – GOVERNMENTAL FUNDS YEAR ENDED JUNE 30, 2017

	Operations	Federal Programs	Postsecondary Education Equine Trust and Revolving Fund	Kentucky Adult Education Funding Program	Research Challenge Trust Fund	Technology Initiative Trust Fund	Other (Non- major) Governmental Funds	Total Governmental Funds
<b>REVENUES:</b>								
State appropriations	\$ 6,895,985			\$ 15,548,829	\$ 4,706,100	\$ 3,870,200	\$ 6,368,400	\$ 37,389,514
Charges for services	491,020					3,447,445		3,938,465
Intergovernmental revenues			684,863				865,000	1,549,863
Federal programs	406,375	12,460,647						12,867,022
Other revenues						414,785		414,785
Income from investments					7,718	26,678	7	34,403
<b>Total revenues</b>	<b>7,793,380</b>	<b>12,460,647</b>	<b>684,863</b>	<b>15,548,829</b>	<b>4,713,818</b>	<b>7,759,108</b>	<b>7,233,407</b>	<b>56,194,052</b>
<b>EXPENDITURES:</b>								
Personnel services	6,245,372	3,328,234		331,208		2,825,627	1,984,740	14,715,181
Utilities, rental, and other services	662,833	528,581		407,985		36,398	21,000	1,656,797
Commodities and supplies	252,771	194,335		794		3,960,242	22,458	4,430,600
Grants and subsidies		8,108,579	750,000	14,772,360	4,116,097	438,185	5,193,527	33,378,748
Travel	93,268	302,684		12,753		32,118	5,081	445,904
Intergovernmental expenditures			211					211
<b>Total expenditures</b>	<b>7,254,244</b>	<b>12,462,413</b>	<b>750,211</b>	<b>15,525,100</b>	<b>4,116,097</b>	<b>7,292,570</b>	<b>7,226,806</b>	<b>54,627,441</b>
<b>Net change in fund balances</b>	<b>539,136</b>	<b>(1,766)</b>	<b>(65,348)</b>	<b>23,729</b>	<b>597,721</b>	<b>466,538</b>	<b>6,601</b>	<b>1,566,611</b>
<b>Fund balances, beginning of year</b>	<b>2,064,354</b>	<b>(52,687)</b>	<b>196,374</b>	<b>(25,224)</b>	<b>857,548</b>	<b>3,156,944</b>	<b>(39,157)</b>	<b>6,158,152</b>
<b>Fund balances, end of year</b>	<b>\$ 2,603,490</b>	<b>\$ (54,453)</b>	<b>\$ 131,026</b>	<b>\$ (1,495)</b>	<b>\$ 1,455,269</b>	<b>\$ 3,623,482</b>	<b>\$ (32,556)</b>	<b>\$ 7,724,763</b>

# 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, 2017

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**Net change in fund balances -  
total governmental funds** \$ 1,566,611

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 (440,566)

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 depreciation expense (50,154)

Governmental funds only report the disposal of capital assets to the extent proceeds are received from the sale. In the statement of activities, a gain or loss is reported for each disposal.

Current year loss on disposal of capital assets (6,717)

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.

(2,116,097)

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 (52,200)

**Change in net position of governmental activities** \$ (1,099,123)

# COUNCIL ON POSTSECONDARY EDUCATION

## STATEMENT OF FIDUCIARY NET POSITION JUNE 30, 2017

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	<u>Agency Fund</u>
<b><u>ASSETS</u></b>	
Cash and cash equivalents - restricted	\$ 2,097
Intergovernmental receivables	3,284
Investments - restricted	22,914
Prepaid expenses	<u>202,391</u>
 Total assets	 <u>\$ 230,686</u>
 <b><u>LIABILITIES</u></b>	
Accounts payable	 <u>\$ 230,686</u>

# COUNCIL ON POSTSECONDARY EDUCATION

## NOTES TO THE FINANCIAL STATEMENTS JUNE 30, 2017

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

# COUNCIL ON POSTSECONDARY EDUCATION

## NOTES TO THE FINANCIAL STATEMENTS JUNE 30, 2017

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### *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, 2017

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### Basis of Presentation

In accordance with Governmental Accounting Standards Board (GASB) Statement No. 34, "*Basic Financial Statements-and Management's Discussion and Analysis-for State and Local Governments*," the financial statements include a Management's Discussion and Analysis (MD&A) section providing an analysis of the Council's overall financial position and results of operations. The Council also presents two sets of financial statements: government-wide financial statements and governmental fund financial statements.

### *Government-Wide Financial Statements:*

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

### *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, 2017

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*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 Longitudinal 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.

*Postsecondary Education Equine Trust and Revolving Fund* - This fund is to be used for the construction, expansion, or renovation of facilities or the purchase of equipment for equine programs at state universities.

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, the Science and Technology Funding Program, the Regional University Excellence Trust Fund, and the Assessment and Professional Development Fund.

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

# COUNCIL ON POSTSECONDARY EDUCATION

## NOTES TO THE FINANCIAL STATEMENTS JUNE 30, 2017

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*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
- 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, 2017

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### *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, 2017

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### 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, 2017, 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 the assets or materially extend assets' lives are reported as expenditures of the respective governmental fund.

# COUNCIL ON POSTSECONDARY EDUCATION

## NOTES TO THE FINANCIAL STATEMENTS JUNE 30, 2017

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### 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.
- 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.

# COUNCIL ON POSTSECONDARY EDUCATION

## NOTES TO THE FINANCIAL STATEMENTS JUNE 30, 2017

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As of June 30, 2017, Postsecondary Education Equine Trust Fund net position totaling \$131,026 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).

### 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.

# COUNCIL ON POSTSECONDARY EDUCATION

## NOTES TO THE FINANCIAL STATEMENTS JUNE 30, 2017

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### 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 GAAP, nor is such data comparable to a consolidation.

# COUNCIL ON POSTSECONDARY EDUCATION

## NOTES TO THE FINANCIAL STATEMENTS JUNE 30, 2017

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### 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, 2017 in the amount of \$54,453. The Assessment and Professional Development Fund had a negative fund balance on June 30, 2017 in the amount of \$32,563. The Kentucky Adult Education Funding Program had a negative fund balance on June 30, 2017 in the amount of \$1,495. 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 2018 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, 2017, the Council's share of deposits in the Commonwealth's general depository (State investment pool) totals \$8,664,815. Agency funds held by the Council in the Commonwealth's general depository total \$25,011 at June 30, 2017.

The Commonwealth's Comprehensive Annual Financial Report (CAFR) for the year ended June 30, 2017 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).

**COUNCIL ON POSTSECONDARY EDUCATION**

NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2017

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4. CAPITAL ASSETS

Capital asset activity during the year ended June 30, 2017 is as follows:

	Balance July 1, 2016	Increases	Decreases	Balance June 30, 2017
<b>Capital assets:</b>				
Telephone system	\$ 27,996	\$	\$ 27,996	\$ -0-
Office equipment	64,130			64,130
Data processing equipment	382,939			382,939
Vehicles	116,900			116,900
<b>Capital assets at cost</b>	<u>591,965</u>	<u>-0-</u>	<u>27,996</u>	<u>563,969</u>
<b>Less accumulated depreciation:</b>				
Telephone system	19,639	1,640	21,279	-0-
Office equipment	16,490	8,925		25,415
Data processing equipment	248,948	39,589		288,537
Vehicles	116,900			116,900
<b>Total accumulated depreciation:</b>	<u>401,977</u>	<u>50,154</u>	<u>21,279</u>	<u>430,852</u>
Capital assets - net	<u>\$ 189,988</u>	<u>\$ (50,154)</u>	<u>\$ 6,717</u>	<u>\$ 133,117</u>

Depreciation expense for 2017 totals \$50,154.

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, 2017

Activity in the liability for accrued compensated absences during the year ended June 30, 2017 is summarized as follows:

	Balance July 1, 2016	Increases	Decreases	Balance June 30, 2017
Accrued compensated absences	\$ 847,433	\$ 545,430	\$ 553,000	\$ 839,863

As of June 30, 2017, the amount estimated to be due within one year totals approximately \$559,000.

*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, 2017. The estimated accumulated amount of unused sick leave at June 30, 2017, totals approximately \$1,760,000.

6. FIDUCIARY FUND

The changes in assets and liabilities of the fiduciary fund during the year ended June 30, 2017 are as follows:

	Balance July 1, 2016	Increases	Decreases	Balance June 30, 2017
<b>Assets:</b>				
Cash and cash equivalents - restricted	\$ 620,494	\$ 6,314,813	\$ 6,933,210	\$ 2,097
Intergovernmental receivables	862	3,284	862	3,284
Investments - restricted	177,769	22,914	177,769	22,914
Prepaid expenses	199,400	202,391	199,400	202,391
<b>Total assets</b>	<b>\$ 998,525</b>	<b>\$ 6,543,402</b>	<b>\$ 7,311,241</b>	<b>\$ 230,686</b>
<b>Liabilities:</b>				
Accounts payable	\$ 998,525	\$ 230,686	\$ 998,525	\$ 230,686

# COUNCIL ON POSTSECONDARY EDUCATION

## NOTES TO THE FINANCIAL STATEMENTS JUNE 30, 2017

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### 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, 2017 are as follows:

<u>Year ending June 30</u>	
2018	\$ 17,581
2019	8,790
2020	-0-
2021	-0-
2022	-0-
	<hr/>
	\$ 26,371
	<hr/> <hr/>

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 four yearly automatic extension periods through June 30, 2016. Future 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 \$324,411 for the year ending June 30, 2018.

Rentals paid under all operating leases (including the office space lease) during 2017 totaled approximately \$415,000.

### 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.

# COUNCIL ON POSTSECONDARY EDUCATION

## NOTES TO THE FINANCIAL STATEMENTS JUNE 30, 2017

Currently, the Council is required to contribute 8.03% of the covered employees' salaries. The contribution requirement for the year ended June 30, 2017 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, 2016 totaled 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.

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).

	<b>Tier 1</b> Participation Prior to 9/1/2008	<b>Tier 2</b> Participation 9/1/2008 through 12/31/2013	<b>Tier 3</b> Participation on or after 1/1/2014
<b>Covered Employees:</b>	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.		
<b>Benefit Formula:</b>	Final Compensation X Service	Benefit Factor X Years of	Cash Balance Plan
<b>Final Compensation</b>	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, 2017

	<b>Tier 1</b> Participation Prior to 9/1/2008	<b>Tier 2</b> Participation 9/1/2008 through 12/31/2013	<b>Tier 3</b> Participation on or after 1/1/2014
<b>Benefit Factor:</b>	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.
<b>Cost of Living Adjustment (COLA):</b>	No COLA unless authorized by the Legislature with specific criteria. This impacts all retirees regardless of Tier.		
<b>Unreduced Retirement Benefit:</b>	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.	

# COUNCIL ON POSTSECONDARY EDUCATION

## NOTES TO THE FINANCIAL STATEMENTS JUNE 30, 2017

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<b>Reduced Retirement Benefit:</b>	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.
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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 2017, 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 40.24 percent and 8.35 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, 2017 was \$1,169,854.

At June 30, 2017, the plan reported a liability of \$21,821,203 for its proportionate share of net pension liability. The net pension liability was measured as of June 30, 2016, 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, 2017, the plan's proportion was 0.19142 percent.

# COUNCIL ON POSTSECONDARY EDUCATION

## NOTES TO THE FINANCIAL STATEMENTS JUNE 30, 2017

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### **Actuarial Assumptions**

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<b>Actuarial Valuation Date</b>	June 30, 2016
<b>Actuarial Cost Method</b>	Entry age
<b>Amortization Method</b>	Level percent of payroll, closed
<b>Remaining amortization period</b>	27 years
<b>Asset valuation method</b>	Five-year smoothed Market
<b>Actuarial assumptions:</b>	
<b>Investment rate of return</b>	6.75%
<b>Inflation rate</b>	3.25%
<b>Projected salary increases</b>	4.00%
<b>Mortality Tables:</b>	
<b>Active members</b>	RP-2000 Combined Mortality Table projected with Scale BB to 2013 (multiplied by 50% for males and 30% for females)
<b>Health retired members</b>	RP-2000 Combined Mortality Table projected with Scale BB to 2013 (set back 1 year for females)
<b>Disabled members</b>	RP-2000 Combined Mortality Table projected with Scale BB to 2013 (set back 4 years for males)
<b>Date of Experience Study</b>	The period July 1, 2008 - June 30 2013

**COUNCIL ON POSTSECONDARY EDUCATION**

NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2017

For the year ended June 30, 2017, the Council recognized pension expenses of \$3,206,366 and deferred outflows and deferred inflows related to pension from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Difference between expected and actual experience	\$ 22,792	\$ -0-
Net difference between projected and actual earnings	335,044	-0-
Changes of assumption	1,652,916	-0-
Changes in proportion and differences between employer contributions and proportionate share of contributions	1,017,950	-0-
Contributions subsequent to the measurement date	<u>1,169,854</u>	<u>-0-</u>
Total	<u>\$ 4,198,556</u>	<u>\$ 0</u>

The \$1,169,854 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, 2018. Other amounts reported as deferred inflows and deferred outflows of resources related to pensions will be recognized in pension expense as follows:

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

<u>Fiscal Years</u>	<u>Amount</u>
2018	\$ 1,562,231
2019	1,165,711
2020	230,772
2021	<u>69,988</u>
Total	<u>\$ 3,028,702</u>

## COUNCIL ON POSTSECONDARY EDUCATION

### NOTES TO THE FINANCIAL STATEMENTS JUNE 30, 2017

The long-term expected return on plan assets is reviewed as part of the regular experience studies prepared every five years for KERS. The most recent analysis, performed for the period covering fiscal years 2008 through 2013, 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:

<b>Kentucky Retirement Systems</b>		
<b>Asset Class</b>	<b>Target Allocation</b>	<b>Long-Term Nominal Rate of Return</b>
Combined Equity	50%	5.30%
Intermediate Duration Fixed Income	11%	1.00%
Custom KRS Fixed Income	11%	3.33%
Core Real Estate	5%	4.25%
Diversified Hedge Funds	10%	4.00%
Private Equity	2%	8.00%
Diversified Inflation Strategies	8%	3.15%
Cash Equivalent	3%	-0.25%
Total	100%	

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 27-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, 2017

June 30, 2016 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 6.75%, 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 (5.75%) or one percentage point higher (7.75%):

	1% Decrease (5.75%)	Discount (6.75%)	1% Increase (7.75%)
The Council's proportionate share	\$ 24,582,785	\$ 21,821,203	\$ 19,499,749

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, 2017

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### 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 is 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; (d) 2.5% of final average salary for each year of credited

# COUNCIL ON POSTSECONDARY EDUCATION

## NOTES TO THE FINANCIAL STATEMENTS JUNE 30, 2017

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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, 2017, the plan reported a liability of \$3,873,364 for its proportionate share of net pension liability. The net pension liability was measured as of June 30, 2016, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as June 30, 2015. 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, 2017, the plan's proportion was 0.0152 percent.

### **Actuarial Assumptions**

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<b>Actuarial Valuation Date</b>	June 30, 2015
<b>Actuarial Cost Method</b>	Entry age
<b>Actuarial assumptions: Investment rate of return</b>	7.5%
<b>Inflation Rate</b>	3.50%
<b>Projected salary increases</b>	4% – 8.2%

## COUNCIL ON POSTSECONDARY EDUCATION

### NOTES TO THE FINANCIAL STATEMENTS JUNE 30, 2017

<b>Post-retirement benefit increases</b>	1.5% annually
<b>Mortality Tables</b>	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.
<b>Date of Experience Study</b>	The period July 1, 2010 - June 30 2015.

For the year ended June 30, 2017, the Council recognized pension expenses of \$187,133 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-	\$ 27,699
Net difference between projected and actual investments earnings on pension plan investments	109,106	0
Change of assumptions	553,854	21,297
Changes in proportion and differences between contributions and proportionate share of contributions	-0-	513,688
Contributions subsequent to the measurement date	52,191	-0-
<b>Total</b>	<b>\$ 715,151</b>	<b>\$ 562,684</b>

The \$52,191 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, 2018. For the year ended June 30, 2017 employees were required to contribute 12.855 percent and 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, 2017

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

Fiscal Years		Amount
2018	\$	3,644
2019		3,644
2020		45,833
2021		44,119
2022		3,036
Total	\$	<u>100,276</u>

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**

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Nominal Rate of Return</u>
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	<u>100%</u>	

June 30, 2015 is the actuarial valuation date upon which the total pension liability is based. An expected total pension liability is determined as of June 30, 2016 using standard roll forward techniques. The discount rate used to measure the total pension liability was 4.20 percent. The projected cash flows used to determine the discount rate assumed that plan member contributions will be made at current contributions rates and the employer contributions will be made at statutorily required rates. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected to be available to make all projected

# COUNCIL ON POSTSECONDARY EDUCATION

## NOTES TO THE FINANCIAL STATEMENTS JUNE 30, 2017

future benefit payments of current plan members until 2040 plan year. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments through 2040 and a municipal bond index rate of 3.01 percent was applied to all periods of projected benefit payments after 2040. 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 4.20%, 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 (3.20%) or one percentage point higher (5.20%):

	1% Decrease (3.20%)	Discount (4.20%)	1% Increase (5.20%)
The Council's proportionate share	\$ 4,751,791	\$ 3,873,364	\$ 3,152,418

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 \$245,000 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.

## 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.

**COUNCIL ON POSTSECONDARY EDUCATION**

NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2017

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
2017	8.35%	\$ 242,750	\$ 242,750	100%
2016	7.93%	\$ 238,312	\$ 238,312	100%
2015	7.93%	\$ 237,023	\$ 237,023	100%

10. INTERGOVERNMENTAL TRANSACTIONS

At June 30, 2017, intergovernmental receivables consist of the following:

Due from the General Fund of the Commonwealth of Kentucky:

Appropriations for Agency Operations	\$ 168,131
Appropriations for the Kentucky Adult Education and Literacy Incentive Funding Program	304,812
Appropriations for Assessment and Professional Development	76,252
Total due from the General Fund of the Commonwealth of Kentucky	<u>549,195</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	120,294
Reimbursement of expenses from the Department of Education under the Perkins Grant	92,829
Reimbursement of expenses from Department of Education under Kentucky Longitudinal Data Systems	<u>20,815</u>
Total due from the other state agencies of the Commonwealth of Kentucky	<u>233,938</u>
Total intergovernmental receivables	<u><u>\$ 783,133</u></u>

# COUNCIL ON POSTSECONDARY EDUCATION

## NOTES TO THE FINANCIAL STATEMENTS JUNE 30, 2017

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A summary of the significant intergovernmental revenues during the year ended June 30, 2017, is as follows:

Funding for the Postsecondary Education Equine Trust and Revolving Fund from a Special Revenue Fund of the Commonwealth of Kentucky	\$ 684,863
State Property and Building Commission issued bonds - funding for the Regional University Excellence Trust Fund	<u>865,000</u>
Total intergovernmental revenues	<u>\$ 1,549,863</u>

### 11. INTERFUND RECEIVABLES AND PAYABLES

Interfund receivables and payables consist of a \$450,000 advance from the Operating Fund to the Technology Initiative Trust Fund for the purchase of broadband infrastructure plus various balances related to the expenditures of federal funds to be reimbursed between funds upon receipt of the federal funds into the Federal Program Fund.

### 12. RELATED PARTY TRANSACTIONS

The 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 2017, the Council paid approximately \$177,000 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 2017. During 2017, the Council paid approximately \$5,000 to the Personnel Cabinet and approximately \$31,000 to the Finance and Administration Cabinet for services provided during the year.

The Council uses vehicles from the Transportation Cabinet's fleet. During 2017, the Council paid approximately \$33,000 to the Transportation Cabinet for use of their vehicles.

# COUNCIL ON POSTSECONDARY EDUCATION

## NOTES TO THE FINANCIAL STATEMENTS JUNE 30, 2017

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### 13. COMMITMENTS AND CONTINGENCIES

As of June 30, 2017, the Council is committed under certain agreements and contracts in the amount of approximately \$35,130,000. 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.

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, 2017, the Council estimates that no material liabilities will result from such audits.

### 14. RISK MANAGEMENT

#### *Torts and Errors and Omissions:*

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

#### *Injuries to Employees:*

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

#### *Theft of, Damage to, and Destruction of Assets:*

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

# COUNCIL ON POSTSECONDARY EDUCATION

## NOTES TO THE FINANCIAL STATEMENTS JUNE 30, 2017

### 15. FAIR VALUE MEASUREMENTS

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

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

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

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, 2017 are as follows:

	<b>Assets at Fair Value as of June 30, 2017</b>			
	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Commonwealth's investment pool	<u>\$ 1,255,726</u>	<u>\$ 3,124,320</u>	<u>\$ -0-</u>	<u>\$ 4,380,046</u>
Total assets at fair value	<u>\$ 1,255,726</u>	<u>\$ 3,124,320</u>	<u>\$ -0-</u>	<u>\$ 4,380,046</u>

The Council's policy is to recognize transfers between levels as of the actual date of the event or changes in circumstances. There were no transfers between levels during the year ended June 30, 2017.

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, 2017

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### 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. 84**, *Fiduciary Activities*, will be effective for periods beginning after December 15, 2018. This Statement establishes criteria for identifying fiduciary activities of all state and local governments. The focus of the criteria generally is on (1) whether a government is controlling the assets of the fiduciary activity and (2) the beneficiaries with whom a fiduciary relationship exists. Separate criteria are included to identify fiduciary component units and postemployment benefit arrangements that are fiduciary activities.

**GASB Statement No. 85**, *Omnibus 2017*, will be effective for periods beginning after June 15, 2017. This Statement addresses a variety of topics including issues related to blending component units, goodwill, fair value measurement and application, and postemployment benefits.

**GASB Statement No. 87**, *Leases*, will be effective for periods beginning after December 15, 2019. This Statement increases the usefulness of governments' financial statements by requiring recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. It establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. Under this Statement, a lessee is required to recognize a lease liability and an intangible right-to-use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources.

**REQUIRED SUPPLEMENTARY INFORMATION**

**COUNCIL ON POSTSECONDARY EDUCATION**

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

	<u>2017</u>	<u>2016</u>	<u>2015</u>
Proportion of the net pension liability (asset)	0.191420%	0.183165%	0.169904%
Proportionate share of the net pension liability	\$ 21,821,203 \$	18,374,905 \$	15,243,442
Covered payroll	\$ 3,005,194 \$	2,988,947 \$	2,915,237
Proportionate share of the net pension liability (asset) as a percentage of its covered payroll	726.12%	614.76%	522.89%
Plan fiduciary net position as a percentage of the total pension liability	14.80%	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.

**COUNCIL ON POSTSECONDARY EDUCATION**

SCHEDULE OF CONTRIBUTIONS  
KENTUCKY EMPLOYEES' RETIREMENT SYSTEM

	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
Statutorily required contribution	\$ 1,169,854	\$ 926,802	\$ 921,837	\$ 504,336
Contribution in relation to the statutorily required contribution	<u>1,169,854</u>	<u>926,802</u>	<u>921,837</u>	<u>504,336</u>
Contribution deficiency (excess)	\$ <u><u>-0-</u></u>	\$ <u><u>-0-</u></u>	\$ <u><u>-0-</u></u>	\$ <u><u>-0-</u></u>
Covered payroll	\$ 2,907,191	\$ 3,005,194	\$ 2,988,947	\$ 2,915,237
Contribution as a percentage of covered payroll	40.24%	30.84%	30.84%	17.30%

64

\*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.

**COUNCIL ON POSTSECONDARY EDUCATION**

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

	2017	2016	2015
Proportion of the net pension liability (asset)	0.015200%	0.015200%	0.016100%
Proportionate share of the net pension liability	3,873,364	3,530,337	3,322,159
Covered payroll	497,443	592,673	625,000
Proportionate share of the net pension liability (asset) as a percentage of its covered payroll	778.65%	595.66%	531.55%
Plan fiduciary net position as a percentage of the total pension liability	42.49%	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.

**COUNCIL ON POSTSECONDARY EDUCATION**

SCHEDULE OF CONTRIBUTIONS  
KENTUCKY TEACHERS' RETIREMENT SYSTEM

	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
Statutorily required contribution	\$ 52,192	\$ 61,310	\$ 73,047	\$ 74,057
Contribution in relation to the statutorily required contribution	<u>52,192</u>	<u>61,310</u>	<u>73,047</u>	<u>74,057</u>
Contribution deficiency (excess)	\$ <u>-0-</u>	\$ <u>-0-</u>	\$ <u>-0-</u>	\$ <u>-0-</u>
Covered payroll	\$ 423,461	\$ 497,443	\$ 592,673	\$ 625,000
Contribution as a percentage of covered payroll	12.33%	12.33%	12.33%	11.85%

66

\*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.

## COUNCIL ON POSTSECONDARY EDUCATION

### SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES – BUDGET AND ACTUAL (BUDGETARY BASIS) – UNAUDITED YEAR ENDED JUNE 30, 2017

	Operations			
	Original Budget	Final Budget	Actual	Over (Under) Budget
<b>Budgetary fund balance, July 1</b>	\$ 326,082	\$ 326,082	\$ 3,091,139	\$ 2,765,057
<b>REVENUES:</b>				
State appropriations	6,893,400	6,893,400	6,895,985	2,585
Charges for services	500,000	500,000	491,020	(8,980)
Intergovernmental revenues				
Federal programs			406,375	406,375
Other revenues				
Income from investments				
Total revenues	<u>7,393,400</u>	<u>7,393,400</u>	<u>7,793,380</u>	<u>399,980</u>
Amount available for expenditures	7,719,482	7,719,482	10,884,519	3,165,037
<b>EXPENDITURES:</b>				
Personnel services	6,893,400	6,893,400	6,306,845	(586,555)
Utilities, rentals, and other services	1,147,200	1,147,200	662,833	(484,367)
Commodities and supplies	54,300	54,300	252,771	198,471
Grants and subsidies				
Travel	151,900	151,900	93,268	(58,632)
Intergovernmental expenditures				
Total expenditures	<u>8,246,800</u>	<u>8,246,800</u>	<u>7,315,717</u>	<u>(931,083)</u>
<b>OTHER FINANCING SOURCES (USES):</b>				
Interfund transfers in (out)	<u>-0-</u>	<u>-0-</u>	<u>-0-</u>	<u>-0-</u>
<b>Budgetary fund balance, June 30</b>	<u>\$ (527,318)</u>	<u>\$ (527,318)</u>	<u>\$ 3,568,802</u>	<u>\$ 4,096,120</u>

## COUNCIL ON POSTSECONDARY EDUCATION

### SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES – BUDGET AND ACTUAL (BUDGETARY BASIS) – UNAUDITED YEAR ENDED JUNE 30, 2017

	Federal Programs			
	Original Budget	Final Budget	Actual	Over (Under) Budget
<b>Budgetary fund balance, July 1</b>	\$ -0-	\$ -0-	\$ 143,441	\$ 143,441
<b>REVENUES:</b>				
State appropriations				
Charges for services				
Intergovernmental revenues				
Federal programs	18,702,500	16,720,039	12,460,647	(4,259,392)
Other revenues				
Income from investments				
Total revenues	<u>18,702,500</u>	<u>16,720,039</u>	<u>12,460,647</u>	<u>(4,259,392)</u>
Amount available for expenditures	18,702,500	16,720,039	12,604,088	(4,115,951)
<b>EXPENDITURES:</b>				
Personnel services			3,342,020	3,342,020
Utilities, rentals, and other services			528,581	528,581
Commodities and supplies			194,335	194,335
Grants and subsidies	13,027,613	13,701,396	8,108,579	(5,592,817)
Travel			302,684	302,684
Intergovernmental expenditures				
Total expenditures	<u>13,027,613</u>	<u>13,701,396</u>	<u>12,476,199</u>	<u>(1,225,197)</u>
<b>OTHER FINANCING SOURCES (USES):</b>				
Interfund transfers in (out)	<u>-0-</u>	<u>-0-</u>	<u>-0-</u>	<u>-0-</u>
<b>Budgetary fund balance, June 30</b>	<u>\$ 5,674,887</u>	<u>\$ 3,018,643</u>	<u>\$ 127,889</u>	<u>\$ (2,890,754)</u>

## COUNCIL ON POSTSECONDARY EDUCATION

### SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES – BUDGET AND ACTUAL (BUDGETARY BASIS) – UNAUDITED YEAR ENDED JUNE 30, 2017

	Kentucky Adult Education Funding Program			
	Original Budget	Final Budget	Actual	Over (Under) Budget
<b>Budgetary fund balance, July 1</b>	\$ 2,655,685	\$ 2,655,685	\$ -0-	\$ (2,655,685)
<b>REVENUES:</b>				
State appropriations	17,640,500	17,640,500	15,548,829	(2,091,671)
Charges for services	200,000	200,000	-0-	(200,000)
Intergovernmental revenues				
Federal programs				
Other revenues				
Income from investments				
Total revenues	<u>17,840,500</u>	<u>17,840,500</u>	<u>15,548,829</u>	<u>(2,291,671)</u>
Amount available for expenditures	20,496,185	20,496,185	15,548,829	(4,947,356)
<b>EXPENDITURES:</b>				
Personnel services			329,939	329,939
Utilities, rentals, and other services			407,985	407,985
Commodities and supplies			794	794
Grants and subsidies	17,640,500	17,640,500	14,772,360	(2,868,140)
Travel			12,753	12,753
Intergovernmental expenditures				
Total expenditures	<u>17,640,500</u>	<u>17,640,500</u>	<u>15,523,831</u>	<u>(2,116,669)</u>
<b>OTHER FINANCING SOURCES (USES):</b>				
Interfund transfers in (out)	<u>-0-</u>	<u>-0-</u>	<u>-0-</u>	<u>-0-</u>
<b>Budgetary fund balance, June 30</b>	<u>\$ 2,855,685</u>	<u>\$ 2,855,685</u>	<u>\$ 24,998</u>	<u>\$ (2,830,687)</u>

## COUNCIL ON POSTSECONDARY EDUCATION

### SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES – BUDGET AND ACTUAL (BUDGETARY BASIS) – UNAUDITED YEAR ENDED JUNE 30, 2017

	Research Challenge Trust Fund			
	Original Budget	Final Budget	Actual	Over (Under) Budget
<b>Budgetary fund balance, July 1</b>	\$ 865,036	\$ 865,036	\$ 857,548	\$ (7,488)
<b>REVENUES:</b>				
State appropriations	4,706,100	4,706,100	4,706,100	-0-
Charges for services				
Intergovernmental revenues				
Federal programs				
Other revenues				
Income from investments			7,718	7,718
<b>Total revenues</b>	<u>4,706,100</u>	<u>4,706,100</u>	<u>4,713,818</u>	<u>7,718</u>
Amount available for expenditures	5,571,136	5,571,136	5,571,366	230
<b>EXPENDITURES:</b>				
Personnel services				
Utilities, rentals, and other services				
Commodities and supplies				
Grants and subsidies	5,555,697	5,555,697	4,116,097	(1,439,600)
Travel				
Intergovernmental expenditures				
<b>Total expenditures</b>	<u>5,555,697</u>	<u>5,555,697</u>	<u>4,116,097</u>	<u>(1,439,600)</u>
<b>OTHER FINANCING SOURCES (USES):</b>				
Interfund transfers in (out)	-0-	-0-	-0-	-0-
<b>Budgetary fund balance, June 30</b>	<u>\$ 15,439</u>	<u>\$ 15,439</u>	<u>\$ 1,455,269</u>	<u>\$ 1,439,830</u>

## COUNCIL ON POSTSECONDARY EDUCATION

### SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES – BUDGET AND ACTUAL (BUDGETARY BASIS) – UNAUDITED YEAR ENDED JUNE 30, 2017

	Technology Initiative Trust Fund			
	Original Budget	Final Budget	Actual	Over (Under) Budget
<b>Budgetary fund balance, July 1</b>	\$ 7,502,547	\$ 7,502,547	\$ 3,167,288	\$ (4,335,259)
<b>REVENUES:</b>				
State appropriations	7,740,400	7,740,400	3,870,200	(3,870,200)
Charges for services	6,626,204	7,512,310	3,447,445	(4,064,865)
Intergovernmental revenues				
Federal programs				
Other revenues			414,785	414,785
Income from investments		26,678	26,678	-0-
Total revenues	<u>14,366,604</u>	<u>15,279,388</u>	<u>7,759,108</u>	<u>(7,520,280)</u>
Amount available for expenditures	21,869,151	22,781,935	10,926,396	(11,855,539)
<b>EXPENDITURES:</b>				
Personnel services			2,785,788	2,785,788
Utilities, rentals, and other services			36,398	36,398
Commodities and supplies			3,960,242	3,960,242
Grants and subsidies	20,521,328	18,869,292	438,185	(18,431,107)
Travel			32,118	32,118
Intergovernmental expenditures				
Total expenditures	<u>20,521,328</u>	<u>18,869,292</u>	<u>7,252,731</u>	<u>(11,616,561)</u>
<b>OTHER FINANCING SOURCES (USES):</b>				
Interfund transfers in (out)	<u>-0-</u>	<u>-0-</u>	<u>-0-</u>	<u>-0-</u>
<b>Budgetary fund balance, June 30</b>	<u>\$ 1,347,823</u>	<u>\$ 3,912,643</u>	<u>\$ 3,673,665</u>	<u>\$ (238,978)</u>

## COUNCIL ON POSTSECONDARY EDUCATION

### SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES – BUDGET AND ACTUAL (BUDGETARY BASIS) – UNAUDITED YEAR ENDED JUNE 30, 2017

	Postsecondary Education Equine Trust and Revolving Program			
	Original Budget	Final Budget	Actual	Over (Under) Budget
<b>Budgetary fund balance, July 1</b>	\$ 196,374	\$ 196,374	\$ 196,374	\$ -0-
<b>REVENUES:</b>				
State appropriations				
Charges for services				
Intergovernmental revenues	696,170	696,170	684,863	(11,307)
Federal programs				
Other revenues				
Income from investments				
Total revenues	<u>696,170</u>	<u>696,170</u>	<u>684,863</u>	<u>(11,307)</u>
Amount available for expenditures	892,544	892,544	881,237	(11,307)
<b>EXPENDITURES:</b>				
Personnel services				
Utilities, rentals, and other services				
Commodities and supplies				
Grants and subsidies	75,000	750,000	750,000	-0-
Travel				
Intergovernmental expenditures			211	211
Total expenditures	<u>75,000</u>	<u>750,000</u>	<u>750,211</u>	<u>211</u>
<b>OTHER FINANCING SOURCES (USES):</b>				
Interfund transfers in (out)	<u>-0-</u>	<u>-0-</u>	<u>-0-</u>	<u>-0-</u>
<b>Budgetary fund balance, June 30</b>	<u>\$ 817,544</u>	<u>\$ 142,544</u>	<u>\$ 131,026</u>	<u>\$ (11,518)</u>

## 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, 2017

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### 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 accounting principles generally accepted in the United States of America (GAAP). An explanation of the differences between budgetary inflows and outflows and revenues and expenditures determined in accordance with GAAP follows:

	Operations	Federal Programs	Kentucky Adult Education Funding Program	Research Challenge Trust Fund	Technology Initiative Trust Fund	Postsecondary Education Equine Trust Fund
<b>Total revenues per the budgetary comparison schedule</b>	<u>\$ 7,793,380</u>	<u>\$ 12,460,647</u>	<u>\$ 15,548,829</u>	<u>\$ 4,713,818</u>	<u>\$ 7,759,108</u>	<u>\$ 684,863</u>
<b>Total revenues per the statement of revenues, expenditures, and changes in fund balance</b>	<u>\$ 7,793,380</u>	<u>\$ 12,460,647</u>	<u>\$ 15,548,829</u>	<u>\$ 4,713,818</u>	<u>\$ 7,759,108</u>	<u>\$ 684,863</u>
<b>Total expenditures per the budgetary comparison schedule</b>	<u>\$ 7,315,717</u>	<u>\$ 12,476,199</u>	<u>\$ 15,523,831</u>	<u>\$ 4,116,097</u>	<u>\$ 7,252,731</u>	<u>\$ 750,211</u>
Change in accrued expenditures	11,944	(10,387)	741		24,845	
Change in short-term compensated absences	<u>(73,417)</u>	<u>(3,399)</u>	<u>528</u>		<u>14,994</u>	
<b>Total expenditures per the statement of revenues, expenditures, and changes in fund balance</b>	<u>\$ 7,254,244</u>	<u>\$ 12,462,413</u>	<u>\$ 15,525,100</u>	<u>\$ 4,116,097</u>	<u>\$ 7,292,570</u>	<u>\$ 750,211</u>

**ADDITIONAL SUPPLEMENTARY INFORMATION**

## COUNCIL ON POSTSECONDARY EDUCATION

### SUPPLEMENTARY SCHEDULE OF ASSETS, LIABILITIES, AND FUND BALANCES – OPERATIONS JUNE 30, 2017

	Agency Operations	Kentucky Adult Education Operations	KYVC/ KYVL Operations	Total Operations
<b><u>ASSETS</u></b>				
Cash and cash equivalents	\$ 154,773	\$ 5,149	\$ 79,759	\$ 239,681
Investments	1,691,525	56,273	871,688	2,619,486
Accounts receivable		745		745
Intergovernmental receivables	168,131			168,131
Due from the Federal government	241,092			241,092
Interfund receivable	42,745		450,000	492,745
	<u>42,745</u>		<u>450,000</u>	<u>492,745</u>
Total assets	<u>\$ 2,298,266</u>	<u>\$ 62,167</u>	<u>\$ 1,401,447</u>	<u>\$ 3,761,880</u>
<b><u>LIABILITIES AND FUND BALANCES</u></b>				
Liabilities:				
Accounts and other payables	\$ 168,131	\$ 24,950	\$ -	\$ 193,081
Accrued expenses	488,751	5,875		494,626
Accrued compensated absences	466,876	3,807		470,683
Total liabilities	<u>1,123,758</u>	<u>34,632</u>	<u>-0-</u>	<u>1,158,390</u>
Fund balances:				
Assigned:				
for agency operations	<u>1,174,508</u>	<u>27,535</u>	<u>1,401,447</u>	<u>2,603,490</u>
Total liabilities and fund balances	<u>\$ 2,298,266</u>	<u>\$ 62,167</u>	<u>\$ 1,401,447</u>	<u>\$ 3,761,880</u>

## COUNCIL ON POSTSECONDARY EDUCATION

### SUPPLEMENTARY SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES – OPERATIONS YEAR ENDED JUNE 30, 2017

	Agency Operations	Kentucky Adult Education Operations	KYVC/ KYVL Operations	Total Operations
<b>REVENUES:</b>				
State appropriations	\$ 6,895,985	\$	\$	\$ 6,895,985
Charges for services	354,315	136,705		491,020
Intergovernmental revenues				-0-
Federal programs	406,375			406,375
Other revenues				-0-
<b>Total revenues</b>	<u>7,656,675</u>	<u>136,705</u>	<u>-0-</u>	<u>7,793,380</u>
<b>EXPENDITURES:</b>				
Personnel services	6,175,027	70,345		6,245,372
Utilities, rentals, and other services	620,609	42,224		662,833
Commodities and supplies	252,656	115		252,771
Travel	91,675	1,593		93,268
<b>Total expenditures</b>	<u>7,139,967</u>	<u>114,277</u>	<u>-0-</u>	<u>7,254,244</u>
Net change in fund balances	516,708	22,428	-0-	539,136
<b>Fund balances, beginning of year</b>	<u>657,800</u>	<u>5,107</u>	<u>1,401,447</u>	<u>2,064,354</u>
<b>Fund balances, end of year</b>	<u>\$ 1,174,508</u>	<u>\$ 27,535</u>	<u>\$ 1,401,447</u>	<u>\$ 2,603,490</u>

**COUNCIL ON POSTSECONDARY EDUCATION**

SUPPLEMENTARY SCHEDULE OF ASSETS, LIABILITIES, AND FUND  
BALANCES – RESEARCH CHALLENGE TRUST FUND  
JUNE 30, 2017

	Lung Cancer Research	Endowment Match Program	Total Research Challenge Trust Fund
<b><u>ASSETS</u></b>			
Cash and cash equivalents	\$ 1,107,494	\$ 2	\$ 1,107,496
Investments	347,773		347,773
Total assets	<u>\$ 1,455,267</u>	<u>\$ 2</u>	<u>\$ 1,455,269</u>
<b><u>LIABILITIES AND FUND BALANCES</u></b>			
Liabilities:			
Accounts and other payables	\$ -0-	\$ -0-	\$ -0-
Intergovernmental payable			-0-
Total liabilities	-0-	-0-	-0-
Fund balances:			
Restricted:			
for Lung Cancer Research	1,455,267		1,455,267
for Research Challenge		2	2
Total fund balances	<u>1,455,267</u>	<u>2</u>	<u>1,455,269</u>
Total liabilities and fund balances	<u>\$ 1,455,267</u>	<u>\$ 2</u>	<u>\$ 1,455,269</u>

**COUNCIL ON POSTSECONDARY EDUCATION**

SUPPLEMENTARY SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND  
BALANCES – RESEARCH CHALLENGE TRUST FUND  
YEAR ENDED JUNE 30, 2017

	Lung Cancer Research	Endowment Match Program	Total Research Challenge Trust Fund
<b>REVENUES:</b>			
State appropriations	\$ 4,706,100	\$	\$ 4,706,100
Income from investments	7,718		7,718
Total revenues	<u>4,713,818</u>	<u>-0-</u>	<u>4,713,818</u>
<b>EXPENDITURES:</b>			
Personnel services			
Grants and subsidies	4,116,099	(2)	4,116,097
Total expenditures	<u>4,116,099</u>	<u>(2)</u>	<u>4,116,097</u>
<b>Excess (deficiency) of revenues over expenditures</b>	<u>597,719</u>	<u>2</u>	<u>597,721</u>
<b>Fund balances, beginning of year</b>	<u>857,548</u>	<u>-0-</u>	<u>857,548</u>
<b>Fund balances, end of year</b>	<u>\$ 1,455,267</u>	<u>\$ 2</u>	<u>\$ 1,455,269</u>

**COUNCIL ON POSTSECONDARY EDUCATION**

SUPPLEMENTARY SCHEDULE OF ASSETS, LIABILITIES, AND  
FUND BALANCES – NON-MAJOR FUNDS  
JUNE 30, 2017

	Regional University Excellence Trust Fund	Assessment and Professional Development Fund	Other (Non- major) Governmental Funds
<b><u>ASSETS</u></b>			
Cash and cash equivalents	\$ 5	\$	\$ 5
Investments	2		2
Intergovernmental receivables		76,252	76,252
Total assets	<u>\$ 7</u>	<u>\$ 76,252</u>	<u>\$ 76,259</u>
<b><u>LIABILITIES AND FUND BALANCES</u></b>			
Liabilities:			
Accounts and other payables	\$	\$ 76,252	\$ 76,252
Accrued expenses		26,450	26,450
Accrued compensated absences		6,113	6,113
Total liabilities	<u>-0-</u>	<u>108,815</u>	<u>108,815</u>
Restricted:			
for Regional University Excellence	7		7
Unassigned		<u>(32,563)</u>	<u>(32,563)</u>
Total fund balances	<u>7</u>	<u>(32,563)</u>	<u>(32,556)</u>
Total liabilities and fund balances	<u>\$ 7</u>	<u>\$ 76,252</u>	<u>\$ 76,259</u>

**COUNCIL ON POSTSECONDARY EDUCATION**

SUPPLEMENTARY SCHEDULE OF REVENUE, EXPENDITURES, AND CHANGES  
IN FUND BALANCES – NON-MAJOR FUNDS  
YEAR ENDED JUNE 30, 2017

	Science and Technology Funding Program	Regional University Excellence Trust Fund	Assessment and Professional Development Fund	Other (Non- major) Governmental Funds
<b>REVENUES:</b>				
State appropriations	\$ 4,974,600	\$	\$ 1,393,800	\$ 6,368,400
Intergovernmental revenues		865,000		865,000
Income from investments		7		7
Total revenues	<u>4,974,600</u>	<u>865,007</u>	<u>1,393,800</u>	<u>7,233,407</u>
<b>EXPENDITURES:</b>				
Personnel services	1,347,000		637,740	1,984,740
Utilities, rentals and other services			21,000	21,000
Commodities and supplies			22,458	22,458
Grants and subsidies	3,627,600	865,000	700,927	5,193,527
Travel			5,081	5,081
Intergovernmental expenditures				-0-
Total expenditures	<u>4,974,600</u>	<u>865,000</u>	<u>1,387,206</u>	<u>7,226,806</u>
<b>Excess (deficiency) of revenues over expenditures</b>	<u>-0-</u>	<u>7</u>	<u>6,594</u>	<u>6,601</u>
<b>Fund balances, beginning of year</b>	<u>-0-</u>	<u>-0-</u>	<u>(39,157)</u>	<u>(39,157)</u>
<b>Fund balances, end of year</b>	<u>\$ -0-</u>	<u>\$ 7</u>	<u>\$ (32,563)</u>	<u>\$ (32,556)</u>

**COUNCIL ON POSTSECONDARY EDUCATION**

**SUPPLEMENTARY SCHEDULE OF GRANTS AND SUBSIDIES  
YEAR ENDED JUNE 30, 2017**

	Governmental Funds	Fiduciary Funds
Agency Operations	\$	\$
Adult Education State Grant Federal Programs	6,163,662	
Gaining Early Awareness and Readiness for Undergraduate Programs	742,764	
Improving Teacher Quality	781,135	
Perkins Grant	106,053	
SNAP Grant	314,965	
Postsecondary Education Equine Trust Fund	750,000	
Kentucky Adult Education Funding Program	14,772,360	
Science and Technology Funding Program	3,627,600	
Regional University Excellence Trust Fund	865,000	
Research Challenge Trust Fund:		
Lung Cancer Research Program	4,116,097	
Technology Initiative Trust Fund	438,185	
Assessment and Professional Development	700,927	
Cancer Research Institutions Matching Fund		3,814,183
Contract Spaces Program		5,514,424
Governor's Minority Student College Preparation Program		167,100
Professional Education Preparatory Program		239,200
Scholars Program		64,500
Washington Internship Program		45,600
	<u>\$ 33,378,748</u>	<u>\$ 9,845,007</u>

See report of independent auditors.  
and accompanying note to the schedule  
of expenditures of federal awards

**COUNCIL ON POSTSECONDARY EDUCATION**

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
YEAR ENDED JUNE 30, 2017**

	<u>Federal CFDA Number</u>	<u>Grant ID Number</u>	<u>Total Federal Expenditures</u>	<u>Subrecipient Passthrough</u>
<b><u>Major Programs:</u></b>				
<b>United States Department of Education:</b>				
Gaining Early Awareness and Readiness for Undergraduate Programs	84.334	P334S110018-15	1,606,780	
	84.334	P334S110018-16	<u>3,069,437</u>	
Total Gaining Early Awareness and Readiness for Undergraduate Programs			4,676,217	584,604
Improving Teacher Quality State Grants	84.367	S367B140017	209,710	
	84.367	S367B150017	<u>619,330</u>	
Total Improving Teacher Quality State Grants			829,040	781,135
<b>Pass-through from Kentucky Cabinet for Health and Family Services:</b>				
Path 2 Promise - Supplemental Nutrition Assistance Program (SNAP)	10.596	PON273615000019981	367,413	314,773
<b><u>Non-Major Programs:</u></b>				
Adult Education - State Administered	84.002	V002A140017	\$ 133,981	\$
	84.002	V002A150017	5,877,553	
	84.002	V002A160017	<u>701,504</u>	
Total Adult Education - State Administered			6,713,038	5,991,598
<b>Pass-through from Kentucky Department of Education:</b>				
Statewide Longitudinal Data Systems	84.372	R372A120028	105,945	
Career and Technical Education - Basic Grants to States	84.048	PON254015000025461	<u>177,135</u>	<u>26,054</u>
Total Federal Expenditures			<u>\$ 12,868,788</u>	<u>\$ 7,698,164</u>

See report of independent auditors.  
and accompanying note to the schedule  
of expenditures of federal awards

## COUNCIL ON POSTSECONDARY EDUCATION

### NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS JUNE 30, 2017

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#### 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, 2017, 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 2, 2017.

### 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 control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

To the Council Members  
Council on Postsecondary Education

### Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Council's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the 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 matter that are required to be reported under *Government Auditing Standards*.

### Purpose of this Report

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

*Blue & Co., LLC*

Lexington, Kentucky  
November 2, 2017



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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, 2017. The Council's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

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

Auditor's Responsibility

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

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

To the Council Members  
Council on Postsecondary Education

Opinion on Each Major Federal Program

In our opinion, the Council complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2017.

Report on Internal Control Over Compliance

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

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

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

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

*Blue & Co., LLC*

Lexington, Kentucky  
November 2, 2017



**COUNCIL ON POSTSECONDARY EDUCATION**

SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
JUNE 30, 2017

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<u>CFDA Number</u>	<u>Name of Federal Program or Cluster</u>
84.334	Gaining Early Awareness and Readiness for Undergraduate Programs
84.367	Improving Teacher Quality State Grants
10.596	Path 2 Promise – Supplemental Nutrition Assistance Program (SNAP)

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, 2017

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There were no findings reported for the year ended June 30, 2016.