

**AGENDA**  
Executive Committee

Council on Postsecondary Education  
Thursday, November 15, 2018  
10:00 AM

Southcentral KY Community & Technical College, Bldg G, Conf Rm

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1. Welcoming
2. Approval of Minutes 2
3. Review FY 2017-18 Agency Audit Report 4
4. CPE President Contract Recommendation
5. Other Business
6. Adjourn

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**STAY CONNECTED TO THE CPE!**



**MINUTES**  
Executive Committee  
Council on Postsecondary Education  
June 22, 2018

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The Executive Committee of the Council on Postsecondary Education met Friday, June 22, 2018, at 8:00 a.m., ET, at the Council offices in Frankfort, Kentucky. Chair Sherrill Zimmerman presided.

**WELCOMING**           The following committee members attended: Ben Brandstetter, Donna Moore, and Sherrill Zimmerman. Lucas Mentzer and Kristi Nelson did not attend.

Council staff members in attendance were Heather Faesy, Robert L. King, and Travis Powell.

**APPROVAL OF MINUTES**       The minutes of the November 3, 2017 Executive Committee meeting was approved as distributed.

**ANNUAL CPE PRESIDENT EVALUATION DISCUSSION**       The purpose of the meeting was to discuss President King's self-evaluation and the successes and set-backs over the last fiscal year. A copy of President King's memo to the Council was included in the meeting materials. The committee members remarked on King's recent media interviews and his work and discussions with the state budget director, the Governor, and the legislature. Vice Chair Brandstetter asked that staff ensure his memo is distributed to the public, not just the Council, so that more people are aware of the great things CPE and President King have done in the last year and decade.

**OTHER BUSINESS**           KRS 63.080(2) provides a process for a board of trustees or regents for Kentucky's public universities and community college system to request the removal of one of its members for cause. In order to initiate this process, the board must notify the member and the Council on Postsecondary Education that the member should be removed for cause and specify the conduct warranting removal. The member shall then have seven (7) days to voluntarily resign or provide evidence to the Council that the member's conduct does not warrant removal. If the member does not resign, the Council shall investigate the member and the conduct alleged to support removal and make a nonbinding recommendation, in

**MINUTES**  
Executive Committee  
Council on Postsecondary Education  
June 22, 2018

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writing, to the Governor as to whether the members should be removed. The Governor shall then make the final determination, in writing, whether the member should be removed.

On June 18, 2018 both the Council and Dr. Karen Bearden, member of the Kentucky State University (KSU) board of regents, had received official notice that the KSU board unanimously adopted a resolution to remove Dr. Bearden from its board. According to the statute, Dr. Bearden has seven (7) days to resign. CPE staff briefed the executive committee on the status of the notice and next steps should Dr. Bearden not resigned.

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

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Aaron Thompson, Ph.D.  
President

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Heather M. Faesy  
Associate, Board Relations & Special  
Projects

## Faesy, Heather M (CPE)

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**From:** Brown, Leslie C (CPE)  
**Sent:** Wednesday, November 14, 2018 2:54 PM  
**To:** Faesy, Heather M (CPE)  
**Subject:** FW: Audit  
**Attachments:** Council Draft SAS 115 11.13.18.pdf

**\*\*CAUTION\*\* PDF attachments may contain links to malicious sites. To verify the destination of the hyperlink in an attachment, hover your mouse over the link and verify the link address. If you are unfamiliar with the address or the address looks suspicious, do not click on the link and delete the email immediately. Please contact the COT Service Desk [ServiceCorrespondence@ky.gov](mailto:ServiceCorrespondence@ky.gov) for any assistance.**

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Hi Heather,

Attached is the audit we approved yesterday, they have not sent us a copy marked FINAL yet but we had no changes to report from the attached.

Thanks,  
Leslie

Leslie L.C. Brown | Director, Administrative Services | Council on Postsecondary Education  
1024 Capital Center Drive, Suite 320 | Frankfort, KY 40601 | t 502.892.3011 | [LeslieC.Brown@ky.gov](mailto:LeslieC.Brown@ky.gov) | [www.cpe.ky.gov](http://www.cpe.ky.gov)

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**From:** Allen Norvell <[anorvell@blueandco.com](mailto:anorvell@blueandco.com)>  
**Sent:** Tuesday, November 13, 2018 11:32 AM  
**To:** Brown, Leslie C (CPE) <[LeslieC.Brown@ky.gov](mailto:LeslieC.Brown@ky.gov)>  
**Cc:** Joseph Duruttya <[jduruttya@blueandco.com](mailto:jduruttya@blueandco.com)>  
**Subject:** RE: Audit

Leslie:

Attached is the draft of the communication to governance.

There is one recommendation on page 5 - this is a carryover from last year.

Please confirm your receipt, review and let us know if you have any questions or changes to consider.

Thank you,

**R. Allen Norvell, CPA** | Director  
Blue & Co., LLC | phone 859-253-1100 | fax 859-253-1384  
250 West Main Street, Suite 2900 | Lexington, KY 40507

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# DRAFT



## KENTUCKY COUNCIL ON POSTSECONDARY EDUCATION

MATTERS TO BE COMMUNICATED TO

THE COUNCIL MEMBERS

JUNE 30, 2018



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

---DATE---

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, 2018, 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. Professional standards also require that we communicate to you the following information related to our audit.

**Our Responsibility under Auditing Standards Generally Accepted in the United States of America, Government Auditing Standards and the Uniform Guidance**

As stated in our engagement letter dated July 1, 2018, our responsibility, as described by professional standards, is to express an opinion about whether the financial statements prepared by management with your oversight are fairly presented, in all material respects, in conformity with accounting principles generally accepted in the United States of America. Our responsibility is to plan and perform the audit to obtain reasonable, but not absolute, assurance that the financial statements are free of material misstatement. Our audit of the financial statements does not relieve you or management of your responsibilities.

In planning and performing our audit, we will consider the Council's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide assurance on the internal control over financial reporting. We are responsible for communicating significant matters related to the audit that are, in our professional judgment, relevant to your responsibilities in overseeing the financial reporting process. However, we are not required to design procedures specifically to identify such matters. We will also consider internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with the *Title 2 U.S. Code of Federal Regulations Part 200, Uniform*

To the Council Members  
Council on Postsecondary Education  
Page 2

*Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* ("Uniform Guidance").

As part of obtaining reasonable assurance about whether the Council's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, 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 is not an objective of our audit. Also in accordance with the Uniform Guidance, we will examine, on a test basis, evidence about the Council's compliance with the types of compliance requirements described in the Uniform Guidance applicable to each of its major federal programs for the purpose of expressing an opinion on the Council's compliance with those requirements. While our audit will provide a reasonable basis for our opinion, it will not provide a legal determination on the Council's compliance with those requirements.

## **SIGNIFICANT AUDIT FINDINGS**

### **QUALITATIVE ASPECTS OF ACCOUNTING PRACTICES**

Management is responsible for the selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we will advise management about the appropriateness of accounting policies and their application. The significant accounting policies used by the Council are described in Note 1 to the financial statements. As described in Note 16, the Council adopted GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions* in 2018. 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:

To the Council Members  
Council on Postsecondary Education  
Page 3

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, net OPEB (Other Post-employment Benefits) liability and related deferred outflows/inflows of resources determined by the actuary. We evaluated key factors and assumptions used to develop these liabilities in determining that they are 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.

To the Council Members  
Council on Postsecondary Education  
Page 4

## **MANAGEMENT CONSULTATIONS WITH OTHER INDEPENDENT ACCOUNTANTS**

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

## **OTHER AUDIT FINDINGS OR ISSUES**

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

## **OTHER INFORMATION IN DOCUMENTS CONTAINING AUDITED FINANCIAL STATEMENTS**

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

## **REQUIRED SUPPLEMENTARY INFORMATION**

With respect to the required supplementary information accompanying the financial statements, we have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

To the Council Members  
Council on Postsecondary Education  
Page 5

## **OUR RECOMMENDATIONS FOR THE COUNCIL**

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 2018 audit, we have developed the following additional recommendations for your consideration.

#### **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 2018 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.

\* \* \* \* \*

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*

# DRAFT



## KENTUCKY COUNCIL ON POSTSECONDARY EDUCATION

FINANCIAL STATEMENTS

AND

SUPPLEMENTARY INFORMATION

JUNE 30, 2018

COUNCIL ON POSTSECONDARY EDUCATION

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JUNE 30, 2018

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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, 2018, 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, 2018, and the respective changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

## Change in Accounting Principle

As discussed in Note 16 to the financial statements, the Council adopted Governmental Accounting Standards Board Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, during the year ended June 30, 2018. Our opinions are not modified with respect to this matter.

## Report on Required Supplementary Information

Accounting principles generally accepted in the United States of America require that management's discussion and analysis on pages 4 through 11, the schedules of proportionate share of the net pension liability and schedules of pension contributions on pages 59 through 62, the schedules of proportionate share of the net OPEB liability and the schedules of OPEB contributions on pages 63 through 66, and the budgetary comparison information on pages 67 through 73, 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 81 and 82 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 74 through 80 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 ---DATE--- 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

---DATE---

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, 2018. 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 2018 by \$24,011,104.
- Net position decreased \$7,900,861 between FY 2017 and FY 2018.
- As of the close of FY 2018, the Council's governmental funds reported an ending fund balance of \$6,977,109, 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 2018 were \$53,474,580, representing a 5% decrease from FY 2017. Most of the decrease is due to the federal programs fund losing the Gear-up grant with an decrease of revenue of approximately \$1,259,327 in the current year.
- Total fund expenditures for FY 2018 were \$54,222,234, representing a 1% decrease from FY 2017.

**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.

**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

# DRAFT

MANAGEMENT'S DISCUSSION AND ANALYSIS  
JUNE 30, 2018

## 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, 2018	June 30, 2017
<b>Assets:</b>		
Current	\$ 13,024,222	\$ 7,016,777
Noncurrent	4,698,055	4,513,163
Total assets	<u>17,722,277</u>	<u>11,529,940</u>
Deferred outflow of resources	6,091,309	4,913,707
Total assets and deferrals	<u>\$ 23,813,586</u>	<u>\$ 16,443,647</u>
<b>Liabilities:</b>		
Current	\$ 10,247,329	\$ 2,914,857
Noncurrent	31,486,052	25,975,667
Total liabilities	<u>41,733,381</u>	<u>28,890,524</u>
Deferred inflow of resources	2,990,627	562,684
Total liabilities and deferrals	<u>\$ 44,724,008</u>	<u>\$ 29,453,208</u>
<b>Net position (deficit):</b>		
Net investment in capital assets	\$ 20,331	\$ 133,117
Restricted	3,738,053	4,416,970
Unrestricted deficit	<u>(24,668,806)</u>	<u>(17,559,648)</u>
Total net position (deficit)	<u>\$ (20,910,422)</u>	<u>\$ (13,009,561)</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.

MANAGEMENT'S DISCUSSION AND ANALYSIS  
JUNE 30, 2018

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Current liabilities consist primarily of operating accounts payable, intergovernmental payables, accrued payroll, and accrued compensated absences. As of June 30, 2018, 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 \$24.0 million. Total assets and deferrals increased by approximately \$7.4 million, primarily in the cash and cash equivalents and prepaid expenses. Total liabilities increased by approximately \$12.8 million primarily related to an increase in net pension liability and the addition of net OPEB liability. Total deferred outflows of resources increased by \$2.2 million relating to an increase in net pension liability and the additional of the net OPEB liability. Therefore, net position decreased \$7.9 million between FY 2017 and FY 2018.

**COUNCIL ON POSTSECONDARY EDUCATION**

DRAFT

MANAGEMENT'S DISCUSSION AND ANALYSIS  
JUNE 30, 2018

**Condensed Financial Information  
Statements of Activities  
For the Fiscal Years Ended**

	June 30, 2018	June 30, 2017
<b>Revenues:</b>		
Program revenues:		
Charges for services	\$ 3,486,095	\$ 3,938,465
Operating grants and contributions	11,797,657	14,181,210
Capital grants and contributions	651,074	684,863
General revenues:		
State appropriations	37,539,754	37,389,514
Loss on disposal of capital assets	(106,618)	(6,717)
Total revenues	53,367,962	56,187,335
<b>Expenses:</b>		
Strategic investment and incentive funding programs	35,076,809	34,482,137
Agency, Kentucky Adult Education, and KYVC/KYVL Operations	10,147,900	9,363,684
Federal Programs	11,424,433	12,640,272
Postsecondary Education Equine Trust Fund	600,000	750,211
Other	11,237	50,154
Total expenses	57,260,379	57,286,458
<b>Change in net position</b>	(3,892,417)	(1,099,123)
<b>Net position, beginning of year (as previously reported)</b>	(13,009,561)	(11,910,438)
<b>Adjustment for net OPEB liability</b>	(4,008,444)	-0-
<b>Net position (deficit), beginning of year (as adjusted)</b>	(17,018,005)	(11,910,438)
<b>Net position (deficit), end of year</b>	\$ (20,910,422)	\$ (13,009,561)

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 operating grants and contributions by

# COUNCIL ON POSTSECONDARY EDUCATION

# DRAFT

## MANAGEMENT'S DISCUSSION AND ANALYSIS JUNE 30, 2018

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approximately \$2.4 million. The decrease in appropriations is mostly within the Federal Fund due to the Gear-Up grant not being renewed for FY 18.

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

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

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

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

	June 30, 2018	June 30, 2017
<b>Total assets</b>	\$ 17,667,614	\$ 11,429,191
<b>Total liabilities</b>	10,690,505	3,704,428
<b>Fund balances</b>	6,977,109	7,724,763
<b>Total liabilities and fund balances</b>	\$ 17,667,614	\$ 11,429,191

The fund balance primarily represents the cash balances, investment balances, amounts due from the Federal government, and intergovernmental receivables. The fund balances of the Council decreased approximately \$748,000 between fiscal years.

**COUNCIL ON POSTSECONDARY EDUCATION**

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MANAGEMENT'S DISCUSSION AND ANALYSIS  
JUNE 30, 2018

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

	June 30, 2018	June 30, 2017
<b>Revenues:</b>		
State appropriations	\$ 37,539,754	\$ 37,389,514
Charges for services	3,486,095	3,938,465
Intergovernmental revenues	651,074	1,549,863
Federal programs	11,607,695	12,867,022
Other	133,802	414,785
Income from investments	56,160	34,403
Total revenues	53,474,580	56,194,052
<b>Expenditures:</b>		
Personnel services	13,021,055	14,715,181
Grants and subsidies	35,828,579	33,378,748
Intergovernmental expenditures	-0-	211
Other	5,372,600	6,533,301
Total expenditures	54,222,234	54,627,441
<b>Net change in fund balances</b>	(747,654)	1,566,611
<b>Fund balances, beginning of year</b>	7,724,763	6,158,152
<b>Fund balances, end of year</b>	\$ 6,977,109	\$ 7,724,763

The most significant change in this year's revenue is with a decrease in federal program revenues of \$1.3 million.

Grants and subsidies primarily consist of payments to institutions, state agencies, and other service providers for costs related to discrete authorized activities. The expenditures are consistent between FY 2018 and FY 2017.

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.

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**COUNCIL ON POSTSECONDARY EDUCATION**

MANAGEMENT'S DISCUSSION AND ANALYSIS  
JUNE 30, 2018

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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 \$6.1 million. The total decrease is primarily related to the decrease in Federal Program of \$2.6 million dollars due to the loss of the Gear-Up grant in the current fiscal year and the decrease of \$2.8 million in 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 Leslie Brown, Director, Administrative Services, Council on Postsecondary Education, 1024 Capital Center Drive, Suite 320, Frankfort, Kentucky, 40601. Both individuals can be contacted by phone at (502) 573-1555.

**COUNCIL ON POSTSECONDARY EDUCATION**

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STATEMENT OF NET POSITION  
JUNE 30, 2018

	Governmental Activities
<b><u>ASSETS</u></b>	
<b>Current assets:</b>	
Cash and cash equivalents	\$ 1,144,491
Cash and cash equivalents - restricted	7,336,347
Accounts receivable	24,247
Intergovernmental receivables	1,629,908
Due from the Federal government	2,411,721
Prepaid expenses	477,508
Total current assets	13,024,222
<b>Noncurrent assets:</b>	
Investments	3,602,478
Investments - restricted	1,075,246
Capital assets - net	20,331
Total noncurrent assets	4,698,055
Total assets	17,722,277
Deferred outflow of resources	6,091,309
Total assets and deferrals	\$ 23,813,586
<b><u>LIABILITIES</u></b>	
<b>Current liabilities:</b>	
Accounts and other payables	\$ 9,296,991
Accrued expenses	560,959
Accrued compensated absences - current portion	389,379
Total current liabilities	10,247,329
<b>Noncurrent liabilities:</b>	
Accrued compensated absences - noncurrent portion	356,100
Net pension and OPEB	31,129,952
Total noncurrent liabilities	31,486,052
Total liabilities	41,733,381
Deferred inflow of resources	2,990,627
Total liabilities and deferrals	\$ 44,724,008
<b><u>NET POSITION (DEFICIT)</u></b>	
<b>Net investment in capital assets</b>	\$ 20,331
<b>Restricted</b>	3,738,053
<b>Unrestricted deficit</b>	(24,668,806)
Total net position (deficit)	\$ (20,910,422)

**COUNCIL ON POSTSECONDARY EDUCATION**

STATEMENT OF ACTIVITIES  
YEAR ENDED JUNE 30, 2018

	Program Revenues			Net (Expenses) Revenues and Changes in Net Position
	Expenses	Charges for Services	Operating Grants and Contributions	
<b>FUNCTIONS/PROGRAMS:</b>				
Operations	\$ 10,147,900	\$ 461,250	\$ 128,991	\$ (9,557,659)
Federal Programs	11,424,433		11,478,704	54,271
Postsecondary Education Equine Trust Fund	600,000			51,074
Kentucky Adult Education Funding Program	15,981,228			(15,981,228)
Science and Technology Funding Program	4,511,700			(4,511,700)
Research Challenge Trust Fund	6,612,601		11,822	(6,600,779)
Technology Initiative Trust Fund	6,753,924	3,024,845	178,140	(3,550,939)
Assessment and Professional Development	1,217,356			(1,217,356)
Unallocated depreciation expense	11,237			(11,237)
Total governmental activities	<u>\$ 57,260,379</u>	<u>\$ 3,486,095</u>	<u>\$ 11,797,657</u>	<u>\$ (41,325,553)</u>
<b>General revenues:</b>				
State appropriations				37,539,754
Loss on disposal of capital assets				(106,618)
Total general revenues				<u>37,433,136</u>
Change in net position				(3,892,417)
Net position, beginning of year (as previously reported)				(13,009,561)
Adjustment for net OPEB liability				(4,008,444)
Net position, beginning of year (as adjusted)				<u>(17,018,005)</u>
Net position, end of year				<u>\$ (20,910,422)</u>

# COUNCIL ON POSTSECONDARY EDUCATION

## BALANCE SHEET – GOVERNMENTAL FUNDS JUNE 30, 2018

	Operations	Federal Programs	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	\$ 536,488				\$ 608,003		\$ 1,144,491
Cash and cash equivalents - restricted				4,221,256	3,050,699	64,392	7,336,347
Investments	2,980,570				621,908		3,602,478
Investments - restricted				717,531		357,715	1,075,246
Accounts receivable	24,247						24,247
Intergovernmental receivables		113,676	1,516,232				1,629,908
Due from the Federal government	7,191	2,404,530					2,411,721
Interfund receivable	314,750	14,750			113,676		443,176
Total assets	<u>\$ 3,863,246</u>	<u>\$ 2,532,956</u>	<u>\$ 1,516,232</u>	<u>\$ 4,938,787</u>	<u>\$ 4,394,286</u>	<u>\$ 422,107</u>	<u>\$ 17,667,614</u>
<b>LIABILITIES AND FUND BALANCES</b>							
<b>Liabilities:</b>							
Accounts and other payables	\$ 24,368	\$ 2,385,492	\$ 1,516,232	\$ 4,908,197	\$ 222,702	\$ 240,000	\$ 9,296,991
Accrued expenses	466,358	19,038	13,694		32,487	29,382	560,959
Accrued compensated absences	367,236	276	13,761		5,769	2,337	389,379
Interfund payable		128,426			314,750		443,176
Total liabilities	<u>857,962</u>	<u>2,533,232</u>	<u>1,543,687</u>	<u>4,908,197</u>	<u>575,708</u>	<u>271,719</u>	<u>10,690,505</u>
<b>Fund balances:</b>							
<b>Restricted:</b>							
for SHEEHO Multi-State Collaborative Agreement					18,754		18,754
for Technology Initiative					2,687,180		2,687,180
for Automated residency application system					318,765		318,765
for James Graham Brown Foundation					26,000		26,000
for University Equine programs						422,100	422,100
<b>Committed:</b>							
for Lung Cancer Research				30,588			30,588
for Research Challenge				2			2
for Regional University Excellence						7	7
<b>Assigned:</b>							
for agency operations	3,005,284						3,005,284
for Technology Trust Fund					767,879		767,879
Unassigned		(276)	(27,455)			(271,719)	(299,450)
Total fund balances	<u>3,005,284</u>	<u>(276)</u>	<u>(27,455)</u>	<u>30,590</u>	<u>3,818,578</u>	<u>150,388</u>	<u>6,977,109</u>
Total liabilities and fund balances	<u>\$ 3,863,246</u>	<u>\$ 2,532,956</u>	<u>\$ 1,516,232</u>	<u>\$ 4,938,787</u>	<u>\$ 4,394,286</u>	<u>\$ 422,107</u>	<u>\$ 17,667,614</u>

**COUNCIL ON POSTSECONDARY EDUCATION**

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RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET TO THE  
STATEMENT OF NET POSITION  
JUNE 30, 2018

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<b>Fund balances - total governmental funds</b>	\$	6,977,109
<p>Amounts reported for governmental activities in the statement of net position are different because:</p>		
<p>The deferred outflow of resources are not current financial resources, and therefore, are not reported in the governmental funds.</p>		
		6,091,309
<p>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.</p>		
Prepaid expenses		477,508
<p>Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the governmental funds.</p>		
Governmental capital assets	89,826	
Less accumulated depreciation	<u>(69,495)</u>	20,331
<p>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.</p>		
Accrued compensated absences - noncurrent portion		(356,100)
<p>The deferred inflow of resources is not due and payable in the current year and, therefore, is not reported in the governmental funds.</p>		
		(2,990,627)
<p>The net pension liability and net OPEB liability is not due and payable in the current year and, therefore, is not reported in the governmental funds.</p>		
		<u>(31,129,952)</u>
<b>Net position of governmental activities</b>	<b>\$</b>	<b><u><u>(20,910,422)</u></u></b>

## COUNCIL ON POSTSECONDARY EDUCATION

### STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES – GOVERNMENTAL FUNDS YEAR ENDED JUNE 30, 2018

	Operations	Federal Programs	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	\$ 6,935,186	\$	\$ 15,926,768	\$ 5,176,100	\$ 3,638,000	\$ 5,863,700	\$ 37,539,754
Charges for services	461,250				3,024,845		3,486,095
Intergovernmental revenues						651,074	651,074
Federal programs	128,991	11,478,704					11,607,695
Other revenues					133,802		133,802
Income from investments				11,822	44,338		56,160
Total revenues	7,525,427	11,478,704	15,926,768	5,187,922	6,840,985	6,514,774	53,474,580
<b>EXPENDITURES:</b>							
Personnel services	6,047,779	1,453,076	159,374	4,404	3,288,767	2,067,655	13,021,055
Utilities, rental, and other services	765,311	756,312	188,790		508,784	408	2,219,605
Commodities and supplies	194,023	14,187	2,505		2,658,910	55,988	2,925,613
Grants and subsidies	11,129	9,119,891	15,589,784	6,608,197	169,778	4,329,800	35,828,579
Travel	105,391	81,061	12,275		19,650	9,005	227,382
Total expenditures	7,123,633	11,424,527	15,952,728	6,612,601	6,645,889	6,462,856	54,222,234
<b>Excess (deficiency) of revenues over expenditures</b>	401,794	54,177	(25,960)	(1,424,679)	195,096	51,918	(747,654)
<b>Net change in fund balances</b>	401,794	54,177	(25,960)	(1,424,679)	195,096	51,918	(747,654)
<b>Fund balances, beginning of year</b>	2,603,490	(54,453)	(1,495)	1,455,269	3,623,482	98,470	7,724,763
<b>Fund balances, end of year</b>	\$ 3,005,284	\$ (276)	\$ (27,455)	\$ 30,590	\$ 3,818,578	\$ 150,388	\$ 6,977,109

See accompanying notes  
to the financial statements.

**COUNCIL ON POSTSECONDARY EDUCATION**

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RECONCILIATION OF THE GOVERNMENTAL FUNDS  
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES  
IN FUND BALANCES TO THE STATEMENT OF ACTIVITIES  
YEAR ENDED JUNE 30, 2018

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**Net change in fund balances - total governmental funds** \$ (747,654)

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 (279,695)

Governmental funds report capital outlays as expenditures, however, in the statement of activities, the cost of these assets is depreciated over their estimated useful lives.

Current year expenditures for capital assets	5,069	
Current year depreciation expense	(11,237)	(6,168)

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 (106,618)

Pension and OPEB expenses not payable from current year resources are not reported as expenditures of the current year. In the statement of activities these costs represent expenses of the current year.

(2,677,282)

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	(75,000)	
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**Change in net position of governmental activities** \$ (3,892,417)

## COUNCIL ON POSTSECONDARY EDUCATION

### STATEMENT OF FIDUCIARY NET POSITION JUNE 30, 2018

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	<u>Agency Fund</u>
<b><u>ASSETS</u></b>	
Cash and cash equivalents - restricted	\$ 17,550
Investments - restricted	<u>97,500</u>
Total assets	<u><u>\$ 115,050</u></u>
 <b><u>LIABILITIES</u></b>	
Accounts payable	<u><u>\$ 115,050</u></u>

NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2018

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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.

NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2018

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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.

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.

NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2018

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*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:

*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.

NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2018

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*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.

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

NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2018

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

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

- Cancer Research Institutions Matching Fund
- Contract Spaces Program
- Governor's Minority Student College Preparation Program
- Professional Education Preparatory Program
- Southern Regional Education Board Doctoral Scholars Program
- Kentucky Autism Training Center
- Washington Internship Program

Measurement Focus and Basis of Accounting

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

*Measurement Focus:*

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

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

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

NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2018

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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.

NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2018

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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, 2018, 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.

NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2018

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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.

NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2018

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As of June 30, 2018, Postsecondary Education Equine Trust Fund net position totaling \$182,100 is restricted by enabling legislation.

*Fund Financial Statements:*

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

The Council generally segregates restricted, committed, and assigned resources by account. When resources meeting more than one of these spendable classifications are commingled in an account in the 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 six 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.

NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2018

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

For 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.

Postemployment Benefits Other Than Pensions (OPEB)

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

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

Total Columns on the Governmental Fund Financial Statements

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

NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2018

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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, 2018 in the amount of \$276. The Assessment and Professional Development Fund had a negative fund balance on June 30, 2018 in the amount of \$31,719. The Kentucky Adult Education Funding Program had a negative fund balance on June 30, 2018 in the amount of \$27,455. 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 2019 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, 2018, the Council's share of deposits in the Commonwealth's general depository (State investment pool) totals \$13,158,562. Agency funds held by the Council in the Commonwealth's general depository total \$115,050 at June 30, 2018.

The Commonwealth's Comprehensive Annual Financial Report (CAFR) for the year ended June 30, 2018 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).

NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2018

4. CAPITAL ASSETS

Capital asset activity during the year ended June 30, 2018 is as follows:

	Balance July 1, 2017	Increases	Decreases	Balance June 30, 2018
<b>Capital assets:</b>				
Office equipment	\$ 64,130	\$ 5,069	\$ 6,917	\$ 62,282
Data processing equipment	382,939		355,395	27,544
Vehicles	116,900		116,900	-0-
<b>Capital assets at cost</b>	<u>563,969</u>	<u>5,069</u>	<u>479,212</u>	<u>89,826</u>
<b>Less accumulated depreciation:</b>				
Office equipment	25,415	5,306	6,917	23,804
Data processing equipment	288,537	5,931	248,777	45,691
Vehicles	116,900		116,900	-0-
<b>Total accumulated depreciation:</b>	<u>430,852</u>	<u>11,237</u>	<u>372,594</u>	<u>69,495</u>
Capital assets - net	<u>\$ 133,117</u>	<u>\$ (6,168)</u>	<u>\$ 106,618</u>	<u>\$ 20,331</u>

Depreciation expense for 2018 totals \$11,237.

5. ACCRUED COMPENSATED ABSENCES

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

*Annual and Compensatory Leave:*

Annual leave is accumulated at amounts ranging from 7.50 to 15.00 hours per month, determined by length of service, with maximum accumulations ranging from 30 to 60 days. The calendar year is the period used for determining accumulated leave. Compensatory leave is granted to authorized employees.

Activity in the liability for accrued compensated absences during the year ended June 30, 2018 is summarized as follows:

	Balance July 1, 2017	Increases	Decreases	Balance June 30, 2018
Accrued compensated absences	<u>\$ 839,863</u>	<u>\$ 294,616</u>	<u>\$ 389,000</u>	<u>\$ 745,479</u>

As of June 30, 2018, the amount estimated to be due within one year totals approximately \$389,000.

NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2018

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*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, 2018. The estimated accumulated amount of unused sick leave at June 30, 2018, totals approximately \$1,856,000.

6. FIDUCIARY FUND

The changes in assets and liabilities of the fiduciary fund during the year ended June 30, 2018 are as follows:

	Balance July 1, 2017	Increases	Decreases	Balance June 30, 2018
<b>Assets:</b>				
Cash and cash equivalents - restricted	\$ 2,097	\$ 6,211,834	\$ 6,196,381	\$ 17,550
Intergovernmental receivables	3,284	-0-	3,284	-0-
Investments - restricted	22,914	97,500	22,914	97,500
Prepaid expenses	202,391	-0-	202,391	-0-
Total assets	\$ 230,686	\$ 6,309,334	\$ 6,424,970	\$ 115,050
<b>Liabilities:</b>				
Accounts payable	\$ 230,686	\$ 882,889	\$ 998,525	\$ 115,050

7. LEASE COMMITMENTS

The Council leases certain equipment with expiring terms in 2019. Future minimum rentals remaining under these non-cancelable operating leases for the year ending June 30, 2019 are \$8,790

The Council also leases office space under a lease agreement with yearly automatic extension periods through June 30, 2022. Future rentals remaining under this cancelable office space lease (through June 30, 2022 assuming the Council does not exercise its right to terminate the lease) are \$324,411 per year.

Rentals paid under all operating leases (including the office space lease) during 2018 totaled approximately \$317,000.

NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2018

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8. RETIREMENT PLANS

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

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

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

Currently, the Council is required to contribute 8.03% of the covered employees' salaries. The contribution requirement for the year ended June 30, 2018 totals approximately \$187,000, consisting of approximately \$115,000 from the Council and \$72,000 from employees. The contribution requirement for the year ended June 30, 2017 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, 2016 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).

**COUNCIL ON POSTSECONDARY EDUCATION**

**DRAFT**

NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2018

	<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 Benefit Factor X Years of Service		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.
<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.

**COUNCIL ON POSTSECONDARY EDUCATION**

**DRAFT**

NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2018

	<b>Tier 1</b>	<b>Tier 2</b>	<b>Tier 3</b>
	Participation Prior to 9/1/2008	Participation 9/1/2008 through 12/31/2013	Participation on or after 1/1/2014
<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.	
<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.

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 2018, plan employees were required to contribute 5 percent of their annual covered salary for retirement benefits. The Council was contractually required to contribute 41.06 percent of covered payroll to the nonhazardous KERS pension and insurance plans, respectively. Actuarially determined as an amount that, when combined with employees during the year, with an additional amount to finance any unfunded accrued liability. The Council's total required contributions to KERS nonhazardous pension plans for the years ended June 30, 2018 was \$1,112,273.

At June 30, 2018, the Council reported a liability of \$24,659,174 for its proportionate share of net pension liability. The net pension liability was measured as of June 30, 2017, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of June 30, 2017. The Council's proportion of the net pension liability was based on projection of the Council's long-term share of contributions to the pension plan relative to the projected contributions of all participating entities. At June 30, 2018, the Council's proportion was 0.184184 percent.

NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2018

**Actuarial Assumptions**

<b>Actuarial Valuation Date</b>	June 30, 2016
<b>Actuarial Cost Method</b>	Entry age normal
<b>Amortization Method</b>	Level percent of pay
<b>Remaining amortization period</b>	28 years, closed
<b>Asset valuation method</b>	20% of the difference between market value of assets and the expected actuarial value of assets is recognized
<b>Actuarial assumptions:</b>	
<b>Investment rate of return</b>	5.25%
<b>Inflation rate</b>	2.30%
<b>Projected salary increases</b>	3.05%, average
<b>Mortality Tables:</b>	
<b>Active member</b>	RP-2000 Combined Mortality Table projected with Scale BB to 2013 (multiplied by 50% for males and 30% for females)
<b>Healthy retired members</b>	RP-2000 Combined Mortality Table projected with Scale BB to 2013 (set back 1 year for females)
<b>Disable members</b>	RP-2000 Combined Mortality Table projected with Scale BB to 2013 (set back 4 years for male)
<b>Date of Experience Study</b>	The period July 1, 2008 - June 30, 2013
<b>Update Procedures Applied</b>	The actuarial valuation date of June 30, 2016, was rolled forward from the valuation date to the plan's fiscal year end of June 30, 2017 using standard roll forward procedures.

**COUNCIL ON POSTSECONDARY EDUCATION**

**DRAFT**

NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2018

For the year ended June 30, 2018, the Council recognized pension expenses of \$4,097,299 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	\$ 4,386	\$ 158,794
Net difference between projected and actual earnings	308,175	188,930
Changes of assumption	3,128,612	-0-
Changes in proportion and differences between employer contributions and proportionate share of contributions	417,102	571,323
Contributions subsequent to the measurement date	<u>1,112,274</u>	<u>-0-</u>
Total	<u>\$ 4,970,549</u>	<u>\$ 919,047</u>

The \$1,112,274 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>
2019	\$ 1,962,266
2020	977,473
2021	33,448
2022	<u>(33,959)</u>
Total	\$ <u>2,939,228</u>

The long-term expected return on plan assets is reviewed as part of the regular experience studies prepared every five years for KERS. The most recent analysis, performed for the period covering fiscal years 2008 through 2013, is outlined in a report dated December 5, 2015. 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

NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2018

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>
US Equity	17.50%	5.75%
International Equity	17.50%	7.38%
Global Credit	17%	3.63%
Global Bonds	10%	2.63%
Absolute Return	10%	5.63%
Real Return	10%	5.13%
Private Equity	10%	8.25%
Real Estate	5%	6.63%
Cash	3%	1.88%
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 28-year amortization period of the unfunded actuarial accrued liability. The actuarial determined contribution rate is adjusted to reflect the phase in of anticipated gains on actuarial value of assets over the first four years of the projection period.

June 30, 2017 is the actuarial valuation date upon which the total pension liability is based. No updated 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.

The following presents the net pension liability of the Council, calculated using the discount rate of 5.25%, as well as what the Council's net position liability would be if it were calculated using a discount rate that is one percentage point lower (4.25%) or one percentage point higher (6.25%):

	1% Decrease (4.25%)	Discount (5.25%)	1% Increase (6.25%)
The Council's proportionate share	\$ 28,155,185	\$ 24,659,174	\$ 21,752,413

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

*Kentucky Teachers' Retirement System:*

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

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

For Members Before July 1, 2008:

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

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

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

NOTES TO THE FINANCIAL STATEMENTS  
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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.

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

For Members On or After July 1, 2008:

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

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

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

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

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, 2018, the Council reported a liability of \$1,468,941 for its proportionate share of net pension liability. The net pension liability was measured as of June 30, 2017, and the total

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pension liability used to calculate the net pension liability was determined by an actuarial valuation as June 30, 2016. The Council’s proportion of the net pension liability was based on a projection of the Council’s long-term share of contributions to the pension plan relative to the projected contributions of all participating entities. At June 30, 2017, the Council’s proportion was 0.0130 percent.

**Actuarial Assumptions**

<b>Actuarial Valuation Date</b>	June 30, 2016
<b>Actuarial Cost Method</b>	Entry age
<b>Actuarial assumptions:</b>	
<b>Investment rate of return</b>	7.5%
<b>Inflation Rate</b>	3.00%
<b>Projected salary increases</b>	3.50% – 7.30%
<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 BB to 2025 with a set forward of two years for males and one year for females. The period July 1, 2010 - June 30 2015.
<b>Date of Experience Study</b>	

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For the year ended June 30, 2018, the Council recognized pension expenses of \$(465,144) 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	\$ 7,933	\$ 8,000
Net difference between projected and actual investments earnings on pension plan investments	-0-	9,988
Change of assumptions	173,323	98,125
Changes in proportion and differences between contributions and proportionate share of contributions	-0-	1,851,955
Contributions subsequent to the measurement date	48,886	-0-
Total	\$ 230,142	\$ 1,968,068

The \$48,886 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, 2019. For the year ended June 30, 2018 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:

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

Fiscal Years	Amount
2019	\$ (554,359)
2020	(536,867)
2021	(518,382)
2022	(177,204)
2023	0
Total	\$ (1,786,812)

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

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

**Kentucky Teachers' Retirement Systems**

Asset Class	Target Allocation	Long-Term Nominal Rate of Return
U.S. Equity	42%	4.4%
International Equity	20%	5.3%
Fixed Income	16%	1.5%
Additional Categories	9%	3.6%
Real Estate	5%	4.4%
Private Equity	6%	6.7%
Cash	2%	0.8%
Total	100%	

June 30, 2016 is the actuarial valuation date upon which the total pension liability is based. An expected total pension liability is determined as of June 30, 2017 using standard roll forward techniques. The discount rate used to measure the total pension liability was 4.49 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

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position was projected to be available to make all projected future benefit payments of current plan members until 2038 plan year. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments through 2038 and a municipal bond index rate of 3.56 percent was applied to all periods of projected benefit payments after 2038. 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 4.49%, 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 (3.49%) or one percentage point higher (5.49%):

	1% Decrease (3.49%)	Discount (4.49%)	1% Increase (5.49%)
The Council's proportionate share	\$ 1,820,875	\$ 1,468,941	\$ 1,180,097

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

*Deferred Compensation Retirement Plans:*

In addition to the above plans, employees are also eligible to participate in two deferred compensation plans sponsored by the Commonwealth of Kentucky. These plans are organized as a Section 457 plan and as a Section 401(k) plan under the Internal Revenue Code. During the past year, employees contributed approximately \$242,000 to these plans. Both plans permit employees to defer a portion of their salary until future years. Deferred compensation is not available to employees until termination, retirement, death, or financial hardship. The Kentucky Public Employees Deferred Compensation Authority (KPEDCA) issues a publicly available financial report that includes financial statements and required supplementary information for the KPEDCA. The report may be obtained by writing to the Kentucky Public Employees Deferred Compensation Authority, 101 Sea Hero Road, Suite 110, Frankfort, Kentucky 40601-8862

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9. EMPLOYMENT HEALTH CARE BENEFITS

*Kentucky Employers Retirement System*

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

**Covered Employees:** Contribution rates for employers and employees are established by Kentucky Statue KRS 21.427. The Traditional plan members do not contribute to the OPEB plan directly. Instead assets have been allocated between pension and retiree medical liabilities on the basis of accrued liability as of July 1, 2017. This amount has been bought forward from that date based on actual cash flows and prorated allocation of investment returns. The Hybrid plan member contribute 1% of their official salary. Employer contribution are determine by the budget bill.

**Benefit Factor:**

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

**Cost of Living Adjustment (COLA):** Health Insurance Hybrid Benefit Plan receive 1.50% increase contribution each July 1.

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. 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 8.41% percent of covered payroll to the nonhazardous KERS insurance plans, Actuarially determined as an amount that, when combined with employees during the year, with an additional amount to finance any unfunded accrued liability. The plan's total required contributions to KERS nonhazardous insurance plan plans for the years ended June 30, 2018 was \$227,818.

At June 30, 2018, the Council reported a liability of \$4,670,837 or its proportionate share of collective net OPEB liability. The collective net OPEB liability was measured as of June 30, 2017, and the total OPEB liability used to calculate the net collective OPEB liability was determined by an actuarial valuation as of June 30, 2016. The Council's proportion of the collective net OPEB liability was based on projection of the Council's long-term share of contributions to the OPEB plan relative to the

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projected contributions of all participating entities, actuarially determined. At June 30, 2018, the plan's proportion was 0.184184 percent.

For the year ended June 30, 2018, the Council recognized OPEB expenses of \$463,351 and deferred outflows and deferred inflows related to OPEB from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Difference between expected and actual experience	\$ -0-	\$ 5,780
Net difference between projected and actual earnings	-0-	60,455
Changes of assumption	611,554	-0-
Changes in proportion and differences between employer contributions and proportionate share of contributions	-0-	34,277
Contributions subsequent to the measurement date	<u>264,190</u>	<u>-0-</u>
Total	<u>\$ 875,744</u>	<u>\$ 100,512</u>

Of the total amount reported as deferred outflows of resources related to OPEB, \$227,818 resulting from Council statutorily required contributions and \$36,372 resulting from the implicit subsidy subsequent to the measurement date and before the end of the fiscal year will be included as a reduction of the collective net OPEB liability in the year ended June 30, 2018. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized in the Council's OPEB expense as follows:

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

<u>Fiscal Years</u>	<u>Amount</u>
2019	\$ 127,404
2020	127,404
2021	127,404
2022	127,404
2023	1,426
Total	<u>\$ 511,042</u>

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*Actuarial assumptions.* The collective net OPEB liability was measured based on an actuarial valuation performed as of June 30, 2016, using act actuarial assumptions shown in the table below, The total OPEB liability used to calculate the net collective OPEB liability was rolled forward from the valuation date to the plan’s fiscal year end, June 30, 2017, using generally accepted actuarial principles.

**Actuarial Assumptions**

<b>Actuarial Valuation Date</b>	June 30, 2016
<b>Experience Study</b>	July 1, 2008 – June 30, 2013
<b>Actuarial Cost Method</b>	Entry age normal
<b>Amortization Method</b>	Level percent of pay
<b>Remaining amortization period</b>	28 year, closed
<b>Asset valuation method</b>	20% of the difference between the market value of assets and expected actuarial value of assets is recognized
<b>Actuarial assumptions:</b>	
<b>Investment rate of return</b>	6.25%. Change from 7.5% prior year.
<b>Inflation rate</b>	2.3%. Change from 3.25% prior year.
<b>Payroll Growth Rate</b>	0%. Change from 4.00% prior years
<b>Mortality Tables:</b>	RP-2000 Combined Mortality Table projected with Scale BB to 2013 (set back 1 year for females)
<b>Healthcare Trend Rates Pre-65</b>	Initial trend starting at 7.50% and gradually decreasing to an ultimate trend rate of 5.00% over a period of 5 years.
<b>Healthcare Trend Rates Post-65</b>	Initial trend starting at 5.50% and gradually decreasing to an ultimate trend rate of 5.00% over a period of 2 years.

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**Updated procedures applied**

The actuarial valuation date of June 30, 2016 was rolled-forward from the valuation date to the plan’s fiscal year ending June 30, 2017 using standard roll forward procedures

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

<b>Kentucky Retirement Systems</b>		
<b>Asset Class</b>	<b>Target Allocation</b>	<b>Long-Term Nominal Rate of Return</b>
US Equity	17.50%	5.75%
International Equity	17.50%	7.38%
Global Credit	17%	3.63%
Global Bonds	10%	2.63%
Absolute Return	10%	5.63%
Real Return	10%	5.13%
Private Equity	10%	8.25%
Real Estate	5%	6.63%
Cash	3%	1.88%
Total	<u>100%</u>	

The projection of cash flows used to determine the discount rate of 5.83% for KERS Non hazardous, assumed that local employers would contribute the actuarially determined contribution rate of projected compensation over the remaining 26 years (closed) amortization period of the unfunded actuarial accrued liability. The discount rate determination used an expected rate of return of 6.25%, and a municipal bond rate of 3.56%, as reported in Fidelity Index’s “20 –Year Municipal GO AA Index” as of June 30, 2017. However, the cost associated with the implicit employer subsidy was not included in the calculation of the System’s actuarial determined contributions, and any cost associated with the implicit subsidy will not be paid out of the System’s trusts. Therefore, the municipal bond rate was applied to future expected benefit payments associated with the implicit subsidy. The target asset allocation and best estimates of arithmetic nominal rates of return for each major asset class are summarized in the CAFR.

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*Sensitivity of the Council's proportionate share of the collective net OPEB liability to changes in the discount rate.* The following presents the Council's proportionate share of the collective net OPEB liability, as well as what the Council's proportionate share of the collective net OPEB liability would be if it were calculated using a discount rate that is 1-percentage-point lower (4.83 percent) or 1-percentage-point higher (6.83 percent) than the current discount rate:

	1% Decrease (4.83%)	Discount (5.83%)	1% Increase (6.83%)
The Council's proportionate share	\$ 5,460,772	\$ 4,670,837	\$ 4,014,351

*Sensitivity of the Council's proportionate share of the collective net OPEB liability to changes in the healthcare cost trend rates.* The following presents the Council's proportionate share of the collective net OPEB liability, as well as what the Council's proportionate share of the collective net OPEB liability would be if it were calculated using healthcare cost trend rates that are 1-percentage-point lower (6.5 percent decreasing to 4.0 percent) or 1 percentage-point higher (8.5 percent decreasing to 6.0 percent) than the current healthcare cost trend rates:

	1% Decrease 6.50% Decreasing to 4.00% over 5 years	Discount 7.50% Decreasing to 5.00% over 5 years	1% Increase 8.50% Decreasing to 6.00% over 5 years
The Council's proportionate share	\$ 3,968,699	\$ 4,670,837	\$ 5,552,496

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

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*Teachers' Retirement System*

*Plan description*

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

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

*Medical Insurance Plan*

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

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

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

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

At June 30, 2018, the Council reported a liability of \$331,000 for its proportionate share of the collective net OPEB liability that reflected a reduction for state OPEB support provided to the Council. The collective net OPEB liability was measured as of June 30, 2017, and the total OPEB liability used to calculate the collective net OPEB liability was based on a projection of the Council’s long-term share of contributions to the OPEB plan relative to the projected contributions of all participating employers, actuarially determined. At June 30, 2017, the Council’s proportion was 0.009269% percent,

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

Council’s proportionate share of the net OPEB liability	\$ 331,000
Commonwealth’s proportionate share of the net OPEB liability associated with the Council	<u>150,000</u>
Total	<u>\$ 481,000</u>

For the year ended June 30, 2018, the Council recognized OPEB expense of \$22,000 and revenue of \$10,000 for support provided by the Commonwealth. At June 30, 2018, the Council reported deferred outflows of resources and deferred inflows of resources related to OPEBs from the following sources:

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	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Net difference between projected and actual investments earnings on OPEB plan investments	\$ -0-	\$ 3,000
Contributions subsequent to the measurement date	<u>14,874</u>	<u>-0-</u>
Total	<u>\$ 14,874</u>	<u>\$ 3,000</u>

Of the total amount reported as deferred outflows of resources related to OPEB, \$14,874 resulting from Council contributions subsequent to the measurement date and before the end of the fiscal year will be included as a reduction of the collective net OPEB liability in the year ended June 30, 2019. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized in the Council's OPEB expense as follows:

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

<u>Fiscal Years</u>	<u>Amount</u>
2019	\$ (1,000)
2020	(1,000)
2021	(1,000)
2022	-0-
2023	<u>-0-</u>
Total	<u>\$ (3,000)</u>

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*Actuarial assumptions* – The total OPEB liability in the June 30, 2016 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Investment rate of return	8.00%, net of OPEB plan investment expense, including inflation.
Projected salary increases	3.50 – 7.20%, including inflation
Inflation rate	3.00%
Real Wage Growth	0.50%
Wage Inflation	3.50%
Healthcare cost trend rates	
Under 65	7.75% for FY 2017 decreasing to an ultimate rate of 5.00% by FY 2023
Ages 65 and Older	5.75% for FY 2017 decreasing to an ultimate rate of 5.00% by FY 2020
Medicare Part B Premiums	1.02% for FY 2017 with an ultimate rate of 5.00% by 2029
Municipal Bond Index Rate	3.56%
Discount Rate	8.00%
Single Equivalent Interest Rate	8.00%, net of OPEB plan investment expense, including inflation.

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

The remaining actuarial assumptions (e.g. initial per capita costs, health care cost trends, rate of plan participation, rates of plan election, etc.) used in the June 30, 2016 valuation were based on a review of recent plan experience done concurrently with the June 30, 2016 valuation.

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

The target allocation and best estimates of arithmetic real rates of return for each major asset class, as provided by TRS’s investment consultant, are summarized in the following table:

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**Kentucky Teachers' Retirement Systems**

<b>Asset Class</b>	<b>Target Allocation</b>	<b>Long-Term Nominal Rate of Return</b>
Global Equity	60.0%	5.1%
Fixed Income	9.0%	1.2%
Real Estate	4.5%	4.0%
Private Equity	5.5%	6.6%
High Yield	10.0%	4.3%
Other Additional Categories	10.0%	3.3%
Cash (LIBOR)	1.0%	0.5%
<b>Total</b>	<b>100%</b>	

*Discount rate* - The discount rate used to measure the total OPEB liability was 8.00%. The projection of cash flows used to determine the discount rate assumed that plan member contributions will be made at the current contribution rates and the employer contributions will be made at statutorily required rates. Based on those assumptions, the OPEB plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on OPEB plan investments was applied to all periods of projected benefit payments to determine the total OPEB liability.

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

	<u>1% Decrease (7.00%)</u>	<u>Discount (8.00%)</u>	<u>1% Increase (9.00%)</u>
The Council's proportionate share	\$ 559,000	\$ 481,000	\$ 415,000

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

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	1% Decrease 6.50%	Discount (7.50%)	1% Increase 8.50%
The Council's proportionate share	\$ 402,000	\$ 481,000	\$ 577,000

10. INTERGOVERNMENTAL TRANSACTIONS

At June 30, 2018, intergovernmental receivables consist of the following:

Due from the General Fund of the Commonwealth of Kentucky:

Appropriations for the Kentucky Adult Education and Literacy Incentive Funding Program	\$ 1,516,232
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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	70,659
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Reimbursement of expenses from the Department of Education under the Perkins Grant	<u>43,017</u>
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Total due from the other state agencies of the Commonwealth of Kentucky	<u>113,676</u>
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Total intergovernmental receivables	<u><u>\$ 1,629,908</u></u>
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Intergovernmental revenues during the year ended June 30, 2018, consisted of funding for the Postsecondary Education Equine Trust and Revolving Fund from a Special Revenue Fund of the Commonwealth of Kentucky in the amount of \$651,074.

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11. INTERFUND RECEIVABLES AND PAYABLES

Interfund receivables and payables consist of a \$300,000 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 2018, the Council paid approximately \$326,000 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 2018. During 2018, the Council paid approximately \$5,000 to the Personnel Cabinet and approximately \$29,000 to the Finance and Administration Cabinet for services provided during the year.

The Council uses vehicles from the Transportation Cabinet's fleet. During 2018, the Council paid approximately \$26,000 to the Transportation Cabinet for use of their vehicles.

13. COMMITMENTS AND CONTINGENCIES

As of June 30, 2018, the Council is committed under certain agreements and contracts in the amount of approximately \$9,200,000. 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, 2018, the Council estimates that no material liabilities will result from such audits.

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14. RISK MANAGEMENT

*Torts and Errors and Omissions:*

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

*Injuries to Employees:*

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

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

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

15. FAIR VALUE MEASUREMENTS

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

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

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

NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2018

The following table sets forth by level, within the hierarchy, the Council's assets and liabilities measured at fair value on a recurring basis as of June 30, 2018 are as follows:

	<b>Assets at Fair Value as of June 30, 2018</b>			
	Level 1	Level 2	Level 3	Total
Commonwealth's investment pool	\$ 1,339,440	\$ 3,338,283	\$ -0-	\$ 4,677,723
Total assets at fair value	\$ 1,339,440	\$ 3,338,283	\$ -0-	\$ 4,677,723

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, 2018.

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

**16. NEW STANDARDS IMPLEMENTATION**

During 2018, the Council implemented GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. This standard requires the recognition of the net Other Postemployment Benefits (OPEB) liability, OPEB expense, and enhanced disclosures relating to the OPEB plan. The adoption of this standard decreased the previously presented net position as of June 30, 2017, by \$4,008,444. The 2017 financial statements have not been restated as the Council's OPEB liability amounts were not individually calculated at June 30, 2016, and it was not deemed practical to determine its impact on the opening 2017 financial position or the effect on the 2017 change in net position.

**17. 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. 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.

NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2018

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**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.

# DRAFT

**REQUIRED SUPPLEMENTARY INFORMATION**

**COUNCIL ON POSTSECONDARY EDUCATION**

DRAFT

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

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	2018	2017	2016	2015
Proportion of the net pension liability (asset)	0.184184%	0.191420%	0.183165%	0.169904%
Proportionate share of the net pension liability	\$ 24,659,174	\$ 21,821,203	\$ 18,374,905	\$ 15,243,442
Covered payroll	\$ 2,907,191	\$ 3,005,194	\$ 2,988,947	\$ 2,915,237
Proportionate share of the net pension liability (asset) as a percentage of its covered payroll	848.21%	726.12%	614.76%	522.89%
Plan fiduciary net position as a percentage of the total pension liability	13.32%	14.80%	18.83%	22.32%

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

**COUNCIL ON POSTSECONDARY EDUCATION**

DRAFT

**SCHEDULE OF PENSION CONTRIBUTIONS  
KENTUCKY EMPLOYEES' RETIREMENT SYSTEM**

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

**Notes to Schedule**

Valuation date	June 30, 2015	June 30, 2015	June 30, 2015	June 30, 2014	Not available
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**Methods and assumptions used to determine contributions:**

Actuarial cost method	Entry Age Normal	Entry Age Normal	Entry Age Normal	Entry Age Normal	Not available
Amortization method	Level percentage of pay closed	Level percentage of pay closed	Level percentage of pay closed	Level percentage of pay closed	Not available
Asset valuation method	20% of the difference between market value of assets and the expected actuarial value of assets is recognized	20% of the difference between market value of assets and the expected actuarial value of assets is recognized	Five-year smoothed market	Five-year smoothed market	Not available
Investment return	7.50%	6.75%	7.50%	7.75%	Not available
Inflation	3.25%	3.25%	3.25%	3.50%	Not available
Projected salary increase	4.0%, average, including inflation	4.0%, average, including inflation	4.0%, average, including inflation	4.50% per annum	Not available

**Mortality**

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

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

**COUNCIL ON POSTSECONDARY EDUCATION**

**DRAFT**

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

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	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>
Proportion of the net pension liability (asset)	0.013000%	0.015200%	0.015200%	0.016100%
Proportionate share of the net pension liability	1,468,941	3,873,364	3,530,337	3,322,159
Covered payroll	423,461	497,443	592,673	625,000
Proportionate share of the net pension liability (asset) as a percentage of its covered payroll	346.89%	778.65%	595.66%	531.55%
Plan fiduciary net position as a percentage of the total pension liability	39.83%	35.22%	42.49%	45.59%

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

**COUNCIL ON POSTSECONDARY EDUCATION**

DRAFT

**SCHEDULE OF PENSION CONTRIBUTIONS  
KENTUCKY TEACHERS' RETIREMENT SYSTEM**

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

**Notes to Schedule**

Valuation date	June 30, 2016	June 30, 2016	June 30, 2014	June 30, 2014	Not available
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**Methods and assumptions used to determine contributions:**

Actuarial cost method	Entry Age Normal	Entry Age Normal	Entry Age Normal	Entry Age Normal	Not available
Amortization method	Level percent of pay	Not available			
Asset valuation method	Five-year smoothed market	Five-year smoothed market	Five-year smoothed market	Five-year smoothed market	Not available
Investment return	7.5% net of pension plan investment expense, including inflation	7.5% net of pension plan investment expense, including inflation	7.5% net of pension plan investment expense, including inflation	7.5% net of pension plan investment expense, including inflation	Not available
Inflation	3.50%	3.50%	3.50%	3.50%	Not available
Projected salary increase	3.50% - 7.30%	3.50% - 7.30%	4.0% - 8.20%	4.0% - 8.20%	Not available

**Mortality**

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

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

**COUNCIL ON POSTSECONDARY EDUCATION**

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

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	2018	2017
Proportion of the net OPEB liability (asset)	0.184184%	0.191420%
Proportionate share of the net OPEB liability	\$ 4,670,837	\$ 3,953,169
Covered payroll	\$ 2,907,191	\$ 3,005,194
Proportionate share of the net OPEB liability (asset) as a percentage of its covered payroll	160.66%	131.54%
Plan fiduciary net position as a percentage of the total OPEB liability	24.37%	24.48%

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

**COUNCIL ON POSTSECONDARY EDUCATION**

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**SCHEDULE OF OPEB CONTRIBUTIONS  
KENTUCKY EMPLOYERS RETIREMENT SYSTEM**

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

**Notes to Schedule**

Valuation date	June 30, 2015	June 30, 2015	Not available
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**Methods and assumptions used to determine contributions:**

Actuarial cost method	Entry Age Normal	Entry Age Normal	Not available
Amortization method	Level percent of pay	Level percent of pay	Not available
Asset valuation method	20% of the difference between the market value of assets and the expected actuarial value of assets is recognized	20% of the difference between the market value of assets and the expected actuarial value of assets is recognized	Not available
Amortization period	28 Years, Closed	28 Years, Closed	Not available
Investment return	7.50%	7.50%	Not available
Inflation	3.25%	3.25%	Not available
Projected salary increase	4.00% average	4.00% average	Not available
Healthcare Trend Rates (Pre-65)	Initial trend starting at 7.50% and gradually decreasing to an ultimate trend rate of 5.00% over a period of 5 years.	Initial trend starting at 7.50% and gradually decreasing to an ultimate trend rate of 5.00% over a period of 5 years.	Not available
Healthcare Trend Rates (Post-65)	Initial trend starting at 5.50% and gradually decreasing to an ultimate trend rate of 5.00% over a period of 2 years.	Initial trend starting at 5.50% and gradually decreasing to an ultimate trend rate of 5.00% over a period of 2 years.	Not available

**Mortality**

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

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

## COUNCIL ON POSTSECONDARY EDUCATION

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

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	<u>2018</u>
Proportion of the net OPEB liability (asset)	0.092690%
Proportionate share of the net OPEB liability	331,000
Covered payroll	423,461
Proportionate share of the net OPEB liability (asset) as a percentage of its covered payroll	78.17%
Plan fiduciary net position as a percentage of the total OPEB liability	21.18%

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

**COUNCIL ON POSTSECONDARY EDUCATION**

**DRAFT**

SCHEDULE OF OPEB CONTRIBUTIONS  
KENTUCKY TEACHERS' RETIREMENT SYSTEM

	2018
Statutorily required contribution	\$ 14,874
Contribution in relation to the statutorily required contribution	14,874
Contribution deficiency (excess)	-0-
Covered payroll	\$ 396,637
Contribution as a percentage of covered payroll	3.75%

**Notes to Schedule**

Valuation date June 30, 2016

**Methods and assumptions used to determine contributions:**

Actuarial cost method	Entry Age Normal
Amortization method	Level percentage of payroll open
Amortization period	30 years, open
Asset valuation method	Five-year smoothed Market Value
Inflation	3.00%
Real wage growth	0.50%
Wage inflation	3.50%
Projected salary increase	3.50% - 7.20%
Discount rate	8.00%
MIF Health Care Cost Trends:	
Under Age 65	7.75% for FYE 2017 decreasing to an ultimate rate of 5.00% by FYE 2023
Age 65 and Older	5.75% for FYE 2017 decreasing to an ultimate rate of 5.00% by FYE 2020
Medicare Part B Premiums	1.02% for FYE 2017 with an ultimate rate of 5.00% by 2029.

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

**COUNCIL ON POSTSECONDARY EDUCATION**

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SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES – BUDGET AND  
ACTUAL (BUDGETARY BASIS) – UNAUDITED  
YEAR ENDED JUNE 30, 2018

	Operations			
	Original Budget	Final Budget	Actual	Over (Under) Budget
<b>Budgetary fund balance, July 1</b>	\$ 412,459	\$ 412,459	\$ 3,568,799	\$ 3,156,340
<b>REVENUES:</b>				
State appropriations	7,132,300	6,918,300	6,935,186	16,886
Charges for services	647,000	590,000	461,250	(128,750)
Intergovernmental revenues				
Federal programs			128,991	128,991
Other revenues				
Income from investments				
Total revenues	<u>7,779,300</u>	<u>7,508,300</u>	<u>7,525,427</u>	<u>17,127</u>
Amount available for expenditures	8,191,759	7,920,759	11,094,226	3,173,467
<b>EXPENDITURES:</b>				
Personnel services	6,221,300	6,121,300	6,179,494	58,194
Utilities, rentals, and other services	1,147,200	1,147,200	765,311	(381,889)
Commodities and supplies	40,300	40,300	194,023	153,723
Grants and subsidies			11,129	11,129
Travel	93,000	93,000	105,391	12,391
Intergovernmental expenditures				
Total expenditures	<u>7,501,800</u>	<u>7,401,800</u>	<u>7,255,348</u>	<u>(146,452)</u>
<b>Budgetary fund balance, June 30</b>	<u>\$ 689,959</u>	<u>\$ 518,959</u>	<u>\$ 3,838,878</u>	<u>\$ 3,319,919</u>

**COUNCIL ON POSTSECONDARY EDUCATION**

**DRAFT**

SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES – BUDGET AND  
ACTUAL (BUDGETARY BASIS) – UNAUDITED  
YEAR ENDED JUNE 30, 2018

	Federal Programs			
	Original Budget	Final Budget	Actual	Over (Under) Budget
<b>Budgetary fund balance, July 1</b>	\$ -0-	\$ -0-	\$ 127,888	\$ 127,888
<b>REVENUES:</b>				
State appropriations				
Charges for services				
Intergovernmental revenues				
Federal programs	18,102,500	14,740,309	11,478,704	(3,261,605)
Other revenues				
Income from investments				
Total revenues	<u>18,102,500</u>	<u>14,740,309</u>	<u>11,478,704</u>	<u>(3,261,605)</u>
Amount available for expenditures	18,102,500	14,740,309	11,606,592	(3,133,717)
<b>EXPENDITURES:</b>				
Personnel services			1,616,103	1,616,103
Utilities, rentals, and other services			756,312	756,312
Commodities and supplies			14,187	14,187
Grants and subsidies	16,475,717	13,879,226	9,119,891	(4,759,335)
Travel			81,061	81,061
Intergovernmental expenditures				
Total expenditures	<u>16,475,717</u>	<u>13,879,226</u>	<u>11,587,554</u>	<u>(2,291,672)</u>
<b>Budgetary fund balance, June 30</b>	<u>\$ 1,626,783</u>	<u>\$ 861,083</u>	<u>\$ 19,038</u>	<u>\$ (842,045)</u>

**COUNCIL ON POSTSECONDARY EDUCATION**

**DRAFT**

SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES – BUDGET AND  
ACTUAL (BUDGETARY BASIS) – UNAUDITED  
YEAR ENDED JUNE 30, 2018

	Kentucky Adult Education Funding Program			
	Original Budget	Final Budget	Actual	Over (Under) Budget
<b>Budgetary fund balance, July 1</b>	\$ 2,211,583	\$ 2,211,583	\$ 24,999	\$ (2,186,584)
<b>REVENUES:</b>				
State appropriations	17,640,500	16,822,700	15,926,768	(895,932)
Charges for services	200,000	200,000		(200,000)
Intergovernmental revenues				
Federal programs				
Other revenues				
Income from investments				
Total revenues	<u>17,840,500</u>	<u>17,022,700</u>	<u>15,926,768</u>	<u>(1,095,932)</u>
Amount available for expenditures	20,052,083	19,234,283	15,951,767	(3,282,516)
<b>EXPENDITURES:</b>				
Personnel services			158,413	158,413
Utilities, rentals, and other services			188,790	188,790
Commodities and supplies			2,505	2,505
Grants and subsidies	17,408,436	16,762,160	15,589,784	(1,172,376)
Travel			12,275	12,275
Intergovernmental expenditures				
Total expenditures	<u>17,408,436</u>	<u>16,762,160</u>	<u>15,951,767</u>	<u>(810,393)</u>
<b>Budgetary fund balance, June 30</b>	<u>\$ 2,643,647</u>	<u>\$ 2,472,123</u>	<u>\$ -0-</u>	<u>\$ (2,472,123)</u>

**COUNCIL ON POSTSECONDARY EDUCATION**

**DRAFT**

SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES – BUDGET AND  
ACTUAL (BUDGETARY BASIS) – UNAUDITED  
YEAR ENDED JUNE 30, 2018

	Research Challenge Trust Fund			
	Original Budget	Final Budget	Actual	Over (Under) Budget
<b>Budgetary fund balance, July 1</b>	\$ 1,455,267	\$ 1,455,267	\$ 1,455,269	\$ 2
<b>REVENUES:</b>				
State appropriations	5,176,100	5,176,100	5,176,100	-0-
Charges for services				
Intergovernmental revenues				
Federal programs				
Other revenues				
Income from investments			11,822	11,822
Total revenues	<u>5,176,100</u>	<u>5,176,100</u>	<u>5,187,922</u>	<u>11,822</u>
Amount available for expenditures	6,631,367	6,631,367	6,643,191	11,824
<b>EXPENDITURES:</b>				
Personnel services			4,404	4,404
Utilities, rentals, and other services				
Commodities and supplies				
Grants and subsidies	6,625,697	6,615,696	6,608,197	(7,499)
Travel				
Intergovernmental expenditures				
Total expenditures	<u>6,625,697</u>	<u>6,615,696</u>	<u>6,612,601</u>	<u>(3,095)</u>
<b>Budgetary fund balance, June 30</b>	<u>\$ 5,670</u>	<u>\$ 15,671</u>	<u>\$ 30,590</u>	<u>\$ 14,919</u>

**COUNCIL ON POSTSECONDARY EDUCATION**

DRAFT

SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES – BUDGET AND  
ACTUAL (BUDGETARY BASIS) – UNAUDITED  
YEAR ENDED JUNE 30, 2018

	Technology Initiative Trust Fund			
	Original Budget	Final Budget	Actual	Over (Under) Budget
<b>Budgetary fund balance, July 1</b>	\$ 7,950,387	\$ 7,950,387	\$ 3,673,666	\$ (4,276,721)
<b>REVENUES:</b>				
State appropriations	7,740,400	7,276,000	3,638,000	(3,638,000)
Charges for services	7,426,204	6,689,764	3,024,845	(3,664,919)
Intergovernmental revenues				
Federal programs				
Other revenues			133,802	133,802
Income from investments		44,338	44,338	-0-
Total revenues	<u>15,166,604</u>	<u>14,010,102</u>	<u>6,840,985</u>	<u>(7,169,117)</u>
Amount available for expenditures	23,116,991	21,960,489	10,514,651	(11,445,838)
<b>EXPENDITURES:</b>				
Personnel services			3,300,695	3,300,695
Utilities, rentals, and other services			508,784	508,784
Commodities and supplies			2,658,910	2,658,910
Grants and subsidies	19,123,136	16,342,789	169,778	(16,173,011)
Travel			19,650	19,650
Intergovernmental expenditures				
Total expenditures	<u>19,123,136</u>	<u>16,342,789</u>	<u>6,657,817</u>	<u>(9,684,972)</u>
<b>Budgetary fund balance, June 30</b>	<u>\$ 3,993,855</u>	<u>\$ 5,617,700</u>	<u>\$ 3,856,834</u>	<u>\$ (1,760,866)</u>

**COUNCIL ON POSTSECONDARY EDUCATION**

NOTE TO THE SCHEDULES OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES – BUDGET AND ACTUAL (BUDGETARY BASIS) – UNAUDITED  
YEAR ENDED JUNE 30, 2018

**Budgetary Basis Versus GAAP**

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

	<u>Operations</u>	<u>Federal Programs</u>	<u>Kentucky Adult Education Funding Program</u>	<u>Research Challenge Trust Fund</u>	<u>Technology Initiative Trust Fund</u>
<b>Total revenues per the budgetary comparison schedule</b>	<u>\$ 7,525,427</u>	<u>\$ 11,478,704</u>	<u>\$ 15,926,768</u>	<u>\$ 5,187,922</u>	<u>\$ 6,840,985</u>
<b>Total revenues per the statement of revenues, expenditures, and changes in fund balance</b>	<u><u>\$ 7,525,427</u></u>	<u><u>\$ 11,478,704</u></u>	<u><u>\$ 15,926,768</u></u>	<u><u>\$ 5,187,922</u></u>	<u><u>\$ 6,840,985</u></u>
<b>Total expenditures per the budgetary comparison schedule</b>	\$ 7,255,348	\$ 11,587,554	\$ 15,951,767	\$ 6,612,601	\$ 6,657,817
Change in accrued expenditures	(28,268)	(112,715)	829		53
Change in short-term compensated absences	<u>(103,447)</u>	<u>(50,312)</u>	132		<u>(11,981)</u>
<b>Total expenditures per the statement of revenues, expenditures, and changes in fund balance</b>	<u><u>\$ 7,123,633</u></u>	<u><u>\$ 11,424,527</u></u>	<u><u>\$ 15,952,728</u></u>	<u><u>\$ 6,612,601</u></u>	<u><u>\$ 6,645,889</u></u>

# DRAFT

**ADDITIONAL SUPPLEMENTARY INFORMATION**

**COUNCIL ON POSTSECONDARY EDUCATION**

DRAFT

SUPPLEMENTARY SCHEDULE OF ASSETS, LIABILITIES, AND FUND  
BALANCES – OPERATIONS  
JUNE 30, 2018

	Agency Operations	Kentucky Adult Education Operations	KYVC/ KYVL Operations	Total Operations
<b><u>ASSETS</u></b>				
Cash and cash equivalents	\$ 354,573	\$ 13,902	\$ 168,013	\$ 536,488
Investments	1,969,901	77,235	933,434	2,980,570
Accounts receivable	24,247			24,247
Intergovernmental receivables	-0-			-0-
Due from the Federal government	7,191			7,191
Interfund receivable	14,750		300,000	314,750
	<u>\$ 2,370,662</u>	<u>\$ 91,137</u>	<u>\$ 1,401,447</u>	<u>\$ 3,863,246</u>
 <b><u>LIABILITIES AND FUND BALANCES</u></b>				
Liabilities:				
Accounts and other payables	\$ 24,262	\$ 106	\$	\$ 24,368
Accrued expenses	460,445	5,913		466,358
Accrued compensated absences	365,236	2,000		367,236
Total liabilities	<u>849,943</u>	<u>8,019</u>	<u>-0-</u>	<u>857,962</u>
Fund balances:				
Assigned:				
for agency operations	<u>1,520,719</u>	<u>83,118</u>	<u>1,401,447</u>	<u>3,005,284</u>
Total liabilities and fund balances	<u>\$ 2,370,662</u>	<u>\$ 91,137</u>	<u>\$ 1,401,447</u>	<u>\$ 3,863,246</u>

**COUNCIL ON POSTSECONDARY EDUCATION**

**DRAFT**

SUPPLEMENTARY SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND  
BALANCES – OPERATIONS  
YEAR ENDED JUNE 30, 2018

	Agency Operations	Kentucky Adult Education Operations	KYVC/ KYVL Operations	Total Operations
<b>REVENUES:</b>				
State appropriations	\$ 6,935,186	\$	\$	\$ 6,935,186
Charges for services	324,650	136,600		461,250
Intergovernmental revenues				-0-
Federal programs	128,991			128,991
Other revenues				-0-
Total revenues	<u>7,388,827</u>	<u>136,600</u>	<u>-0-</u>	<u>7,525,427</u>
<b>EXPENDITURES:</b>				
Personnel services	5,982,607	65,172		6,047,779
Utilities, rentals, and other services	749,839	15,472		765,311
Commodities and supplies	193,846	177		194,023
Grants and subsidies	11,129			11,129
Travel	105,195	196		105,391
Total expenditures	<u>7,042,616</u>	<u>81,017</u>	<u>-0-</u>	<u>7,123,633</u>
Net change in fund balances	346,211	55,583	-0-	401,794
<b>Fund balances, beginning of year</b>	<u>1,174,508</u>	<u>27,535</u>	<u>1,401,447</u>	<u>2,603,490</u>
<b>Fund balances, end of year</b>	<u>\$ 1,520,719</u>	<u>\$ 83,118</u>	<u>\$ 1,401,447</u>	<u>\$ 3,005,284</u>

**COUNCIL ON POSTSECONDARY EDUCATION**

**DRAFT**

SUPPLEMENTARY SCHEDULE OF ASSETS, LIABILITIES, AND FUND  
BALANCES – RESEARCH CHALLENGE TRUST FUND  
JUNE 30, 2018

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	<u>Lung Cancer Research</u>	<u>Endowment Match Program</u>	<u>Total Research Challenge Trust Fund</u>
<b><u>ASSETS</u></b>			
Cash and cash equivalents - restricted	\$ 4,221,254	\$ 2	\$ 4,221,256
Investments - restricted	<u>717,531</u>		<u>717,531</u>
Total assets	<u>\$ 4,938,785</u>	<u>\$ 2</u>	<u>\$ 4,938,787</u>
<b><u>LIABILITIES AND FUND BALANCES</u></b>			
Liabilities:			
Accounts and other payables	<u>\$ 4,908,197</u>	<u>\$ -0-</u>	<u>\$ 4,908,197</u>
Total liabilities	4,908,197	-0-	4,908,197
Fund balances:			
Restricted:			
for Lung Cancer Research	30,588		30,588
for Research Challenge	<u>2</u>	<u>2</u>	<u>2</u>
Total fund balances	<u>30,588</u>	<u>2</u>	<u>30,590</u>
Total liabilities and fund balances	<u>\$ 4,938,785</u>	<u>\$ 2</u>	<u>\$ 4,938,787</u>

**COUNCIL ON POSTSECONDARY EDUCATION**

**DRAFT**

SUPPLEMENTARY SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND  
BALANCES – RESEARCH CHALLENGE TRUST FUND  
YEAR ENDED JUNE 30, 2018

	Lung Cancer Research	Endowment Match Program	Total Research Challenge Trust Fund
<b>REVENUES:</b>			
State appropriations	\$ 5,176,100	\$	\$ 5,176,100
Income from investments	11,822		11,822
Total revenues	<u>5,187,922</u>	<u>-0-</u>	<u>5,187,922</u>
<b>EXPENDITURES:</b>			
Personnel services	4,404		4,404
Grants and subsidies	6,608,197		6,608,197
Total expenditures	<u>6,612,601</u>	<u>-0-</u>	<u>6,612,601</u>
<b>Excess (deficiency) of revenues over expenditures</b>	<u>(1,424,679)</u>	<u>-0-</u>	<u>(1,424,679)</u>
<b>Fund balances, beginning of year</b>	<u>1,455,267</u>	<u>2</u>	<u>1,455,269</u>
<b>Fund balances, end of year</b>	<u>\$ 30,588</u>	<u>\$ 2</u>	<u>\$ 30,590</u>

**COUNCIL ON POSTSECONDARY EDUCATION**

**DRAFT**

SUPPLEMENTARY SCHEDULE OF ASSETS, LIABILITIES, AND  
FUND BALANCES – NON-MAJOR FUNDS  
JUNE 30, 2018

	Postsecondary Education Equine Trust Fund	Regional University Excellence Trust Fund	Assessment and Professional Development Fund	Other (Non- major) Governmental Funds
<b><u>ASSETS</u></b>				
Cash and cash equivalents - restricted	\$ 64,387	\$ 5	\$	\$ 64,392
Investments - restricted	357,713	2		357,715
Total assets	<u>\$ 422,100</u>	<u>\$ 7</u>	<u>\$ -0-</u>	<u>\$ 422,107</u>
<b><u>LIABILITIES AND FUND BALANCES</u></b>				
Liabilities:				
Accounts and other payables	\$ 240,000	\$	\$	\$ 240,000
Accrued expenses			29,382	29,382
Accrued compensated absences			2,337	2,337
Total liabilities	<u>240,000</u>	<u>-0-</u>	<u>31,719</u>	<u>271,719</u>
Restricted:				
for University Equine programs	422,100			422,100
for Regional University Excellence		7		7
Unassigned	<u>(240,000)</u>		<u>(31,719)</u>	<u>(271,719)</u>
Total fund balances	<u>182,100</u>	<u>7</u>	<u>(31,719)</u>	<u>150,388</u>
Total liabilities and fund balances	<u>\$ 422,100</u>	<u>\$ 7</u>	<u>\$ -0-</u>	<u>\$ 422,107</u>

## COUNCIL ON POSTSECONDARY EDUCATION

### SUPPLEMENTARY SCHEDULE OF REVENUE, EXPENDITURES, AND CHANGES IN FUND BALANCES – NON-MAJOR FUNDS YEAR ENDED JUNE 30, 2018

	Postsecondary Education Equine Trust Fund	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	\$	\$ 4,511,700	\$	\$ 1,352,000	\$ 5,863,700
Intergovernmental revenues	651,074				651,074
Total revenues	<u>651,074</u>	<u>4,511,700</u>	<u>-0-</u>	<u>1,352,000</u>	<u>6,514,774</u>
<b>EXPENDITURES:</b>					
Personnel services		1,318,500		749,155	2,067,655
Utilities, rentals and other services				408	408
Commodities and supplies				55,988	55,988
Grants and subsidies	600,000	3,193,200		536,600	4,329,800
Travel				9,005	9,005
Total expenditures	<u>600,000</u>	<u>4,511,700</u>	<u>-0-</u>	<u>1,351,156</u>	<u>6,462,856</u>
<b>Excess (deficiency) of revenues over expenditures</b>	<u>51,074</u>	<u>-0-</u>	<u>-0-</u>	<u>844</u>	<u>51,918</u>
<b>Fund balances, beginning of year</b>	<u>131,026</u>	<u>-0-</u>	<u>7</u>	<u>(32,563)</u>	<u>98,470</u>
<b>Fund balances, end of year</b>	<u>\$ 182,100</u>	<u>\$ -0-</u>	<u>\$ 7</u>	<u>\$ (31,719)</u>	<u>\$ 150,388</u>

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**COUNCIL ON POSTSECONDARY EDUCATION**

**DRAFT**

**SUPPLEMENTARY SCHEDULE OF GRANTS AND SUBSIDIES  
YEAR ENDED JUNE 30, 2018**

	<u>Governmental Funds</u>	<u>Fiduciary Funds</u>
Agency Operations	\$ 11,129	\$
Adult Education State Grant Federal Programs	7,606,955	
Gaining Early Awareness and Readiness for Undergraduate Programs	514,329	
Improving Teacher Quality	725,014	
Perkins Grant	7,220	
SNAP Grant	266,373	
Postsecondary Education Equine Trust Fund	600,000	
Kentucky Adult Education Funding Program	15,589,784	
Science and Technology Funding Program	3,193,200	
Research Challenge Trust Fund:		
Lung Cancer Research Program	6,608,197	
Technology Initiative Trust Fund	169,778	
Assessment and Professional Development	536,600	
Cancer Research Institutions Matching Fund		3,647,748
Contract Spaces Program		5,635,041
Governor's Minority Student College Preparation Program		74,900
Professional Education Preparatory Program		119,600
Southern Regional Education Board Doctoral Scholars Program		64,500
Kentucky Autism Training Center		119,500
Washington Internship Program		22,800
	<u>\$ 35,828,579</u>	<u>\$ 9,684,089</u>

**COUNCIL ON POSTSECONDARY EDUCATION**

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**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
YEAR ENDED JUNE 30, 2018**

	Federal CFDA Number	Grant ID Number	Total Federal Expenditures	Subrecipient Passthrough
<b><u>Major Programs:</u></b>				
<b>United States Department of Education:</b>				
Gaining Early Awareness and Readiness for Undergraduate Programs	84.334	P334S110018-16	1,126,577	
Total Gaining Early Awareness and Readiness for Undergraduate Programs			1,126,577	514,329
Adult Education - State Administered	84.002	V002A140017	\$ 2,238,978	\$
	84.002	V002A150017	4,011,340	
	84.002	V002A160017	2,931,254	
Total Adult Education - State Administered			9,181,572	7,489,934
<b><u>Non-Major Programs:</u></b>				
Improving Teacher Quality State Grants	84.367	S367B140017	367,653	
	84.367	S367B150017	407,441	
Total Improving Teacher Quality State Grants			775,094	725,014
<b>Pass-through from Kentucky Cabinet for Health and Family Services:</b>				
Path 2 Promise - Supplemental Nutrition Assistance Program (SNAP)	10.596	PON273615000019981	297,263	266,244
<b>Pass-through from Kentucky Department of Education:</b>				
Statewide Longitudinal Data Systems	84.372	R372A120028	104,615	
Career and Technical Education - Basic Grants to States	84.048	PON254015000025461	68,397	4,440
Total Federal Expenditures			\$ 11,553,518	\$ 8,999,961

NOTE TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
JUNE 30, 2018

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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.

## **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, 2018, and the related notes to the financial statements, which collectively comprise the Council's basic financial statements, and have issued our report thereon dated ---DATE---

### 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

---DATE---

**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, 2018. 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, 2018.

## 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

---DATE---

## COUNCIL ON POSTSECONDARY EDUCATION

### SCHEDULE OF FINDINGS AND QUESTIONED COSTS JUNE 30, 2018

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#### Section I - Summary of Auditor's Results

##### Financial Statements

Type of auditor's report issued: unmodified

Internal control over financial reporting:

Material weakness(es)  
identified?                     yes        no

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

Noncompliance material to financial  
statements noted?                     yes        no

##### Federal Awards

Internal control over major programs:

Material weakness(es)  
identified?                     yes        no

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

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

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

## COUNCIL ON POSTSECONDARY EDUCATION

### SCHEDULE OF FINDINGS AND QUESTIONED COSTS JUNE 30, 2018

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Identification of major programs:

<u>CFDA Number</u>	<u>Name of Federal Program or Cluster</u>
84.334	Gaining Early Awareness and Readiness for Undergraduate Programs
84.002	Adult Education-State Administered

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, 2018

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There were no findings reported for the year ended June 30, 2017.