

KY COUNCIL ON POSTSECONDARY EDUCATION EXECUTIVE COMMITTEE



January 6, 2022 – 10:00 a.m. ET

Virtual Meeting via ZOOM.

Livestreamed at: <https://www.youtube.com/c/KentuckyCouncilOnPostsecondaryEducationFrankfort>

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	<i>-- Sept 14 & Nov 5, 2021 EC meetings</i>	
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VIII.	Adjournment	

DRAFT MINUTES
Council on Postsecondary Education

Type: Executive Committee
Date: September 14, 2021
Time: 9:00 a.m. ET
Location: Virtual Meeting - Committee members by ZOOM, Public viewing hosted on CPE YouTube Page.

CALL TO ORDER

The Executive Committee of the Council on Postsecondary Education met Tuesday, September 14, 2021, at 9:00 a.m., ET. The meeting occurred virtually via ZOOM teleconference. Members of the public were invited to view the livestream on the CPE YouTube page. Chair Lucas Mentzer presided.

ATTENDANCE

All Members were in attendance: Eric Farris, Lori Harper, Lucas Mentzer, Vidya Ravichandran, and Robert Staat.

CPE President Aaron Thompson attended the meeting and served as Secretary of the board, per the CPE Bylaws. Heather Faesy, CPE's senior associate for Board Relations, served as recorder of the meeting minutes.

APPROVAL OF THE MINUTES

The minutes of the August 18, 2021 meeting were approved as distributed.

PRESIDENT'S REPORT

CPE President Aaron Thompson provided a brief status update on two items: the development of biennial budget request and the financial review of Kentucky State University authorized by Executive Order 2021-504.

COMMONWEALTH EDUCATION CONTINUUM UPDATE

Dr. Jennifer Fraker, CPE's Executive Director of P-20 Policies and Procedures, presented the Commonwealth Education Continuum (CEC) Midterm Report. She highlighted the emerging recommendations from the three workgroups and stated that the final recommendations are expected to be presented for consideration at the CEC's September meeting and solidified before year end in preparation for the 2022 Kentucky Regular Legislative Session. Dr. Thompson provided additional comments on the progress of the group and the collaboration that has occurred.

Council members discussed the types and variety of dual credit courses offered by each college or university and the high schools of which those courses are delivered. They also discussed the future development of a portal that will help facilitate the CEC recommendations as well as how to reach students without adequate internet resources.

SEPTEMBER 14, 2021 MEETING

The Committee reviewed the agenda for the September 14 CPE business meeting.

ADJOURNMENT

The Executive Committee adjourned at 9:40 a.m., ET.

MINUTES REVIEWED AND APPROVED BY THE COMMITTEE: _____

DRAFT MINUTES
Council on Postsecondary Education

Type: Executive Committee
Date: November 5, 2021
Time: 9:00 a.m. ET
Location: Transylvania University, William T Young Campus Center, Pioneer Room D

CALL TO ORDER

The Executive Committee of the Council on Postsecondary Education met Friday, November 5, 2021, at 9:00 a.m., ET. The meeting occurred in Pioneer Room D of the William T Young Campus Center at Transylvania University in Lexington, Kentucky. Chair Lucas Mentzer presided.

ATTENDANCE

Members were in attendance: Eric Farris and Lucas Mentzer.

Not in attendance: Lori Harper and Vidya Ravichandran.

CPE President Aaron Thompson attended the meeting and served as Secretary of the board, per the CPE Bylaws. Heather Faesy, CPE's senior associate for Board Relations, served as recorder of the meeting minutes.

APPROVAL OF THE MINUTES

The minutes of the September 14, 2021 committee meeting were presented, however no vote was taken due to a lack of quorum. They will be considered for approval at the next scheduled meeting.

DISCUSS NOVEMBER 5 MEETING AGENDA

Members in attendance discussed the agenda for the Council business meeting and whether any last minute adjustments to the schedule needed to be taken.

ADJOURNMENT

The Executive Committee adjourned at 9:20 a.m., ET.

MINUTES REVIEWED AND APPROVED BY THE COMMITTEE: _____

TITLE: Review Results of FY21 Audit

DESCRIPTION: CPE Staff and Allen Norvell of Blue & Co, PSC will present the results of the annual audit for fiscal year 2020-21.

PRESENTER: Leslie Brown, CPE's Executive Director of Administrative Services

Allen Norvell, the lead auditor from Blue & Co., PSC, will present the results of the annual audit for fiscal year 2020-21.

For fiscal year 21, the auditors issued an unmodified opinion, stating that the Council's financial statements present fairly, in all material respects, the financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the Council as of June 30, 2021, 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. In addition, the expenditures of federal awards and supplementary information are fairly stated in all material respects in relation to the basic financial statements as a whole. The firm also noted that it did not identify any deficiencies in internal control that they consider to be material weaknesses.



**KENTUCKY COUNCIL ON
POSTSECONDARY EDUCATION**

MATTERS TO BE COMMUNICATED TO

THE COUNCIL MEMBERS

JUNE 30, 2021



Blue & Co., LLC / 250 West Main Street, Suite 2900 / Lexington KY 40507 main
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December 2, 2021

To the Council Members
Council on Postsecondary Education
Frankfort, Kentucky

We have audited the financial statements of the Council on Postsecondary Education (the Council) for the year ended June 30, 2021, and have issued our report thereon dated as of the date of this letter. Professional standards require that we provide you with information about our responsibilities under auditing standards generally accepted in the United States of America, *Government Auditing Standards* and *Title 2 U.S. Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (Uniform Guidance)*, as well as certain information related to the planned scope and timing of our audit. We have communicated such information to you in our letter dated July 1, 2021. Professional standards also require that we communicate to you the following information related to our audit.

SIGNIFICANT AUDIT FINDINGS

QUALITATIVE ASPECTS OF ACCOUNTING PRACTICES

Management is responsible for the selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we will advise management about the appropriateness of accounting policies and their application. The significant accounting policies used by the Council are described in Note 1 to the financial statements. As discussed in Note 2 to the financial statements, the Council adopted Governmental Accounting Standards Board Statement No. 84 – *Fiduciary Activities*. No other new accounting policies were adopted or the application of existing policies was not changed during the year. We noted no transactions entered into by the Council during the year for which there was a lack of authoritative guidance or consensus. We noted no significant transactions that have been recognized in the financial statements in a different period than when the transaction occurred.

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

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

Management's estimate of the net pension liability, net OPEB (Other Post-employment Benefits) liability and related deferred outflows/inflows of resources determined by the actuary. We evaluated key factors and assumptions used to develop these liabilities in determining that they are reasonable in relation to the financial statements taken as a whole.

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

DIFFICULTIES ENCOUNTERED IN PERFORMING THE AUDIT

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

CORRECTED AND UNCORRECTED MISSTATEMENTS

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

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

DISAGREEMENTS WITH MANAGEMENT

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

MANAGEMENT REPRESENTATIONS

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

MANAGEMENT CONSULTATIONS WITH OTHER INDEPENDENT ACCOUNTANTS

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

OTHER AUDIT FINDINGS OR ISSUES

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

A paragraph titled “Change in Accounting Principle” was added to the Report of Independent Auditors to address the adoption of Governmental Accounting Standards Board Statement No. 84 – *Fiduciary Activities*. Our opinion was not modified with respect to that matter.

OTHER INFORMATION IN DOCUMENTS CONTAINING AUDITED FINANCIAL STATEMENTS

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

REQUIRED SUPPLEMENTARY INFORMATION

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

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

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

Blue & Co., LLC



**KENTUCKY COUNCIL ON
POSTSECONDARY EDUCATION**

FINANCIAL STATEMENTS

AND

SUPPLEMENTARY INFORMATION

JUNE 30, 2021

COUNCIL ON POSTSECONDARY EDUCATION
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REPORT OF INDEPENDENT AUDITORS

To the Council Members
Council on Postsecondary Education

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Council on Postsecondary Education (the Council), a component unit of the Commonwealth of Kentucky, as of and for the year ended June 30, 2021, and the related notes to the financial statements, which collectively comprise the Council's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

To the Council Members
Council on Postsecondary Education

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the Council as of June 30, 2021, and the respective changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Report on Required Supplementary Information

Accounting principles generally accepted in the United States of America require that management's discussion and analysis on pages 4 through 11, the schedules of proportionate share of the net pension liability and schedules of pension contributions on pages 54 through 57, the schedules of proportionate share of the net Other Postemployment Benefits (OPEB) liability and the schedules of OPEB contributions on pages 58 through 61, and the budgetary comparison information on pages 62 through 65, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Report on Supplementary Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Council's basic financial statements. The accompanying schedule of expenditures of federal awards, as required by *Title 2 U.S. Code of Federal Regulation (CFR) Part 200, Uniform Administration Requirements, Cost Principles, and Audit Requirements for Federal Awards* is presented on pages 71 through 73 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 66 through 70 is also presented for purposes of additional analysis and is not a required part of the basic financial statements.

The accompanying schedule of expenditures of federal awards and supplementary information are the responsibility of management and were derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the accompanying

To the Council Members
Council on Postsecondary Education

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.

Change in Accounting Principle

As described in Note 2 to the financial statement, the Council adopted Governmental Accounting Standards Board Statement No. 84 – *Fiduciary Activities*. Our opinions are not modified with respect to this matter.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated December 2, 2021 on our consideration of the Council's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Council's internal control over financial reporting and compliance.

Blue & Co., LLC

Lexington, Kentucky
December 2, 2021

COUNCIL ON POSTSECONDARY EDUCATION

MANAGEMENT'S DISCUSSION AND ANALYSIS JUNE 30, 2021

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, 2021. 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 2021 by \$22,596,310.
- Net position increased \$33,660 between FY 2020 and FY 2021
- As of the close of FY 2021, the Council's governmental funds reported an ending fund balance of \$4,311,499, which includes balances in the strategic investment and incentive funding programs appropriated to the Council on behalf of the public postsecondary education institutions and agency operations.
- Total fund revenues for FY 2021 were \$25,493,316, representing a 39% increase from FY 2020. Most of the increase was due to the increase in federal programs revenue for the Governor's Emergency Education Relief (GEER) funds given to colleges and universities around the Commonwealth due to the coronavirus pandemic.
- Total fund expenditures for FY 2021 were \$27,745,552, representing a 52% increase from FY 2020.

OVERVIEW OF THE FINANCIAL STATEMENTS

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

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

COUNCIL ON POSTSECONDARY EDUCATION

MANAGEMENT'S DISCUSSION AND ANALYSIS JUNE 30, 2021

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, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods.

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

Governmental Fund Financial Statements:

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

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

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

As described in Note 2 to the financial statements, the Council adopted Governmental Accounting Standards Board Statement No. 84 – *Fiduciary Activities* in 2021. 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

COUNCIL ON POSTSECONDARY EDUCATION

MANAGEMENT'S DISCUSSION AND ANALYSIS JUNE 30, 2021

and the statement of changes in fiduciary net position can be found on page 18 and 19, 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 20.

FINANCIAL ANALYSIS OF THE COUNCIL

Government-wide Financial Analysis:

Condensed Financial Information Statement of Net Position

	June 30, 2021	June 30, 2020
Assets:		
Current	\$ 3,675,903	\$ 5,351,994
Noncurrent	2,509,432	3,057,484
Total assets	<u>6,185,335</u>	<u>8,409,478</u>
Deferred outflows of resources	2,996,700	3,383,157
Total assets and deferrals	<u>\$ 9,182,035</u>	<u>\$ 11,792,635</u>
Liabilities:		
Current	\$ 1,596,985	\$ 1,228,670
Noncurrent	27,184,660	27,465,124
Total liabilities	<u>28,781,645</u>	<u>28,693,794</u>
Deferred inflows of resources	1,172,004	3,904,115
Total liabilities and deferrals	<u>\$ 29,953,649</u>	<u>\$ 32,597,909</u>
Net position (deficit):		
Net investment in capital assets	\$ 2,705	\$ 3,429
Restricted	1,685,745	1,430,240
Unrestricted deficit	<u>(22,460,064)</u>	<u>(22,238,943)</u>
Total net position (deficit)	<u>\$ (20,771,614)</u>	<u>\$ (20,805,274)</u>

COUNCIL ON POSTSECONDARY EDUCATION

MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2021

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

Current liabilities consist primarily of operating accounts payable, intergovernmental payables, accrued payroll, and accrued compensated absences. As of June 30, 2021, current liabilities also include amounts due to the state investment pool (amounts temporarily advanced by the state pending reimbursement from Federal grantor agencies). The portion of accrued compensated absences not expected to be liquidated with expendable financial resources has been estimated and included as a noncurrent liability.

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

As of the close of the fiscal year, net position represents the difference between assets and liabilities mentioned above. Liabilities exceeded assets by approximately \$22.6 million. Total assets and deferrals decreased by approximately \$2.6 million, primarily in the cash and intergovernmental receivables. Total liabilities and deferrals decreased by approximately \$2.6 million primarily related to a decrease in accounts and other payables and decreases to the Net Pension liability and slight increase in Net OPEB liabilities along with decreases in deferred inflows related to pension and OPEB. Therefore, net position remained consistent between FY 2020 and FY 2021.

COUNCIL ON POSTSECONDARY EDUCATION

MANAGEMENT'S DISCUSSION AND ANALYSIS JUNE 30, 2021

Condensed Financial Information Statements of Activities For the Fiscal Years Ended

	June 30, 2021	June 30, 2020
Revenues:		
Program revenues:		
Charges for services	\$ 3,379,428	\$ 3,114,757
Operating grants and contributions	14,033,344	4,141,627
Capital grants and contributions	470,822	522,054
General revenues:		
State appropriations	7,609,722	10,611,632
Loss on disposal of capital assets	-0-	(4,534)
Total revenues	25,493,316	18,385,536
Expenses:		
Strategic investment and incentive funding programs	8,308,954	8,135,718
Agency and KYVC/KYVL Operations	3,631,273	4,956,267
Federal Programs	13,038,705	3,484,616
Postsecondary Education Equine Trust Fund	480,000	480,000
Other	724	2,861
Total expenses	25,459,656	17,059,462
Change in net position	33,660	1,326,074
Net position (deficit), beginning of year	(20,805,274)	(22,131,348)
Net position (deficit), end of year	\$ (20,771,614)	\$ (20,805,274)

General Fund appropriations from the Commonwealth of Kentucky are the primary funding source for the activities of the Council. The Kentucky General Assembly, through the appropriations bill and other statutory provisions, directs the use of those appropriations to specific activities. The most significant changes in this year's funding was a decrease in state appropriation of \$3.0 million, an increase of \$9.5 million in Federal Program expenses due to the Governor's Emergency Education Relief Funds, and a \$1.3 million decrease in Agency and KYVC/KYVL Operations expense.

COUNCIL ON POSTSECONDARY EDUCATION

MANAGEMENT'S DISCUSSION AND ANALYSIS JUNE 30, 2021

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 33% 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, 2021	June 30, 2020
Total assets	\$ 5,908,484	\$ 7,999,743
Total liabilities	1,596,985	1,436,008
Fund balances	4,311,499	6,563,735
Total liabilities and fund balances	\$ 5,908,484	\$ 7,999,743

The fund balance primarily represents the cash balances, investment balances, amounts due from the Federal government, and intergovernmental receivables. The fund balances of the Council decreased approximately \$2.3 million between fiscal years.

COUNCIL ON POSTSECONDARY EDUCATION

MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2021

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

	June 30, 2021	June 30, 2020
Revenues:		
State appropriations	\$ 7,609,722	\$ 10,611,632
Charges for services	3,379,428	3,114,757
Intergovernmental revenues	470,822	522,054
Federal programs	13,256,932	3,742,390
Other	776,412	350,000
Income from investments	-0-	49,237
Total revenues	<u>25,493,316</u>	<u>18,390,070</u>
Expenditures:		
Personnel services	12,658,115	12,130,734
Grants and subsidies	10,530,414	1,332,443
Other	4,557,023	4,800,803
Total expenditures	<u>27,745,552</u>	<u>18,263,980</u>
Net change in fund balances	(2,252,236)	126,090
Fund balances, beginning of year	<u>6,563,735</u>	<u>6,437,645</u>
Fund balances, end of year	<u>\$ 4,311,499</u>	<u>\$ 6,563,735</u>

The most significant change in this year's revenue is with a decrease in state appropriations of \$3.0 million and an increase of \$9.5 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 2021, grants and subsidies increased by \$9.2 million due to the Governor's Emergency Education Relief Funds due to COVID-19. The other expenditures are consistent between FY 2021 and FY 2020.

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, 2021

BUDGETARY HIGHLIGHTS

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

In response to economic shortfalls resulting from the COVID-19 pandemic, The Office of State Budget Director requested that all executive branch agencies develop a plan to refrain from spending a minimum of one percent of their fiscal year 2021 General Fund Appropriation. The Council achieved this one percent target through savings in the Agency Operations personnel allotment, savings in the Contract Spaces allotment due to unused spaces, and an operating allotment savings due to a reduction in rent. The plan was approved by the State Budget Director.

CONTACTING THE COUNCIL'S FINANCIAL MANAGEMENT

This financial report is designed to provide a general overview of the Council's finances. If you have any questions concerning the information provided in this report or need additional financial information, contact Mr. Bill Payne, Vice President for Finance and Administration or Leslie Brown, Director, Administrative Services, Council on Postsecondary Education, 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, 2021

	Governmental Activities
<u>ASSETS AND DEFERRALS</u>	
Current assets:	
Cash and cash equivalents	\$ 1,152,497
Cash and cash equivalents - restricted	1,553,108
Accounts receivable	217,900
Due from the Federal government	478,252
Prepaid expenses	274,146
Total current assets	3,675,903
Noncurrent assets:	
Investments	2,282,942
Investments - restricted	223,785
Capital assets - net	2,705
Total noncurrent assets	2,509,432
Total assets	6,185,335
Deferred outflows of resources	
Deferred outflows - pension	2,001,285
Deferred outflows - OPEB	995,415
Total deferred outflows of resources	2,996,700
Total assets and deferrals	\$ 9,182,035
<u>LIABILITIES AND DEFERRALS</u>	
Current liabilities:	
Accounts and other payables	\$ 282,406
Due to the state investment pool	201,132
Accrued expenses	673,385
Accrued compensated absences - current portion	440,062
Total current liabilities	1,596,985
Noncurrent liabilities:	
Accrued compensated absences - noncurrent portion	400,500
Net pension	22,713,021
Net OPEB	4,071,139
Total noncurrent liabilities	27,184,660
Total liabilities	28,781,645
Deferred inflows of resources	
Deferred inflows - pension	457,597
Deferred inflows - OPEB	714,407
Total deferred inflows of resources	1,172,004
Total liabilities and deferrals	\$ 29,953,649
<u>NET POSITION (DEFICIT)</u>	
Net investment in capital assets	\$ 2,705
Restricted	1,685,745
Unrestricted deficit	(22,460,064)
Total net position (deficit)	\$ (20,771,614)

COUNCIL ON POSTSECONDARY EDUCATION

STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2021

	Program Revenues			Net (Expenses) Revenues and Changes in Net Position
	Expenses	Charges for Services	Operating Grants and Contributions	
<u>FUNCTIONS/PROGRAMS:</u>				
Operations	\$ 3,631,273	\$ 299,200	\$ 230,176	\$ (3,101,897)
Federal Programs	13,038,705		13,026,756	(11,949)
Postsecondary Education Equine Trust Fund	480,000			470,822
Technology Initiative Trust Fund	6,801,616	3,080,228	776,412	(2,944,976)
Assessment and Professional Development	1,507,338			(1,507,338)
Unallocated depreciation expense	724			(724)
Total governmental activities	<u>\$ 25,459,656</u>	<u>\$ 3,379,428</u>	<u>\$ 14,033,344</u>	<u>\$ 470,822</u>
General revenues:				
State appropriations				7,609,722
Total general revenues				<u>7,609,722</u>
Change in net position				33,660
Net position (deficit), beginning of year				(20,805,274)
Net position (deficit), end of year				<u>\$ (20,771,614)</u>

COUNCIL ON POSTSECONDARY EDUCATION

BALANCE SHEET – GOVERNMENTAL FUNDS

JUNE 30, 2021

	Operations	Federal Programs	Technology Initiative Trust Fund	Other (Non-major) Governmental Funds	Total Governmental Funds
<u>ASSETS</u>					
Cash and cash equivalents	\$ 257,531	\$	\$ 894,966	\$	\$ 1,152,497
Cash and cash equivalents - restricted			1,514,849	38,259	1,553,108
Investments	1,506,317		776,625		2,282,942
Investments - restricted				223,785	223,785
Accounts receivable	9,240		139,540	69,120	217,900
Due from the Federal government		478,252			478,252
Total assets	<u>\$ 1,773,088</u>	<u>\$ 478,252</u>	<u>\$ 3,325,980</u>	<u>\$ 331,164</u>	<u>\$ 5,908,484</u>
<u>LIABILITIES AND FUND BALANCES</u>					
Liabilities:					
Accounts and other payables	\$ 19,240	\$ 51,267	\$ 142,779	\$ 69,120	\$ 282,406
Due to the state investment pool		201,132			201,132
Accrued expenses	452,607	165,924	18,682	36,172	673,385
Accrued compensated absences	370,492	59,929	5,020	4,621	440,062
Total liabilities	<u>842,339</u>	<u>478,252</u>	<u>166,481</u>	<u>109,913</u>	<u>1,596,985</u>
Fund balances:					
Non-spendable					
Spendable:					
Restricted:					
for Technology Initiative			773,897		773,897
for SREB Adult Promise Grant			50,000		50,000
for James Graham Brown Foundation			690,952		690,952
for University Equine programs				262,044	262,044
Assigned:					
for agency operations	930,749				930,749
for Technology Trust Fund			1,644,650		1,644,650
Unassigned				(40,793)	(40,793)
Total fund balances	<u>930,749</u>	<u></u>	<u>3,159,499</u>	<u>221,251</u>	<u>4,311,499</u>
Total liabilities and fund balances	<u>\$ 1,773,088</u>	<u>\$ 478,252</u>	<u>\$ 3,325,980</u>	<u>\$ 331,164</u>	<u>\$ 5,908,484</u>

See accompanying notes
to the financial statements.

COUNCIL ON POSTSECONDARY EDUCATION

RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET TO THE STATEMENT OF NET POSITION JUNE 30, 2021

Fund balances - total governmental funds	\$	4,311,499
<p>Amounts reported for governmental activities in the statement of net position are different because:</p>		
<p>The deferred outflows of resources are not current financial resources, and therefore, are not reported in the governmental funds.</p>		
		2,996,700
<p>Prepaid expenses are accounted for in the governmental funds as expenditures in the period of acquisition and, therefore, are not financial resources and are not reported in the governmental funds.</p>		
Prepaid expenses		274,146
<p>Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the governmental funds.</p>		
Governmental capital assets	5,070	
Less accumulated depreciation	<u>(2,365)</u>	2,705
<p>The noncurrent portion of accrued compensated absences is not due and payable in the current year and, therefore, is not reported in the governmental funds.</p>		
Accrued compensated absences - noncurrent portion		(400,500)
<p>The deferred inflows of resources is not due and payable in the current year and, therefore, is not reported in the governmental funds.</p>		
		(1,172,004)
<p>The net pension liability and net OPEB liability is not due and payable in the current year and, therefore, is not reported in the governmental funds.</p>		
		<u>(26,784,160)</u>
Net position of governmental activities	\$	<u>(20,771,614)</u>

COUNCIL ON POSTSECONDARY EDUCATION

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES – GOVERNMENTAL FUNDS YEAR ENDED JUNE 30, 2021

	Operations	Federal Programs	Technology Initiative Trust Fund	Other (Non- major) Governmental Funds	Total Governmental Funds
REVENUES:					
State appropriations	\$ 4,557,002	\$ -0-	\$ 1,628,300	\$ 1,424,420	\$ 7,609,722
Charges for services	299,200		3,080,228		3,379,428
Intergovernmental revenues				470,822	470,822
Federal programs	230,176	13,026,756			13,256,932
Other revenues			776,412		776,412
Total revenues	<u>5,086,378</u>	<u>13,026,756</u>	<u>5,484,940</u>	<u>1,895,242</u>	<u>25,493,316</u>
EXPENDITURES:					
Personnel services	5,166,784	2,385,785	3,685,309	1,420,237	12,658,115
Utilities, rental, and other services	635,450	422,031	466,679	2,500	1,526,660
Commodities and supplies	305,883	239,223	2,395,733	11,454	2,952,293
Grants and subsidies		9,956,139	94,275	480,000	10,530,414
Travel	50,409	23,578	3,569	514	78,070
Total expenditures	<u>6,158,526</u>	<u>13,026,756</u>	<u>6,645,565</u>	<u>1,914,705</u>	<u>27,745,552</u>
Excess (deficiency) of revenues over expenditures	(1,072,148)	-0-	(1,160,625)	(19,463)	(2,252,236)
OTHER FINANCING SOURCES (USES):					
Interfund transfers in (out)	<u>(949,947)</u>	<u>-0-</u>	<u>949,947</u>	<u>-0-</u>	<u>-0-</u>
Net change in fund balances	(2,022,095)	-0-	(210,678)	(19,463)	(2,252,236)
Fund balances, beginning of year	<u>2,952,844</u>	<u>-0-</u>	<u>3,370,177</u>	<u>240,714</u>	<u>6,563,735</u>
Fund balances, end of year	<u>\$ 930,749</u>	<u>\$ -0-</u>	<u>\$ 3,159,499</u>	<u>\$ 221,251</u>	<u>\$ 4,311,499</u>

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, 2021

**Net change in fund balances -
total governmental funds** \$ (2,252,236)

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 (339,498)

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 (724) (724)

Pension and OPEB expenses not payable from current year resources are not reported as expenditures of the current year. In the statement of activities these costs represent expenses of the current year. 2,734,218

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 (108,100)

Change in net position of governmental activities \$ 33,660

COUNCIL ON POSTSECONDARY EDUCATION

STATEMENT OF FIDUCIARY NET POSITION JUNE 30, 2021

	<u>Total Custodial Funds</u>
<u>ASSETS</u>	
Cash and cash equivalents - restricted	\$ 12,353
<u>LIABILITIES</u>	
Accounts payable	\$ 12,353
<u>NET POSITION</u>	
Restrcted for:	
Individual, organizations, and other governments	-0-
Total liabilities and net position	\$ 12,353

COUNCIL ON POSTSECONDARY EDUCATION

STATEMENT OF CHANGES IN FIDUCIARY NET POSITION YEAR ENDED JUNE 30, 2021

	<u>Total Custodial Funds</u>
<u>ADDITIONS</u>	
State Allotments	\$ 11,945,409
<u>DEDUCTIONS</u>	
Payments to beneficiaries	11,945,393
Administrative expenses	16
	<hr/>
Total deductions	11,945,409
	<hr/>
Changes in net position	-0-
	<hr/>
<u>NET POSITION - Beginning of the year</u>	-0-
	<hr/>
<u>NET POSITION - End of the year</u>	\$ -0-
	<hr/> <hr/>

COUNCIL ON POSTSECONDARY EDUCATION

NOTES TO THE FINANCIAL STATEMENTS JUNE 30, 2021

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, 2021

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, 2021

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), the Governor's Emergency Education Relief Fund (GEER), and pass-through funds from the Kentucky Department of Education for Statewide Longitudinal Data Systems.

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

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

COUNCIL ON POSTSECONDARY EDUCATION

NOTES TO THE FINANCIAL STATEMENTS JUNE 30, 2021

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

Measurement Focus and Basis of Accounting

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

Measurement Focus:

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

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

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

COUNCIL ON POSTSECONDARY EDUCATION

NOTES TO THE FINANCIAL STATEMENTS JUNE 30, 2021

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, 2021

Investments

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

Intergovernmental Transactions

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

Due from the Federal Government

Amounts due from the Federal government represent the amounts due to the Council under its Federal awards programs. At June 30, 2021, 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, 2021

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, 2021

As of June 30, 2021, Postsecondary Education Equine Trust Fund net position totaling \$262,044 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 10).

State Appropriations

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

COUNCIL ON POSTSECONDARY EDUCATION

NOTES TO THE FINANCIAL STATEMENTS JUNE 30, 2021

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, 2021

2. CHANGE IN ACCOUNTING PRINCIPLE

In July 1, 2021, the Council adopted Governmental Accounting Standards Board (GASB) Statement No. 84 – *Fiduciary Activities*. Generally, this statement requires governmental entities, who control assets of a fiduciary activities in which a fiduciary relationship exists with beneficiaries, to include those activities in two separate, interrelated financial statements, the statement of fiduciary net position and the statement of changes in net position. Prior to the adoption of this statement, the statement of changes in fiduciary net position was not included and those funds did not report any net position at June 30, 2020. The change adopted to conform to the provisions of this statement were applied there was no beginning net position activity related to the Council to be restated from the June 30, 2020 financial statements.

3. 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, 2021 in the amount of \$40,793. The negative fund balances above are due to revenue recognition of the Council under the modified accrual basis of accounting. Additional revenues received in fiscal year 2021 are expected to eliminate the deficits.

COUNCIL ON POSTSECONDARY EDUCATION

NOTES TO THE FINANCIAL STATEMENTS JUNE 30, 2021

4. 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, 2021, the Council's share of deposits in the Commonwealth's general depository (State investment pool) totals \$5,212,332. Agency funds held by the Council in the Commonwealth's general depository total \$12,353 at June 30, 2021.

The Commonwealth's Annual Comprehensive Financial Report (ACFR) for the year ended June 30, 2021 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).

5. CAPITAL ASSETS

Capital asset activity during the year ended June 30, 2021 is as follows:

	Balance July 1, 2020	Increases	Decreases	Balance June 30, 2021
Capital assets:				
Office equipment	\$ 5,070	\$ -0-	\$ -0-	\$ 5,070
Data processing equipment	-0-	-0-	-0-	-0-
Capital assets at cost	5,070	-0-	-0-	5,070
Less accumulated depreciation:				
Office equipment	1,641	724	-0-	2,365
Data processing equipment	-0-	-0-	-0-	-0-
Total accumulated depreciation:	1,641	724	-0-	2,365
Capital assets - net	\$ 3,429	\$ (724)	\$ -0-	\$ 2,705

Depreciation expense for the year ended June 30, 2021 totals \$724.

COUNCIL ON POSTSECONDARY EDUCATION

NOTES TO THE FINANCIAL STATEMENTS JUNE 30, 2021

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, 2021 is summarized as follows:

	Balance July 1, 2020	Increases	Decreases	Balance June 30, 2021
Accrued compensated absences	\$ 677,077	\$ 603,485	\$ 440,000	\$ 840,562

As of June 30, 2021, the amount estimated to be due within one year totals approximately \$440,000.

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, 2021. The estimated accumulated amount of unused sick leave at June 30, 2021, totals approximately \$1,220,000.

COUNCIL ON POSTSECONDARY EDUCATION

NOTES TO THE FINANCIAL STATEMENTS JUNE 30, 2021

7. LEASE COMMITMENTS

The Council leased space from the Kentucky Department for Facilities and Support Services, a related party. The lease does not have a defined term and is expected to continue in perpetuity. The Council does not hold decision making ability over the lease. Rentals paid under this lease totaled approximately \$218,000.

Future lease payments are as follows:

<u>Year ending June 30</u>	
2022	\$ 285,024
2023	285,024
2024	285,024
2025	285,024
2026	285,024
	<u>\$ 1,425,120</u>

The Council additionally leased fleet vehicles and copiers for approximately \$15,000 for the fiscal year ending June 30, 2021. Total rentals paid under all operating leases (fleet vehicles, copiers, and office space lease) during 2021 totaled approximately \$251,000.

8. RETIREMENT PLANS

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

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

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

COUNCIL ON POSTSECONDARY EDUCATION

NOTES TO THE FINANCIAL STATEMENTS JUNE 30, 2021

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

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

Kentucky Employees Retirement System

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

COUNCIL ON POSTSECONDARY EDUCATION

NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2021

	Tier 1	Tier 2	Tier 3
	Participation Prior to 9/1/2008	Participation 9/1/2008 through 12/31/2013	Participation on or after 1/1/2014
Covered Employees:	Substantially all regular full-time members employed in non-hazardous and hazardous duty positions of any state department, board, or any agency directed by Executive Order to participate in KERS.		
Benefit Formula:	Final Compensation X Benefit Factor X Years of Service		Cash Balance Plan
Final Compensation	Average of the highest 5 fiscal years (must contain at least 48 months). Includes lump sum compensation payments (before and at retirement).	5 complete fiscal years immediately preceding retirement; each year must contain 12 months. Lump sum compensation payments (before and at retirement) are not to be included in creditable compensation.	No final compensation.
Benefit Factor:	1.97% - If do not have 13 months of credit for 1/1/1998 - 1/1/1999. 2.00% - If have 13 months of credit for 1/1/1998 - 1/1/1999.	10 years or less = 1.10%. Greater than 10 years, but no more than 20 years = 1.30%. Greater than 20 years, but no more than 26 years = 1.50%. Greater than 26 years, but no more than 30 years = 1.75%. Additional years above 30 = 2.00% (2.00% benefit factor only applies to service earned in excess of 30 years).	No benefit factor. A life annuity can be calculated in accordance with actuarial assumptions and a method adopted by the board based on member's accumulated account balance.

COUNCIL ON POSTSECONDARY EDUCATION

NOTES TO THE FINANCIAL STATEMENTS JUNE 30, 2021

	Tier 1	Tier 2	Tier 3
	Participation Prior to 9/1/2008	Participation 9/1/2008 through 12/31/2013	Participation on or after 1/1/2014
Cost of Living Adjustment (COLA):	No COLA unless authorized by the Legislature with specific criteria. This impacts all retirees regardless of Tier.		
Unreduced Retirement Benefit:	Any age with 27 years of service. Age 65 with 48 months of service. Money Purchase for age 65 with less than 48 months based on contributions and interest.	Rule of 87: Member must be at least age 57 and age plus earned service must equal 87 years at retirement to retire under this provision. Age 65 with 5 years of earned service. No Money Purchase calculations.	
Reduced Retirement Benefit:	Any age with 25 years of service. Age 55 with 5 years of service.	Age 60 with 10 years of service. Excludes purchased service (exception: refunds, omitted, free military).	No reduced retirement benefit.

Benefits and contribution rates are established by state statute. Per Kentucky Revised Statute 61.565, contribution requirements of the active employees and the participating organizations are established and may be amended by the Kentucky Retirement System's Board. For the fiscal years ended June 30 2021, plan employees were required to contribute 5 percent of their annual covered salary for retirement benefits. The Council was contractually required to contribute 73.28 percent of covered payroll to the nonhazardous KERS pension and insurance plans, respectively. Actuarially determined as an amount that, when combined with employees during the year, with an additional amount to finance any unfunded accrued liability. The Council's total required contributions to KERS nonhazardous pension plans for the year ended June 30, 2021 was \$1,593,035.

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

COUNCIL ON POSTSECONDARY EDUCATION

NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2021

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, 2021, the Council reported a liability of \$22,713,021 for its proportionate share of net pension liability. The net pension liability was measured as of June 30, 2020, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation performed as of June 30, 2019, rolled forward to 2020 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, 2021, the Council's proportion was 0.160350 percent.

The Board of Trustees adopted new actuarial assumptions since June 30, 2018. These assumptions are documented in the report titled "Kentucky Retirement Systems 2018 Actuarial Experience Study for the Period Ending June 30, 2018. The Total Pension liability as of June 30, 2020, was determined using these updated assumptions.

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. Since each employer's elections are unknown at this time, no adjustment to the Total Pension Liability was made to reflect this legislation.

Senate Bill 249 passed during the 2020 legislative session and changed the funding period for the amortization of the unfunded liability to 30 years as of June 30, 2019. Gains and losses incurring in future years will be amortized over separate 20-year amortization bases. This change does not impact the calculation of the Total Pension Liability and only impacts the calculation of the contribution rates that would be payable starting July 1, 2020. There were no other material plan provision changes.

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.

COUNCIL ON POSTSECONDARY EDUCATION

NOTES TO THE FINANCIAL STATEMENTS JUNE 30, 2021

Actuarial Assumptions

Actuarial Valuation Date	June 30, 2019
Actuarial Cost Method	Entry age normal
Amortization Method	Level percent of pay
Asset Valuation Method	20% of the difference between the market value of assets and the expected actuarial value of the assets is recognized.
Remaining Amortization Period	24 years, closed
Actuarial Assumptions:	
Investment Rate of Return	6.25%
Inflation Rate	2.30%
Projected Salary Increases	3.30% to 15.30%, varies by service
Mortality Tables:	
Active Member	Pub-2010 General Mortality tables projected with the ultimate rates from the MP-2014 mortality improvement scale using a base year of 2010.
Healthy Retired Members	System-specific mortality table based on mortality experience from 2013-2018, projected with the ultimate rates from MP-2014 mortality improvement scale using a base year of 2020.
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, 2014 – June 30, 2018

COUNCIL ON POSTSECONDARY EDUCATION

NOTES TO THE FINANCIAL STATEMENTS JUNE 30, 2021

For the year ended June 30, 2021, the Council recognized pension expenses of \$992,210 and deferred outflows and deferred inflows related to pension from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between expected and actual experience	\$ 129,031	\$ -0-
Net difference between projected and actual earnings	23,356	-0-
Changes of assumption	255,863	-0-
Changes in proportion and differences between employer contributions and proportionate share of contributions	-0-	457,597
Contributions subsequent to the measurement date	1,593,035	-0-
Total	\$ 2,001,285	\$ 457,597

The \$1,593,035 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, 2022. 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, 2020 plan year, the estimated remaining service life was 2.26 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

Fiscal Years	Amount
2022	\$ (111,135)
2023	21,182
2024	19,650
2025	20,956
Total	\$ (49,347)

COUNCIL ON POSTSECONDARY EDUCATION

NOTES TO THE FINANCIAL STATEMENTS JUNE 30, 2021

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 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	15.75%	4.30%
Non-US Equity	15.75%	5.25%
Private Equity	7.00%	5.15%
Specialty Credit/High Yield	15.00%	3.90%
Liquidity:		
Core Bonds	20.50%	-0.25%
Cash	3.00%	-0.75%
Diversifying Strategies:		
Real Estate	5.00%	5.30%
Opportunistic	3.00%	2.25%
Real Return	15.00%	3.95%
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 24-year amortization period of the unfunded actuarial accrued liability. The actuarial determined contribution rate is adjusted to reflect the phase in of anticipated gains on actuarial value of assets over the first four years of the projection period.

June 30, 2020 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, 2021

	1% Decrease (4.25%)	Discount (5.25%)	1% Increase (6.25%)
The Council's proportionate share	\$ 26,014,750	\$ 22,713,021	\$ 19,999,626

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.

Kentucky Teachers' Retirement System:

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

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

At June 30, 2021, the Council reported a liability of \$-0- for its proportionate share of net pension liability. The net pension liability was measured as of June 30, 2020, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as June 30, 2019. The Council's proportion of the net pension liability was based on a projection of the Council's long-term share of contributions to the pension plan relative to the projected contributions of all participating entities. At June 30, 2021, the Council's no longer had a proportion share of the liability. The Council did not have any required contributions to the TRS pension plan for the year ended June 30, 2021.

For the year ended June 30, 2021, the Council recognized \$1,804,260 as an offset to pension expense and there were no deferred outflows and deferred inflows related to pension.

COUNCIL ON POSTSECONDARY EDUCATION

NOTES TO THE FINANCIAL STATEMENTS JUNE 30, 2021

In fiscal year 2019, all Council employees that were contributing to the TRS plan were moved to the Kentucky Education and Workforce Development Cabinet. As such, there were no contributions made subsequent to the measurement date in fiscal year 2020 or 2021 to the TRS pension plan. Therefore, there are no reported deferred outflows that will be recognized as a reduction of the net pension liability during the year ended June 30, 2022.

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

Deferred Compensation Retirement Plans:

In addition to the above plans, employees are also eligible to participate in two deferred compensation plans sponsored by the Commonwealth of Kentucky. These plans are organized as a Section 457 plan and as a Section 401(k) plan under the Internal Revenue Code. During the past year, employees contributed approximately \$76,000 to these plans. Both plans permit employees to defer a portion of their salary until future years. Deferred compensation is not available to employees until termination, retirement, death, or financial hardship. The Kentucky Public Employees Deferred Compensation Authority (KPEDCA) issues a publicly available financial report that includes financial statements and required supplementary information for the KPEDCA. The report may be obtained by writing to the Kentucky Public Employees Deferred Compensation Authority, 101 Sea Hero Road, Suite 110, Frankfort, Kentucky 40601-8862.

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NOTES TO THE FINANCIAL STATEMENTS JUNE 30, 2021

9. EMPLOYMENT HEALTH CARE BENEFITS

Kentucky Employers Retirement System

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

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

Benefit Factor:

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

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

Benefits and contribution rates are established by state statute. Per Kentucky Revised Statute 61.565, contribution requirements of the active employees and the participating organizations are established and may be amended by the Kentucky Retirement System’s Board. Employees with a participation date after 9/1/2008 were required to contribute an additional 1 percent of their salary for retiree healthcare benefits. The plan was contractually required to contribute 11.15 percent of covered payroll to the nonhazardous KERS insurance plans, Actuarially determined as an amount that, when combined with employees during the year, with an additional amount to finance any unfunded accrued liability. The plan’s total required contributions to KERS nonhazardous insurance plan for the years ended June 30, 2021 was \$242,390.

At June 30, 2021, the Council reported a liability of \$4,071,139 for its proportionate share of collective net OPEB liability. The collective net OPEB liability was measured as of June 30, 2020, and the total OPEB liability used to calculate the net collective OPEB liability was determined by an actuarial valuation performed as of June 30, 2019, rolled forward to 2020 using generally accepted actuarial principles. The Council’s proportion of the collective net OPEB liability was based on projection of the Council’s long-term share of contributions to the OPEB plan relative to the projected contributions of all participating entities, actuarially determined. At June 30, 2021, the plan’s proportion was 0.160350 percent.

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NOTES TO THE FINANCIAL STATEMENTS JUNE 30, 2021

For the year ended June 30, 2021, the Council recognized OPEB expenses of \$290,533 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	\$ 336,932	\$ 404,297
Net difference between projected and actual earnings	56,831	-0-
Changes of assumption	297,986	7,075
Changes in proportion and differences between employer contributions and proportionate share of contributions	-0-	303,035
Contributions subsequent to the measurement date	303,666	-0-
Total	\$ 995,415	\$ 714,407

Of the total amount reported as deferred outflows of resources related to OPEB, \$242,390 resulting from Council statutorily required contributions and \$61,276 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, 2022. 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, 2020 plan year, the estimated remaining service life was 3.69 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:

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

Fiscal Years	Amount
2022	\$ 27,637
2023	(74,937)
2024	7,950
2025	16,692
Total	\$ (22,658)

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NOTES TO THE FINANCIAL STATEMENTS JUNE 30, 2021

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, 2019, 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, 2020, using generally accepted actuarial principles.

Actuarial Assumptions	
Actuarial Valuation Date	June 30, 2019
Experience Study	July 1, 2008 – June 30, 2013
Actuarial Cost Method	Entry age normal, Level percentage of pay
Asset Valuation Method	5 years smoothing
Remaining amortization period	24 year, closed
Actuarial assumptions:	
Investment rate of return	6.25%
Inflation rate	2.3%
Payroll Growth Rate	0%
Salary Growth	3.30% to 15.30%, varies by service
Mortality Tables:	PUB-2010 General Mortality table projected with the ultimate rates from the MP-2014 mortality improvement scale using a base year of 2010.
Healthcare Trend Rates Pre-65	Initial trend starting at 6.40% at January 1, 2021 and gradually decreasing to an ultimate trend rate of 4.05% over a period of 14 years.
Healthcare Trend Rates Post-65	Initial trend starting at 2.90% at January 1, 2022 and gradually decreasing to an ultimate trend rate of 4.05% over a period of 14 years.

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NOTES TO THE FINANCIAL STATEMENTS JUNE 30, 2021

The assumed increase in future health care costs, or trend assumption, was reviewed during the June 30, 2019 valuation process and was updated to better reflect more current expectations relating to anticipated future increases in the medical costs. The anticipated savings from the repeal of the "Cadillac Tax" and "Health Insurer Fee", which occurred in December 2019 are reflected in the June 30, 2020 GASB 75 actuarial information. The assumed load on pre-Medicare premiums to reflect the cost of the Cadillac Tax was removed and the Medicare premiums were reduced by 11% to reflect the repeal of the Health Insurer Fee. There were no other material assumption changes.

House Bill 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 than 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. Since each employer's election are unknown at this time, no adjustments to the Total OPEB liability was made to reflect this legislation.

Senate Bill 249 passed during the 2020 legislative session and changed the funding period for the amortization of the unfunded liability to 30 years as of June 30, 2019. Gains and losses incurring in future years will be amortized over separate 20-year amortization bases. This change does not impact the calculation of the Total OPEB liability and only impacts the calculation of the contribution rates that would be payable starting July 1, 2020. There were no other material plan provision 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.

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Kentucky Retirement Systems		
Asset Class	Target Allocation	Long-Term Nominal Rate of Return
Growth:		
US Equity	18.75%	4.50%
Non-US Equity	18.75%	5.25%
Private Equity	10.00%	6.65%
Specialty Credit/High Yield	15.00%	3.90%
Liquidity:		
Core Bonds	13.50%	-0.25%
Cash	1.00%	-0.75%
Diversifying Strategies:		
Real Estate	5.00%	5.30%
Opportunistic	3.00%	2.25%
Real Return	15.00%	3.95%
Total	100.00%	

The projection of cash flows used to determine the discount rate of 5.43% for KERS Nonhazardous, assumed that local employers would contribute the actuarially determined contribution rate of projected compensation over the remaining 24 years (closed) amortization period of the unfunded actuarial accrued liability. The discount rate determination used an expected rate of return of 6.25%, and a municipal bond rate of 2.45%, as reported in Fidelity Index's "20 -Year Municipal GO AA Index" as of June 30, 2020. 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

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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 (4.43 percent) or 1-percentage-point higher (6.43 percent) than the current discount rate:

	<u>1% Decrease (4.43%)</u>	<u>Discount (5.43%)</u>	<u>1% Increase (6.43%)</u>
The Council's proportionate share	\$ 4,852,356	\$ 4,071,139	\$ 3,429,920

Sensitivity of the Council's proportionate share of the collective net OPEB liability to changes in the healthcare cost trend rates. The following presents the Council's proportionate share of the collective net OPEB liability, as well as what the Council's proportionate share of the collective net OPEB liability would be if it were calculated using healthcare cost trend rates that are 1-percentage-point lower or 1 percentage-point higher than the current healthcare cost trend rates (Pre-65 - Initial trend starting at 6.40 percent at January 1, 2022, and gradually decreasing to 4.05 percent over a period of 14 years and Post-65 - Initial trend starting at 2.90 percent at January 1, 2022, and gradually decreasing to 4.05 percent over a period of 14 years):

	<u>1% Decrease</u>	<u>Current Healthcare Cost Trend Rate</u>	<u>1% Increase</u>
The Council's proportionate share	\$ 3,426,541	\$ 4,071,139	\$ 4,851,901

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.

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NOTES TO THE FINANCIAL STATEMENTS JUNE 30, 2021

Teachers' Retirement System

Plan description

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

The following information is about the TRS Medical Insurance Plan:

Medical Insurance Plan

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

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

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NOTES TO THE FINANCIAL STATEMENTS JUNE 30, 2021

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

At June 30, 2021, the Council reported a liability of \$-0- for its proportionate share of the collective net OPEB liability that reflected a reduction for state OPEB support provided to the Council. The collective net OPEB liability was measured as of June 30, 2020, and the total OPEB liability used to calculate the collective net OPEB liability was based on a projection of the Council's long-term share of contributions to the OPEB plan relative to the projected contributions of all participating employers, actuarially determined. At June 30, 2021, the Council's proportion was 0% percent,

For the year ended June 30, 2021, the Council recognized \$253,000 as an offset to OPEB expense and expensed amounts from change in proportion and difference between employer contributions and proportionate share of contributions of \$-0-.

In fiscal year 2019, all Council employees that were contributing to the TRS plan were moved to the Kentucky Education and Workforce Development Cabinet. As such, there were no contributions made subsequent to the measurement date in fiscal year 2020 or 2021 to the TRS OPEB plan. Therefore, there are no reported deferred outflows that will be included as a reduction of the collective net OPEB liability in the year ended June 30, 2022.

10. INTERGOVERNMENTAL TRANSACTIONS

At June 30, 2021, 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	\$ 470,822
Total intergovernmental revenues	<u>\$ 470,822</u>

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NOTES TO THE FINANCIAL STATEMENTS JUNE 30, 2021

11. RELATED PARTY TRANSACTIONS

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

The Commonwealth Office for Technology (COT) provides technical support for State government agencies in the application of information technology including major information resource functions such as data center operations, data and voice communications (i.e. the Kentucky Information Highway), data administration, hardware selection and installation, and related end-user and customer support services. During 2021, the Council paid approximately \$403,000 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 2021. During 2021, the Council paid approximately \$3,000 to the Personnel Cabinet and approximately \$25,000 to the Finance and Administration Cabinet for services provided during the year.

The Council uses vehicles from the Transportation Cabinet's fleet. During 2021, the Council paid approximately \$15,000 to the Transportation Cabinet for use of their vehicles.

The Council leases office space from the Department for Facilities and Support Services. During 2021, the Council paid approximately \$218,000 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 2021, the Council paid approximately \$5,000 to the Department for Facilities and Support Services for printing and postage.

12. COMMITMENTS AND CONTINGENCIES

As of June 30, 2021, the Council is committed under certain agreements and contracts in the amount of approximately \$9,102,000. 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

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NOTES TO THE FINANCIAL STATEMENTS JUNE 30, 2021

liability of the Council. As of June 30, 2021, the Council estimates that no material liabilities will result from such audits.

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

13. RISK MANAGEMENT

Torts and Errors and Omissions:

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

Injuries to Employees:

The Council is a member of the Statewide Workers' Compensation Insurance Program, a self-insurance program for the benefit of the Commonwealth's employees. The Commonwealth of Kentucky's 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.

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NOTES TO THE FINANCIAL STATEMENTS JUNE 30, 2021

14. FAIR VALUE MEASUREMENTS

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

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

The asset or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques maximize the use of relevant observable inputs and minimized the used of unobservable inputs. The following table 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, 2021 are as follows:

	Assets at Fair Value as of June 30, 2021			
	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Commonwealth's investment pool	\$ 776,625	\$ 1,730,102	\$ -0-	\$ 2,506,727
Total assets at fair value	<u>\$ 776,625</u>	<u>\$ 1,730,102</u>	<u>\$ -0-</u>	<u>\$ 2,506,727</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, 2021.

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

COUNCIL ON POSTSECONDARY EDUCATION

NOTES TO THE FINANCIAL STATEMENTS JUNE 30, 2021

15. RECENT GASB PRONOUNCEMENTS

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

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

In May 2020, the GASB issued GASB Statement No 96, *Subscription-Based Information Technology Arrangements (SBITA)*, which requires the recognition of certain SBITA assets and liabilities for SBITA that previously were classified as an operating leases and recognized as inflows 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

	2021	2020	2019	2018	2017	2016	2015
Proportion of the net pension liability (asset)	0.160350%	0.161487%	0.176962%	0.184184%	0.191420%	0.183165%	0.169904%
Proportionate share of the net pension liability	\$ 22,713,021	\$ 22,806,813	\$ 24,073,513	\$ 24,659,174	\$ 21,821,203	\$ 18,374,905	\$ 15,243,442
Covered payroll	\$ 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	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	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

	2021	2020	2019	2018	2017	2016	2015	2014
Statutorily required contribution	\$ 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	1,593,035	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-
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
Contribution as a percentage of covered payroll	73.28%	71.03%	71.03%	41.06%	40.24%	30.84%	30.84%	17.30%

Notes to Schedule

Valuation date	June 30, 2017	June 30, 2017	June 30, 2016	June 30, 2016	June 30, 2015	June 30, 2015	June 30, 2014	Not available
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Methods and assumptions used to determine contributions:

Actuarial cost method	Entry Age Normal	Entry Age Normal	Entry Age Normal	Entry Age Normal	Entry Age Normal	Entry Age Normal	Entry Age Normal	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	July 1, 2008 - June 30, 2013	Not available
Amortization method	Level percent of pay	Level percent of pay	Level percent of pay	Level percent of pay	Level percent of pay	Level percent of pay	Level percent of pay	Not available
Asset valuation method	20% of the difference between market value of assets and the expected actuarial value of assets is recognized	20% of the difference between market value of assets and the expected actuarial value of assets is recognized	20% of the difference between market value of assets and the expected actuarial value of assets is recognized	20% of the difference between market value of assets and the expected actuarial value of assets is recognized	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%	6.75%	6.75%	6.75%	7.50%	7.75%	Not available
Inflation	2.30%	2.30%	3.25%	3.25%	3.25%	3.25%	3.50%	Not available
Projected salary increase	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 improvement in mortality rates and that margin will be reviewed again when the next experience investigation is conducted.

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

COUNCIL ON POSTSECONDARY EDUCATION

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

	2021	2020	2019	2018	2017	2016	2015
Proportion of the net pension liability (asset)	0.000000%	0.010250%	0.012500%	0.013000%	0.015200%	0.015200%	0.016100%
Proportionate share of the net pension liability	\$ 0	\$ 560,223	\$ 708,655	\$ 1,468,941	\$ 3,873,364	\$ 3,530,337	\$ 3,322,159
Covered payroll	\$ 0	\$ 156,808	\$ 396,637	\$ 423,461	\$ 497,443	\$ 592,673	\$ 625,000
Proportionate share of the net pension liability (asset) as a percentage of its covered payroll	0.00%	357.27%	178.67%	346.89%	778.65%	595.66%	531.55%
Plan fiduciary net position as a percentage of the total pension liability	0.00%	58.80%	59.30%	39.83%	35.22%	42.49%	45.59%

*Note 1: 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).

*Note 2: The Council ceased participation in Teachers' Retirement System in fiscal year 2019 and in 2021 no longer had a proportion share of the OPEB liability.

COUNCIL ON POSTSECONDARY EDUCATION

SCHEDULE OF PENSION CONTRIBUTIONS KENTUCKY TEACHERS' RETIREMENT SYSTEM

	2021	2020	2019	2018	2017	2016	2015	2014
Statutorily required contribution	\$ -0-	\$ -0-	\$ 19,311	\$ 48,886	\$ 52,192	\$ 61,310	\$ 73,047	\$ 74,057
Contribution in relation to the statutorily required contribution	-0-	-0-	19,311	48,886	52,192	61,310	73,047	74,057
Contribution deficiency (excess)	\$ -0-	\$ -0-	\$ -0-	\$ -0-	\$ -0-	\$ -0-	\$ -0-	\$ -0-
Covered payroll	\$ -0-	\$ -0-	\$ 156,808	\$ 396,637	\$ 423,461	\$ 497,443	\$ 592,673	\$ 625,000
Contribution as a percentage of covered payroll	0.00%	0.00%	12.32%	12.33%	12.33%	12.33%	12.33%	11.85%

Notes to Schedule

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

Mortality

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

Note 1: This is a 10 year schedule. Years will be added to this schedule in future fiscal years until 10 years of information is available.

Note 2: The Council ceased participation in Teachers' Retirement System in fiscal year 2019 and in 2021 no longer had a proportion share of the OPEB liability

COUNCIL ON POSTSECONDARY EDUCATION

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

	2021	2020	2019	2018	2017
Proportion of the net OPEB liability (asset)	0.160350%	0.161487%	0.177214%	0.184184%	0.191420%
Proportionate share of the net OPEB liability	\$ 4,071,139	\$ 3,589,688	\$ 4,201,588	\$ 4,670,837	\$ 3,953,169
Covered payroll	\$ 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	178.07%	151.97%	155.10%	160.66%	131.54%
Plan fiduciary net position as a percentage of the total OPEB liability	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 EMPLOYEES' RETIREMENT SYSTEM

	2021	2020	2019	2018	2017	2016
Statutorily required contribution	\$ 242,390	\$ 283,491	\$ 292,893	\$ 227,818	\$ 242,750	\$ 238,312
Contribution in relation to the statutorily required contribution	242,390	283,491	292,893	227,818	242,750	238,312
Contribution deficiency (excess)	\$ -0-	\$ -0-	\$ -0-	\$ -0-	\$ -0-	\$ -0-
Covered payroll	\$ 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	11.15%	12.40%	12.40%	8.41%	8.35%	7.93%

Notes to Schedule

Valuation date	June 30, 2017	June 30, 2017	June 30, 2016	June 30, 2016	June 30, 2015	Not available
Experience Study	July 1, 2008 - June 30, 2013	July 1, 2008 - June 30, 2013	July 1, 2008 - June 30, 2013	July 1, 2008 - June 30, 2013	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	Not available
Amortization method	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	Not available
Amortization period	26 Years, Closed	26 Years, Closed	27 Years, Closed	27 Years, Closed	28 Years, Closed	Not available
Investment return	6.25%	6.25%	7.50%	7.50%	7.50%	Not available
Inflation	2.30%	2.30%	3.25%	3.25%	3.25%	Not available
Payroll growth rate	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	4.00% average	4.00% average	4.00% average	Not available
Healthcare Trend Rates (Pre-65)	Initial trend starting at 7.25% at 1/1/2019 and gradually decreasing to an ultimate trend rate of 4.05% over a period of 13 years.	Initial trend starting at 7.25% at 1/1/2019 and gradually decreasing to an ultimate trend rate of 4.05% over a period of 13 years.	Initial trend starting at 7.50% and gradually decreasing to an ultimate trend rate of 5.00% over a period of 5 years.	Initial trend starting at 7.50% and gradually decreasing to an ultimate trend rate of 5.00% over a period of 5 years.	Initial trend starting at 7.50% and gradually decreasing to an ultimate trend rate of 5.00% over a period of 5 years.	Not available
Healthcare Trend Rates (Post-65)	Initial trend starting at 5.10% at 1/1/2019 and gradually decreasing to an ultimate trend rate of 4.05% over a period of 11 years.	Initial trend starting at 5.10% at 1/1/2019 and gradually decreasing to an ultimate trend rate of 4.05% over a period of 11 years.	Initial trend starting at 5.50% and gradually decreasing to an ultimate trend rate of 5.00% over a period of 2 years.	Initial trend starting at 5.50% and gradually decreasing to an ultimate trend rate of 5.00% over a period of 2 years.	Initial trend starting at 5.50% and gradually decreasing to an ultimate trend rate of 5.00% over a period of 2 years.	Not available

Mortality

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

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

COUNCIL ON POSTSECONDARY EDUCATION

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

	2021	2020	2019	2018
Proportion of the net OPEB liability (asset)	0.000000%	0.007372%	0.008770%	0.009269%
Proportionate share of the net OPEB liability	\$ -0-	\$ 216,000	\$ 304,000	\$ 331,000
Covered payroll	\$ -0-	\$ 156,808	\$ 396,637	\$ 423,461
Proportionate share of the net OPEB liability (asset) as a percentage of its covered payroll	0.00%	137.75%	76.64%	78.17%
Plan fiduciary net position as a percentage of the total OPEB liability	0.00%	32.58%	25.50%	21.18%

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

COUNCIL ON POSTSECONDARY EDUCATION

SCHEDULE OF OPEB CONTRIBUTIONS KENTUCKY TEACHERS' RETIREMENT SYSTEM

	2021	2020	2019	2018	2017	2016
Statutorily required contribution	\$ -0-	\$ -0-	\$ 5,880	\$ 14,874	\$ 15,880	\$ 18,654
Contribution in relation to the statutorily required contribution	-0-	-0-	5,880	14,874	15,880	18,654
Contribution deficiency (excess)	\$ -0-	\$ -0-	\$ -0-	\$ -0-	\$ -0-	\$ -0-
Covered payroll	\$ -0-	\$ -0-	\$ 156,808	\$ 396,637	\$ 423,461	\$ 497,443
Contribution as a percentage of covered payroll	0.00%	0.00%	3.75%	3.75%	3.75%	3.75%

Notes to Schedule

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

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

Note 1: This is a 10 year schedule. Years will be added to this schedule in future fiscal years until 10 years of information is available.

Note 2: The Council ceased participation in Teachers' Retirement System in fiscal year 2019 and in 2021 no longer had a proportion share of the OPEB liability

COUNCIL ON POSTSECONDARY EDUCATION

SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES – BUDGET AND ACTUAL (BUDGETARY BASIS) – UNAUDITED YEAR ENDED JUNE 30, 2021

	Operations			
	Original Budget	Final Budget	Actual	Over (Under) Budget
Budgetary fund balance, July 1	\$ 1,911,980	\$ 940,843	\$ 3,750,770	\$ 2,809,927
REVENUES:				
State appropriations	6,766,613	6,766,613	4,557,002	(2,209,611)
Charges for services	287,000	287,000	299,200	12,200
Federal programs	265,000	265,000	230,176	(34,824)
Other revenues				
Total revenues	<u>7,318,613</u>	<u>7,318,613</u>	<u>5,086,378</u>	<u>(2,232,235)</u>
Amount available for expenditures	9,230,593	8,259,456	8,837,148	577,692
EXPENDITURES:				
Personnel services	5,530,000	5,530,000	5,141,611	(388,389)
Utilities, rentals, and other services	652,700	652,700	635,450	(17,250)
Commodities and supplies	236,900	236,900	305,883	68,983
Grants and subsidies				
Travel	53,000	53,000	50,409	(2,591)
Intergovernmental expenditures				
Total expenditures	<u>6,472,600</u>	<u>6,472,600</u>	<u>6,133,353</u>	<u>(339,247)</u>
OTHER FINANCING SOURCES (USES):				
Interfund transfers in (out)	<u>-0-</u>	<u>-0-</u>	<u>(949,947)</u>	<u>(949,947)</u>
Budgetary fund balance, June 30	<u>\$ 2,757,993</u>	<u>\$ 1,786,856</u>	<u>\$ 1,753,848</u>	<u>\$ (33,008)</u>

COUNCIL ON POSTSECONDARY EDUCATION

SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES – BUDGET AND ACTUAL (BUDGETARY BASIS) – UNAUDITED YEAR ENDED JUNE 30, 2021

	Federal Programs			Over (Under) Budget
	Original Budget	Final Budget	Actual	
Budgetary fund balance, July 1	\$ 646,500	\$ 646,500	\$ 207,843	\$ (438,657)
REVENUES:				
State appropriations				
Charges for services				
Federal programs	17,796,200	17,796,200	13,026,756	(4,769,444)
Other revenues				
Total revenues	<u>17,796,200</u>	<u>17,796,200</u>	<u>13,026,756</u>	<u>(4,769,444)</u>
Amount available for expenditures	18,442,700	18,442,700	13,234,599	(5,208,101)
EXPENDITURES:				
Personnel services	1,745,000	1,745,000	2,369,982	624,982
Utilities, rentals, and other services	989,500	989,500	422,031	(567,469)
Commodities and supplies	379,000	379,000	239,223	(139,777)
Grants and subsidies			9,956,139	9,956,139
Travel	240,000	240,000	23,578	(216,422)
Intergovernmental expenditures				
Total expenditures	<u>3,353,500</u>	<u>3,353,500</u>	<u>13,010,953</u>	<u>9,657,453</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>\$ 15,089,200</u>	<u>\$ 15,089,200</u>	<u>\$ 223,646</u>	<u>\$ (14,865,554)</u>

COUNCIL ON POSTSECONDARY EDUCATION

SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES – BUDGET AND ACTUAL (BUDGETARY BASIS) – UNAUDITED YEAR ENDED JUNE 30, 2021

	Technology Initiative Trust Fund			
	Original Budget	Final Budget	Actual	Over (Under) Budget
Budgetary fund balance, July 1	\$ 5,041,556	\$ 6,199,251	\$ 3,392,644	\$ (2,806,607)
REVENUES:				
State appropriations	1,628,300	1,628,300	1,628,300	-0-
Charges for services	2,200,000	2,200,000	3,080,228	880,228
Federal programs				
Other revenues	2,000,000	2,000,000	776,412	(1,223,588)
Total revenues	<u>5,828,300</u>	<u>5,828,300</u>	<u>5,484,940</u>	<u>(343,360)</u>
Amount available for expenditures	10,869,856	12,027,551	8,877,584	(3,149,967)
EXPENDITURES:				
Personnel services	620,000	620,000	3,684,076	3,064,076
Utilities, rentals, and other services			466,679	466,679
Commodities and supplies			2,395,733	2,395,733
Grants and subsidies	5,425,000	5,425,000	94,275	(5,330,725)
Travel			3,567	3,567
Intergovernmental expenditures				
Total expenditures	<u>6,045,000</u>	<u>6,045,000</u>	<u>6,644,330</u>	<u>599,330</u>
OTHER FINANCING SOURCES (USES):				
Interfund transfers in (out)	-0-	-0-	949,947	949,947
Budgetary fund balance, June 30	<u>\$ 4,824,856</u>	<u>\$ 5,982,551</u>	<u>\$ 3,183,201</u>	<u>\$ (2,799,350)</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, 2021

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	\$ 5,086,378	\$ 13,026,756	\$ 5,484,940
Total revenues per the statement of revenues, expenditures, and changes in fund balance	\$ 5,086,378	\$ 13,026,756	\$ 5,484,940
Total expenditures per the budgetary comparison schedule	\$ 6,133,353	\$ 13,010,953	\$ 6,644,330
Change in accrued expenditures	(14,704)	3,860	79
Change in short-term compensated absences	39,877	11,943	1,156
Total expenditures per the statement of revenues, expenditures, and changes in fund balance	\$ 6,158,526	\$ 13,026,756	\$ 6,645,565

ADDITIONAL SUPPLEMENTARY INFORMATION

COUNCIL ON POSTSECONDARY EDUCATION

SUPPLEMENTARY SCHEDULE OF ASSETS, LIABILITIES, AND FUND BALANCES – OPERATIONS JUNE 30, 2021

	Agency Operations	KYVC/ KYVL Operations	Contract Spaces	Total Operations
<u>ASSETS</u>				
Cash and cash equivalents	\$ 191,610	\$ 65,921	\$ -0-	\$ 257,531
Investments	1,120,738	385,579	-0-	1,506,317
Accounts receivable	9,240		-0-	9,240
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Total assets	<u>\$ 1,321,588</u>	<u>\$ 451,500</u>	<u>\$ -0-</u>	<u>\$ 1,773,088</u>
<u>LIABILITIES AND FUND BALANCES</u>				
Liabilities:				
Accounts and other payables	\$ 19,240	\$ -0-	\$ -0-	\$ 19,240
Accrued expenses	452,607	-0-	-0-	452,607
Accrued compensated absences	370,492	-0-	-0-	370,492
Total liabilities	<u>842,339</u>	<u>-0-</u>	<u>-0-</u>	<u>842,339</u>
Fund balances:				
Assigned:				
for agency operations	<u>479,249</u>	<u>451,500</u>	<u>-0-</u>	<u>930,749</u>
Total liabilities and fund balances	<u>\$ 1,321,588</u>	<u>\$ 451,500</u>	<u>\$ -0-</u>	<u>\$ 1,773,088</u>

COUNCIL ON POSTSECONDARY EDUCATION

SUPPLEMENTARY SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES – OPERATIONS YEAR ENDED JUNE 30, 2021

	Agency Operations	KYVC/ KYVL Operations	Contract Spaces	Total Operations
REVENUES:				
State appropriations	\$ 4,348,494	\$ -0-	\$ 208,508	\$ 4,557,002
Charges for services	299,200			299,200
Federal programs	230,176			230,176
Total revenues	<u>4,877,870</u>	<u>-0-</u>	<u>\$ 208,508</u>	<u>5,086,378</u>
EXPENDITURES:				
Personnel services	5,166,784			5,166,784
Utilities, rentals, and other services	635,450			635,450
Commodities and supplies	97,375		208,508	305,883
Travel	50,409			50,409
Total expenditures	<u>5,950,018</u>	<u>-0-</u>	<u>208,508</u>	<u>6,158,526</u>
Excess (deficiency) of expenditures	<u>(1,072,148)</u>	<u>-0-</u>	<u>-0-</u>	<u>(1,072,148)</u>
OTHER FINANCING SOURCES:				
Interfund transfers	<u>-0-</u>	<u>(949,947)</u>	<u>-0-</u>	<u>(949,947)</u>
Net change in fund balances	(1,072,148)	(949,947)	-0-	(2,022,095)
Fund balances, beginning of year	<u>1,551,397</u>	<u>1,401,447</u>	<u>-0-</u>	<u>2,952,844</u>
Fund balances, end of year	<u>\$ 479,249</u>	<u>\$ 451,500</u>	<u>\$ -0-</u>	<u>\$ 930,749</u>

COUNCIL ON POSTSECONDARY EDUCATION

SUPPLEMENTARY SCHEDULE OF ASSETS, LIABILITIES, AND FUND BALANCES – NON-MAJOR FUNDS JUNE 30, 2021

	Postsecondary Education Equine Trust Fund	Assessment and Professional Development Fund	Other (Non- major) Governmental Funds
ASSETS			
Cash and cash equivalents - restricted	\$ 38,259	\$ -0-	\$ 38,259
Investments - restricted	223,785		223,785
Accounts receivable		69,120	69,120
Total assets	\$ 262,044	\$ 69,120	\$ 331,164
 LIABILITIES AND FUND BALANCES			
Liabilities:			
Accounts and other payables	\$ -0-	\$ 69,120	\$ 69,120
Accrued expenses		36,172	36,172
Accrued compensated absences		4,621	4,621
Total liabilities	-0-	109,913	109,913
 Fund balances (deficit)			
Restricted:			
for University Equine programs	262,044		262,044
Unassigned		(40,793)	(40,793)
Total fund balances (deficit)	262,044	(40,793)	221,251
Total liabilities and fund balances	\$ 262,044	\$ 69,120	\$ 331,164

COUNCIL ON POSTSECONDARY EDUCATION

SUPPLEMENTARY SCHEDULE OF REVENUE, EXPENDITURES, AND CHANGES IN FUND BALANCES – NON-MAJOR FUNDS YEAR ENDED JUNE 30, 2021

	Postsecondary Education Equine Trust	Assessment and Professional Development	Other (Non- major) Governmental
REVENUES:			
State appropriations	\$ -0-	\$ 1,424,420	\$ 1,424,420
Intergovernmental revenues	470,822		470,822
Total revenues	<u>470,822</u>	<u>1,424,420</u>	<u>1,895,242</u>
EXPENDITURES:			
Personnel services		1,420,237	1,420,237
Utilities, rentals, and other services		2,500	2,500
Commodities and supplies		11,454	11,454
Grants and subsidies	480,000		480,000
Travel		514	514
Total expenditures	<u>480,000</u>	<u>1,434,705</u>	<u>1,914,705</u>
Net change in fund balances	(9,178)	(10,285)	(19,463)
Fund balances, beginning of year	<u>271,222</u>	<u>(30,508)</u>	<u>240,714</u>
Fund balances, end of year	<u><u>\$ 262,044</u></u>	<u><u>\$ (40,793)</u></u>	<u><u>\$ 221,251</u></u>

COUNCIL ON POSTSECONDARY EDUCATION

**SUPPLEMENTARY SCHEDULE OF GRANTS AND SUBSIDIES
YEAR ENDED JUNE 30, 2021**

	<u>Governmental Funds</u>	<u>Fiduciary Funds</u>
Gaining Early Awareness and Readiness for Undergraduate Programs	\$ 72,542	\$ -0-
Governor's Emergency Education Relief Fund	9,883,597	
Postsecondary Education Equine Trust Fund	480,000	
Technology Initiative Trust Fund	94,275	
Cancer Research Institutions Matching Fund		3,569,293
Spinal Cord and Head Injury Research		650,000
Cancer Research Screenings		7,176,100
Ovarian Cancer Screenings		500,000
Southern Regional Education Board Doctoral Scholars Program		50,000
	<u> </u>	<u> </u>
Total grants and subsidies	<u>\$ 10,530,414</u>	<u>\$ 11,945,393</u>

COUNCIL ON POSTSECONDARY EDUCATION

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED JUNE 30, 2021**

	<u>Federal CFDA Number</u>	<u>Grant ID Number</u>	<u>Total Federal Expenditures</u>	<u>Passed Through to Subrecipient</u>
Major Programs:				
Passthrough from the Governor's Office Commonwealth of Kentucky				
Governor's Emergency Education Relief Fund	84.425C	S425C200008	\$ 10,015,289	9,883,597
Non-Major Programs:				
United States Department of Education:				
Gaining Early Awareness and Readiness for Undergraduate Programs				
	84.334	P334S180011 - 19	1,081,670	-0-
	84.334	P334S180011 - 20	2,159,973	-0-
Total Gaining Early Awareness and Readiness for Undergraduate Programs			<u>3,241,643</u>	<u>-0-</u>
Total Federal Expenditures			<u>\$ 13,256,932</u>	<u>\$ 9,883,597</u>

COUNCIL ON POSTSECONDARY EDUCATION

NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS JUNE 30, 2021

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, 2021

2. SUBRECIPIENTS

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

<u>Subrecipients Name</u>	<u>Amount</u>
Kentucky Community And Technical College System	\$ 2,135,978
University Of Kentucky	1,706,510
Western Kentucky University	1,056,900
University Of Louisville	883,999
Murray State University	817,334
Morehead State University	762,300
Northern Kentucky University	761,835
Eastern Kentucky University	758,421
Kentucky State University	146,425
Campbellsville University	45,454
Union College	45,454
Transylvania University	45,454
Brighton Center, Inc.	45,454
Brescia University, Inc.	45,454
Lexington Theological Seminary	45,454
Kentucky Mountain Bible College	45,454
Midway University	45,454
Employment Solutions, Inc.	45,454
Asbury University	45,454
Spalding University	45,454
Lindsey Wilson College	45,454
University Of Pikeville	45,454
Thomas More University, Inc.	45,454
Georgetown College	45,454
University Of The Cumberlands	45,454
Kentucky Christian University	45,416
Bellarmino University	44,932
Louisville Presbyterian Theological Seminary	36,283
Total Subrecipients	<u>\$ 9,883,597</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, 2021, and the related notes to the financial statements, which collectively comprise the Council's basic financial statements, and have issued our report thereon dated December 2, 2021.

Internal Control Over Financial Reporting

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

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

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

To the Council Members
Council on Postsecondary Education

Compliance and Other Matters

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

Purpose of this Report

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

Blue & Co., LLC

Lexington, Kentucky
December 2, 2021



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

To the Council Members
Council on Postsecondary Education

We have audited the Council on Postsecondary Education's (the Council) compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of the Council's major federal programs for the year ended June 30, 2021. The Council's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

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

Auditor's Responsibility

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

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

To the Council Members
Council on Postsecondary Education

Opinion on Each Major Federal Program

In our opinion, the Council complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2021.

Report on Internal Control Over Compliance

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

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

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

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

Blue & Co., LLC

Lexington, Kentucky
December 2, 2021

COUNCIL ON POSTSECONDARY EDUCATION

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
JUNE 30, 2021

Identification of major programs:

<u>CFDA Number</u>	<u>Name of Federal Program or Cluster</u>
84.425C	Governor's Emergency Education Relief Funds

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

Auditee qualified as low-risk auditee: yes no

Section II - Findings - Financial Statement Audit

None

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

None

COUNCIL ON POSTSECONDARY EDUCATION

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
JUNE 30, 2021

There were no findings reported for the year ended June 30, 2020.

TITLE: 2022 Nominating Committee & Election Process

DESCRIPTION: CPE staff will discuss the process of the nominating committee and the election that will take place at the January 28, 2022 meeting.

PRESENTER: Lee Nimocks, Vice President and Chief of Staff

The Nominating Committee will meet prior to the next Council meeting to discuss and recommend a slate of officers to serve as chair and vice chair of the CPE for a one-year term, per the bylaws.

The chair shall serve as the convener of all Council meetings and as the central voice of the Council. In the absence of the chair, or in the event the chair is unable to perform, the vice chair shall perform the duties of the chair. In the event the chair resigns, and the vice chair assumes the duties of the chair, the council may select a vice chair to complete the unexpired term of the vice chair. The chair and vice chair are limited to three consecutive one-year terms.

The election of the 2022 Chair and Vice Chair will take place at the end of the January 28, 2022 meeting. The elected Chair will begin their duties immediately and close out the meeting.

TITLE: 2022 CPE President Evaluation Process

DESCRIPTION: CPE staff will share a proposed timeline for the 2022 CPE President Evaluation Process.

PRESENTER: Lee Nimocks, Vice President and Chief of Staff

CPE has conducted annual evaluations of its president since 2010 that include a presidential self-assessment and a comprehensive survey of CPE members, senior staff, university and KCTCS presidents, state policy leaders, members of the Governor's administration and key members of the legislature to gather input on the president's performance, working relationships and accomplishments.

The following is the proposed timeline for the 2022 evaluation:

Mid-February	Survey materials finalized
March	Survey open
April	Survey closes; President submits annual report of progress
May	Committee reviews results/responses and discuss next steps and/or take recommended action.
June 17, 2022	CPE Meeting – Chair will officially announce the survey responses and Exec Committee's resulting action