



**KENTUCKY COUNCIL ON
POSTSECONDARY EDUCATION**

FINANCIAL STATEMENTS

AND

SUPPLEMENTARY INFORMATION

JUNE 30, 2022

COUNCIL ON POSTSECONDARY EDUCATION
TABLE OF CONTENTS
JUNE 30, 2022

	Page
Report of Independent Auditors	1
Management’s Discussion and Analysis	5
Basic Financial Statements:	
Statement of Net Position.....	13
Statement of Activities	14
Balance Sheet - Governmental Funds	15
Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Position.....	16
Statement of Revenues, Expenditures, and Changes in Fund Balances - Governmental Funds	17
Reconciliation of the Governmental Funds Statement of Revenues, Expenditures, and Changes in Fund Balances to the Statement of Activities.....	18
Statement of Fiduciary Net Position	19
Statement of Changes in Fiduciary Net Position	20
Notes to the Financial Statements.....	21
Required Supplementary Information:	
Schedule of Proportionate Share of the Net Pension Liability Kentucky Employees’ Retirement System	50
Schedule of Pension Contributions Kentucky Employees’ Retirement System	51
Schedule of Proportionate Share of the Net OPEB Liability Kentucky Employees’ Retirement System	52
Schedule of OPEB Contributions Kentucky Employees’ Retirement System	53
Schedules of Revenues, Expenditures, and Changes in Fund Balances - Budget and Actual (Budgetary Basis) - Unaudited	54

COUNCIL ON POSTSECONDARY EDUCATION
TABLE OF CONTENTS
JUNE 30, 2022

	Page
Note to the Schedules of Revenues, Expenditures, and Changes in Fund Balances - Budget and Actual (Budgetary Basis) - Unaudited	57
Additional Supplementary Information:	
Supplementary Schedule of Assets, Liabilities, and Fund Balances - Operations	58
Supplementary Schedule of Revenues, Expenditures, and Changes in Fund Balances - Operations.....	59
Supplementary Schedule of Assets, Liabilities, and Fund Balances - Non-major Funds	60
Supplementary Schedule of Revenues, Expenditures, and Changes in Fund Balances - Non-major Funds.....	61
Supplementary Schedule of Grants and Subsidies.....	62
Schedule of Expenditures of Federal Awards	63
Notes to the Schedule of Expenditures of Federal Awards	64
Report of Independent Auditors on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	66
Report of Independent Auditors on Compliance with Each Major Federal Program and on Internal Control Over Compliance Required By Uniform Guidance	68
Schedule of Findings and Questioned Costs.....	71
Summary Schedule of Prior Audit Findings.....	73



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REPORT OF INDEPENDENT AUDITORS

To the Council Members
Council on Postsecondary Education

Report on the Audit of Financial Statements

Opinions

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"), as of and for the year ended June 30, 2022, and the related notes to the financial statements, which comprise the Council's financial statements as listed in the table of contents.

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, 2022, 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.

Basis for Opinions

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. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Council and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Responsibilities of Management for the Financial Statements

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

To the Council Members
Council on Postsecondary Education

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Council's ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinions. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgement made by a reasonable user based on the financial statements.

In performing an audit in accordance with generally accepted auditing standards and *Government Auditing Standards*, we:

- Exercise professional judgement and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgement, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Council's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control related matters that we identified during the audit.

To the Council Members
Council on Postsecondary Education

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 5 through 12, the schedule of proportionate share of the net pension liability and the schedule of pension contributions on pages 50 through 51, the schedule of proportionate share of the net Other Postemployment Benefits (OPEB) liability and the schedule of OPEB contributions on pages 52 through 53, and the budgetary comparison information on pages 54 through 57, be presented to supplement the basic financial statements. Such information is the responsibility of management and, 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.

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 Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* is presented on pages 63 through 64 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 58 through 62 is also presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The 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 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 January 6, 2023, 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 solely to describe the scope of our testing of internal

To the Council Members
Council on Postsecondary Education

control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Council's 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
January 6, 2023

COUNCIL ON POSTSECONDARY EDUCATION

MANAGEMENT'S DISCUSSION AND ANALYSIS JUNE 30, 2022

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

The Council's management offers this narrative overview and analysis of the financial performance of the Council for the fiscal year (FY) ended June 30, 2022. 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 2022 by \$21,745,449.
- Net position increased \$286,125 between FY 2021 and FY 2022.
- As of the close of FY 2022, the Council's governmental funds reported an ending fund balance of \$4,233,207, which includes balances in strategic investment and incentive funding programs appropriated to the Council on behalf of public postsecondary education institutions and agency operations.
- Total fund revenues for FY 2022 were \$24,493,805, representing a 4% decrease from FY 2021.
- Total fund expenditures for FY 2022 were \$24,120,597, representing a 13% decrease from FY 2021.

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, deferred outflows, liabilities and deferred inflows, 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,

COUNCIL ON POSTSECONDARY EDUCATION

MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2022

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 13 and 14 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 16 and 18 of this report.

Fiduciary funds are used to account for resources held for the benefit of individuals or units outside of the Council. The Council is the trustee or fiduciary responsible for assets, which can be used only for the trust beneficiaries per trust agreement. The Council is responsible for ensuring the assets reported in these funds are used for their intended purposes. All the Council's fiduciary activities are reported in a separate statement of fiduciary net position and a statement of changes in fiduciary net position. The accounting for fiduciary funds is much like that used for proprietary funds. The statement of fiduciary net position and the statement of changes in fiduciary net position can be found on page 19 and 20, respectively of this report.

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 21.

COUNCIL ON POSTSECONDARY EDUCATION

MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2022

FINANCIAL ANALYSIS OF THE COUNCIL

Government-wide Financial Analysis:

Condensed Financial Information Statement of Net Position

	June 30, 2022	June 30, 2021
Assets:		
Current	\$ 3,479,558	\$ 3,675,903
Noncurrent	2,508,888	2,509,432
Total assets	<u>5,988,446</u>	<u>6,185,335</u>
Deferred outflows of resources	2,773,490	2,996,700
Total assets and deferrals	<u>\$ 8,761,936</u>	<u>\$ 9,182,035</u>
Liabilities:		
Current	\$ 1,388,722	\$ 1,596,985
Noncurrent	26,345,173	27,184,660
Total liabilities	<u>27,733,895</u>	<u>28,781,645</u>
Deferred inflows of resources	1,513,530	1,172,004
Total liabilities and deferrals	<u>\$ 29,247,425</u>	<u>\$ 29,953,649</u>
Net position (deficit):		
Net investment in capital assets	\$ -0-	\$ 2,705
Restricted	1,506,289	1,685,745
Unrestricted deficit	<u>(21,991,778)</u>	<u>(22,460,064)</u>
Total net position (deficit)	<u>\$ (20,485,489)</u>	<u>\$ (20,771,614)</u>

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

Current liabilities consist primarily of operating accounts payable, accrued payroll, and accrued compensated absences. As of June 30, 2022, 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.

COUNCIL ON POSTSECONDARY EDUCATION

MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2022

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 \$21.7 million. Total assets and deferrals decreased by approximately \$420,000, primarily in deferred outflows related to the net OPEB liability. Total liabilities and deferrals decreased by approximately \$706,000, primarily related to a decrease in accrued expenses and decreases to the net pension liability and net OPEB liability. Therefore, net position remained mostly consistent between FY 2021 and FY 2022.

COUNCIL ON POSTSECONDARY EDUCATION

MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2022

Condensed Financial Information Statements of Activities For the Fiscal Years Ended

	June 30, 2022	June 30, 2021
Revenues:		
Program revenues:		
Charges for services	\$ 4,202,925	\$ 3,379,428
Operating grants and contributions	8,450,635	14,033,344
Capital grants and contributions	626,579	470,822
General revenues:		
State appropriations	11,213,666	7,609,722
Loss on disposal of capital assets	(2,541)	-0-
Total revenues	24,491,264	25,493,316
Expenses:		
Strategic investment and incentive funding programs	9,228,113	8,308,954
Agency and KYVC/KYVL Operations	6,274,281	3,631,273
Federal Programs	7,771,081	13,038,705
Postsecondary Education Equine Trust Fund	480,000	480,000
Other	164	724
Total expenses	23,753,639	25,459,656
Transfer to state general fund	(451,500)	-0-
Change in net position	286,125	33,660
Net position (deficit), beginning of year	(20,771,614)	(20,805,274)
Net position (deficit), end of year	\$ (20,485,489)	\$ (20,771,614)

General Fund appropriations from the Commonwealth of Kentucky are the primary funding source for the activities of the Council. The Kentucky General Assembly, through the appropriations bill and other statutory provisions, directs the use of those appropriations to specific activities. The most significant changes in this year's funding was an increase in state appropriation of \$3.6 million, a decrease of \$5.3 million in Federal Program expenses due to the Governor's Emergency Education Relief Funds, and a \$2.6 million increase in Agency and KYVC/KYVL Operations expense.

COUNCIL ON POSTSECONDARY EDUCATION

MANAGEMENT'S DISCUSSION AND ANALYSIS JUNE 30, 2022

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 39% 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, 2022	June 30, 2021
Total assets	\$ 5,621,929	\$ 5,908,484
Total liabilities	1,388,722	1,596,985
Fund balances	4,233,207	4,311,499
Total liabilities and fund balances	\$ 5,621,929	\$ 5,908,484

The fund balance primarily represents the cash balances, investment balances, and amounts due from the Federal government. The fund balances of the Council decreased approximately \$78,000 between fiscal years.

COUNCIL ON POSTSECONDARY EDUCATION

MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2022

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

	June 30, 2022	June 30, 2021
Revenues:		
State appropriations	\$ 11,213,666	\$ 7,609,722
Charges for services	4,202,925	3,379,428
Intergovernmental revenues	626,579	470,822
Federal programs	8,040,594	13,256,932
Other	410,041	776,412
Total revenues	<u>24,493,805</u>	<u>25,493,316</u>
Expenditures:		
Personnel services	13,191,119	12,658,115
Grants and subsidies	5,766,778	10,530,414
Other	5,162,700	4,557,023
Total expenditures	<u>24,120,597</u>	<u>27,745,552</u>
Interfund transfer out	<u>(451,500)</u>	<u>-0-</u>
Net change in fund balances	(78,292)	(2,252,236)
Fund balances, beginning of year	<u>4,311,499</u>	<u>6,563,735</u>
Fund balances, end of year	<u>\$ 4,233,207</u>	<u>\$ 4,311,499</u>

The most significant change in this year's revenue is with an increase in state appropriations of \$3.6 million and a decrease of \$5.2 million in federal programs related to the Governor's Emergency Education Relief Funds.

Grants and subsidies primarily consist of payments to institutions, state agencies, and other service providers for costs related to discrete authorized activities. In FY 2022, grants and subsidies decreased by \$4.8 million due to the Governor's Emergency Education Relief Funds for the effects of COVID-19. The other expenditures are consistent between FY 2022 and FY 2021.

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

COUNCIL ON POSTSECONDARY EDUCATION

MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2022

BUDGETARY HIGHLIGHTS

Final budgeted revenues and expenditures remained consistent from the original budget.

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, 100 Airport Drive, Third Floor, Frankfort, Kentucky, 40601. Both individuals can be contacted by phone at (502) 573-1555.

COUNCIL ON POSTSECONDARY EDUCATION

STATEMENT OF NET POSITION JUNE 30, 2022

	Governmental Activities
<u>ASSETS AND DEFERRALS</u>	
Current assets:	
Cash and cash equivalents	\$ 1,191,561
Cash and cash equivalents - restricted	1,276,294
Accounts receivable	210,389
Accrued interest receivable	-0-
Intergovernmental receivables	-0-
Due from the Federal government	434,797
Prepaid expenses	366,517
Total current assets	3,479,558
Noncurrent assets:	
Investments	2,148,188
Investments - restricted	360,700
Total noncurrent assets	2,508,888
Total assets	5,988,446
Deferred outflows of resources	
Deferred outflows - pension	1,871,420
Deferred outflows - OPEB	902,070
Total deferred outflows of resources	2,773,490
Total assets and deferrals	\$ 8,761,936
<u>LIABILITIES AND DEFERRALS</u>	
Current liabilities:	
Accounts and other payables	\$ 387,916
Interfund payable	106,348
Due to the state investment pool	2,207
Accrued expenses	383,848
Accrued compensated absences - current portion	508,403
Total current liabilities	1,388,722
Noncurrent liabilities:	
Accrued compensated absences - noncurrent portion	329,300
Net pension	22,231,529
Net OPEB	3,784,344
Total noncurrent liabilities	26,345,173
Total liabilities	27,733,895
Deferred inflows of resources	
Deferred inflows - pension	594,757
Deferred inflows - OPEB	918,773
Total deferred inflows of resources	1,513,530
Total liabilities and deferrals	\$ 29,247,425
<u>NET POSITION (DEFICIT)</u>	
Restricted	\$ 1,506,289
Unrestricted deficit	(21,991,778)
Total net position (deficit)	\$ (20,485,489)

COUNCIL ON POSTSECONDARY EDUCATION

STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2022

	Program Revenues				Net (Expenses) Revenues and Changes in Net Position
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	
<u>FUNCTIONS/PROGRAMS:</u>					
Operations	\$ 6,274,281	\$ 485,700	\$ 270,315	\$ -0-	\$ (5,518,266)
Federal Programs	7,771,081	-0-	7,770,279	-0-	(802)
Postsecondary Education Equine Trust Fund	480,000	-0-	-0-	626,579	146,579
Technology Initiative Trust Fund	7,932,818	3,717,225	410,041	-0-	(3,805,552)
Assessment and Professional Development	1,295,295	-0-	-0-	-0-	(1,295,295)
Unallocated depreciation expense	164	-0-	-0-	-0-	(164)
Total governmental activities	<u>\$ 23,753,639</u>	<u>\$ 4,202,925</u>	<u>\$ 8,450,635</u>	<u>\$ 626,579</u>	<u>(10,473,500)</u>
General revenues:					
State appropriations					11,213,666
Loss on disposal of capital assets					(2,541)
Total general revenues					<u>11,211,125</u>
Transfer to state general fund					<u>(451,500)</u>
Change in net position					286,125
Net position (deficit), beginning of year					<u>(20,771,614)</u>
Net position (deficit), end of year					<u>\$ (20,485,489)</u>

COUNCIL ON POSTSECONDARY EDUCATION

BALANCE SHEET – GOVERNMENTAL FUNDS

JUNE 30, 2022

	Operations	Federal Programs	Technology Initiative Trust Fund	Other (Non-major) Governmental Funds	Total Governmental Funds
ASSETS					
Cash and cash equivalents	\$ 185,300	\$ -0-	\$ 1,006,261	\$ -0-	\$ 1,191,561
Cash and cash equivalents - restricted	-0-	50,000	1,178,371	47,923	1,276,294
Investments	1,394,688	-0-	753,500	-0-	2,148,188
Investments - restricted	-0-	-0-	-0-	360,700	360,700
Accounts receivable	24,959	50,000	133,771	1,659	210,389
Due from the Federal government	-0-	434,797	-0-	-0-	434,797
Total assets	\$ 1,604,947	\$ 534,797	\$ 3,071,903	\$ 410,282	\$ 5,621,929
LIABILITIES AND FUND BALANCES					
Liabilities:					
Accounts and other payables	\$ 25,013	\$ 262,191	\$ 99,053	\$ 1,659	\$ 387,916
Interfund payable	-0-	106,348	-0-	-0-	106,348
Due to the state investment pool	-0-	2,207	-0-	-0-	2,207
Accrued expenses	243,660	93,370	21,967	24,851	383,848
Accrued compensated absences	421,410	70,681	9,363	6,949	508,403
Total liabilities	690,083	534,797	130,383	33,459	1,388,722
Fund balances:					
Restricted:					
for Technology Initiative	-0-	-0-	955,912	-0-	955,912
for James Graham Brown Foundation	-0-	-0-	222,459	-0-	222,459
for University Equine programs	-0-	-0-	-0-	408,623	408,623
Assigned:					
for agency operations	914,864	-0-	-0-	-0-	914,864
for Technology Trust Fund	-0-	-0-	1,763,149	-0-	1,763,149
Unassigned	-0-	-0-	-0-	(31,800)	(31,800)
Total fund balances	914,864	-0-	2,941,520	376,823	4,233,207
Total liabilities and fund balances	\$ 1,604,947	\$ 534,797	\$ 3,071,903	\$ 410,282	\$ 5,621,929

See accompanying notes
to the financial statements.

COUNCIL ON POSTSECONDARY EDUCATION

RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET TO THE STATEMENT OF NET POSITION JUNE 30, 2022

Fund balances - total governmental funds	\$ 4,233,207
Amounts reported for governmental activities in the statement of net position are different because:	
The deferred outflows of resources are not current financial resources, and therefore, are not reported in the governmental funds.	2,773,490
Prepaid expenses are accounted for in the governmental funds as expenditures in the period of acquisition and, therefore, are not financial resources and are not reported in the governmental funds.	
Prepaid expenses	366,517
The noncurrent portion of accrued compensated absences is not due and payable in the current year and, therefore, is not reported in the governmental funds.	
Accrued compensated absences - noncurrent portion	(329,300)
The deferred inflows of resources is not due and payable in the current year and, therefore, is not reported in the governmental funds.	(1,513,530)
The net pension liability and net OPEB liability is not due and payable in the current year and, therefore, is not reported in the governmental funds.	<u>(26,015,873)</u>
Net position of governmental activities	<u><u>\$ (20,485,489)</u></u>

COUNCIL ON POSTSECONDARY EDUCATION

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES – GOVERNMENTAL FUNDS YEAR ENDED JUNE 30, 2022

	Operations	Federal Programs	Technology Initiative Trust Fund	Other (Non-major) Governmental Funds	Total Governmental Funds
REVENUES:					
State appropriations	\$ 6,278,827	\$ -0-	\$ 3,628,300	\$ 1,306,539	\$ 11,213,666
Charges for services	485,700	-0-	3,717,225	-0-	4,202,925
Intergovernmental revenues	-0-	-0-	-0-	626,579	626,579
Federal programs	270,315	7,770,279	-0-	-0-	8,040,594
Other revenues	-0-	-0-	410,041	-0-	410,041
Total revenues	7,034,842	7,770,279	7,755,566	1,933,118	24,493,805
EXPENDITURES:					
Personnel services	5,332,692	2,817,924	3,942,364	1,098,139	13,191,119
Utilities, rental, and other services	699,948	415,305	474,099	7,686	1,597,038
Commodities and supplies	506,252	258,634	2,635,906	17,471	3,418,263
Grants and subsidies	-0-	4,228,948	901,999	635,831	5,766,778
Travel	60,335	49,468	19,177	18,419	147,399
Total expenditures	6,599,227	7,770,279	7,973,545	1,777,546	24,120,597
Excess (deficiency) of revenues over expenditures	435,615	-0-	(217,979)	155,572	373,208
OTHER FINANCING SOURCES (USES):					
Interfund transfers in (out)	(451,500)	-0-	-0-	-0-	(451,500)
Net change in fund balances	(15,885)	-0-	(217,979)	155,572	(78,292)
Fund balances, beginning of year	930,749	-0-	3,159,499	221,251	4,311,499
Fund balances, end of year	\$ 914,864	\$ -0-	\$ 2,941,520	\$ 376,823	\$ 4,233,207

See accompanying notes
to the financial statements.

COUNCIL ON POSTSECONDARY EDUCATION

RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES TO THE STATEMENT OF ACTIVITIES YEAR ENDED JUNE 30, 2022

**Net change in fund balances -
total governmental funds** \$ (78,292)

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

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

Change in prepaid expenses 92,371

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

Current year depreciation expense (164)

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 (2,541)

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.

203,551

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 71,200

Change in net position of governmental activities \$ 286,125

COUNCIL ON POSTSECONDARY EDUCATION

STATEMENT OF FIDUCIARY NET POSITION JUNE 30, 2022

	<u>Total Custodial Funds</u>
<u>ASSETS</u>	
Cash and cash equivalents - restricted	\$ 435
Interfund receivable	23,000,000
Investments - restricted	<u>3,273</u>
Total assets	<u><u>\$ 23,003,708</u></u>
<u>LIABILITIES</u>	
Accounts payable	<u><u>\$ 3,708</u></u>
<u>NET POSITION</u>	
Restricted for:	
Individual, organizations, and other governments	<u><u>\$ 23,000,000</u></u>

COUNCIL ON POSTSECONDARY EDUCATION

STATEMENT OF CHANGES IN FIDUCIARY NET POSITION YEAR ENDED JUNE 30, 2022

	<u>Total Custodial Funds</u>
<u>ADDITIONS</u>	
State Allotments	\$ 34,593,924
<u>DEDUCTIONS</u>	
Payments to beneficiaries	11,584,420
Administrative expenses	<u>9,504</u>
Total deductions	<u>11,593,924</u>
Changes in net position	23,000,000
NET POSITION - Beginning of the year	<u>-0-</u>
NET POSITION - End of the year	<u><u>\$ 23,000,000</u></u>

COUNCIL ON POSTSECONDARY EDUCATION

NOTES TO THE FINANCIAL STATEMENTS JUNE 30, 2022

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Financial Reporting Entity

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

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

Council on Postsecondary Education:

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

COUNCIL ON POSTSECONDARY EDUCATION

NOTES TO THE FINANCIAL STATEMENTS JUNE 30, 2022

Kentucky Virtual Campus:

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

Basis of Presentation

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

Government-Wide Financial Statements:

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

COUNCIL ON POSTSECONDARY EDUCATION

NOTES TO THE FINANCIAL STATEMENTS JUNE 30, 2022

Fund Financial Statements:

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

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

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

Federal Programs - This fund represents all programs financed by a federal agency, including both grants directly awarded to the Council and grants passed through to the Council from another entity (i.e. pass-through). The Council is the recipient of the Gaining Early Awareness and Readiness for Undergraduate Programs (GEAR-UP) and the Governor's Emergency Education Relief Fund (GEER).

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 Postsecondary Education Equine Trust and Revolving Fund and the Assessment and Professional Development Fund.

COUNCIL ON POSTSECONDARY EDUCATION

NOTES TO THE FINANCIAL STATEMENTS JUNE 30, 2022

Fiduciary Funds:

Following the Council's financial statements are separate financial statements for fiduciary funds. Fiduciary funds are excluded from the Council's financial statements as these assets are held in a true capacity for various institutions and cannot be used to support the Council's funds. The fiduciary funds (not included in the government-wide financial statements) include:

Custodial Funds - Custodial 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
- Ovarian Cancer Screenings
- Cancer Research and Screenings
- Spinal Cord and Head Injury Research
- Southern Regional Education Board (SREB) Scholars Program
- Kentucky State University Fiscal Stabilization

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 custodial funds, and they present statement of fiduciary net position and statement of changes in fiduciary net position.

COUNCIL ON POSTSECONDARY EDUCATION

NOTES TO THE FINANCIAL STATEMENTS JUNE 30, 2022

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 unearned revenues until earned. Material revenues susceptible to accrual primarily include Federal grants. Expenditures and liabilities are recognized when obligations are incurred, except noncurrent accrued compensated absences which are accounted for in the governmental funds balance sheet and recorded as expenditures of the period when used.

Use of Estimates

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

Restricted Cash

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

COUNCIL ON POSTSECONDARY EDUCATION

NOTES TO THE FINANCIAL STATEMENTS JUNE 30, 2022

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 9 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, 2022, the balance consists of amounts due under the Council's GEAR-UP and GEER programs.

Prepaid Expenses

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

Capital Assets

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

COUNCIL ON POSTSECONDARY EDUCATION

NOTES TO THE FINANCIAL STATEMENTS JUNE 30, 2022

Interfund Transactions

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

Unearned Revenue

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

Compensated Absences

All annual and compensatory leave is accrued when incurred in the government-wide financial statements. Only the accumulated annual and compensatory leave that is expected to be liquidated with expendable available financial resources is reported as an expenditure and a fund liability of the governmental fund that will pay it. No liability is recorded for nonvesting accumulating rights to receive sick pay benefits.

Equity Classifications

Government-Wide Financial Statements:

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

- a. Net investment in capital assets - Consists of capital assets including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets.
- b. Restricted - Consists of net position with constraints placed on the use either by (1) external groups such as creditors, grantors, contributors, or laws or regulations of other governments; or (2) law through constitutional provisions or enabling legislation.
- c. Unrestricted - All other net position that do not meet the definition of "restricted" or "net investment in capital assets."

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

COUNCIL ON POSTSECONDARY EDUCATION

NOTES TO THE FINANCIAL STATEMENTS JUNE 30, 2022

As of June 30, 2022, Postsecondary Education Equine Trust Fund net position totaling \$408,623 is restricted by enabling legislation.

Fund Financial Statements:

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

The Council generally segregates restricted, committed, and assigned resources by account. When resources meeting more than one of these spendable classifications are commingled in an account in the Commonwealth's accounting system, the assumed order of spending is restricted first, committed second, and finally assigned. Once restricted resources have been exhausted, unrestricted resources will then be spent on the specific purpose.

Program Revenues

The primary sources of the Council's program revenues are revenues received from the United States Department of Education under the Council's two Federal programs and the intergovernmental revenues primarily associated with the funding of the Postsecondary Equine Trust and Revolving Fund (see Note 9).

State Appropriations

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

COUNCIL ON POSTSECONDARY EDUCATION

NOTES TO THE FINANCIAL STATEMENTS JUNE 30, 2022

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 addition to/deduction from KERS fiduciary net position have been determined on the same basis as they are reported by the respective retirement systems.

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

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 additions to/deductions from the KERS'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. Investments 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 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.

COUNCIL ON POSTSECONDARY EDUCATION

NOTES TO THE FINANCIAL STATEMENTS JUNE 30, 2022

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 Assessment and Professional Development Fund had a negative fund balance on June 30, 2022 in the amount of \$31,800. 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 2023 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, 2022, the Council's share of deposits in the Commonwealth's general depository (State investment pool) totals \$4,976,736. Custodial funds held by the Council in the Commonwealth's general depository total \$3,708 at June 30, 2022.

The Commonwealth's Annual Comprehensive Financial Report (ACFR) for the year ended June 30, 2022 should be referred to for disclosures required by GASB Statement No. 3, "*Deposits with Financial Institutions, Investments (including Repurchase Agreements), and Reverse Repurchase Agreements*" and GASB Statement No. 40, "*Deposit and Investment Risk Disclosures*" (an amendment of GASB Statement No. 3).

COUNCIL ON POSTSECONDARY EDUCATION

NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2022

4. CAPITAL ASSETS

Capital asset activity during the year ended June 30, 2022 is as follows:

	Balance July 1, 2021	Increases	Decreases	Balance June 30, 2022
Capital assets:				
Office equipment	\$ 5,070	\$ -0-	\$ 5,070	\$ -0-
Data processing equipment	-0-	-0-	-0-	-0-
Capital assets at cost	<u>5,070</u>	<u>-0-</u>	<u>5,070</u>	<u>-0-</u>
Less accumulated depreciation:				
Office equipment	2,365	164	2,529	-0-
Data processing equipment	-0-	-0-	-0-	-0-
Total accumulated depreciation:	<u>2,365</u>	<u>164</u>	<u>2,529</u>	<u>-0-</u>
Capital assets - net	<u>\$ 2,705</u>	<u>\$ (164)</u>	<u>\$ 2,541</u>	<u>\$ -0-</u>

Depreciation expense for the year ended June 30, 2022 totals \$164.

5. INTERFUND RECEIVABLE/ PAYABLE

Pursuant to House Bill 250 in the 2022 regular session, the General Assembly appropriated \$23 million to the Council in 2022 to address financial instability at Kentucky State University (KSU).

In accordance with the provisions of House Bill 250, the disbursements from the Council to KSU out of the \$23 million shall be a non-interest-bearing loan to be repaid by KSU. House Bill 250 also created a trust fund for the purpose of holding funds not disbursed to KSU as well as receiving and holding loan repayments collected from KSU. All receipts in the trust fund shall remain in the trust fund until reappropriated by the General Assembly. The entire \$23 million had been disbursed to KSU as of June 30, 2022. Accordingly, the Council reported an interfund receivable in the accompanying statement of fiduciary net position of \$23 million due from KSU. Though no repayment terms currently exist, the General Assembly will consider the terms and schedule for repayment of the loan during the 2026 Regular Session.

In addition, at June 30, 2022, the Council reported an interfund payable of \$106,348 to the Kentucky Cabinet for Health and Family Services, the grantor of the Coronavirus State and Local Fiscal Recovery Fund. The interfund payable represents the unspent amounts under this grant program that were refundable to the grantor as of June 30, 2022.

COUNCIL ON POSTSECONDARY EDUCATION

NOTES TO THE FINANCIAL STATEMENTS JUNE 30, 2022

6. 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, 2022 is summarized as follows:

	Balance July 1, 2021	Increases	Decreases	Balance June 30, 2022
Accrued compensated absences	\$ 840,562	\$ 505,141	\$ 508,000	\$ 837,703

As of June 30, 2022, the amount estimated to be due within one year totals approximately \$508,000.

Sick Leave:

It is the policy of the Council to record the cost of sick leave when paid. Generally, sick leave (earned one day per month with unlimited accumulation) is paid only when an employee is absent due to illness, injury, or related family death. There is no liability recorded for sick leave at June 30, 2022. The estimated accumulated amount of unused sick leave at June 30, 2022, totals approximately \$1,377,000.

7. 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

COUNCIL ON POSTSECONDARY EDUCATION

NOTES TO THE FINANCIAL STATEMENTS JUNE 30, 2022

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, 2022 totals approximately \$352,000, consisting of approximately \$217,000 from the Council and \$135,000 from employees. The contribution requirement for the year ended June 30, 2021 totals approximately \$272,000, consisting of approximately \$168,000 from the Council and \$104,000 from employees.

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

Kentucky Employees Retirement System

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

	Tier 1	Tier 2	Tier 3
	Participation Prior to 9/1/2008	Participation 9/1/2008 through 12/31/2013	Participation on or after 1/1/2014
Covered Employees:	Substantially all regular full-time members employed in non-hazardous and hazardous duty positions of any state department, board, or any agency directed by Executive Order to participate in KERS.		
Benefit Formula:	Final Compensation X Benefit Factor X Years of Service		Cash Balance Plan
Final Compensation	Average of the highest 5 fiscal years (must contain at least 48 months). Includes lump sum compensation payments (before and at retirement).	5 complete fiscal years immediately preceding retirement; each year must contain 12 months. Lump sum compensation payments (before and at retirement) are not to be included in creditable compensation.	No final compensation.

COUNCIL ON POSTSECONDARY EDUCATION

NOTES TO THE FINANCIAL STATEMENTS JUNE 30, 2022

	Tier 1 Participation Prior to 9/1/2008	Tier 2 Participation 9/1/2008 through 12/31/2013	Tier 3 Participation on or after 1/1/2014
Benefit Factor:	1.97% - If do not have 13 months of credit for 1/1/1998 - 1/1/1999. 2.00% - If have 13 months of credit for 1/1/1998 - 1/1/1999.	10 years or less = 1.10%. Greater than 10 years, but no more than 20 years = 1.30%. Greater than 20 years, but no more than 26 years = 1.50%. Greater than 26 years, but no more than 30 years = 1.75%. Additional years above 30 = 2.00% (2.00% benefit factor only applies to service earned in excess of 30 years).	No benefit factor. A life annuity can be calculated in accordance with actuarial assumptions and a method adopted by the board based on member's accumulated account balance.
Cost of Living Adjustment (COLA):	No COLA unless authorized by the Legislature with specific criteria. This impacts all retirees regardless of Tier.		
Unreduced Retirement Benefit:	Any age with 27 years of service. Age 65 with 48 months of service. Money Purchase for age 65 with less than 48 months based on contributions and interest.	Rule of 87: Member must be at least age 57 and age plus earned service must equal 87 years at retirement to retire under this provision. Age 65 with 5 years of earned service. No Money Purchase calculations.	
Reduced Retirement Benefit:	Any age with 25 years of service. Age 55 with 5 years of service.	Age 60 with 10 years of service. Excludes purchased service (exception: refunds, omitted, free military).	No reduced retirement benefit.

COUNCIL ON POSTSECONDARY EDUCATION

NOTES TO THE FINANCIAL STATEMENTS JUNE 30, 2022

Benefits and contribution rates are established by state statute. Per Kentucky Revised Statute 61.565, contribution requirements of the active employees and the participating organizations are established and may be amended by the Kentucky Retirement System's Board. For the fiscal year ended June 30 2022, plan employees were required to contribute 5 percent of their annual covered salary for retirement benefits. Employees participating in Tier 2 and 3 were required to contribute an additional 1 percent for the insurance fund. The Council was contractually required to contribute 7.90 percent of covered payroll plus a monthly amount determined by the KERS actuary for its own portion of the total unfunded liability over a set period regardless of covered payroll to the nonhazardous KERS pension plan during the year ended June 30, 2022. The contribution rate is actuarially determined as an amount that, when combined with employee contributions during the year, is expected to finance the cost of benefits earned by employees during the year, with an additional amount to finance any unfunded liability. The Council's total required contributions to KERS nonhazardous pension plan for the year ended June 30, 2022 was \$1,522,252.

In accordance with Senate Bill 2, signed by the Governor of Kentucky on April 4, 2013, plan members who began participating on, or after, January 1, 2014, are required to contribute to the Cash Balance Plan. The Cash Balance Plan is known as a hybrid plan because it has characteristics of both a defined benefit plan and a defined contribution plan. Members in the plan contribute 5% of their creditable compensation each month to their own account, and 1% to the Insurance Fund which is not credited to the member's account and is not refundable. The employer contribution rate is set annually by the Board of Trustees of the Kentucky Retirement Systems based on an actuarial valuation. The employer contributes a set percentage of the member's salary. Each month, when employer contributions are received, an employer pay credit of 4% is deposited to the member's account. The employer pay credit represents a portion of the employer contribution.

At June 30, 2022, the Council reported a liability of \$22,231,529 for its proportionate share of net pension liability. The net pension liability was measured as of June 30, 2021, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation performed as of June 30, 2020, rolled forward to 2021 using generally accepted actuarial principles. The Council's proportion of the net pension liability was based on projection of the Council's long-term share of contributions to the pension plan relative to the projected contributions of all participating entities. At June 30, 2022, the Council's proportion was 0.166941 percent.

There have been no actuarial assumption or method changes since June 30, 2020.

House Bill 1 passed during the 2019 Special Legislative Session allows certain employers in the KERS Non-hazardous plan to elect to cease participating in the System as of June 30, 2020 under different provisions that were previously established. Senate Bill 249 passed during the 2020 legislative session delayed the effective date of cessation for these provisions to June 30, 2021. Only one employer elected to cease participation under these provisions and freeze benefit

COUNCIL ON POSTSECONDARY EDUCATION

NOTES TO THE FINANCIAL STATEMENTS JUNE 30, 2022

accruals for their current employees. As such, there is no material impact on the total pension liability due to this legislation.

House Bill 8 passed during the 2021 regular session and changed the KERS nonhazardous actuarially accrued liability contribution (unfunded liability payment) that is payable by employers on or after July 1, 2021, from a value that is paid as a percent of pay on each employee to a set dollar amount and provide that the set dollar amount shall be allocated to each individual employer based upon the employer's percent share of the liability as of the June 30, 2019, actuarial valuation and shall be paid by employers in equal installments monthly.

Actuarial Assumptions

Actuarial Valuation Date	June 30, 2020
Actuarial Cost Method	Entry age normal
Amortization Method	Level percent of pay
Asset Valuation Method	20% of the difference between the market value of assets and the expected actuarial value of the assets is recognized.
Remaining Amortization Period	28 years, closed
Actuarial Assumptions:	
Investment Rate of Return	5.25%
Inflation Rate	2.30%
Projected Salary Increases	3.30% to 15.30%, varies by service

Mortality Tables:

Active Member Pub-2010 General Mortality tables projected with the ultimate rates from the MP-2014 mortality improvement scale using a base year of 2010.

Healthy Retired Members System-specific mortality table based on mortality experience from 2013-2018,

COUNCIL ON POSTSECONDARY EDUCATION

NOTES TO THE FINANCIAL STATEMENTS JUNE 30, 2022

	projected with the ultimate rates from MP-2014 mortality improvement scale using a base year of 2019.
Disabled Members	PUB-2010 Disable Mortality Table, with a 4-year set-forward for both male and female rates, projected with the ultimate rates from the MP-2014 mortality improvement scale using a base year of 2010.
Date of Experience Study	The period July 1, 2013 – June 30, 2018
Update Procedures Applied	The actuarial valuation date of June 30, 2020, was rolled forward from the valuation date to the plan's fiscal year end of June 30, 2021 using standard roll forward procedures.

COUNCIL ON POSTSECONDARY EDUCATION

NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2022

For the year ended June 30, 2022, the Council recognized pension expenses of \$1,307,785 and deferred outflows and deferred inflows related to pension from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Difference between expected and actual experience	\$ 22,185	\$ 115,373
Net difference between projected and actual earnings	-0-	473,099
Changes in proportion and differences between employer contributions and proportionate share of contributions	326,983	6,285
Contributions subsequent to the measurement date	<u>1,522,252</u>	<u>-0-</u>
Total	<u>\$ 1,871,420</u>	<u>\$ 594,757</u>

The \$1,522,252 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, 2023. Other amounts reported as deferred outflows of resources and deferred inflows of resources will be recognized over a period of either five years for investment-related deferrals or the estimated remaining service life for active participants in the pension plan for other deferred items. As of June 30, 2021 plan year, the estimated remaining service life was 2.13 years. Other amounts reported as deferred outflows and inflows 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>
2023	\$ 79,380
2024	(85,393)
2025	(108,379)
2026	<u>(131,197)</u>
Total	<u>\$ (245,589)</u>

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

COUNCIL ON POSTSECONDARY EDUCATION

NOTES TO THE FINANCIAL STATEMENTS JUNE 30, 2022

class. The ranges are combined by weighting the expected future real rates of return by the target asset allocations percentage. The target allocation and best estimates of arithmetic real rate of return for each major asset class is summarized in the table below. The current long term inflation assumption is 2.30% per annum for non-hazardous.

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

Kentucky Retirement Systems		
Asset Class	Target Allocation	Long-Term Nominal Rate of Return
Growth:		
US Equity	16.25%	5.70%
Non-US Equity	16.25%	6.35%
Private Equity	7.00%	9.70%
Specialty Credit/High Yield	15.00%	2.80%
Liquidity:		
Core Bonds	20.50%	0.00%
Cash	5.00%	-0.60%
Diversifying Strategies:		
Real Estate	10.00%	5.40%
Real Return	10.00%	4.55%
Total	100.00%	

The projection of cash flows used to determine the discount rate of 5.25% assumes that local employers would contribute the actuarially determined contribution rate of projected compensation over the remaining 28-year amortization period of the unfunded actuarial accrued liability.

June 30, 2021 is the actuarial valuation date upon which the total pension liability is based. The discount rate is defined as the single rate of return that when applied to all projected payments results in an actuarial value of projected benefits payments. A municipal bond rate was not used.

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%):

COUNCIL ON POSTSECONDARY EDUCATION

NOTES TO THE FINANCIAL STATEMENTS JUNE 30, 2022

	1% Decrease (4.25%)	Discount (5.25%)	1% Increase (6.25%)
The Council's proportionate share	\$ 25,609,730	\$ 22,231,529	\$ 19,453,885

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 Annual Comprehensive Financial Report should be referred to for additional disclosures related to KERS. The KERS also issues a publicly available financial report that includes financial statements and required supplementary information for the KERS. The report may be obtained on-line at www.kyret.ky.gov.

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 \$117,000 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.

COUNCIL ON POSTSECONDARY EDUCATION

NOTES TO THE FINANCIAL STATEMENTS JUNE 30, 2022

8. EMPLOYMENT HEALTH CARE BENEFITS

Kentucky Employers Retirement System

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

Covered Employees: Contribution rates for employers and employees are established by Kentucky Statute KRS 21.427. The Traditional plan members do not contribute to the OPEB plan directly. Instead assets have been allocated between pension and retiree medical liabilities on the basis of accrued liability as of July 1, 2021. This amount has been bought forward from that date based on actual cash flows and prorated allocation of investment returns. The Hybrid plan member contribute 1% of their official salary. Employer contributions are determined by the budget bill.

Benefit Factor:

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

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

Benefits and contribution rates are established by state statute. Per Kentucky Revised Statute 61.565, contribution requirements of the active employees and the participating organizations are established and may be amended by the Kentucky Retirement System’s Board. Employees with a participation date after September 1, 2008 were required to contribute an additional 1 percent of their salary for retiree healthcare benefits. The Council was contractually required to contribute 2.20 percent of covered payroll plus a monthly amount determined by the KERS actuary for its own portion of the total unfunded liability over a set period regardless of covered payroll to the nonhazardous KERS OPEB plan during the year ended June 30, 2022. The contribution rate is actuarially determined as an amount that, when combined with employee contributions during the year, is expected to finance the cost of benefits earned by employees during the year, with an additional amount to finance any unfunded liability. The Council’s total required contributions to KERS nonhazardous insurance plan for the year ended June 30, 2022 was \$196,317.

At June 30, 2022, the Council reported a liability of \$3,784,344 for its proportionate share of collective net OPEB liability. The collective net OPEB liability was measured as of June 30, 2021, and the total OPEB liability used to calculate the net collective OPEB liability was determined by an actuarial valuation performed as of June 30, 2020, rolled forward to 2021 using generally accepted actuarial principles. The Council’s proportion of the collective net OPEB liability was

COUNCIL ON POSTSECONDARY EDUCATION

NOTES TO THE FINANCIAL STATEMENTS JUNE 30, 2022

based on projection of the Council's long-term share of contributions to the OPEB plan relative to the projected contributions of all participating entities, actuarially determined. At June 30, 2022, the plan's proportion was 0.166029 percent.

For the year ended June 30, 2022, the Council recognized OPEB expenses of \$273,773 and deferred outflows and deferred inflows related to OPEB from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between expected and actual experience	\$ 219,175	\$ 524,176
Net difference between projected and actual earnings	-0-	212,526
Changes of assumption	372,227	3,549
Changes in proportion and differences between employer contributions and proportionate share of contributions	47,811	178,522
Contributions subsequent to the measurement date	262,857	-0-
Total	\$ 902,070	\$ 918,773

Of the total amount reported as deferred outflows of resources related to OPEB, \$196,317 resulting from Council statutorily required contributions and \$66,540 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, 2023. Other amounts reported as deferred outflows of resources and deferred inflows of resources will be recognized over a period of either five years for investment-related deferrals or the estimated remaining service life for active participants in the OPEB plan for other deferred items. As of June 30, 2021 plan year, the estimated remaining service life was 3.53 years. 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:

COUNCIL ON POSTSECONDARY EDUCATION

NOTES TO THE FINANCIAL STATEMENTS JUNE 30, 2022

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

Fiscal Years	Amount
2023	\$ (127,040)
2024	(42,968)
2025	(42,552)
2026	(67,000)
Total	\$ (279,560)

The total OPEB liability, net OPEB liability, and sensitivity information shown in this report are based on an actuarial valuation performed as of collective net OPEB liability was measured based on an actuarial valuation performed as of June 30, 2020 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, 2021, using generally accepted actuarial principles.

Actuarial Assumptions

Actuarial Valuation Date	June 30, 2020
Experience Study	July 1, 2013 – June 30, 2018
Actuarial Cost Method	Entry age normal, Level percentage of pay
Asset Valuation Method	5 years smoothing
Remaining amortization period	28 years, closed
Actuarial assumptions:	
Investment rate of return	6.25%
Inflation rate	2.3%
Payroll Growth Rate	0%
Salary Growth	3.30% to 15.30%, varies by service
Mortality Tables:	PUB-2010 General Mortality table projected with the ultimate rates from the MP-2014 mortality improvement scale using a base year of 2010.
Healthcare Trend Rates Pre-65	Initial trend starting at 6.30% at January 1, 2023 and gradually decreasing to an ultimate trend rate of 4.05% over a

COUNCIL ON POSTSECONDARY EDUCATION

NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2022

Healthcare Trend Rates Post-65	period of 13 years. Initial trend starting at 6.30 % at January 1, 2022 and gradually decreasing to an ultimate trend rate of 4.05% over a period of 12 years.
Update Procedures Applied	The actuarial valuation date of June 30, 2020, was rolled forward from the valuation date to the plan's fiscal year end of June 30, 2021 using standard roll forward procedures.

The assumed increase in future health care costs, or trend assumption, was reviewed during the June 30, 2020 valuation process and was updated to better reflect more current expectations relating to anticipated future increases in the healthcare costs. There were no other material assumption changes.

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

Kentucky Retirement Systems		
Asset Class	Target Allocation	Long-Term Nominal Rate of Return
Growth:		
US Equity	21.75%	5.70%
Non-US Equity	21.75%	6.35%
Private Equity	10.00%	9.70%
Specialty Credit/High Yield	15.00%	2.80%
Liquidity:		
Core Bonds	10.00%	0.00%
Cash	1.50%	-0.60%
Diversifying Strategies:		
Real Estate	10.00%	5.40%
Real Return	10.00%	4.55%
Total	100.00%	

The projection of cash flows used to determine the discount rate of 5.26% for KERS Nonhazardous, assumed that local employers would contribute the actuarially determined

COUNCIL ON POSTSECONDARY EDUCATION

NOTES TO THE FINANCIAL STATEMENTS JUNE 30, 2022

contribution rate of projected compensation over the remaining 28 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 1.92%, as reported in Fidelity Index's "20-Year Municipal GO AA Index" as of June 30, 2021. Based on the stated assumptions and the projection of cash flows as of each fiscal year ending, the plan's fiduciary net position and future contributions were projected to be sufficient to finance the future benefit payments of the current plan members. Therefore, the long-term expected rate of return on insurance plan investments was applied to all periods of the projected benefit payments paid from the retirement system. However, the cost associated with the implicit employer subsidy is not currently being included in the calculation of the Council's actuarially determined contributions, and it is our understanding that any cost associated with the implicit subsidy will not be paid out of the System's trust. Therefore, the municipal bond rate was applied to future expected benefit payments associated with the implicit subsidy. The projection of cash flows used to determine the single discount rate assumes that the funds receive the required employer contributions each future year, as determined by the current funding policy established in statute. The target asset allocation and best estimates of arithmetic nominal rates of return for each major asset class are summarized in the Commonwealth's ACFR.

The projection of cash flows used to determine the single discount rate must include an assumption regarding future employer contributions made each year. The future contributions are projected in accordance with the current funding policy, as most recently revised by Senate Bill 249, passed during the 2020 legislative session. If there is a pattern of legislation that has a resulting effect of employers making contributions less than the actuarially determined rate, Gabriel Roeder Smith (GRS) may be required to project contributions that are reflective of recent actual contribution efforts regardless of the stated funding policy (as required by paragraph 50 of GASB Statement No. 74) Legislation has been enacted for multiple years (for Fiscal Year 18/19, Fiscal Year 19/20, and Fiscal Year 20/21) that allowed certain employers (referred to as "Quasi" agencies) in the KERS Non-hazardous Fund to contribute 8.41% of pay into the insurance fund, which is less than the actuarially determined contribution rate. GRS confirmed that the single discount rate used in the GASB calculations remains unchanged if these Quasi agencies were assumed to continue making contributions at a reduced rate in future years.

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 (4.26 percent) or 1-percentage-point higher (6.26 percent) than the current discount rate:

COUNCIL ON POSTSECONDARY EDUCATION

NOTES TO THE FINANCIAL STATEMENTS JUNE 30, 2022

	1% Decrease (4.26%)	Discount (5.26%)	1% Increase (6.26%)
The Council's proportionate share	\$ 4,621,496	\$ 3,784,344	\$ 3,097,992

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

	1% Decrease	Current Healthcare Cost Trend Rate	1% Increase
The Council's proportionate share	\$ 3,126,255	\$ 3,784,344	\$ 4,576,925

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 Annual Comprehensive Financial Report should be referred to for additional disclosures related to KERS.

9. INTERGOVERNMENTAL TRANSACTIONS

At June 30, 2022, intergovernmental revenue consist of the following:

Funding for the Postsecondary Education Equine Trust and Revolving Fund from a Special Revenue Fund of the Commonwealth of Kentucky	\$ 626,579
Total intergovernmental revenues	\$ 626,579

10. RELATED PARTY TRANSACTIONS

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

The Commonwealth Office for Technology (COT) provides technical support for State government agencies in the application of information technology including major information resource functions such as data center operations, data and voice communications (i.e. the

COUNCIL ON POSTSECONDARY EDUCATION

NOTES TO THE FINANCIAL STATEMENTS JUNE 30, 2022

Kentucky Information Highway), data administration, hardware selection and installation, and related end-user and customer support services. During 2022, the Council paid approximately \$432,000 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 2022. During 2022, the Council paid approximately \$1,000 to the Personnel Cabinet and approximately \$23,000 to the Finance and Administration Cabinet for services provided during the year.

The Council uses vehicles from the Transportation Cabinet's fleet. During 2022, the Council paid approximately \$20,000 to the Transportation Cabinet for use of their vehicles.

The Council leases office space from the Department for Facilities and Support Services. During 2022, the Council paid approximately \$285,000 to the Department for Facilities and Support Services for the leased office space and utilities. Additionally, the Council uses the Department for Facilities and Support Services for printing services and postage. During 2022, the Council paid approximately \$21,000 to the Department for Facilities and Support Services for printing and postage.

11. COMMITMENTS AND CONTINGENCIES

As of June 30, 2022, the Council is committed under certain agreements and contracts in the amount of approximately \$30,619,000. These commitments are largely comprised of contractual obligations for future program expenditures under the Council's strategic investment and incentive funding programs, as well as its pass-through (fiduciary) programs. These program disbursements will largely be to the Commonwealth's postsecondary education institutions, as well as the other typical recipients of the Council's program funding. As such, these commitments will be funded primarily during the subsequent fiscal year by legislative General Fund appropriations and federal program revenues.

Federal program revenue consists principally of reimbursable grants from the United States Department of Education. Grants are generally conditioned upon compliance with terms and conditions of the grant agreement and applicable federal regulations, including the expenditure of the resources for eligible purposes. Substantially all grants are subject to financial and compliance audits by the grantors. Any disallowances as a result of these audits become a liability of the Council. As of June 30, 2022, the Council estimates that no material liabilities will result from such audits.

COUNCIL ON POSTSECONDARY EDUCATION

NOTES TO THE FINANCIAL STATEMENTS JUNE 30, 2022

12. 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 Annual Comprehensive 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 Annual Comprehensive Financial Report should be referred to for additional disclosures related to the Risk Management Fund.

13. 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.

COUNCIL ON POSTSECONDARY EDUCATION

NOTES TO THE FINANCIAL STATEMENTS JUNE 30, 2022

The asset or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques maximize the use of relevant observable inputs and minimized the used of unobservable inputs. The following table 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, 2022 are as follows:

	Assets at Fair Value as of June 30, 2022			
	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Commonwealth's investment pool	\$ 753,901	\$ 1,754,987	\$ -0-	\$ 2,508,888
Total assets at fair value	<u>\$ 753,901</u>	<u>\$ 1,754,987</u>	<u>\$ -0-</u>	<u>\$ 2,508,888</u>

The Council's policy is to recognize transfers between levels as of the actual date of the event or changes in circumstances. There were no transfers between levels during the year ended June 30, 2022.

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.

14. RECENT GASB PRONOUNCEMENT

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

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

REQUIRED SUPPLEMENTARY INFORMATION

COUNCIL ON POSTSECONDARY EDUCATION

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

	2022	2021	2020	2019	2018	2017	2016	2015
Proportion of the net pension liability (asset)	0.166941%	0.160350%	0.161487%	0.176962%	0.184184%	0.191420%	0.183165%	0.169904%
Proportionate share of the net pension liability	\$ 22,231,529	\$ 22,713,021	\$ 22,806,813	\$ 24,073,513	\$ 24,659,174	\$ 21,821,203	\$ 18,374,905	\$ 15,243,442
Covered payroll	\$ 2,173,901	\$ 2,286,217	\$ 2,362,042	\$ 2,708,898	\$ 2,907,191	\$ 3,005,194	\$ 2,988,947	\$ 2,915,237
Proportionate share of the net pension liability (asset) as a percentage of its covered payroll	1022.66%	993.48%	965.55%	888.68%	848.21%	726.12%	614.76%	522.89%
Plan fiduciary net position as a percentage of the total pension liability	18.48%	14.01%	13.66%	12.84%	13.32%	14.80%	18.83%	22.32%

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

COUNCIL ON POSTSECONDARY EDUCATION

SCHEDULE OF PENSION CONTRIBUTIONS KENTUCKY EMPLOYEES' RETIREMENT SYSTEM

	2022	2021	2020	2019	2018	2017	2016	2015	2014	
Statutorily required contribution	\$ 1,522,252	\$ 1,593,035	\$ 1,623,900	\$ 1,677,759	\$ 1,112,284	\$ 1,169,854	\$ 926,802	\$ 921,837	\$ 504,336	
Contribution in relation to the statutorily required contribution	1,522,252	1,593,035	1,623,900	1,677,759	1,112,284	1,169,854	926,802	921,837	504,336	
Contribution deficiency (excess)	\$ -0-	\$ -0-	\$ -0-	\$ -0-	\$ -0-	\$ -0-	\$ -0-	\$ -0-	\$ -0-	
Covered payroll	\$ 2,044,582	\$ 2,173,901	\$ 2,286,217	\$ 2,362,042	\$ 2,708,898	\$ 2,907,191	\$ 3,005,194	\$ 2,988,947	\$ 2,915,237	
Contribution as a percentage of covered payroll	74.45%	73.28%	71.03%	71.03%	41.06%	40.24%	30.84%	30.84%	17.30%	
Notes to Schedule										
Valuation date	June 30, 2019	June 30, 2017	June 30, 2017	June 30, 2016	June 30, 2016	June 30, 2015	June 30, 2015	June 30, 2014	Not available	
Methods and assumptions used to determine contributions:										
Actuarial cost method	Entry Age Normal July 1, 2013 - June 30, 2018	Entry Age Normal July 1, 2013 - June 30, 2018	Entry Age Normal July 1, 2008 - June 30, 2013	Entry Age Normal July 1, 2008 - June 30, 2013	Entry Age Normal July 1, 2008 - June 30, 2013	Entry Age Normal July 1, 2008 - June 30, 2013	Entry Age Normal July 1, 2008 - June 30, 2013	Entry Age Normal July 1, 2008 - June 30, 2013	Entry Age Normal July 1, 2008 - June 30, 2013	Not available
Experience study	Level percent of pay	Level percent of pay	Level percent of pay	Level percent of pay	Level percent of pay	Level percent of pay	Level percent of pay	Level percent of pay	Level percent of pay	Not available
Amortization method	20% of the difference between market value of assets and the expected actuarial value of assets is recognized	20% of the difference between market value of assets and the expected actuarial value of assets is recognized	20% of the difference between market value of assets and the expected actuarial value of assets is recognized	20% of the difference between market value of assets and the expected actuarial value of assets is recognized	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	
Asset valuation method	20% of the difference between market value of assets and the expected actuarial value of assets is recognized	20% of the difference between market value of assets and the expected actuarial value of assets is recognized	20% of the difference between market value of assets and the expected actuarial value of assets is recognized	20% of the difference between market value of assets and the expected actuarial value of assets is recognized	20% of the difference between market value of assets and the expected actuarial value of assets is recognized	20% of the difference between market value of assets and the expected actuarial value of assets is recognized	Five-year smoothed market	Five-year smoothed market	Not available	
Investment return	5.25%	5.25%	5.25%	6.75%	6.75%	6.75%	7.50%	7.75%	Not available	
Inflation	2.30%	2.30%	2.30%	3.25%	3.25%	3.25%	3.25%	3.50%	Not available	
Projected salary increase	3.55% to 15.30%, varies by service	3.30% to 15.55%, varies by service	3.55% to 15.55%, varies by service	4.0%, average	4.0%, average	4.0%, average, including inflation	4.0%, average, including inflation	4.50% per annum	Not available	

Mortality

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

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

COUNCIL ON POSTSECONDARY EDUCATION

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

	2022		2021		2020		2019		2018		2017
Proportion of the net OPEB liability (asset)	0.166029%		0.160350%		0.161487%		0.177214%		0.184184%		0.191420%
Proportionate share of the net OPEB liability	\$ 3,784,344	\$	4,071,139	\$	3,589,688	\$	4,201,588	\$	4,670,837	\$	3,953,169
Covered payroll	\$ 2,173,901	\$	2,286,217	\$	2,362,042	\$	2,708,898	\$	2,907,191	\$	3,005,194
Proportionate share of the net OPEB liability (asset) as a percentage of its covered payroll	174.08%		178.07%		151.97%		155.10%		160.66%		131.54%
Plan fiduciary net position as a percentage of the total OPEB liability	38.38%		29.47%		30.92%		27.32%		24.37%		24.48%

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

COUNCIL ON POSTSECONDARY EDUCATION

SCHEDULE OF OPEB CONTRIBUTIONS KENTUCKY EMPLOYERS' RETIREMENT SYSTEM

	2022	2021	2020	2019	2018	2017	2016
Statutorily required contribution	\$ 196,317	\$ 242,390	\$ 283,491	\$ 292,893	\$ 227,818	\$ 242,750	\$ 238,312
Contribution in relation to the statutorily required contribution	196,317	242,390	283,491	292,893	227,818	242,750	238,312
Contribution deficiency (excess)	-0-	-0-	-0-	-0-	-0-	-0-	-0-
Covered payroll	\$ 2,044,582	\$ 2,173,901	\$ 2,286,217	\$ 2,362,042	\$ 2,708,898	\$ 2,907,191	\$ 3,005,194
Contribution as a percentage of covered payroll	9.60%	11.15%	12.40%	12.40%	8.41%	8.35%	7.93%

Notes to Schedule

Valuation date	June 30, 2019	June 30, 2017	June 30, 2017	June 30, 2016	June 30, 2016	June 30, 2015	Not available
Experience Study	July 1, 2013 - June 30, 2018	July 1, 2008 - June 30, 2013	July 1, 2008 - June 30, 2013	July 1, 2008 - June 30, 2013	July 1, 2008 - June 30, 2013	July 1, 2008 - June 30, 2013	Not available

Methods and assumptions used to determine contributions:

Actuarial cost method	Entry Age Normal	Entry Age Normal	Entry Age Normal	Entry Age Normal	Entry Age Normal	Entry Age Normal	Not available
Amortization method	Level percent of pay	Level percent of pay	Level percent of pay	Level percent of pay	Level percent of pay	Level percent of pay	Not available
Asset valuation method	20% of the difference between the market value of assets and the expected actuarial value of assets is recognized	20% of the difference between the market value of assets and the expected actuarial value of assets is recognized	20% of the difference between the market value of assets and the expected actuarial value of assets is recognized	20% of the difference between the market value of assets and the expected actuarial value of assets is recognized	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	30 Years, Closed	26 Years, Closed	26 Years, Closed	27 Years, Closed	27 Years, Closed	28 Years, Closed	Not available
Investment return	6.25%	6.25%	6.25%	7.50%	7.50%	7.50%	Not available
Inflation	2.30%	2.30%	2.30%	3.25%	3.25%	3.25%	Not available
Payroll growth rate	0.00%	0.00%	0.00%	4.00%	4.00%	4.00%	Not available
Projected salary increase	3.55 to 15.55, varies by service	3.55 to 15.55, varies by service	3.55 to 15.55, varies by service	4.00% average	4.00% average	4.00% average	Not available
Healthcare Trend Rates (Pre-65)	Initial trend starting at 6.25% at 1/1/2021 and gradually decreasing to an ultimate trend rate of 4.05% over a period of 13 years.	Initial trend starting at 7.25% at 1/1/2019 and gradually decreasing to an ultimate trend rate of 4.05% over a period of 13 years.	Initial trend starting at 7.25% at 1/1/2019 and gradually decreasing to an ultimate trend rate of 4.05% over a period of 13 years.	Initial trend starting at 7.50% and gradually decreasing to an ultimate trend rate of 5.00% over a period of 5 years.	Initial trend starting at 7.50% and gradually decreasing to an ultimate trend rate of 5.00% over a period of 5 years.	Initial trend starting at 7.50% and gradually decreasing to an ultimate trend rate of 5.00% over a period of 5 years.	Not available
Healthcare Trend Rates (Post-65)	Initial trend starting at 5.50% at 1/1/2021 and gradually decreasing to an ultimate trend rate of 4.05% over a period of 14 years.	Initial trend starting at 5.10% at 1/1/2019 and gradually decreasing to an ultimate trend rate of 4.05% over a period of 11 years.	Initial trend starting at 5.10% at 1/1/2019 and gradually decreasing to an ultimate trend rate of 4.05% over a period of 11 years.	Initial trend starting at 5.50% and gradually decreasing to an ultimate trend rate of 5.00% over a period of 2 years.	Initial trend starting at 5.50% and gradually decreasing to an ultimate trend rate of 5.00% over a period of 2 years.	Initial trend starting at 5.50% and gradually decreasing to an ultimate trend rate of 5.00% over a period of 2 years.	Not available

Mortality

RP-2000 Combined Mortality Table, projected to 2013 with Scale BB (set back 1 year for females). Beginning in 2022, a system-specific mortality table based on mortality experience from 2013-2018, projected with the ultimate rates from MP-2014 improvement scale using a based year of 2019

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

COUNCIL ON POSTSECONDARY EDUCATION

SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES – BUDGET AND ACTUAL (BUDGETARY BASIS) – UNAUDITED YEAR ENDED JUNE 30, 2022

	Operations			Over (Under) Budget
	Original Budget	Final Budget	Actual	
Budgetary fund balance, July 1	\$ 2,757,993	\$ 1,786,856	\$ 1,753,848	\$ (33,008)
REVENUES:				
State appropriations	7,302,245	7,302,245	6,278,827	(1,023,418)
Charges for services	300,000	300,000	485,700	185,700
Federal programs	265,000	265,000	270,315	5,315
Other revenues	-0-	-0-	-0-	-0-
Total revenues	<u>7,867,245</u>	<u>7,867,245</u>	<u>7,034,842</u>	<u>(832,403)</u>
Amount available for expenditures	10,625,238	9,654,101	8,788,690	(865,411)
EXPENDITURES:				
Personnel services	5,773,700	5,773,700	5,490,721	(282,979)
Utilities, rentals, and other services	709,300	709,300	699,948	(9,352)
Commodities and supplies	285,800	285,800	506,252	220,452
Grants and subsidies	-0-	-0-	-0-	-0-
Travel	52,300	52,300	60,335	8,035
Total expenditures	<u>6,821,100</u>	<u>6,821,100</u>	<u>6,757,256</u>	<u>(63,844)</u>
OTHER FINANCING SOURCES (USES):				
Interfund transfers in (out)	-0-	-0-	(451,500)	(451,500)
Budgetary fund balance, June 30	<u>\$ 3,804,138</u>	<u>\$ 2,833,001</u>	<u>\$ 1,579,934</u>	<u>\$ (1,253,067)</u>

COUNCIL ON POSTSECONDARY EDUCATION

SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES – BUDGET AND ACTUAL (BUDGETARY BASIS) – UNAUDITED YEAR ENDED JUNE 30, 2022

	Federal Programs			Over (Under) Budget
	Original Budget	Final Budget	Actual	
Budgetary fund balance, July 1	\$ 15,089,200	\$ 15,089,200	\$ 223,646	\$ (14,865,554)
REVENUES:				
State appropriations	-0-	-0-	-0-	-0-
Charges for services	-0-	-0-	-0-	-0-
Federal programs	3,997,100	3,997,100	7,770,279	3,773,179
Other revenues	-0-	-0-	-0-	-0-
Total revenues	<u>3,997,100</u>	<u>3,997,100</u>	<u>7,770,279</u>	<u>3,773,179</u>
Amount available for expenditures	19,086,300	19,086,300	7,993,925	(11,092,375)
EXPENDITURES:				
Personnel services	2,574,000	2,574,000	2,877,519	303,519
Utilities, rentals, and other services	776,500	776,500	415,305	(361,195)
Commodities and supplies	396,500	396,500	258,634	(137,866)
Grants and subsidies	-0-	-0-	4,228,948	4,228,948
Travel	240,000	240,000	49,468	(190,532)
Total expenditures	<u>3,987,000</u>	<u>3,987,000</u>	<u>7,829,874</u>	<u>3,842,874</u>
OTHER FINANCING SOURCES (USES):				
Interfund transfers in (out)	<u>-0-</u>	<u>-0-</u>	<u>-0-</u>	<u>-0-</u>
Budgetary fund balance, June 30	<u>\$ 15,099,300</u>	<u>\$ 15,099,300</u>	<u>\$ 164,051</u>	<u>\$ (14,935,249)</u>

COUNCIL ON POSTSECONDARY EDUCATION

SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES – BUDGET AND ACTUAL (BUDGETARY BASIS) – UNAUDITED YEAR ENDED JUNE 30, 2022

	Technology Initiative Trust Fund			
	Original Budget	Final Budget	Actual	Over (Under) Budget
Budgetary fund balance, July 1	\$ 4,824,856	\$ 5,982,551	\$ 3,183,201	\$ (2,799,350)
REVENUES:				
State appropriations	3,628,300	1,628,300	3,628,300	2,000,000
Charges for services	2,200,000	2,200,000	3,717,225	1,517,225
Federal programs	-0-	-0-	-0-	-0-
Other revenues	-0-	-0-	410,041	410,041
Total revenues	<u>5,828,300</u>	<u>3,828,300</u>	<u>7,755,566</u>	<u>3,927,266</u>
Amount available for expenditures	10,653,156	9,810,851	10,938,767	1,127,916
EXPENDITURES:				
Personnel services	620,000	620,000	3,934,736	3,314,736
Utilities, rentals, and other services	-0-	-0-	474,099	474,099
Commodities and supplies	-0-	-0-	2,635,906	2,635,906
Grants and subsidies	5,425,000	5,425,000	901,999	(4,523,001)
Travel	-0-	-0-	19,175	19,175
Total expenditures	<u>6,045,000</u>	<u>6,045,000</u>	<u>7,965,915</u>	<u>1,920,915</u>
OTHER FINANCING SOURCES (USES):				
Interfund transfers in (out)	-0-	-0-	-0-	-0-
Budgetary fund balance, June 30	<u>\$ 4,608,156</u>	<u>\$ 3,765,851</u>	<u>\$ 2,972,852</u>	<u>\$ (792,999)</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, 2022

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:

	Operations	Federal Programs	Technology Initiative Trust Fund
Total revenues per the budgetary comparison schedule	\$ 7,034,842	\$ 7,770,279	\$ 7,755,566
Total revenues per the statement of revenues, expenditures, and changes in fund balance	\$ 7,034,842	\$ 7,770,279	\$ 7,755,566
Total expenditures per the budgetary comparison schedule	\$ 6,757,256	\$ 7,829,874	\$ 7,965,915
Change in accrued expenditures	(208,947)	(70,347)	3,287
Change in short-term compensated absences	50,918	10,752	4,343
Total expenditures per the statement of revenues, expenditures, and changes in fund balance	\$ 6,599,227	\$ 7,770,279	\$ 7,973,545

ADDITIONAL SUPPLEMENTARY INFORMATION

COUNCIL ON POSTSECONDARY EDUCATION

SUPPLEMENTARY SCHEDULE OF ASSETS, LIABILITIES, AND FUND BALANCES – OPERATIONS JUNE 30, 2022

	<u>Agency Operations</u>	<u>KYVC/ KYVL Operations</u>	<u>Contract Spaces</u>	<u>Total Operations</u>
<u>ASSETS</u>				
Cash and cash equivalents	\$ 185,300	\$ -0-	\$ -0-	\$ 185,300
Investments	1,394,688	-0-	-0-	1,394,688
Accounts receivable	24,959	-0-	-0-	24,959
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Total assets	<u>\$ 1,604,947</u>	<u>\$ -0-</u>	<u>\$ -0-</u>	<u>\$ 1,604,947</u>
 <u>LIABILITIES AND FUND BALANCES</u>				
Liabilities:				
Accounts and other payables	\$ 25,013	\$ -0-	\$ -0-	\$ 25,013
Accrued expenses	243,660	-0-	-0-	243,660
Accrued compensated absences	421,410	-0-	-0-	421,410
Total liabilities	<u>690,083</u>	<u>-0-</u>	<u>-0-</u>	<u>690,083</u>
Fund balances:				
Assigned:				
for agency operations	<u>914,864</u>	<u>-0-</u>	<u>-0-</u>	<u>914,864</u>
Total liabilities and fund balances	<u>\$ 1,604,947</u>	<u>\$ -0-</u>	<u>\$ -0-</u>	<u>\$ 1,604,947</u>

COUNCIL ON POSTSECONDARY EDUCATION

SUPPLEMENTARY SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES – OPERATIONS YEAR ENDED JUNE 30, 2022

	Agency Operations	KYVC/ KYVL Operations	Contract Spaces	Total Operations
REVENUES:				
State appropriations	\$ 6,070,319	\$ -0-	\$ 208,508	\$ 6,278,827
Charges for services	485,700	-0-	-0-	485,700
Federal programs	270,315	-0-	-0-	270,315
Total revenues	<u>6,826,334</u>	<u>-0-</u>	<u>208,508</u>	<u>7,034,842</u>
EXPENDITURES:				
Personnel services	5,332,692	-0-	-0-	5,332,692
Utilities, rentals, and other services	699,948	-0-	-0-	699,948
Commodities and supplies	297,744	-0-	208,508	506,252
Travel	60,335	-0-	-0-	60,335
Total expenditures	<u>6,390,719</u>	<u>-0-</u>	<u>208,508</u>	<u>6,599,227</u>
Excess (deficiency) of expenditures	<u>435,615</u>	<u>-0-</u>	<u>-0-</u>	<u>435,615</u>
OTHER FINANCING SOURCES:				
Interfund transfers	<u>-0-</u>	<u>(451,500)</u>	<u>-0-</u>	<u>(451,500)</u>
Net change in fund balances	435,615	(451,500)	-0-	(15,885)
Fund balances, beginning of year	<u>479,249</u>	<u>451,500</u>	<u>-0-</u>	<u>930,749</u>
Fund balances, end of year	<u><u>\$ 914,864</u></u>	<u><u>\$ -0-</u></u>	<u><u>\$ -0-</u></u>	<u><u>\$ 914,864</u></u>

COUNCIL ON POSTSECONDARY EDUCATION

SUPPLEMENTARY SCHEDULE OF ASSETS, LIABILITIES, AND FUND BALANCES – NON-MAJOR FUNDS JUNE 30, 2022

	Postsecondary Education Equine Trust Fund	Assessment and Professional Development Fund	Other (Non- major) Governmental Funds
<u>ASSETS</u>			
Cash and cash equivalents - restricted	\$ 47,923	\$ -0-	\$ 47,923
Investments - restricted	360,700	-0-	360,700
Accounts receivable	-0-	1,659	1,659
Total assets	\$ 408,623	\$ 1,659	\$ 410,282
 <u>LIABILITIES AND FUND BALANCES</u>			
Liabilities:			
Accounts and other payables	\$ -0-	\$ 1,659	\$ 1,659
Accrued expenses	-0-	24,851	24,851
Accrued compensated absences	-0-	6,949	6,949
Total liabilities	-0-	33,459	33,459
 Fund balances (deficit)			
Restricted:			
for University Equine programs	408,623	-0-	408,623
Unassigned	-0-	(31,800)	(31,800)
Total fund balances (deficit)	408,623	(31,800)	376,823
Total liabilities and fund balances	\$ 408,623	\$ 1,659	\$ 410,282

COUNCIL ON POSTSECONDARY EDUCATION

SUPPLEMENTARY SCHEDULE OF REVENUE, EXPENDITURES, AND CHANGES IN FUND BALANCES – NON-MAJOR FUNDS YEAR ENDED JUNE 30, 2022

	Postsecondary Education Equine Trust	Assessment and Professional Development	Other (Non- major) Governmental
REVENUES:			
State appropriations	\$ -0-	\$ 1,306,539	\$ 1,306,539
Intergovernmental revenues	626,579	-0-	626,579
Total revenues	<u>626,579</u>	<u>1,306,539</u>	<u>1,933,118</u>
EXPENDITURES:			
Personnel services	-0-	1,098,139	1,098,139
Utilities, rentals, and other services	-0-	7,686	7,686
Commodities and supplies	-0-	17,471	17,471
Grants and subsidies	480,000	155,831	635,831
Travel	-0-	18,419	18,419
Total expenditures	<u>480,000</u>	<u>1,297,546</u>	<u>1,777,546</u>
Net change in fund balances	146,579	8,993	155,572
Fund balances, beginning of year	<u>262,044</u>	<u>(40,793)</u>	<u>221,251</u>
Fund balances, end of year	<u><u>\$ 408,623</u></u>	<u><u>\$ (31,800)</u></u>	<u><u>\$ 376,823</u></u>

COUNCIL ON POSTSECONDARY EDUCATION

SUPPLEMENTARY SCHEDULE OF GRANTS AND SUBSIDIES
YEAR ENDED JUNE 30, 2022

	<u>Governmental Funds</u>	<u>Fiduciary Funds</u>
Gaining Early Awareness and Readiness for Undergraduate Programs	\$ 91,446	\$ -0-
Governor's Emergency Education Relief Fund	3,743,850	-0-
Postsecondary Education Equine Trust Fund	480,000	-0-
Technology Initiative Trust Fund	901,999	-0-
Assessment and Professional Development	155,831	-0-
State Fiscal Recovery	393,652	-0-
Cancer Research Institutions Matching Fund	-0-	3,340,620
Spinal Cord and Head Injury Research	-0-	650,000
Cancer Research Screenings	-0-	7,043,800
Ovarian Cancer Screenings	-0-	500,000
Southern Regional Education Board Doctoral Scholars Program	-0-	50,000
	<u>-0-</u>	<u>50,000</u>
Total grants and subsidies	<u>\$ 5,766,778</u>	<u>\$ 11,584,420</u>

COUNCIL ON POSTSECONDARY EDUCATION

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED JUNE 30, 2022**

	<u>Federal CFDA Number</u>	<u>Grant ID Number</u>	<u>Total Federal Expenditures</u>	<u>Passed Through to Subrecipient</u>
<u>Major Programs:</u>				
United States Department of Education:				
Gaining Early Awareness and Readiness for Undergraduate Programs	84.334	P334S180011-20	\$ 705,293	\$ 38,830
	84.334	P334S180011-21	<u>2,867,860</u>	<u>52,616</u>
Total Gaining Early Awareness and Readiness for Undergraduate Programs			3,573,153	91,446
United States Department of the Treasury				
Coronavirus State and Local Fiscal Recovery Fund	21.019		393,652	393,652
<u>Non-Major Programs:</u>				
Passthrough from the Governor's Office Commonwealth of Kentucky Governor's Emergency Education Relief Fund	84.425C	S425C200008	2,863,300	2,693,332
	84.425C	S425C210008	<u>1,210,489</u>	<u>1,050,518</u>
Total Governor's Emergency Education Relief Fund			<u>4,073,789</u>	<u>3,743,850</u>
Total Federal Expenditures			<u>\$ 8,040,594</u>	<u>\$ 4,228,948</u>

COUNCIL ON POSTSECONDARY EDUCATION

NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS JUNE 30, 2022

1. BASIS OF PRESENTATION

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

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

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

COUNCIL ON POSTSECONDARY EDUCATION

NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS JUNE 30, 2022

2. SUBRECIPIENTS

The accompanying supplemental schedule of expenditures of federal awards includes expenditures consisting of federal awards provided to subrecipients as follows:

Subrecipients Name	Amount
Morehead State University	\$ 18,921
Fleming County Board of Education	18,797
Mercer County Board of Education	9,359
Robertson County Board of Education	9,141
Frankfort Independent School District	6,922
Mason County Board of Education	5,675
Augusta Independent School District	5,534
Marion County Board of Education	5,013
Bath County Board of Education	4,084
Pendleton County Board of Education	3,674
Bourbon County Board of Education	3,148
Bracken County Board of Education	1,178
	<u>\$ 91,446</u>
Association of Independent Kentucky Colleges and Universities	<u>\$ 393,652</u>
Kentucky Community and Technical College System	\$ 972,281
University of Louisville	811,825
University of Kentucky	522,006
Kentucky State University	313,849
Northern Kentucky University Research Foundation	276,650
Morehead State University	121,539
Western Kentucky University	116,515
University of Kentucky Research Foundation	106,027
Kentucky Wesleyan College	92,265
Centre College	89,180
Murray State University	78,768
Lindsey Wilson College	76,758
Bellarmine University	70,000
Union College	56,649
University of Pikeville	23,436
Louisville Presbyterian Theological Seminary	9,171
Eastern Kentucky University	3,800
Northern Kentucky University	1,920
Spalding University	1,211
	<u>\$ 3,743,850</u>



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**REPORT OF INDEPENDENT AUDITORS ON INTERNAL CONTROL OVER FINANCIAL REPORTING
AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL
STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

To the Council Members
Council on Postsecondary Education

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Council on Postsecondary Education (the Council), a component unit of the Commonwealth of Kentucky, as of and for the year ended June 30, 2022, and the related notes to the financial statements, which collectively comprise the Council's basic financial statements, and have issued our report thereon dated January 6, 2023.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Council's internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Council's internal control. Accordingly, we do not express an opinion on the effectiveness of the Council's internal control.

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

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

To the Council Members
Council on Postsecondary Education

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Council's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the financial statements. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matter that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

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

Blue & Co., LLC

Lexington, Kentucky
January 6, 2023



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

To the Council Members
Council on Postsecondary Education

Report on Compliance for Each Major Federal Program

Opinion on Each Major Federal Program

We have audited Council on Postsecondary Education's (the "Council") compliance with the types of compliance requirements identified as subject to audit 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, 2022. 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.

In our opinion, the Council complied, in all material respects, with the compliance requirements referred to above is that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2022.

Basis for Opinion on Each Major Program

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 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Our responsibilities under those standards and the Uniform Guidance are further described in the Auditor's Responsibilities for the Audit of Compliance section of our report.

We are required to be independent of the Council and to meet our other ethical responsibilities, in accordance with relevant ethical requirements relating to our audit. We believe the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion. Our audit does not provide a legal determination of the Council's compliance with the compliance requirements referred to above.

To the Council Members
Council on Postsecondary Education

Responsibilities of Management for Compliance

Management is responsible for compliance with the requirements referred to above and for the design, implementation, and maintenance of effective internal control over compliance with the requirements of laws, statutes, regulations, rules, and provisions of contracts or grant agreements applicable to the Council's federal programs.

Auditor's Responsibilities for the Audit of Compliance

Our objectives are to obtain reasonable assurance about whether material noncompliance with the compliance requirements referred to above occurred, whether due to fraud or error, and express an opinion on the Council's compliance based on our audit. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards, *Government Auditing Standards*, and the Uniform Guidance will always detect material noncompliance when it exists. The risk of not detecting material noncompliance resulting from fraud is higher than for that resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Noncompliance with the compliance requirements referred to above is considered material if there is a substantial likelihood that, individually or in the aggregate, it would influence the judgement made by a reasonable user of the report on compliance about the Council's compliance with the requirements of each major federal program as a whole.

In performing an audit in accordance with generally accepted auditing standards, *Government Auditing Standards*, and the Uniform Guidance, we:

- Exercise professional judgement and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material noncompliance, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the Council's compliance with the compliance requirements referred to above and performing such other procedures as we considered necessary in the circumstances.
- Obtain an understanding of the Council's internal control over compliance relevant to the audit in order to design audit procedures that are appropriate in the circumstances 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 the Council's internal control over compliance. Accordingly, no such opinion is expressed.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and any significant deficiencies and material weaknesses in internal control over compliance that we identified during the audit.

Report on 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

To the Council Members
Council on Postsecondary Education

requirement of a federal program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or a 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 Auditor's Responsibilities for the Audit of Compliance section above and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies in internal control over compliance. Given these limitations, during our audit we did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above. However, material weaknesses or significant deficiencies in internal control over compliance may exist that were not identified.

Our audit was not designed for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, no such opinion is expressed.

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 the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

Blue & Co., LLC

Lexington, Kentucky
January 6, 2023

COUNCIL ON POSTSECONDARY EDUCATION

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
JUNE 30, 2022**

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, 2022

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
21.019	Coronavirus State and Local Fiscal Recovery Fund

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

Auditee qualified as low-risk auditee: X 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, 2022

There were no findings reported for the year ended June 30, 2021.