



**KENTUCKY COMMUNITY AND  
TECHNICAL COLLEGE SYSTEM**

**2018-2019 ANNUAL FINANCIAL REPORT**  
(A Component Unit of the Commonwealth of  
Kentucky)

# KENTUCKY COMMUNITY AND TECHNICAL COLLEGE SYSTEM

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## INDEPENDENT AUDITOR'S REPORT

Members of the Board of Regents  
Kentucky Community and Technical College System  
Versailles, Kentucky

Secretary of Finance and  
Administration Cabinet of the  
Commonwealth of Kentucky

### **Report on the Financial Statements**

We have audited the accompanying financial statements of the Kentucky Community and Technical College System (the System or KCTCS), a component unit of the Commonwealth of Kentucky, as of and for the years ended June 30, 2019 and 2018, and the related notes to the financial statements, which collectively comprise the System'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 an opinion on these financial statements based on our audits. We conducted our audits 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 entity'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 entity'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 opinion.

### ***Opinion***

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the System, as of June 30, 2019 and 2018, and the changes in its financial position and its cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.



## **Other Matters**

### ***Required Supplementary Information***

Accounting principles generally accepted in the United States of America require that management's discussion and analysis on pages 3 through 13 and the required supplementary information on pages 62 through 67 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

### ***Supplementary Information***

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the System's basic financial statements. The listing of the Officers of the KCTCS Board of Regents, KCTCS Board of Regents, and KCTCS President's Cabinet are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The listing of the Officers of the KCTCS Board of Regents, KCTCS Board of Regents, and KCTCS President's Cabinet has not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on them.

### **Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated October 4, 2019, on our consideration of the System'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 System's internal control over financial reporting and compliance.

  
Crowe LLP

Lexington, Kentucky  
October 4, 2019

## **KENTUCKY COMMUNITY AND TECHNICAL COLLEGE SYSTEM**

### **Management's Discussion and Analysis**

June 30, 2019 and 2018

Management's Discussion and Analysis of the Kentucky Community and Technical College System (KCTCS) financial statements provides an overview of the financial position and activities of KCTCS for the years ended June 30, 2019 and 2018. This discussion has been prepared by management and is unaudited and should be read in conjunction with the financial statements and the related notes which follow this section. The financial statements and related notes and this discussion and analysis are the responsibility of management.

### **Financial Highlights**

- KCTCS' financial position remained solid at June 30, 2019, with assets and deferred outflows of \$1.3 billion and liabilities and deferred inflows of \$700.7 million. Net position, which represents KCTCS' residual interest in assets and deferred outflows after liabilities and deferred inflows are deducted, was \$562.8 million at June 30, 2019 or 44.5 percent of total assets and deferred outflows. Net position at June 30, 2018 was \$467.1 million or 37.5 percent of total assets and deferred outflows.
- Total assets and deferred outflows increased \$17.9 million or 1.4 percent. The increase is primarily due to the addition of capital assets of \$17.8 million from completion of BuildSmart projects. Total liabilities and deferred inflows decreased by \$77.8 million or 10.0 percent of total liabilities and deferred inflows. The decrease is primarily due to a decrease in the net pension liability of \$63.6 million and a decrease in leases payable totaling \$6.4 million.
- Total net position increased \$95.7 million primarily due to unrestricted revenue over expenses of \$73.2 million and an increase in restricted capital projects of \$20.4 million.
- Operating revenues were \$212.1 million and operating expenses were \$510.1 million, resulting in a loss from operations of \$298.1 million. When nonoperating revenues of \$379.2 million (including \$174.6 million in state appropriations) and other revenues of \$14.5 million are added, this resulted in an increase of \$95.7 million in net position.

### **Using the Financial Statements**

The Financial Statements consist of Statements of Net Position (Balance Sheets), Statements of Revenues, Expenses and Changes in Net Position (Income Statements), Statements of Cash Flows, and Notes to the Financial Statements. These financial statements are prepared in accordance with standards issued by the Governmental Accounting Standards Board (GASB). Accordingly, the accrual basis of accounting is used whereby revenues are recognized when earned (when the service is provided) and expenses are recognized when incurred (when the service is received), regardless of when cash is exchanged.

### **Reporting Entity**

The Kentucky Community and Technical College System (KCTCS) is a component unit of the Commonwealth of Kentucky (Commonwealth). KCTCS was created in May 1997 by The Higher Education Improvement Act (House Bill 1) of the Kentucky General Assembly. Since its creation, KCTCS has become the largest provider of postsecondary education and workforce training in the Commonwealth.

KCTCS provides both credit and non-credit education and training primarily to Kentucky residents. In fact, for most Kentuckians, higher education begins with KCTCS at one of its 16 colleges through traditional and distance education. Offering approximately 10,000 online course sections annually, KCTCS is the largest provider of internet-based courses in the state. KCTCS provides high quality, relevant educational programs and responsive business and industry training throughout the Commonwealth. Since its inception, KCTCS has provided the lowest tuition in the Commonwealth through a single, straightforward tuition and charge structure. KCTCS is committed to providing the best value in higher education in Kentucky.

## KENTUCKY COMMUNITY AND TECHNICAL COLLEGE SYSTEM

### Management's Discussion and Analysis

June 30, 2019 and 2018

KCTCS offers a variety of certificates, diplomas, and associate degree programs as well as customized training programs for business and industry. Through the Kentucky Fire Commission and the Kentucky Board of Emergency Medical Services, KCTCS provides fire and rescue training, certifications for first responders and emergency medical technicians, and licenses paramedics and ambulance services throughout the state. All KCTCS colleges are independently accredited by the Southern Association of Colleges and Schools Commission on Colleges (SACSCOC).

KCTCS has 16 colleges with over 70 locations strategically positioned throughout the regions of the Commonwealth - from Maysville to Somerset and from Ashland to Paducah - KCTCS is accessible and convenient to all Kentuckians. KCTCS colleges offer over 111 programs (106 technical programs) with associated credentials including certificates, diplomas and associate degrees in Arts, Science, Applied Science and Fine Arts. The single most popular area of study is the baccalaureate transfer program, which allows a student to earn an associate degree through KCTCS and transfer those credits to any Kentucky university.

While continuing to emphasize its historical mission to provide general education, KCTCS has increased its focus on occupational and technical education and workforce training. KCTCS is Kentucky's primary provider of workforce training, delivering programs and services that address the full spectrum of needs faced by business and industry, as well as programs for individuals who want to learn or upgrade new skills. These programs include apprenticeships, clinical experiences and experience in the workplace to develop a graduate ready to enter a technical career.

Through Workforce Solutions units, KCTCS colleges deliver high quality, cost-effective customized training and assessment services to support business and industry so they can remain globally competitive and contribute to the economic viability of the Commonwealth. In FY19, KCTCS colleges provided workforce training for over 5,200 companies through the Commonwealth for over 47,700 individuals.

KCTCS also provides educational enrichment opportunities through community development classes related to personal improvement, cultural activities and fine arts. These classes are tailored to meet local needs and provide opportunities for Kentuckians to connect, learn and grow in their communities.



# KENTUCKY COMMUNITY AND TECHNICAL COLLEGE SYSTEM

## Management's Discussion and Analysis

June 30, 2019 and 2018

### Statements of Net Position

The Statements of Net Position present the financial condition of KCTCS at the end of the fiscal year and include all assets, deferred outflows, liabilities and deferred inflows. Net position, the difference between total assets and deferred outflows and total liabilities and deferred inflows, is an important indicator of the current financial condition. Assets and liabilities are generally reported at cost. The major exception is investments which are reported at fair value.

A summary of the assets and deferred outflows, liabilities and deferred inflows and net position of KCTCS at June 30, 2019, 2018, and 2017, is as follows:

### Condensed Statements of Net Position

(in thousands)

	2019	2018	2017
<b>Assets and Deferred Outflows</b>			
Current assets	\$ 273,330	\$ 262,139	\$ 208,550
Noncurrent assets	948,809	919,251	904,882
Deferred outflows	41,289	64,138	78,711
Total assets and deferred outflows	1,263,428	1,245,528	1,192,143
<b>Liabilities and Deferred Inflows</b>			
Current liabilities	46,265	58,384	43,075
Noncurrent liabilities	472,204	535,426	596,843
Deferred inflows	182,188	184,600	47,034
Total liabilities and deferred inflows	700,657	778,410	686,952
<b>Net Position</b>			
Net investment in capital	585,721	572,176	598,967
Restricted	178,467	169,535	124,538
Unrestricted	(201,417)	(274,593)	(218,314)
Total net position	\$ 562,771	\$ 467,118	\$ 505,191

**Assets and Deferred Outflows:** As of June 30, 2019, total assets and deferred outflows amounted to \$1.3 billion. Of this amount, investment in capital assets (net of depreciation) of \$742.6 million, or 58.8 percent of total assets and deferred outflows, represented the largest asset class. Cash and cash equivalents amounted to \$330.2 million or 26.1 percent of total assets and deferred outflows, and endowments amounted to \$66.6 million or 5.3 percent of total assets and deferred outflows. During the year, total assets and deferred outflows increased by \$17.9 million, primarily due to the addition of capital assets of \$17.8 million from completion of BuildSmart projects.

**Liabilities and Deferred Inflows:** As of June 30, 2019, total liabilities and deferred inflows amounted to \$700.7 million. Net pension liability amounted to \$250.6 million or 35.8 percent of total liabilities and deferred inflows. Capital leases amounted to \$166.3 million or 23.7 percent of total liabilities and deferred inflows. Liabilities and deferred inflows decreased by \$77.8 million or 10.0 percent of total liabilities and deferred inflows. The decrease is primarily due to a decrease in the net pension liability of \$63.6 million and a decrease in leases payable totaling \$6.4 million.

## KENTUCKY COMMUNITY AND TECHNICAL COLLEGE SYSTEM

### Management's Discussion and Analysis

June 30, 2019 and 2018

**Net Position:** As of June 30, 2019, total net position amounted to \$562.8 million. Net position is reported on the Statements of Net Position in three categories: net investment in capital, \$585.7 million (104.1 percent); restricted \$178.5 million (31.7 percent); and unrestricted, \$(201.4) million (-35.8 percent). Restricted net position is subject to externally imposed restrictions governing its use. Unrestricted net position is not subject to externally imposed restrictions, however, substantially all unrestricted net position has been designated for support of instructional programs and initiatives and working capital requirements.

Total net position increased \$95.7 million primarily due to unrestricted revenue over expenses of \$73.2 million and an increase in restricted capital projects of \$20.4 million.

#### **2018 Versus 2017**

- As of June 30, 2018, total assets and deferred outflows amounted to \$1.2 billion. Of this amount, investment in capital assets (net of depreciation) of \$724.8 million, or 58.2 percent of total assets and deferred outflows, represented the largest asset class. Cash and cash equivalents amounted to \$321.9 million or 25.8 percent of total assets and deferred outflows, and endowments amounted to \$55.2 million or 4.4 percent of total assets and deferred outflows. During the year, total assets and deferred outflows increased by \$53.4 million, primarily due to recording of the net OPEB asset of \$22.7 million, the deferred outflow related to the net OPEB obligation of \$8.1 million and addition of capital assets of \$37 million due to completion of BuildSmart projects.
- As of June 30, 2018, total liabilities and deferred inflows amounted to \$778.4 million. Net pension liability amounted to \$314.2 million or 40.4 percent of total liabilities and deferred inflows. Capital leases amounted to \$172.6 million or 22.2 percent of total liabilities and deferred inflows. Liabilities and deferred inflows increased by \$91.5 million. The increase is primarily due to recording of the net OPEB liability of \$62.3 million and OPEB related deferred inflows of \$47.2 million and the addition of a lease agreement totaling \$27.7 million. These increases were offset by a reduction to total liabilities and deferred inflows of \$40.4 million, which was comprised of a decrease in the net pension liability of \$131 million and an increase in pension related deferred inflows of \$90.6 million.
- Total net position of \$467.1 million is recorded in three categories: net investment in capital, \$572.2 million (122.5 percent); restricted \$169.5 million (36.3 percent); and unrestricted \$(274.6 million) (-58.8 percent). Total net position decreased by \$38.1 million during the year ended June 30, 2018. This decrease was primarily due to the adoption of GASB Statement 75, which resulted in a one-time decrease to net position of \$72.4 million. This change combined with the impact of GASB Statement 75 on June 30, 2018 activity, the changes in net pension liability and related deferred inflows and outflows and the increase in capital assets and related lease agreements accounts for the overall decrease in total net position.

#### **Statements of Revenues, Expenses and Changes in Net Position**

The Statements of Revenues, Expenses and Changes in Net Position are prepared using the accrual basis of accounting. The change in net assets is an indicator of whether the overall financial position has improved or declined during the year. All items that increase or decrease net assets must appear on the Statements of Revenues, Expenses and Changes in Net Position as revenues, expenses, gains or losses. Financial activities are reported as either operating or nonoperating. State appropriations, certain grants, gifts, investment and endowment income are required to be classified as nonoperating revenues because these funds are non-exchange revenues provided to KCTCS without direct commensurate value for those revenues. Accordingly, KCTCS reports an operating loss for the year prior to the addition of nonoperating revenues.

The utilization of long-lived capital assets is reflected in the financial statements as depreciation, which amortizes the cost of an asset over its expected useful life. Tuition is reduced by scholarships and bad debt expense. Institutional aid and grants-in-aid funded by federal and state grants are reported net of scholarship allowances.



# KENTUCKY COMMUNITY AND TECHNICAL COLLEGE SYSTEM

## Management's Discussion and Analysis

June 30, 2019 and 2018

### Condensed Statements of Revenues, Expenses and Changes in Net Position

(in thousands)

	2019	2018	2017
<b>Operating revenues</b>			
Student tuition and fees, net	\$ 102,956	\$ 105,818	\$ 98,714
Grants and contracts	99,423	103,266	97,226
Other operating revenues	9,688	13,190	13,418
Total operating revenues	<u>212,067</u>	<u>222,274</u>	<u>209,358</u>
<b>Operating expenses</b>			
Educational and general, excluding depreciation	473,896	524,967	538,429
Depreciation	36,227	34,810	32,161
Total operating expenses	<u>510,123</u>	<u>559,777</u>	<u>570,590</u>
<b>Operating loss</b>	(298,056)	(337,503)	(361,232)
<b>Nonoperating revenues</b>			
State appropriations	174,572	179,789	185,408
Federal and state grants and contracts	185,296	178,606	179,883
Other nonoperating revenues	19,327	10,566	13,119
Total nonoperating revenues	<u>379,195</u>	<u>368,961</u>	<u>378,410</u>
<b>Income before other revenues, expenses gains or losses</b>	81,139	31,458	17,178
Capital construction appropriations	9,577	4,692	9,598
Net realized gain (loss) on disposal of capital assets	1,198	(6,602)	3,684
Additions to endowments	3,739	4,756	6,963
Total other revenues	<u>14,514</u>	<u>2,846</u>	<u>20,245</u>
Increase in net position before cumulative effect of change	95,653	34,304	37,423
Cumulative effect of change in accounting principle	<u>-</u>	<u>(72,377)</u>	<u>-</u>
<b>Total increase (decrease) in net position</b>	95,653	(38,073)	37,423
<b>Net position, beginning of year</b>	<u>467,118</u>	<u>505,191</u>	<u>467,768</u>
<b>Net position, end of year</b>	<u><u>\$ 562,771</u></u>	<u><u>\$ 467,118</u></u>	<u><u>\$ 505,191</u></u>

Total operating revenues were \$212.1 million for the year ended June 30, 2019. Included in KCTCS' operating revenues are net student tuition and fees of \$103.0 million or 48.5 percent of total operating revenues, and grants and contracts of \$99.4 million or 46.9 percent of total operating revenues. Tuition and fees are presented net of bad debt expense, scholarship allowances, gift scholarships and institutional scholarships.



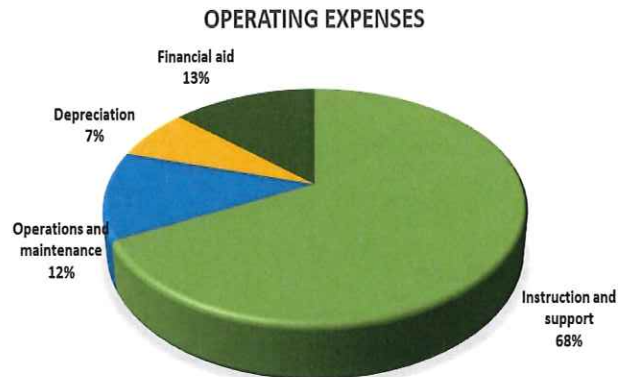
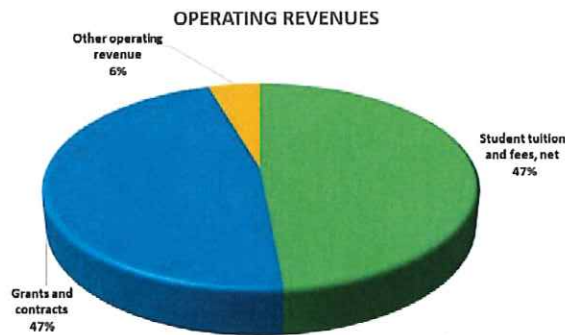
## KENTUCKY COMMUNITY AND TECHNICAL COLLEGE SYSTEM

### Management's Discussion and Analysis

June 30, 2019 and 2018

A scholarship allowance is the difference between the stated charges for goods and services provided by KCTCS and the amount that is billed to students and third parties making payments on behalf of students. Any excess aid disbursed to the student is recognized as a student financial aid expense.

Operating expenses totaled \$510.1 million. Of this amount, \$473.9 million or 92.9 percent of total operating expenses was expended for educational and general programs, including instruction, academic support, libraries, public service, student services, institutional support, student financial aid and operations and maintenance (excluding depreciation). The loss from operations for the year amounted to \$298.1 million. Nonoperating and other revenues, net of related expenses, amounted to \$393.7 million, resulting in an increase in net position of \$95.7 million for the year. The following charts depict operating revenues and expenses. State appropriations are not accounted for as operating revenues and, therefore, are excluded from the chart below:



### 2018 Versus 2017

- Total operating revenues were \$222.3 million for the year ended June 30, 2018, including net student tuition and fees of \$105.8 million (47.6 percent) and grants and contracts of \$103.3 million (46.5 percent).
- Operating expenses totaled \$559.8 million. Of this amount, \$525 million (94 percent) was expended for educational and general programs, including instruction, libraries, academic support, public service, student services, institutional support, student financial aid and operations and maintenance (excluding depreciation).

## KENTUCKY COMMUNITY AND TECHNICAL COLLEGE SYSTEM

### Management's Discussion and Analysis

June 30, 2019 and 2018

- The loss from operations for the year amounted to \$337.5 million. Nonoperating and other revenues, net of related expenses, amounted to \$371.8 million, resulting in an increase in net position of \$34.3 million for the year. Nonoperating revenues include state appropriations of \$179.8 million (48.4 percent of total nonoperating and other revenues).

#### Statements of Cash Flow

The Statements of Cash Flow present information related to KCTCS' cash inflows and outflows summarized by operating, capital, financing, and investing activities. The primary purpose of the Statements of Cash Flow is to provide information about cash receipts and cash payments to allow financial statement readers to assess:

- The ability to generate future net cash flow,
- The ability to meet obligations as they become due, and
- The possible need for external financing.

A comparative summary of KCTCS' Statements of Cash Flow for years ending June 30, 2019, 2018, and 2017 is as follows:

#### Condensed Statements of Cash Flow (in thousands)

	2019	2018	2017
<b>Cash provided by (used in):</b>			
Operating activities	\$ (308,866)	\$ (320,099)	\$ (321,619)
State appropriation	174,572	179,789	185,408
Other noncapital financing activities	198,783	190,148	194,002
Capital and related financing activities	(57,668)	(53,711)	(9,834)
Investing activities	1,479	9,764	3,295
Net increase in cash and cash equivalents	8,300	5,891	51,252
<b>Cash and cash equivalents, beginning of year</b>	<u>321,911</u>	<u>316,020</u>	<u>264,768</u>
<b>Cash and cash equivalents, end of year</b>	<u>\$ 330,211</u>	<u>\$ 321,911</u>	<u>\$ 316,020</u>

Major sources of cash received from operating activities are student tuition and fees (\$102.9 million) and grants and contracts (\$97.8 million). Major uses of cash for operating activities are payments to employees for salaries and benefits (\$323.0 million), payments to vendors and contractors (\$129.0 million) and student financial aid (\$67.5 million).

Noncapital financing activities include federal, state and local grants, contracts and appropriations of \$185.3 million.

# KENTUCKY COMMUNITY AND TECHNICAL COLLEGE SYSTEM

## Management's Discussion and Analysis

June 30, 2019 and 2018

### 2018 Versus 2017

- Major sources of cash received from operating activities for the year ended June 30, 2018 are student tuition and fees (\$102.9 million) and grants and contracts (\$100.9 million). Major uses of cash for operating activities are payments to employees for salaries and benefits (\$330.2 million), payments to vendors and contractors (\$142 million) and student financial aid (\$65.2 million).
- Noncapital financing activities include federal, state and local grants, contracts and appropriations of \$178.6 million.

### **Capital Assets**

Capital assets, net of accumulated depreciation, totaled \$742.6 million at June 30, 2019, an increase of \$17.8 million. Capital assets as of June 30, 2019, 2018, and 2017, and significant changes in capital assets during those years are shown below (in thousands):

	Balance June 30, 2017	Net Additions FY 2018	Balance June 30, 2018	Net Additions FY 2019	Balance June 30, 2019
Land and land improvements	\$ 52,080	\$ 2,795	\$ 54,875	\$ 429	\$ 55,304
Buildings and infrastructure	813,891	76,614	890,505	16,428	906,933
Equipment, vehicles and campus improvements	139,845	8,590	148,435	6,998	155,433
Library materials	60,945	-	60,945	(18,153)	42,792
Construction in progress	87,634	(33,517)	54,117	14,880	68,997
Energy saving assets	33,056	5,968	39,024	7,169	46,193
Total assets	1,187,451	60,450	1,247,901	27,751	1,275,652
Accumulated depreciation	(499,632)	(23,492)	(523,124)	(9,942)	(533,066)
Capital assets, net	<u>\$ 687,819</u>	<u>\$ 36,958</u>	<u>\$ 724,777</u>	<u>\$ 17,809</u>	<u>\$ 742,586</u>

At June 30, 2019, KCTCS had capital construction projects in progress totaling \$69.0 million. These projects are principally financed by appropriations and bond proceeds from the Commonwealth of Kentucky.



## KENTUCKY COMMUNITY AND TECHNICAL COLLEGE SYSTEM

### Management's Discussion and Analysis

June 30, 2019 and 2018

#### Economic Factors Impacting Future Periods

The following are existing conditions and circumstances that will affect future financial results:

- Senate Bill 153 of the 2016 General Assembly established performance funding for postsecondary education. For FY 2020, KCTCS earned \$8.5 million or 22 percent of the Performance Funding Pool in additional state appropriation. KCTCS's performance funding allocation is distributed based on each college's performance, respective to the two-year performance funding model's calculation.

For FY 2019-20, a 1.0 percent stop-loss floor has been established. To reward outcomes promoted by the performance funding model and address historical funding inequities among the 16 colleges, it is anticipated that performance funding will continue to be phased-in at a graduated level until 100 percent performance distribution is achieved.

Not included in performance funding calculations is roughly \$6.4 million set aside annually for mandated programs that are a part of KCTCS's base state appropriation, i.e. The Kentucky Fire Commission and Fire Rescue Training, the Kentucky Board of Emergency Medical Services, and KCTCS-TRAINS.

For FY 2020, the base state appropriation for KCTCS is \$166.0 million.

- For the 2018-2020 biennia, the Kentucky Council on Postsecondary Education approved a resident tuition rate increase range for KCTCS of up to \$12 per student credit hour, with no more than an \$8 increase in either year of the biennia. On June 15, 2018, the KCTCS Board of Regents approved the FY 2019 resident tuition rate of \$169 per student credit hour, an increase of \$7 per student credit hour. On June 14, 2019, the KCTCS Board of Regents approved the FY 2020 resident tuition rate of \$174 per student credit hour. This is an increase of \$5 per student credit hour, or 3.0 percent, above the FY 2019 tuition rate. Nonresident students from counties contiguous to Kentucky will pay \$348 per credit hour. Other nonresident students will pay \$609 per credit hour. Students taking online courses will pay \$174 per credit hour.
- The KCTCS Board of Regents approved the FY 2020 operating budget totaling \$846.5 million and a FY 2020 capital budget totaling \$133.3 million. The FY 2020 operating budget continues KCTCS's practice of budgeting an unrestricted non-recurring emergency budget reserve, of which \$13.4 million is budgeted for FY 2020. Each college, the Kentucky Fire Commission, the Kentucky Board of Emergency Medical Services and Systemwide operations and support programs were required to set aside these funds as a contingency for a possible budget reduction, unforeseen decline in enrollment, or other unanticipated, unavoidable costs.

Funds within the FY 2020 operating budget were set aside to award all regular full-time employees a one-time nonrecurring merit payment of \$1,000.00. The KCTCS President was given the discretion by the KCTCS Board of Regents to determine how and when the one-time payment is implemented.

- In December 2012, the KCTCS Board of Regents approved the establishment of a KCTCS OPEB Trust. In March 2013, KCTCS funded the Trust to substantially offset the actuarially calculated liability. Reflective of bullish financial markets and employees leaving KCTCS prior to retirement for other employment, as of June 30, 2019, the Trust's assets of \$205.0 million exceeded the total OPEB liability of \$152.5 million by \$52.5 million or 34.4 percent. To help KCTCS active and future retirees within the Trust, KCTCS plans to seek an actuarial analysis of paying for the out-of-pocket cost for retiree single coverage healthcare insurance. Contingent on the future expected obligation costs of the actuarial analysis, KCTCS may opt to cover a portion of the out-of-pocket cost for retirees within the Trust.

## KENTUCKY COMMUNITY AND TECHNICAL COLLEGE SYSTEM

### Management's Discussion and Analysis

June 30, 2019 and 2018

- KCTCS has employees within the Kentucky Retirement Systems (KRS) – Kentucky Teachers Retirement System (KTRS) and Kentucky Employees Retirement System (KERS). As of June 30, 2019, KCTCS had 435 employees within KERS and 456 within KTRS. With the passage of House Bill 200 of the 2018 Kentucky General Assembly, required employer contribution rates for KERS increased from 49.47% to 83.43% effective July 1, 2019. It is anticipated that Governor Matt Bevin will call a special session of the General Assembly in the summer of 2019 to enable quasi organizations (including KCTCS) to opt out of KERS. KCTCS will carefully study the outcome of any special session legislation in determining a path forward. While the rates for KERS for the 2020-22 biennia are not yet determined, it is anticipated the new rates will rise above the current 83.43% contribution rate.
- KCTCS recognizes that additional revenue streams are needed to offset limited state funding and tuition revenue increases. In acknowledgment of that fact, KCTCS initiated a Resource Development Assessment Project in late 2017. However, with the departure of the KCTCS Vice-President of Institutional Advancement, implementation of the project had to be postponed. Now that a new KCTCS Vice-President of Institutional Advancement has been hired, plans are to restart and implement the strategic resource development plan in 2020.

The KCTCS Board of Regents approved the following goals and objectives for the KCTCS President for FY 2020:

Goal I: Prominence: Increase the prominence and visibility of KCTCS within the Commonwealth and across the nation, illustrating that the System and colleges are relevant, responsive and transformative to stakeholders.

Objective 1: Tell KCTCS' story within the Commonwealth.

Objective 2: Maintain and expand national recognition.

Objective 3: Meet employers' expectations.

Goal II: Growth: Focus on enrollment growth, student persistence and student success by affirming affordability, shortening time-to-degree and scaling innovation.

Objective 1: Affirm affordability.

Objective 2: Shorten time-to-degree.

Objective 3: Scale innovation.

Goal III: Sustainability: Improve the fiscal health of the System and colleges through advocating for the Commonwealth to reinvest in higher education and by seeking alternative revenue sources.

Objective 1: Advocate for reinvestment.

Objective 2: Grow alternative revenue sources.

- KCTCS colleges are in the process of updating their local plans to coincide with the 2018-20 KCTCS Action Plan, a two-year implementation roadmap that prioritizes specific strategies in pursuit of established strategic targets.

## **KENTUCKY COMMUNITY AND TECHNICAL COLLEGE SYSTEM**

Management's Discussion and Analysis

June 30, 2019 and 2018

### **Our Mission**

In everything we do, our mission is to improve the quality of life and employability of the citizens of the Commonwealth by serving as the primary provider of:

- College and workforce readiness
- Transfer education
- Workforce education and training

### **Vision**

A world-class system of colleges educating Kentucky's globally competitive workforce.

### **Values**

- Flexibility and innovation
- Quality and excellence
- Openness and accountability
- Continuous improvement
- Data and outcomes-driven decision-making
- Inclusion, equity, respect, and global diversity
- Balance, collaboration, and teamwork

In summary, although KCTCS has and continues to face many economic challenges, KCTCS management believes that its past and current management practices have and continue to position KCTCS for long-term financial health.



# KENTUCKY COMMUNITY AND TECHNICAL COLLEGE SYSTEM

## Statements of Net Position

June 30, 2019 and 2018

(in thousands)

	2019	2018
<b>ASSETS</b>		
<b>Current Assets</b>		
Cash and cash equivalents	\$ 234,251	\$ 224,240
Loans, accounts, and pledges receivable, net of bad debt	35,913	32,866
Other current assets	3,166	5,033
Total current assets	<u>273,330</u>	<u>262,139</u>
<b>Noncurrent Assets</b>		
Restricted cash and cash equivalents	95,960	97,671
Loans and other receivables	2,308	2,595
Endowment investments	66,580	55,186
Other long-term investments	17,393	16,302
Net other postemployment benefit asset	23,982	22,720
Capital assets, net	742,586	724,777
Total noncurrent assets	<u>948,809</u>	<u>919,251</u>
<b>Deferred Outflows</b>		
Deferred outflows - pension	34,427	56,037
Deferred outflows - other postemployment benefits	6,862	8,101
Total deferred outflows	<u>41,289</u>	<u>64,138</u>
Total assets and deferred outflows	<u>1,263,428</u>	<u>1,245,528</u>
<b>LIABILITIES</b>		
<b>Current Liabilities</b>		
Accounts payable and accrued expenses	20,840	20,863
Employee withholdings and deposits	3,635	3,872
Compensated absences - current	925	930
Unearned revenue	11,936	10,606
Leases payable - current	8,929	22,113
Total current liabilities	<u>46,265</u>	<u>58,384</u>
<b>Noncurrent Liabilities</b>		
Leases payable - noncurrent	157,344	150,514
Compensated absences - noncurrent	8,327	8,373
Net pension liability	250,580	314,222
Net other postemployment benefit liability	55,953	62,317
Total noncurrent liabilities	<u>472,204</u>	<u>535,426</u>
<b>Deferred Inflows</b>		
Deferred inflows - pension	136,737	133,653
Deferred inflows - other postemployment benefits	45,451	47,214
Deferred inflows - property	-	3,733
Total deferred inflows	<u>182,188</u>	<u>184,600</u>
Total liabilities and deferred inflows	<u>700,657</u>	<u>778,410</u>
<b>NET POSITION</b>		
Net investment in capital	585,721	572,176
<b>Restricted</b>		
Nonexpendable	45,186	46,600
Expendable	133,281	122,935
<b>Unrestricted</b>		
Unrestricted	(201,417)	(274,593)
Total net position	<u>\$ 562,771</u>	<u>\$ 467,118</u>

See accompanying notes to financial statements.

**KENTUCKY COMMUNITY AND TECHNICAL COLLEGE SYSTEM**  
**Statements of Revenues, Expenses and Changes in Net Position**  
**Years Ended June 30, 2019 and 2018**  
(in thousands)

	2019	2018
<b>OPERATING REVENUES</b>		
Student tuition and fees	\$ 249,828	\$ 247,265
Less: Scholarship allowances	(146,872)	(141,447)
Net tuition and fees	102,956	105,818
Federal grants and contracts	49,315	45,905
State and local grants and contracts	50,067	57,270
Nongovernmental grants and contracts	41	91
Indirect cost recoveries	2,087	2,625
Sales and services	5,278	5,199
Other operating revenues	2,323	5,366
Total operating revenues	212,067	222,274
<b>OPERATING EXPENSES</b>		
Educational and General:		
Instruction	162,729	187,508
Public service	37,904	40,733
Libraries	6,767	6,524
Academic support	24,007	27,662
Student services	56,372	61,009
Institutional support	56,512	64,879
Operation and maintenance of capital assets	61,964	71,384
Depreciation	36,227	34,810
Student financial aid	67,641	65,268
Total operating expenses	510,123	559,777
Operating loss	(298,056)	(337,503)
<b>NONOPERATING REVENUES (EXPENSES)</b>		
State appropriations	174,572	179,789
Federal and state grants and contracts	185,296	178,606
Gifts	8,384	3,923
Investment income	10,225	4,039
Interest expense - capital leases	(4,424)	(2,891)
Other nonoperating revenues	5,142	5,495
Net nonoperating revenues	379,195	368,961
Income before other revenues, expenses, gains or losses	81,139	31,458
Capital construction appropriations	9,577	4,692
Net realized gain (loss) on disposal of capital assets	1,198	(6,602)
Additions to endowments	3,739	4,756
Total other revenues	14,514	2,846
Increase in net position	95,653	34,304
<b>NET POSITION</b>		
Net position - beginning of year	467,118	432,814
Net position - end of year	\$ 562,771	\$ 467,118

See accompanying notes to financial statements.

# KENTUCKY COMMUNITY AND TECHNICAL COLLEGE SYSTEM

Statements of Cash Flows  
Years Ended June 30, 2019 and 2018  
(in thousands)

	2019	2018
<b>Cash flows from operating activities:</b>		
Tuition and fees	\$ 102,863	\$ 102,943
Grants and contracts	97,773	100,923
Indirect cost recoveries	2,087	2,625
Sales and services	5,278	5,199
Payments to vendors and contractors	(128,988)	(142,009)
Student financial aid	(67,451)	(65,230)
Salaries, wages and benefits	(322,999)	(330,234)
Other receipts	2,571	5,684
Net cash used in operating activities	(308,866)	(320,099)
<b>Cash flows from noncapital financing activities:</b>		
State appropriations	174,572	179,789
Federal, state and local grants, contracts and appropriations	185,296	178,606
Gifts and pledges received for non-capital purposes	8,345	6,049
Other nonoperating receipts	5,142	5,493
Net cash provided by noncapital financing activities	373,355	369,937
<b>Cash flows from capital and related financing activities:</b>		
Capital appropriations	9,577	4,692
Proceeds from disposal of capital assets	193	5,566
Purchase of capital assets	(56,660)	(84,141)
Principal paid on leases	(25,813)	(9,917)
Proceeds from leases	19,459	32,980
Interest paid on leases	(4,424)	(2,891)
Net cash used in capital and related financing activities	(57,668)	(53,711)
<b>Cash flows from investing activities:</b>		
Proceeds from sales and maturities of investments	20	80
Interest on investments	9,787	4,316
Purchase of investments	(8,328)	5,368
Net cash provided by investing activities	1,479	9,764
Net change in cash	8,300	5,891
Cash - beginning of year	321,911	316,020
Cash - end of year	\$ 330,211	\$ 321,911

See accompanying notes to financial statements.

# KENTUCKY COMMUNITY AND TECHNICAL COLLEGE SYSTEM

Statements of Cash Flows  
Years Ended June 30, 2019 and 2018  
(in thousands)

	<u>2019</u>	<u>2018</u>
<b>Reconciliation of net operating loss to net cash used in operating activities:</b>		
Operating loss	\$ (298,056)	\$ (337,503)
Adjustments to reconcile net operating loss to net cash used in operating activities:		
Depreciation expense	36,227	34,810
Increase (decrease) in cash due to change in:		
Loans and accounts receivable, net	(2,825)	(6,109)
Other assets	1,867	554
Accounts payable and accrued liabilities	(23)	(1,847)
Employee withholdings and deposits	(237)	2,277
Compensated absences	(51)	(1,009)
Unearned revenue	1,330	1,208
Deferred outflows - pension and OPEB	22,849	18,023
Deferred inflows - pension and OPEB	1,321	137,843
Net pension liability	(63,642)	(131,019)
Net OPEB liability	<u>(7,626)</u>	<u>(37,327)</u>
Net cash used in operating activities	<u>\$ (308,866)</u>	<u>\$ (320,099)</u>
 Non-cash capital activities:		
Donated capital assets	\$ 104	\$ 73

See accompanying notes to financial statements.



# KENTUCKY COMMUNITY AND TECHNICAL COLLEGE SYSTEM

Notes to Financial Statements  
June 30, 2019 and 2018

## 1. Organization and Summary of Significant Accounting Policies

### Reporting Entity

The Kentucky Community and Technical College System (KCTCS) is a component unit of the Commonwealth of Kentucky and is included in the basic financial statements of the Commonwealth.

KCTCS has considered whether several organizations (e.g. system and colleges' foundations) for which KCTCS is not financially accountable have met the criteria for inclusion as component units based on the nature and significance of their relationship with KCTCS. Currently, KCTCS believes none of these organizations are component units.

### Basis of Presentation

KCTCS prepares its financial statements in accordance with accounting principles generally accepted in the United States of America as prescribed by the Governmental Accounting Standards Board (GASB). GASB establishes standards for external financial reporting for public colleges and universities.

The financial statement presentation is intended to provide a comprehensive, entity-wide perspective of KCTCS' assets, deferred outflows, liabilities, deferred inflows, net position, revenues, expenses, changes in net position, and cash flows.

### Accrual Basis

The financial statements have been prepared on the accrual basis of accounting. Revenues, expenses, gains, losses, assets, deferred outflows and liabilities and deferred inflows from exchange transactions are recognized when the exchange transaction takes place, while those from non-exchange transactions are recognized when all applicable eligibility requirements are met. Under the accrual basis of accounting, revenues are recognized when earned and expenses are recorded when an obligation is incurred. KCTCS reports as a Business Type Activity (BTA). BTAs are those activities that are financed in whole or in part by fees charged to external parties for goods and services.

### Cash and Cash Equivalents

KCTCS considers all highly liquid investments purchased with an original maturity of three months or less to be cash equivalents. Noncurrent cash and cash equivalents represent cash restricted for capital construction, grants, loans and endowment fund cash pending transfer to the custodian for investment by the endowment fund managers.

As of June 30, 2019, cash and cash equivalents consist of deposits in local banks of \$66.1 million, with the Commonwealth of Kentucky of \$264.1 million and with the Commonfund of \$2.5 million. As of June 30, 2018, deposits in local banks of \$39.0 million, with the Commonwealth of Kentucky of \$273.4 million, and with the Commonfund of \$95.0 million. Deposits with local banks and investments in repurchase agreements are covered by federal depository insurance or collateralized by securities held in KCTCS' name by its agents. Deposits with the Commonwealth are covered by federal depository insurance or collateralized by securities held by the Commonwealth in its name.

### Pooled Endowment Funds

KCTCS employs the total return concept of investment management for setting investment objectives and determining investment performance. This concept recognizes dividends, interest, and realized and unrealized gains or losses in determining the total return earned during any particular period. The market value method of accounting for pooled endowment funds is employed to ensure proper distribution of market price changes, realized gains and losses on sales, accrued income earned, and distribution of investment earnings for expenditure by participating funds.

Continued

## KENTUCKY COMMUNITY AND TECHNICAL COLLEGE SYSTEM

Notes to Financial Statements  
June 30, 2019 and 2018

### 1. Organization and Summary of Significant Accounting Policies (Continued)

#### Pooled Endowment Funds (continued)

The Uniform Prudent Management of Institutional Funds Act, as adopted by the Commonwealth of Kentucky, permits KCTCS to appropriate an amount of the realized and unrealized endowment appreciation to support current programs. Accordingly, spendable return of the endowment is determined using the total return philosophy. The philosophy recognizes a prudent amount of the increase in the fair value of investments (realized and unrealized) as spendable return in addition to interest and dividends earned. Distribution of investment earnings for expenditure by participating funds is supported first by interest and dividends and, if necessary and available, a transfer from the endowment of any accumulated realized and unrealized gains on investments.

If a donor has not provided specific instructions, state law permits KCTCS to authorize for expenditure the new appreciation (realized and unrealized) of the investments of endowment funds. When administering its power to spend net appreciation, KCTCS is required to consider the long and short-term needs present and anticipated financial requirements, expected total return on its investments, price-level trends, and general economic conditions. The amount of earnings to be distributed is determined annually based on these factors. Any net appreciation that is spent is required to be spent for the purposes for which the endowment was established.

At June 30, 2019, net appreciation of \$13.9 million is available to spend, of which \$13.5 million is restricted for specific purposes. At June 30, 2018, net appreciation of \$11.5 million was available to spend, of which \$11.2 million was restricted for specific purposes.

#### Investments

Investments are stated at fair value and unrealized gains and losses on the carrying value of investments are reported as a component of investment income in the Statements of Revenues, Expenses and Changes in Net Position. Money markets are measured at amortized cost.

#### Loans, Accounts and Pledges Receivable

Accounts receivable consist of student tuition and fees and amounts due from federal, state and local governments or private sources in connection with grants and contracts. Accounts receivable are recorded net of estimated uncollectible amounts. KCTCS determines its allowance by considering a number of factors, including the length of time accounts receivable are past due, previous loss history and the condition of the general economy. KCTCS writes off accounts when they are assessed as uncollectible. Pledges receivable are unconditional commitments from donors to give stated amounts over a specific period of time in the future. KCTCS records pledges at the present value of the net realizable amount. Loans receivable primarily consist of loans made by the Fire Commission. The Fire Commission is authorized to make low interest loans for the purchase of major equipment and construction of facilities to properly train volunteer fire departments that do not have other sources of funds at rates, which are favorable given their financial resources. KCTCS currently considers loans receivable and pledges to be fully collectible. Accordingly, no allowance for uncollectibles is recorded at June 30, 2019 and 2018.

#### Capital Assets

Capital assets are stated at cost at the date of acquisition or, in the case of gifts, at acquisition value at the date of the gift. Interest incurred on construction in progress is capitalized. For years ended June 30, 2019 and 2018, total interest capitalized was \$358,295 and \$1.5 million.

Equipment with a unit cost of \$5,000 or more and having an estimated useful life of greater than one year is capitalized. Renovations to buildings, infrastructure and land improvements that significantly increase the value or extend the useful life of the structure are capitalized. Routine repairs and maintenance are charged to operating expense in the period in which the expense is incurred.

Continued



## KENTUCKY COMMUNITY AND TECHNICAL COLLEGE SYSTEM

### Notes to Financial Statements

June 30, 2019 and 2018

#### 1. Organization and Summary of Significant Accounting Policies (Continued)

##### Capital Assets (continued)

Depreciation of capital assets is computed on a straight-line basis over the estimated useful lives of the assets, generally 40 years for buildings and land improvements, 25 years for infrastructure, 10 years for library volumes and 3 to 10 years for equipment. Assets under vendor financing agreements are amortized on the straight-line basis over the estimated useful life of the asset, or the term of the lease, whichever is shorter.

##### Compensated Absences

The liability for employee vacation and sick leave is recorded as compensated absences in the Statements of Net Position and the expense is recorded as a component of operating expenses in the Statements of Revenues, Expenses and Changes in Net Position.

##### Unearned Revenue

Unearned revenue consists primarily of unearned tuition and fees related to the summer session and amounts from grants and contracts that have not yet been earned under the terms of the agreements.

##### Pensions

For purposes of measuring the net pension liability, deferred outflows of resources, deferred inflows of resources, and pension expense, information about the fiduciary net position of the Kentucky Employees Retirement System (KERS) and Kentucky Teachers Retirement System (KTRS) and additions to/deductions from KERS' and KTRS' fiduciary net position have been determined on the same basis as they are reported by KERS and KTRS. 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)

The KERS and KTRS defined benefit OPEB plans provide other postemployment benefits to eligible retirees participating in the KERS and KTRS pension plans. For purposes of measuring the net OPEB liability, deferred outflows of resources, deferred inflows of resources and OPEB expense, information about the fiduciary net position of KERS and KTRS and additions to/deductions from KERS' and KTRS' fiduciary net position have been determined on the same basis as they are reported by KERS and KTRS. 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.

The KCTCS defined benefit OPEB plan provides other postemployment benefits to eligible retirees participating in the 403(b) defined contribution plan. The KCTCS OPEB plan is funded through an irrevocable trust under IRC Section 115, which was established during the year ended June 30, 2013. The KCTCS OPEB plan recognizes benefit payments when due and payable in accordance with the benefit terms. Investments are reported at fair value.

For purposes of measuring the net OPEB asset or liability, deferred outflows of resources, deferred inflows of resources and OPEB expense, information about the fiduciary net position of the KCTCS OPEB and additions to/deductions from the KCTCS' OPEB fiduciary net position have been determined on the same basis as described, above.

Continued

## KENTUCKY COMMUNITY AND TECHNICAL COLLEGE SYSTEM

Notes to Financial Statements  
June 30, 2019 and 2018

### 1. Organization and Summary of Significant Accounting Policies (Continued)

#### Net Position

Net position is required to be classified for accounting and reporting purposes into the following categories:

- **Net investment in capital:** Capital assets, net of accumulated depreciation and unspent principal balances of debt, attributable to the acquisition, construction or improvement of those assets.
- **Restricted:**
  - Nonexpendable** - Net assets of \$45.2 million is subject to externally imposed stipulations maintained permanently by KCTCS. Such assets include permanent endowment funds.
  - Expendable** - Net assets of \$133.3 million whose use by KCTCS is subject to externally imposed stipulations that can be fulfilled by actions of KCTCS pursuant to those stipulations or that expire by the passage of time.
- **Unrestricted:** Net assets whose use by KCTCS is not subject to externally imposed stipulations. Unrestricted net assets may be designated for specific purposes by action of management or the Board of Regents or may otherwise be limited by contractual agreements with outside parties.

#### Student Tuition and Fees

Student tuition and fees are presented net of bad debt, scholarships and other financial aid applied to student accounts. Payments made directly to students are presented as student financial aid expenses.

#### Scholarship Allowances

Student tuition and fee revenues, and certain other revenues from students, are reported net of scholarship allowances in the Statements of Revenues, Expenses and Changes in Net Position. Scholarship allowances are the difference between the stated charge for goods and services provided and the amount that is paid by students or third parties making payments on the students' behalf. Certain governmental grants and other Federal, state or nongovernmental programs are recorded as either operating or nonoperating revenues in the financial statements. To the extent that revenues from such programs are used to satisfy tuition and fees and other student charges, they are recorded as scholarship allowances.

#### Federal and State Grants and Contracts

Pell Grants, Supplemental Educational Opportunity Grants (SEOG), College Access Program (CAP) Grants and Kentucky Educational Excellence Scholarships (KEES) are considered nonexchange transactions and are recorded as nonoperating revenues in the accompanying financial statements.

#### Operating Activities

KCTCS defines operating activities, as reported in the Statements of Revenues, Expenses and Changes in Net Position, as those that result from exchange transactions, such as payments received for providing goods and services and payments made for goods and services received. Nearly all of KCTCS' expenses are from exchange transactions. Certain significant revenues relied on for operations, such as state appropriations, certain grants, gifts and investment income, are recorded as nonoperating revenues.

#### Income Taxes

KCTCS is an agency and instrumentality of the Commonwealth of Kentucky, pursuant to Kentucky Revised Statutes sections 164.580 thru 164.600. Accordingly, KCTCS is generally exempt from federal income taxes as an organization described in Section 115 of the Internal Revenue Code of 1986.

Continued

## KENTUCKY COMMUNITY AND TECHNICAL COLLEGE SYSTEM

Notes to Financial Statements  
June 30, 2019 and 2018

### 1. Organization and Summary of Significant Accounting Policies (Continued)

#### Restricted Asset Spending Policy

KCTCS' policy is that restrictions on assets cannot be fulfilled by the expenditure of unrestricted funds for similar purposes. The determination of whether restricted or unrestricted funds are expended for a particular purpose is made on a case-by-case basis. Restricted funds remain restricted until spent for the intended purpose.

#### Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to use estimates and assumptions. The accompanying financial statements include estimates for items such as bad debt allowances, fair value of investments, useful lives of capital assets, accrued expenses (vacation, sick, worker's compensation and unemployment), net pension liability, net other postemployment benefit liability and other liability accounts. Actual results could differ from those estimates.

#### Recent Accounting Pronouncements

As of June 30, 2019, the GASB has issued the following statements which KCTCS has not yet implemented:

- GASB Statement 84, *Fiduciary Activities*. This statement establishes requirements for identifying and reporting fiduciary activities of state and local governments. It is effective for periods beginning after December 15, 2018. KCTCS will implement this statement during its fiscal year ending June 30, 2020.
- GASB Statement 87, *Leases*. This statement requires recognition of certain lease assets and liabilities for leases that were previously classified as operating leases. It is effective for periods beginning after December 15, 2019. KCTCS will implement this statement during its fiscal year ending June 30, 2021.
- GASB Statement 89, *Accounting for Interest Cost Incurred Before the End of a Construction Period*. This statement requires that interest cost incurred before the end of a construction period be recognized as an expense in the period in which the cost is incurred. As a result, interest cost incurred will not be included in the historical cost of a capital asset. It is effective for periods beginning after December 15, 2019. KCTCS will implement this statement during its fiscal year ending June 30, 2021.
- GASB Statement 90, *Majority Equity Interest*. This statement requires that majority equity interests be reported as an investment. It is effective for the fiscal year ending June 30, 2020.
- GASB Statement 91, *Conduit Debt Obligations*. This statement requires a single method of reporting conduit debt obligations by issuers. It is effective for the fiscal year ending June 30, 2022.

KCTCS' management has not yet determined the effect these statements will have on KCTCS' financial statements.

#### Subsequent Events

Management has evaluated subsequent events for accounting and disclosure requirements through October 4, 2019, the date that the financial statements were available to be issued.

#### Reclassifications

Certain reclassifications to fiscal 2018 comparative amounts have been made to conform to the 2019 classifications, with no impact on net position or change in net position.

Continued

# KENTUCKY COMMUNITY AND TECHNICAL COLLEGE SYSTEM

## Notes to Financial Statements

June 30, 2019 and 2018

### 2. Loans, Accounts and Pledges Receivable

Loans, accounts and pledges receivable (net of allowances) as of June 30, 2019 and 2018, are as follows (in thousands):

	2019	2018
Student (net of allowances of \$4,215 and \$2,415)	\$ 19,580	\$ 17,890
Other receivables	388	712
Reimbursement receivable – grants and contracts	14,427	12,378
Pledges receivable	1,624	1,689
Accrued interest receivable	36	392
Bridge loans	127	160
Loans receivable from fire districts	2,039	2,240
Total	38,221	35,461
Current portion	35,913	32,866
Non-current portion	\$ 2,308	\$ 2,595

Pledges receivable of \$1.6 million as of June 30, 2019 are expected to be collected primarily over the next ten years, as follows (in thousands):

2020	\$ 945
2021	306
2022	147
2023	84
2024	69
2025-2029	151
	1,702
Present value discount	(78)
	\$ 1,624

KCTCS is required to record operating, endowment and capital pledges as revenue when all eligibility requirements have been met.

Fire commission receivables of \$2.0 million as of June 30, 2019 are expected to be collected primarily over the next thirteen years as follows (in thousands):

2020	\$ 537
2021	399
2022	301
2023	236
2024	197
2025 - 2029	339
2030 - 2032	30
	\$ 2,039

Continued



## KENTUCKY COMMUNITY AND TECHNICAL COLLEGE SYSTEM

### Notes to Financial Statements

June 30, 2019 and 2018

### 3. Investments

Investments are stated at fair value. Investments acquired by gift are stated at fair value at the date of the gift if a fair value is available, and otherwise, at appraised or nominal value. KCTCS has the following investments as of June 30, 2019 and 2018 (in thousands):

<u>Investment Type</u>	<u>Fair Value</u>	
	<u>2019</u>	<u>2018</u>
Bond funds	\$ 27,016	\$ 16,284
Equity funds	48,276	50,052
Other	8,681	5,152
	<u>\$ 83,973</u>	<u>\$ 71,488</u>

Investment types described as "Other", above, include real estate holdings and limited partnerships. Bond funds, equity funds and other funds are invested in fund of funds and are measured at net asset value.

KCTCS has an investment management agreement with the Commonfund. The Commonfund managed \$86.5 million and \$80.9 million of KCTCS' investments at June 30, 2019 and 2018 which includes money market funds of \$2.5 million and \$9.5 million classified as cash and cash equivalents on the Statements of Net Position. The Commonfund was founded in 1969 to serve higher education and not for profit organizations. It currently serves more than 1,350 organizations and has over \$25 billion in assets under management. The Commonfund is unrated.

#### Concentration of Credit Risk

Concentration of credit risk is the risk of loss attributed to the magnitude of a government's investment in a single issuer. KCTCS does not have a formal policy for concentration of credit risk.

#### Interest Rate Risk

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. KCTCS' investment policy does not specifically limit investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

#### Custodial Credit Risk

Custodial credit risk is the risk that, in the event of the failure of the counterparty, KCTCS will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. KCTCS does not have a formal policy for custodial credit risk. As of June 30, 2019 and 2018, all KCTCS U.S. Treasuries, U.S. Agencies, and Corporate Notes were held by the investment's counterparty.

### 4. Fair Value Measurements

KCTCS categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs. Investments that are measured at fair value using the net asset value (NAV) per share, or its equivalent as a practical expedient, are not classified in the fair value hierarchy. In instances where inputs used to measure fair value fall into different levels in the fair value hierarchy, fair value measurements in their entirety are categorized based on the lowest level input that is significant to the valuation. KCTCS' assessment of the significance of particular inputs to these fair value measurements requires judgment and considers factors specific to each asset or liability.

Continued

# KENTUCKY COMMUNITY AND TECHNICAL COLLEGE SYSTEM

Notes to Financial Statements  
June 30, 2019 and 2018

## 4. Fair Value Measurements (Continued)

Investments measured at NAV as of June 30, 2019 (in thousands):

<u>Investment Type</u>	<u>Fair Value Determined Using NAV</u>	<u>Unfunded Commitment</u>	<u>Redemption Terms</u>
Public equities	\$ 45,347	\$ -	Monthly with 5 days notice.
Public equities - natural resources	2,929	-	Daily.
Fixed income equities	3,836	-	Weekly with 5 days notice.
High quality bonds	20,171	-	Weekly and monthly with 5 days notice.
Alternative investments	3,009	-	Six months subsequent to subscription date and semi-annually, thereafter, quarter-end redemption with 95 days notice in increments of \$100,000 or more.
Core real estate	3,176	-	Quarterly with 120 days notice.
Limited partnerships - natural resources	345	1,517	Upon termination of partnership.
Limited partnerships - real estate	1,048	2,185	Upon termination of partnership.
Limited partnerships - other	4,112	3,614	Upon termination of partnership.
	<u>\$ 83,973</u>	<u>\$ 7,316</u>	

Continued



# KENTUCKY COMMUNITY AND TECHNICAL COLLEGE SYSTEM

Notes to Financial Statements  
June 30, 2019 and 2018

## 4. Fair Value Measurements (Continued)

Investments measured at NAV as of June 30, 2018 (in thousands):

<u>Investment Type</u>	<u>Fair Value Determined Using NAV</u>	<u>Unfunded Commitment</u>	<u>Redemption Terms</u>
Public equities	\$ 45,398	\$ -	Monthly with 5 days notice.
Public equities - natural resources	2,546	-	Daily.
Fixed income equities	2,108	-	Weekly with 5 days notice.
High quality bonds	13,934	-	Weekly and monthly with 5 days notice.
Alternative investments	2,350	-	Six months subsequent to subscription date and semi-annually, thereafter, quarter-end redemption with 95 days notice in increments of \$100,000 or more.
Core real estate	1,094	-	Quarterly with 120 days notice.
Limited partnerships - natural resources	349	1,536	Upon termination of partnership.
Limited partnerships - real estate	960	385	Upon termination of partnership.
Limited partnerships - other	2,749	3,900	Upon termination of partnership.
	<u>\$ 71,488</u>	<u>\$ 5,821</u>	

Continued

## KENTUCKY COMMUNITY AND TECHNICAL COLLEGE SYSTEM

Notes to Financial Statements

June 30, 2019 and 2018

### 4. Fair Value Measurements (Continued)

Investment strategies by type are presented, below:

*Public equities.* To outperform the Morgan Stanley Capital International (MSCI) All Country World Index or the Standard & Poor's 500 over a full market cycle.

*Public equities - natural resources.* To approximate the performance of the Standard & Poor's Global Large Midcap Commodity and Resources Index over the long term.

*Hedged equities.* To outperform the MSCI World Index (Local) or 3-Month Treasury Bills.

*Fixed income equities.* To perform at or better than the Bank of America's Merrill Lynch 1-3 Year U.S. Treasury Index.

*High-quality bonds.* To outperform the Barclays Aggregate Bond Index over a full market cycle.

*Alternative investments.* To provide long-term returns that are favorable to those of equity and credit markets on a risk adjusted basis.

*Core real estate.* To provide returns in excess of the National Council of Real Estate Investment Fiduciaries Fund Index - Open End Diversified Core Equity.

*Limited partnerships - natural resources / other.* To obtain long-term capital growth.

*Limited partnerships - real estate.* To obtain income and capital appreciation.

Continued

# KENTUCKY COMMUNITY AND TECHNICAL COLLEGE SYSTEM

## Notes to Financial Statements June 30, 2019 and 2018

### 5. Capital Assets, Net

Capital assets as of June 30, 2019 and 2018 and the changes, therein, are summarized as follows (in thousands):

	2019			
	Beginning Balance	Additions	Transfers/Reductions	Ending Balance
Cost				
Land*	\$ 31,388	\$ -	\$ -	\$ 31,388
Land improvements	23,487	429	-	23,916
Infrastructure	51,379	536	-	51,915
Buildings and structures	839,126	18,120	2,228	855,018
Construction in progress*	54,117	49,280	34,400	68,997
Vehicles	13,768	896	313	14,351
Equipment, furniture, etc.	126,980	13,840	7,425	133,395
Leasehold improvements	7,379	-	-	7,379
Library materials	60,945	605	18,758	42,792
Energy saving assets	39,024	7,169	-	46,193
Computer software	308	-	-	308
Total	1,247,901	90,875	63,124	1,275,652
Less accumulated depreciation				
Land improvements	7,359	500	-	7,859
Infrastructure	20,967	2,050	-	23,017
Buildings and structures	318,090	19,233	365	336,958
Vehicles	10,730	1,290	313	11,707
Equipment, furniture, etc.	85,761	9,299	6,849	88,211
Leasehold improvements	6,800	73	-	6,873
Library materials	59,754	388	18,758	41,384
Energy saving assets	13,355	3,394	-	16,749
Computer software	308	-	-	308
Total accumulated depreciation	523,124	36,227	26,285	533,066
Capital assets, net	\$ 724,777	\$ 54,648	\$ 36,839	\$ 742,586

	2018			
	Beginning Balance	Additions	Transfers/Reductions	Ending Balance
Cost				
Land*	\$ 33,042	\$ -	\$ 1,654	\$ 31,388
Land improvements	19,038	4,449	-	23,487
Infrastructure	50,419	3,868	2,908	51,379
Buildings and structures	763,472	89,594	13,940	839,126
Construction in progress*	87,634	88,670	122,187	54,117
Vehicles	13,384	761	377	13,768
Equipment, furniture, etc.	117,884	13,091	3,995	126,980
Leasehold improvements	7,379	-	-	7,379
Library materials	60,945	-	-	60,945
Energy saving assets	33,056	5,968	-	39,024
Equine*	10	-	10	-
Computer software	1,188	-	880	308
Total	1,187,451	206,401	145,951	1,247,901
Less accumulated depreciation				
Land improvements	6,914	445	-	7,359
Infrastructure	20,660	2,064	1,757	20,967
Buildings and structures	304,394	18,361	4,665	318,090
Vehicles	9,919	1,185	374	10,730
Equipment, furniture, etc.	80,385	9,018	3,642	85,761
Leasehold improvements	6,727	73	-	6,800
Library materials	59,174	580	-	59,754
Energy saving assets	10,271	3,084	-	13,355
Computer software	1,188	-	880	308
Total accumulated depreciation	499,632	34,810	11,318	523,124
Capital assets, net	\$ 687,819	\$ 171,591	\$ 134,633	\$ 724,777

\*Non-depreciable

Continued



# KENTUCKY COMMUNITY AND TECHNICAL COLLEGE SYSTEM

Notes to Financial Statements  
June 30, 2019 and 2018

## 6. Unearned Revenue

Unearned revenue as of June 30, 2019 and 2018 is as follows (in thousands):

	2019	2018
Unearned summer tuition revenue	\$ 9,532	\$ 8,601
Grants and contracts	2,404	2,005
	<u>\$ 11,936</u>	<u>\$ 10,606</u>

## 7. Noncurrent Liabilities

Noncurrent liabilities as of June 30, 2019 and 2018 are summarized as follows (in thousands):

	2019					
	Beginning Balance	Additions	Reductions	Ending Balance	Current Portion	Non Current Portion
Leases payable						
Capital leases payable	\$172,627	\$ 19,459	\$ 25,813	\$166,273	\$ 8,929	\$157,344
Total leases payable	<u>172,627</u>	<u>19,459</u>	<u>25,813</u>	<u>166,273</u>	<u>8,929</u>	<u>157,344</u>
Other liabilities						
Compensated absences	9,303	13,620	13,671	9,252	925	8,327
Net pension liability	314,222	-	63,642	250,580	-	250,580
Net other postemployment benefit liability	62,317	-	6,364	55,953	-	55,953
Total other liabilities	<u>385,842</u>	<u>13,620</u>	<u>83,677</u>	<u>315,785</u>	<u>925</u>	<u>314,860</u>
Total noncurrent liabilities	<u>\$558,469</u>	<u>\$ 33,079</u>	<u>\$109,490</u>	<u>\$482,058</u>	<u>\$ 9,854</u>	<u>\$472,204</u>
	2018					
	Beginning Balance	Additions	Reductions	Ending Balance	Current Portion	Non Current Portion
Leases payable						
Capital leases payable	\$149,564	\$ 32,980	\$ 9,917	\$172,627	\$ 22,113	\$150,514
Total leases payable	<u>149,564</u>	<u>32,980</u>	<u>9,917</u>	<u>172,627</u>	<u>22,113</u>	<u>150,514</u>
Other liabilities						
Compensated absences	10,312	13,746	14,755	9,303	930	8,373
Net pension liability	445,241	-	131,019	314,222	-	314,222
Net other postemployment benefit liability	1,354	60,963	-	62,317	-	62,317
Total other liabilities	<u>456,907</u>	<u>74,709</u>	<u>145,774</u>	<u>385,842</u>	<u>930</u>	<u>384,912</u>
Total noncurrent liabilities	<u>\$606,471</u>	<u>\$107,689</u>	<u>\$155,691</u>	<u>\$558,469</u>	<u>\$ 23,043</u>	<u>\$535,426</u>

Continued

# KENTUCKY COMMUNITY AND TECHNICAL COLLEGE SYSTEM

## Notes to Financial Statements

June 30, 2019 and 2018

### 7. Noncurrent Liabilities (Continued)

Capital leases consist of the following at June 30, 2019 and 2018 (in thousands):

	2019	2018
Computer equipment and software capitalized leases, all with 1 to 5 year remaining terms with total annual payments ranging from \$1,095 to \$195,705 and interest rates from 0.3% to 4%.	\$ 850	\$ 1,005
Energy savings capitalized leases with 5 to 16 year remaining terms, total annual payments ranging from \$115,120 to \$1,035,057 and interest rates from 1.96% to 4.65%.	40,787	30,635
Building capitalized leases with 2 - 14 year remaining terms, total annual payments ranging from \$99,960 to \$1,069,236 and interest rates ranging from 2.34% to 4.00%.	7,597	3,143
Copier and software leases, with 1 to 5 year remaining terms, total annual payments ranging from \$58 to \$295,800 and interest rates of 4%.	457	534
Construction, renovation and design projects with 5 to 19 year remaining terms, annual payments beginning at \$4,070,000 and increasing to \$7,680,000 and interest rates of 2.63% to 3.56%.	116,582	137,310
	<u>\$ 166,273</u>	<u>\$ 172,627</u>

Principal maturities and interest on capital leases payable for the next five years and in subsequent five-year periods as of June 30, 2019 are as follows (in thousands):

Fiscal Year	Principal	Interest	Total
2020	\$ 8,929	\$ 5,418	\$ 14,347
2021	8,818	5,671	14,489
2022	8,964	5,171	14,135
2023	8,998	4,933	13,931
2024	20,226	4,445	24,671
2025-2029	43,892	17,520	61,412
2030-2034	45,630	9,064	54,694
2035-2038	20,816	1,284	22,100
	<u>\$ 166,273</u>	<u>\$ 53,506</u>	<u>\$ 219,779</u>

Continued

## KENTUCKY COMMUNITY AND TECHNICAL COLLEGE SYSTEM

Notes to Financial Statements  
June 30, 2019 and 2018

### 7. Noncurrent Liabilities (Continued)

KCTCS has entered into three significant lease agreements with the Commonwealth of Kentucky. The purpose of these leases is to finance construction, renovation and design projects for campus facilities, which were approved under House Bill 235 (2014), and House Bill 303 (2016) of the General Assembly of the Commonwealth of Kentucky. KCTCS has pledged as collateral general receipts, including student registration fees, and its debt service account. The first agreement was entered into on May 1, 2016 in the amount of \$50.6 million and included a premium of \$6.0 million and bond issuance costs of \$329,204. The second agreement was entered into on April 12, 2017 in the amount of \$65.6 million and included a premium of \$5.5 million, bond issuance costs of \$396,563 and prepaid insurance of \$252,315. The third agreement was entered into on June 20, 2018 in the amount of \$27.8 million and included issuance costs of \$48,000. This lease requires variable interest only payments. As of June 30, 2019, the interest rate was 2.63%. KCTCS may elect to make an annual principal payment on this lease.

#### Operating Leases

KCTCS is obligated under several operating leases for office equipment, classroom space, and office space with expirations through June 2035. Rent expense was \$2.6 million in each fiscal year ended June 30, 2019 and 2018. Future minimum lease payments as of June 30, 2019 are as follows (in thousands):

2020	\$ 2,248
2021	1,816
2022	1,356
2023	1,257
2024	1,207
Thereafter	2,834
	<u>\$ 10,718</u>

#### Sale-Leaseback

Maysville Community and Technical College sold its Rowan Campus during the fiscal year ended June 30, 2016 and leased the campus back for \$29,666 per month through June 30, 2019. KCTCS reported a gain of \$3.7 million upon termination of the sale-leaseback agreement for the fiscal year ended June 30, 2019 and deferred inflows of \$3.7 million and a gain of \$277,554 as of and for the fiscal year ended June 30, 2018.

### 8. Risk Management

KCTCS is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions, injuries to employees, and natural disasters. These risks are covered by (1) the State Fire and Tornado Insurance Fund (the Fund), (2) Sovereign Immunity and the State Board of Claims, or (3) in the case of risks not covered by the Fund and Sovereign Immunity, commercial insurance. The Fund covers losses to property from fire, wind, earthquake, flood, and other named perils between \$5,000 and \$1.0 million. Losses in excess of \$1.0 million are insured by commercial carriers under contract with the State Fire and Tornado Insurance Fund up to a maximum of \$1.5 billion per occurrence.

The Commonwealth of Kentucky is covered by sovereign immunity. Per KRS 44.073, state institutions of higher education, including KCTCS, under KRS Chapter 164 are considered agencies of the state. As such, KCTCS is covered by the Board of Claims for acts of negligence up to \$200,000 for a single claim and an aggregate of \$350,000 per negligent act. The Board has primary and exclusive jurisdiction over all acts of negligence for state institutions of higher education. For risks not covered by sovereign immunity, KCTCS has purchased commercial insurance policies covering risks of loss due to damage to property and automobiles, general and automobile liability claims, employee dishonesty, and student accidents.

Continued



## KENTUCKY COMMUNITY AND TECHNICAL COLLEGE SYSTEM

Notes to Financial Statements  
June 30, 2019 and 2018

### 8. Risk Management (Continued)

KCTCS has general liability insurance with an aggregate total limit of \$3.0 million and a per occurrence limit of \$1.0 million without a deductible. An umbrella policy extends the liability aggregate total limit to \$10.0 million with a per occurrence limit of \$10.0 million without a deductible.

Educator's Legal Liability coverage has been secured through commercial insurance to insure KCTCS' faculty and staff against claims arising from actions undertaken within the scope of their job responsibilities. This coverage also extends to the KCTCS Board of Regents. The limit is \$2.0 million without a deductible. There have been no significant reductions in insurance coverage from 2018 to 2019. Settlements have not exceeded insurance coverage during the past three years.

Limited Professional Liability insurance has been obtained, which covers all faculty and students who participate in allied health programs. The coverage carries a \$1.0 million per claim limit and \$3.0 million annual aggregate with a \$10,000 deductible. International Liability insurance has been obtained for employee and/or student trips to other countries that meet the required criteria. A broad list of coverages with various limits are provided by this insurance.

Cyber Liability insurance has been obtained, which covers, but is not limited to fraud loss, extortion threats, public relations expenses, ransomware loss, telecommunications loss, and business interruption costs. The coverage carries a \$1.0 million annual aggregate limit with a \$25,000 deductible.

### 9. Natural Classification

Operating expenses by natural classification are as follows for years ended June 30 (in thousands):

	2019	2018
Salaries and wages	\$ 237,459	\$ 241,539
Student scholarships and financial aid	67,451	65,230
Employee benefits	38,154	77,481
Depreciation	36,227	34,810
Professional services	18,949	19,337
Fire commission incentive	15,675	15,263
Utilities	14,355	14,987
Supplies	13,355	12,615
Equipment not capitalized	11,776	22,059
Repairs and maintenance	10,664	9,656
Fire commission state aid	7,524	7,667
Communications	6,815	6,750
Fire commission pension	5,231	4,592
Travel	4,267	3,920
Fire commission workers compensation	3,384	3,662
Dues & subscriptions	3,356	2,978
Insurance	2,681	2,619
Rental/lease	2,595	2,627
Grants administrative cost	1,900	2,430
Advertising	1,694	2,400
Fire commission grant	329	1,651
Other, various	6,282	5,504
	<u>\$ 510,123</u>	<u>\$ 559,777</u>

Continued

## KENTUCKY COMMUNITY AND TECHNICAL COLLEGE SYSTEM

Notes to Financial Statements

June 30, 2019 and 2018

### 10. Pension Plans

Regular full-time employees of KCTCS, faculty and staff, are required to participate in a retirement plan.

Regular full-time employees subject to KCTCS personnel policies had the opportunity to choose between a defined benefit plan and a defined contribution 403(b) plan prior to January 1, 2014. Effective January 1, 2014, regular full-time and some part-time employees (those who work 25 or more hours per week) only have the option to elect participation in the defined contribution 403(b) plan due to a change in Board of Regents Policy. For new employees, the election to participate in the defined contribution 403(b) plan is made in the first 30 days of regular full-time employment or if they meet the criteria of part-time employees as outlined above, within the first 30 days of employment or after a 90-day look-back period to determine if the eligibility criteria have been satisfied. Employees hired with an effective date of July 1, 2009, or after, who choose the 403(b) plan option of retirement have a five-year vesting period (60 months) of continuous service to be eligible to receive the employee's accrued benefits derived from employer contributions. These employees are immediately vested for employee accrued contributions. Other employees already enrolled in the 403(b) plan option prior to July 1, 2009 do not have the vesting period requirement and are vested with employee and employer contributions from the date of initial employment.

Employees that have a break in service and are rehired with an effective date of July 1, 2009, or after, default to having the five year vesting period (60 months) of continuous service to be eligible to receive the employee's accrued benefits derived from employer contributions from the date of rehire. These employees are immediately vested for employee accrued contributions. The 403(b) plan may not be amended.

KCTCS has authorized four 403(b) retirement plan carriers as follows:

American Century Investors, Inc.

Fidelity Investments

Voya Financial

Teachers Insurance and Annuity Association/College Retirement Equities Fund (TIAA/CREF)

Regular full-time employees that were employed by antecedent organizations prior to the creation of KCTCS, either from a community or technical college, that voluntarily elected to join the KCTCS personnel system could choose a retirement option based on each employee's eligibility criteria. The defined benefit plans, KTRS or KERS, have a 5-year vesting period. Employer contributions that are forfeited by employees prior to vesting are used to reduce future employer contributions.

Regular full-time employees who have not opted for KCTCS personnel policies and benefits and who were employed before January 14, 1998 at a community college are subject to the personnel policies of the University of Kentucky personnel system and are participants of the University of Kentucky Retirement Plan. Participants contribute 5 percent and KCTCS contributes 10 percent of the participant's eligible compensation to the retirement plan. The University of Kentucky has authorized two retirement plan carriers, as follows:

Fidelity Institutional Services Company

Teachers Insurance and Annuity Association/College Retirement Equities Fund (TIAA/CREF)

Regular full-time employees who have not opted for KCTCS personnel policies and benefits, who were employed at a technical college before June 30, 1998, are participants in either KTRS (Kentucky Teachers Retirement System) or KERS (Kentucky Employees Retirement System) depending on the requirements of the position. Both KTRS and KERS are cost-sharing multiple employer plans.

KCTCS' contributions and costs for all of its retirement plans for 2019 and 2018 were \$29.1 million and \$30.7 million, respectively; employees contributed \$13.3 million and \$13.9 million for 2019 and 2018. KCTCS total payroll costs for employees in a retirement plan were \$212.1 million and \$218.3 million for 2019 and 2018.

Continued



# KENTUCKY COMMUNITY AND TECHNICAL COLLEGE SYSTEM

## Notes to Financial Statements

June 30, 2019 and 2018

### 10. Pension Plans (Continued)

#### Kentucky Teachers Retirement System (KTRS)

Pursuant to the provisions of KRS 161.250, the Board of Trustees of KTRS is vested with the responsibility for the general administration and management of the retirement system. The Board may adopt procedures necessary to conduct the business of the retirement system. The applicable provisions of the Kentucky Revised Statutes shall control if any inconsistency exists between state law and this policy. KTRS issues a publicly available financial report that includes financial statements and required supplementary information. That report may be obtained by writing to Kentucky Teacher's Retirement Systems, 479 Versailles Road, Frankfort, Kentucky 40601 or by calling (502)573-3266 or visiting the website at <https://trs.ky.gov/>.

**Benefits Provided** - KTRS provides retirement, disability, and death benefits. Each employee covered by KTRS is entitled to a monthly benefit based upon their months of service multiplied by the average of 5 full fiscal years of salary (highest 5 or last 3 based on date of participation) upon attainment of KTRS specified age (or age and service combinations). Participants have a fully vested interest after completion of 60 months of service, 12 of which are current service. Retirement benefits are generally determined as 2.5 percent of the employee's final 3-year average compensation times the employee's years of service. Employees with 5 years of continuous service are eligible to retire at age 60 or at any age with 27 years of service. Employees are eligible for service-related disability benefits regardless of length of service. Five years of service is required for nonservice-related disability eligibility. Disability benefits are determined in the same manner as retirement benefits but are payable immediately without an actuarial reduction. Service and disability retirees are covered by a \$5,000 life insurance benefit.

**Contributions** - Benefit and contribution rates are established by state statute. Per Kentucky Revised Statutes 161.340, 161.550, and 161.565 contribution requirements of the active employees and the participating organizations are established and may be amended by the KTRS Board. Depending on the participant's personnel classification, employees were required to contribute 8.185 percent or 12.855 percent for fiscal years June 30, 2019 and 2018. KCTCS' contribution, actuarially determined as an amount that, when combined with employee contributions, is expected to finance the cost of benefits earned (pension, health and life insurance) during the year, with an additional amount to finance any unfunded accrued liability was 15.865 percent for fiscal years June 30, 2019 and 2018. Contributions to the pension plan from KCTCS were \$4.0 million and \$4.7 million for years ended June 30, 2019 and 2018.

**Pension Liability, Pension Expense, Deferred Outflows of Resources and Deferred Inflows of Resources** - At June 30, 2019 and 2018, KCTCS reported a liability for its proportionate share of the net pension liability that reflected a reduction for State pension support provided to KCTCS. The amount recognized by KCTCS as its proportionate share of the net pension liability, the related State support, and the total portion of the net pension liability that was associated with KCTCS are as follows:

	2019	2018
KCTCS proportionate share of the net pension liability	\$ 54,584,240	\$ 113,107,083
State's proportionate share of the net pension liability associated with KCTCS	56,661,677	127,090,483
Total	<u>\$ 111,245,917</u>	<u>\$ 240,197,566</u>

KCTCS' net pension liability was measured as of June 30, 2018 and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of June 30, 2017. KCTCS' proportion of the net pension liability was based on actual contributions during the measurement period of July 1, 2017 through June 30, 2018. At June 30, 2019 and 2018, KCTCS' proportion was 0.40 percent and the Commonwealth's proportion was 0.41 percent and 0.45 percent.

Continued



# KENTUCKY COMMUNITY AND TECHNICAL COLLEGE SYSTEM

## Notes to Financial Statements

June 30, 2019 and 2018

### 10. Pension Plans (Continued)

**Pension Liability, Pension Expense, Deferred Outflows of Resources and Deferred Inflows of Resources** (continued) - For years ended June 30, 2019 and 2018, KCTCS recognized pension income related to KTRS of \$41.8 million and \$26.9 million and income of \$6.8 million and \$8.7 million for support provided by the Commonwealth. KCTCS reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	June 30, 2019	
	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 432,569	\$ 3,102,810
Changes in assumptions	9,073,006	46,329,193
Net difference between projected and actual earnings on pension plan investments	-	1,665,092
Changes in proportion and differences between KCTCS contributions and proportionate share of contributions	1,053,463	71,415,254
KCTCS contributions subsequent to the measurement date	4,045,550	-
Total	<u>\$ 14,604,588</u>	<u>\$ 122,512,349</u>

	June 30, 2018	
	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 629,708	\$ 1,427,139
Changes in assumptions	13,646,288	7,690,954
Net difference between projected and actual earnings on pension plan investments	-	817,518
Changes in proportion and differences between KCTCS contributions and proportionate share of contributions	-	100,174,719
KCTCS contributions subsequent to the measurement date	4,663,172	-
Total	<u>\$ 18,939,168</u>	<u>\$ 110,110,330</u>

Continued

# KENTUCKY COMMUNITY AND TECHNICAL COLLEGE SYSTEM

Notes to Financial Statements  
June 30, 2019 and 2018

## 10. Pension Plans (Continued)

**Pension Liability, Pension Expense, Deferred Outflows of Resources and Deferred Inflows of Resources** (continued) - As of June 30, 2019, KCTCS reported \$4.0 million as deferred outflows of resources related to pensions resulting from KCTCS' contributions subsequent to the measurement date, which will be recognized as a reduction of the net pension liability in the year ended June 30, 2020. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Years ended June 30:	
2020	\$ (42,283,586)
2021	(41,117,794)
2022	(22,916,385)
2023	(5,635,546)
	<u>\$ (111,953,311)</u>

**Actuarial Assumptions** - Total pension liability (TPL) in the June 30, 2017 and 2016 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Valuation date	June 30, 2017 and 2016
Inflation	3.00%
Salary increases	3.50% - 7.30%, average, including inflation
Investment rate of return	7.50%, net of pension plan investment expense, including inflation
Municipal bond index rate	3.89% and 3.56%
Single equivalent interest rate	7.50% and 4.49%

Mortality rates were based on the RP-2000 Combined Mortality Table for Males or Females, as appropriate, with adjustments for mortality improvements based on a projection of Scale BB to 2025, set forward two years for males and one year for females.

The actuarial assumptions used in the June 30, 2017 valuation were based on the results of an actuarial experience study for the period July 1, 2010 - June 30, 2015 adopted by the KTRS Board on November 19, 2016.

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

Continued

# KENTUCKY COMMUNITY AND TECHNICAL COLLEGE SYSTEM

## Notes to Financial Statements

June 30, 2019 and 2018

### 10. Pension Plans (Continued)

**Actuarial Assumptions** (continued) - The target allocation and best estimates of arithmetic real rates of return for each major asset class for the June 30, 2018 and 2017 actuarial valuations as provided by KTRS' investment consultant, are summarized below:

Asset Class	June 30, 2018		June 30, 2017	
	Target Allocation	Long-Term Expected Real Rate of Return	Target Allocation	Long-Term Expected Real Rate of Return
U.S. Equity	40%	4.20%	42%	4.40%
International Equity	22%	5.20%	20%	5.30%
Fixed Income	15%	1.20%	16%	1.50%
Additional Categories*	8%	3.30%	9%	3.60%
Real Estate	6%	3.80%	5%	4.40%
Private Equity	7%	6.30%	6%	6.70%
Cash	2%	0.90%	2%	0.80%
Total	100%		100%	

\* Includes hedge funds, high yield, non-U.S. developed bonds and private credit strategies.

**Changes in Assumptions and Benefit Terms Since Prior Measurement Date** - The TPL as of June 30, 2018 reflects the assumed municipal bond index rate increase from 3.56 percent to 3.89 percent, resulting in a change in the Single Equivalent Interest Rate (SEIR) from 4.49 percent to 7.50 percent. The impact of this change in the discount rate is a change in assumption that is added to expected TPL to determine the final TPL at June 30, 2018. The TPL as of June 30, 2017 reflects the assumed municipal bond index rate increase from 3.01 percent to 3.56 percent, resulting in a change in the Single Equivalent Interest Rate (SEIR) from 4.20 percent to 4.49 percent. The impact of this change in the discount rate is a change in assumption that is added to expected TPL to determine the final TPL at June 30, 2017. Based on those assumptions, at the June 30, 2017 measurement date, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members until the 2038 plan year. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments through 2037 and a municipal bond index rate of 3.56% was applied to all periods of projected benefit payments after 2037. The Single Equivalent Interest Rate (SEIR) that discounts the entire projected benefit stream to the same amount as the sum of the present values of the two separate benefit payments streams was used to determine the total pension liability (TPL).

**Changes Since Measurement Date** - There were no changes between the measurement date of the collective net pension liability and KCTCS reporting date that are expected to have a significant effect on KCTCS' proportionate share of the collective net pension liability.

**Discount Rate** - The discount rate used to measure the TPL was 7.50 percent and 4.49 percent at June 30, 2018 and 2017. The projection of cash flows used to determine the discount rate assumed that plan member contributions will be made at the current contribution rates and that employer contributions will be made at the actuarially determined contribution rates, adjusted by 95%, for all fiscal years in the future. Based on those assumptions, at the June 30, 2018 measurement date, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Continued



# KENTUCKY COMMUNITY AND TECHNICAL COLLEGE SYSTEM

## Notes to Financial Statements

June 30, 2019 and 2018

### 10. Pension Plans (Continued)

#### Sensitivity of KCTCS' Proportionate Share of the Net Pension Liability to Changes in the Discount Rate -

The following presents the net pension liability as well as what the net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower or 1-percentage-point higher than the current discount rate:

	June 30, 2019		
	1% Decrease (6.50%)	Current Discount Rate (7.50%)	1% Increase (8.50%)
KCTCS' proportionate share of the collective net pension liability	\$69,969,099	\$54,584,240	\$41,642,659
	June 30, 2018		
	1% Decrease (3.49%)	Current Discount Rate (4.49%)	1% Increase (5.49%)
KCTCS' proportionate share of the collective net pension liability	\$140,205,713	\$113,107,083	\$90,866,365

**Pension Plan Fiduciary Net Position** - Detailed information about the fiduciary net position is available in separately issued KTRS financial reports.

#### Kentucky Employees Retirement System (KERS)

The employees provided with pensions through the Kentucky Employees Retirement System (KERS) are in a defined benefit pension plan administered by the Kentucky Retirement System (KRS). Kentucky Revised Statute 61.645 grants the Board of Trustees of KRS the authority to administer KERS. KERS issues a publicly available financial report that includes financial statements and required supplementary information. That report may be obtained by writing to Kentucky Retirement Systems, Perimeter Park West, 1260 Louisville Road, Frankfort, Kentucky 40601-6124 or by calling (502)696-8800.

**Benefits Provided** - KERS provides retirement, disability, and death benefits. Each employee covered by KERS is entitled to a monthly benefit based upon their months of service multiplied by the average of 5 full fiscal years of salary (highest 5 or last 5 based on date of participation) upon attainment of KERS specified age (or age and service combinations). Participants have a fully vested interest after the completion of 60 months of service.

Retirement benefits are determined as a percent of the employee's final 5-year average compensation times the employee's years of service. Employees hired prior to September 1, 2008 can retire at any age with 27 years of service or at age 65 with 4 years of service. Employees hired after September 1, 2008 can retire when their age plus years of service equals 87 (must be at least age 57) or at age 65 with 5 years of service. Employees are eligible for service-related disability benefits regardless of length of service. Five years of service is required for nonservice-related disability eligibility. Disability benefits are determined based on participation date. Death benefits are based on age, months of service and whether the employee was active or retired.

Continued

# KENTUCKY COMMUNITY AND TECHNICAL COLLEGE SYSTEM

## Notes to Financial Statements

June 30, 2019 and 2018

### 10. Pension Plans (Continued)

**Contributions** - Benefit and contribution rates are established by state statute. Per Kentucky Revised Statute 61.565(3) contribution requirements of active employees and participating organizations are established and may be amended by the KRS Board. KERS participants hired with an effective date prior to September 1, 2008 contribute 5 percent of their covered compensation; KCTCS contributed 49.47 percent for years ended June 30, 2019 and 2018.

KERS participants hired with an effective date on or after September 1, 2008 contribute 6 percent of their covered compensation; KCTCS contributed 49.47 percent for years ended June 30, 2019 and 2018. These amounts were actuarially determined as an amount that, when combined with employee contributions, is expected to finance the cost of benefits (41.06 percent for pension and 8.41 percent for health insurance for years ended June 30, 2019 and 2018) earned by employees during the year, with an additional amount to finance any unfunded accrued liability.

Contributions to the pension plan from KCTCS were \$8.2 million and \$9.0 million for years ended June 30, 2019 and 2018.

**Pension Liability, Pension Expense, Deferred Outflows of Resources and Deferred Inflows of Resources** - At June 30, 2019 and 2018, KCTCS reported a liability of \$196.0 million and \$201.1 million for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2018 and 2017 and the TPL used to calculate the net pension liability was determined by an actuarial valuation as of June 30, 2017, rolled-forward for June 30, 2018.

KCTCS' proportion of the net pension liability was based on actual contributions made to KERS during the measurement period to determine the proportionate share of each participating employer. At June 30, 2019 and 2018, KCTCS' proportion was 1.44 percent and 1.50 percent.

For years ended June 30, 2019 and 2018, KCTCS recognized pension expense of \$2.8 million and \$9.2 million related to KERS. KCTCS reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	June 30, 2019	
	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 1,396,060	\$ 548,204
Changes in assumptions	8,752,754	-
Net difference between projected and actual earnings on pension plan investments	1,468,965	1,281,851
Changes in proportion and differences between KCTCS contributions and proportionate share of contributions	-	12,394,199
KCTCS contributions subsequent to the measurement date	8,204,598	-
Total	\$ 19,822,377	\$ 14,224,254

Continued



# KENTUCKY COMMUNITY AND TECHNICAL COLLEGE SYSTEM

Notes to Financial Statements  
June 30, 2019 and 2018

## 10. Pension Plans (Continued)

### Pension Liability, Pension Expense, Deferred Outflows of Resources and Deferred Inflows of Resources (continued) -

	June 30, 2018	
	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 35,772	\$ 1,295,083
Changes in assumptions	25,516,233	-
Net difference between projected and actual earnings on pension plan investments	2,513,408	1,540,872
Changes in proportion and differences between KCTCS contributions and proportionate share of contributions	-	20,706,554
KCTCS contributions subsequent to the measurement date	9,032,362	-
Total	<u>\$ 37,097,775</u>	<u>\$ 23,542,509</u>

As of June 30, 2019, KCTCS reported \$8.2 million as deferred outflows of resources related to pensions resulting from KCTCS' contributions subsequent to the measurement date, which will be recognized as a reduction of the net pension liability in the year ended June 30, 2020. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Years ended June 30:	
2020	\$ (955,238)
2021	(1,143,132)
2022	(386,873)
2023	(121,232)
	<u>\$ (2,606,475)</u>

**Actuarial Assumptions** - The total pension liability (TPL) for KERS was determined by applying procedures to the actuarial valuation as of June 30, 2018 and 2017. The financial reporting actuarial valuation as of June 30, 2018 and 2017 used the following actuarial methods and assumptions applied to all prior periods included in the measurement:

Valuation date	June 30, 2018 (rolled forward) and 2017
Experience study	July 1, 2008 - June 30, 2013
Actuarial cost method	Entry age normal
Amortization method	Level percentage of payroll, closed
Remaining amortization period	26 years
Asset valuation method	5-year smoothed market
Inflation	2.30%
Salary increase	3.05%, average, including inflation
Investment rate of return	5.25%, net of pension plan investment expense, including inflation

Continued

# KENTUCKY COMMUNITY AND TECHNICAL COLLEGE SYSTEM

## Notes to Financial Statements

June 30, 2019 and 2018

### 10. Pension Plans (Continued)

**Actuarial Assumptions** (continued) - The mortality table used for active members is RP-2000 Combined Mortality Table projected with Scale BB to 2013, multiplied by 50% for males and 30% for females. For healthy retired members and beneficiaries, the mortality table used is the RP-2000 Combined Mortality Table projected with Scale BB to 2013, setback for one year for females. For disabled members, the RP-2000 Combined Disabled Mortality Table projected with Scale BB to 2013, set back four years for males, is used for the period after disability retirement.

The long-term expected rate of return was determined by using a building-block method in which best-estimate ranges of expected future real rate of returns are developed for each asset class. The ranges are combined by weighting the expected future real rate of return by the target asset allocation percentage.

The net pension liability as of June 30, 2018 is based on the June 30, 2017 actuarial valuation rolled-forward. Deferred outflows and inflows related to differences between projected and actual earnings on plan investments are netted and amortized over a closed five-year period.

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

Asset Class	June 30, 2018		June 30, 2017	
	Target Allocation	Long-Term Nominal Rate of Return	Target Allocation	Long-Term Nominal Rate of Return
Combined Equity	35%	5.77%	35%	13.13%
Global Bonds	10%	3.00%	10%	2.63%
Global Credit	17%	4.59%	17%	3.63%
Core Real Estate	5%	7.00%	5%	6.63%
Absolute Return	10%	5.00%	10%	5.63%
Real Return	10%	5.00%	10%	5.13%
Private Equity	10%	6.50%	10%	8.25%
Cash Equivalent	3%	1.50%	3%	1.88%
Total	100%		100%	

**Changes in Assumptions and Benefit Terms Since Prior Measurement Date** - There were no changes in assumptions as of June 30, 2018. The final TPL as of June 30, 2017 reflects a decrease in the assumed investment rate of return from 6.75 percent to 5.25 percent; a decrease in the assumed rate of inflation from 3.25 percent to 2.30 percent which also resulted in a 0.95% decrease in the salary increase assumption at all years of service. The payroll growth assumption was changed from 4.00% to 0.00% as of June 30, 2017. However, during the 2018 legislative session, House Bill 185 was enacted, which updated the benefit provisions for active members who die in the line of duty. Benefits paid to the spouses of deceased members have been increased from 25% of the member's final rate of pay to 75% of the member's average pay.

If the member does not have a surviving spouse, benefits paid to surviving dependent children have been increased from 10% of the member's final pay rate to 50% of average pay for one child, 65% of average pay for two children, or 75% of average pay for three children. The TPL as of June 30, 2018 is determined using these updated benefit provisions.

**Changes Since Measurement Date** - There were no changes between the measurement date of the collective net pension liability and the KCTCS reporting date that are expected to have a significant effect on KCTCS proportionate share of the collective net pension liability.

Continued



# KENTUCKY COMMUNITY AND TECHNICAL COLLEGE SYSTEM

Notes to Financial Statements  
June 30, 2019 and 2018

## 10. Pension Plans (Continued)

**Discount Rate** - The discount rate used to measure the total pension liability was 5.25 percent at June 30, 2018 and 2017. The projection of cash flows used to determine the discount rate assumed that contributions from plan members and employers will be made at the actuarially determined contribution rate. Based on those assumptions, the pension plan's fiduciary net position and future contributions were projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability. The projection of cash flows used to determine the single discount rate assumes that the Commonwealth of Kentucky contributes the actuarially determined contribution in all future years.

**Sensitivity of KCTCS' Proportionate Share of the Net Pension Liability to Changes in the Discount Rate** - The following presents the net pension liability as well as what the net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower or 1-percentage-point higher than the current discount rate:

	June 30, 2019		
	1% Decrease (4.25%)	Current Discount Rate (5.25%)	1% Increase (6.25%)
KCTCS' proportionate share of the collective net pension liability	\$223,283,971	\$195,995,711	\$173,268,018

	June 30, 2018		
	1% Decrease (4.25%)	Current Discount Rate (5.25%)	1% Increase (6.25%)
KCTCS' proportionate share of the collective net pension liability	\$229,627,164	\$201,114,505	\$177,407,635

**Pension Plan Fiduciary Net Position** - Detailed information about the pension plans' fiduciary net position is available in the separately issued KERS financial reports.

The following tables summarize KCTCS' net pension liability, deferred inflows and outflows of resources and pension (income) expense recognized for the fiscal years ending June 30, 2019 and 2018:

	June 30, 2019		
	KERS	KTRS	Total
Net pension liability	\$ 195,995,711	\$ 54,584,240	\$ 250,579,951
Deferred outflows of resources	\$ 19,822,377	\$ 14,604,588	\$ 34,426,965
Deferred inflows of resources	\$ 14,224,254	\$ 122,512,349	\$ 136,736,603
Pension (income) expense recognized	\$ 2,838,349	\$ (41,786,244)	\$ (38,947,895)

Continued

# KENTUCKY COMMUNITY AND TECHNICAL COLLEGE SYSTEM

## Notes to Financial Statements

June 30, 2019 and 2018

### 10. Pension Plans (Continued)

	June 30, 2018		
	KERS	KTRS	Total
Net pension liability	\$ 201,114,505	\$ 113,107,083	\$ 314,221,588
Deferred outflows of resources	\$ 37,097,775	\$ 18,939,168	\$ 56,036,943
Deferred inflows of resources	\$ 23,542,509	\$ 110,110,330	\$ 133,652,839
Pension (income) expense recognized	\$ 9,162,578	\$ (26,879,404)	\$ (17,716,826)

### 11. Postemployment Benefit Plans (OPEB)

KCTCS employees hired prior to July 1, 2009 participate in either the KCTCS Retiree Health OPEB Plan, the Kentucky Teachers Retirement System OPEB Plan or the Kentucky Employees Retirement System OPEB Plan depending on the retirement plan in which they participate. Employees hired after July 1, 2009 and before January 1, 2014 participate in either the Kentucky Teachers Retirement System OPEB Plan or the Kentucky Employees Retirement System OPEB Plan. Each OPEB plan is described in detail in the following section.

#### Kentucky Teachers Retirement System (KTRS) OPEB Plan

The KTRS OPEB Plan is a cost-sharing multiple-employer defined benefit OPEB plan with a special funding situation. The plan includes medical insurance and life insurance plans and is administered by the Teachers Retirement System of the State of Kentucky (TRS). TRS publishes a financial report located at <https://trs.ky.gov/financial-reports-information>.

Benefit and contribution rates are established by state statute. Contribution requirements of active employees and participating organizations are established and may be amended by the TRS Board.

#### Medical Insurance Plan

**Plan Description** - Kentucky Revised Statute 161.675 requires KTRS to provide post-employment healthcare benefits to eligible members and dependents. The KTRS 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 KTRS Board of Trustees, the Kentucky Department of Employee Insurance and the General Assembly.

**Benefits Provided** - To be eligible for medical benefits, the member must have retired either for service or disability. The medical insurance plan provides coverage to members under the age of 65 through the Kentucky Employees Health Plan administered by the Kentucky Department of Employee Insurance. Retired members are provided a monthly supplement to be used for payment of their health insurance premium. The TRS Board approves the amount of the supplement provided. Retired members pay the amount of the premium that exceeds the supplement. Once retired members and eligible spouses reach age 65 and are Medicare eligible, coverage is obtained through the KTRS Medicare Eligible Health Plan.

**Contributions** - In order to fund the post-retirement healthcare benefit 7.5 percent of the gross annual payroll of members is contributed. KTRS participants contribute 3.75 percent of their covered compensation, 0.75 percent is funded by state appropriation and KCTCS contributes 3.00 percent. 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. Premiums collected from retirees and investment interest help meet the medical expenses of the plan. For the years ended June 30, 2019 and 2018, KCTCS contributed \$913,318 and \$908,087 to the KTRS medical insurance plan.

Continued



## KENTUCKY COMMUNITY AND TECHNICAL COLLEGE SYSTEM

Notes to Financial Statements  
June 30, 2019 and 2018

### 11. Postemployment Benefit Plans (OPEB) (Continued)

**Actuarial Assumptions** - The total OPEB liability was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Valuation date	June 30, 2017 and 2016
Measurement date	June 30, 2018 and 2017
Inflation	3.00%
Real wage growth	0.50%
Wage inflation	3.50%
Salary increases	3.50% - 7.20%, including inflation
Investment rate of return	8.00%, net of OPEB plan investment expense, including inflation
Healthcare cost trend rate	Pre-65: 7.75% decreasing to an ultimate trend rate of 5.00% by FY2024 and 2023. Post-65: 5.75% decreasing to an ultimate trend rate of 5.00% by FY2021 and 2020.
Medicare Part B premiums	0.00% and 1.02% for FY 2018 and 2017 increasing to an ultimate rate of 5.00% by FY 2030 and 2029.
Municipal bond index rate	3.89% and 3.56%
Discount rate	8.00%
Single equivalent interest rate	8.00%, net of OPEB plan investment expense, including inflation

Mortality rates were based on the RP-2000 Combined Mortality Table projected to 2025 with projection scale BB and set forward two years for males and one year for females for the period after service retirement and for dependent beneficiaries. The RP-2000 Disabled Mortality Table set forward two years for males and seven years for females is used for the period after disability retirement. The demographic actuarial assumptions for retirement, disability incidence, withdrawal, rates of plan participation, and rates of plan election used in the June 30, 2017 valuation were based on the results of the most recent actuarial experience studies for the System, which covered the five-year period ending June 30, 2015. The remaining actuarial assumptions used in the June 30, 2017 valuation were based on a review of recent plan experience done concurrently with the June 30, 2017 valuation. The health care cost trend rate assumption was updated for the June 30, 2017 valuation and was shown as an assumption change in the TOL roll forward while the change in initial per capita claims costs were included with experience in the TOL roll forward.

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

Continued

# KENTUCKY COMMUNITY AND TECHNICAL COLLEGE SYSTEM

Notes to Financial Statements  
June 30, 2019 and 2018

## 11. Postemployment Benefit Plans (OPEB) (Continued)

**Actuarial Assumptions** (continued) – The target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

Asset Class	June 30, 2018		June 30, 2017	
	Target Allocation	30 Year Expected Geometric Rate of Return	Target Allocation	30 Year Expected Geometric Rate of Return
Global Equity	58.00%	4.60%	60.00%	5.10%
Fixed Income	9.00%	1.20%	9.00%	1.20%
Real Estate	5.50%	3.80%	4.50%	4.00%
Private Equity	6.50%	6.30%	5.50%	6.60%
High Yield	0.00%	0.00%	10.00%	4.30%
Other Additional Categories*	20.00%	3.30%	10.00%	3.30%
Cash (LIBOR)	1.00%	0.90%	1.00%	0.50%
Total	100%		100%	

\* Modeled as 50% High Yield and 50% Bank Loans

There were no changes in assumptions or benefit terms as of June 30, 2019. There were no changes between the measurement date of the collective net OPEB liability and the KCTCS reporting date that are expected to have a significant effect on KCTCS' proportionate share of the collective net OPEB liability.

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

**Sensitivity of the Net OPEB Liability to Changes in the Discount Rate and Healthcare Cost Trend Rates** - The following presents the net OPEB liability, as well as what the net OPEB liability would be if it were calculated using a discount rate that is 1-percentage-point lower or 1-percentage-point higher than the current discount rate:

	June 30, 2019		
	1% Decrease (7%)	Discount Rate (8%)	1% Increase (9%)
Net OPEB liability	\$23,800,000	\$20,297,000	\$17,377,000

	June 30, 2018		
	1% Decrease (7%)	Discount Rate (8%)	1% Increase (9%)
Net OPEB liability	\$38,373,000	\$22,671,000	\$28,440,000

Continued



# KENTUCKY COMMUNITY AND TECHNICAL COLLEGE SYSTEM

Notes to Financial Statements  
June 30, 2019 and 2018

## 11. Postemployment Benefit Plans (OPEB) (Continued)

**Sensitivity of the Net OPEB Liability to Changes in the Discount Rate and Healthcare Cost Trend Rates** (continued) - The following presents the net OPEB liability, as well as what the 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:

June 30, 2019			
	1% Decrease	Healthcare Cost Trend Rates	1% Increase
	(6.75% and 4.75% decreasing to 4%)	(7.75% and 5.75% decreasing to 5%)	(8.75% and 6.75% decreasing to 6%)
Net OPEB liability	\$16,829,000	\$20,297,000	\$24,573,000

June 30, 2018			
	1% Decrease	Healthcare Cost Trend Rates	1% Increase
	(6.75% and 4.75% decreasing to 4%)	(7.75% and 5.75% decreasing to 5%)	(8.75% and 6.75% decreasing to 6%)
Net OPEB liability	\$27,597,000	\$22,671,000	\$39,565,000

**OPEB Liability, OPEB Expense, Deferred Outflows of Resources and Deferred Inflows of Resources** - At June 30, 2019 and 2018, KCTCS reported a net OPEB liability of \$20.3 million and \$22.7 million for its proportionate share of the collective net OPEB liability that reflected a reduction for state OPEB support provided to KCTCS. The collective net OPEB liability was measured as of June 30, 2018 and 2017, and the total OPEB liability used to calculate the collective net OPEB liability was based on a projection of KCTCS's long-term share of contributions to the OPEB plan relative to the projected contributions of all participating employers, actuarially determined. At June 30, 2018 and 2017, KCTCS's proportion was 0.59% and 0.64%. The amount recognized by KCTCS as its proportionate share of the OPEB liability, the related State support, and the total portion of the net OPEB liability that was associated with KCTCS were as follows:

	2019	2018
KCTCS proportionate share of the net OPEB liability	\$ 20,297,000	\$ 22,671,000
State's proportionate share of the net pension OPEB associated with KCTCS	9,933,000	10,281,000
Total	<u>\$ 30,230,000</u>	<u>\$ 32,952,000</u>

For the year ended June 30, 2019, KCTCS recognized OPEB income, related to the KTRS medical insurance plan, of \$227,231 which includes \$0.7 million of support provided by the Commonwealth. For the year ended June 30, 2018, KCTCS recognized OPEB expense of \$639,218 which includes income of \$0.7 million for support provided by the Commonwealth.

Continued

# KENTUCKY COMMUNITY AND TECHNICAL COLLEGE SYSTEM

Notes to Financial Statements  
June 30, 2019 and 2018

## 11. Postemployment Benefit Plans (OPEB) (Continued)

**OPEB Liability, OPEB Expense, Deferred Outflows of Resources and Deferred Inflows of Resources** (continued) - At June 30, 2019 and 2018, KCTCS reported deferred outflows and inflows of resources related to the KTRS medical insurance plan from the following sources:

	June 30, 2019	
	Deferred Outflows of Resources	Deferred Inflows of Resources
Net difference between projected and actual earnings on OPEB plan investments	\$ -	\$ 82,000
Change in assumptions	279,000	-
Difference between expected and actual experience	-	1,040,000
Changes in proportion and differences between KCTCS contributions and proportionate share of contributions	-	1,542,000
KCTCS contributions subsequent to the measurement date	913,318	-
Total	<u>\$ 1,192,318</u>	<u>\$ 2,664,000</u>

	June 30, 2018	
	Deferred Outflows of Resources	Deferred Inflows of Resources
Net difference between projected and actual earnings on OPEB plan investments	\$ -	\$ 233,000
KCTCS contributions subsequent to the measurement date	908,087	-
Total	<u>\$ 908,087</u>	<u>\$ 233,000</u>

Deferred outflows resulting from contributions subsequent to the measurement date and before the end of the fiscal year will be included as a reduction of the net OPEB liability in the year ended June 30, 2020. Amounts reported as deferred outflows and inflows of resources related to the KTRS medical insurance plan will be recognized in OPEB expense as follows for years ended June 30:

2020	\$ (454,000)
2021	(454,000)
2022	(454,000)
2023	(417,000)
2024	(424,000)
Thereafter	(182,000)
	<u>\$ (2,385,000)</u>

**OPEB plan fiduciary net position** - Detailed information about the OPEB plan's fiduciary net position is available in the separately issued KTRS financial report.

Continued

## KENTUCKY COMMUNITY AND TECHNICAL COLLEGE SYSTEM

Notes to Financial Statements  
June 30, 2019 and 2018

### 11. Postemployment Benefit Plans (OPEB) (Continued)

**Changes of benefit terms** - There were no changes for the year ended June 30, 2019. For fiscal year 2018, with the passage of House Bill 471, the eligibility for non-single subsidies (NSS) for the KEHP-participating members who retired prior to July 1, 2010 is restored, but the state will only finance, via its KEHP "Shared Responsibility" contributions, the costs of the NSS related to those KEHP-participating members who retired on or after July 1, 2010.

#### Life Insurance Plan

**Plan Description** - KTRS administers the life insurance plan as provided by Kentucky Revised Statute 161.655 to eligible active and retired members. The Life Insurance Plan is a cost-sharing multiple employer defined benefit plan. Changes made to the plan may be made by the KTRS Board of Trustees and the General Assembly.

**Benefits Provided** - The life insurance plan provides a benefit of \$5,000 to members who retire based on service or disability and \$2,000 to active contributing members. The life insurance benefit is payable upon the death of the member.

**Contributions** - In order to fund the post-retirement life insurance benefit, 0.03 percent of the gross annual payroll of members is contributed by the state. In addition, KCTCS contributes 0.04 percent of each participants covered compensation. For the years ended June 30, 2019 and 2018, KCTCS contributed \$12,180 and \$5,322, respectively, to the KTRS life insurance plan.

**Actuarial Assumptions** - The total OPEB liability was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Valuation date	June 30, 2017 and 2016
Measurement date	June 30, 2018 and 2017
Inflation	3.00%
Real wage growth	0.50%
Wage inflation	3.50%
Salary increases	3.50% - 7.20%, including inflation
Investment rate of return	7.50%, net of OPEB plan investment expense, including inflation
Municipal bond index rate	3.89% and 3.56%
Discount rate	7.50%
Single equivalent interest rate	7.50%, net of OPEB plan investment expense, including inflation

Mortality rates were based on the RP-2000 Combined Mortality Table projected to 2025 with projection scale BB and set forward two years for males and one year for females for the period after service retirement and for dependent beneficiaries. The RP-2000 Disabled Mortality Table set forward two years for males and seven years for females is used for the period after disability retirement. The demographic actuarial assumptions for retirement, disability incidence, withdrawal, rates of plan participation, and rates of plan election used in the June 30, 2017 valuation were based on the results of the most recent actuarial experience studies for the System, which covered the five-year period ending June 30, 2015. The remaining actuarial assumptions used in the June 30, 2017 valuation were based on a review of recent plan experience done concurrently with the June 30, 2017 valuation. The long-term expected rate of return on OPEB plan investments was determined using a log-normal distribution analysis in which best-estimate ranges of expected future real rates of return are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. There were no changes in assumptions or benefit terms as of June 30, 2019. There were no changes between the measurement date of the collective net OPEB liability and the KCTCS reporting date that are expected to have a significant effect on KCTCS' proportionate share of the collective net OPEB liability.

Continued

# KENTUCKY COMMUNITY AND TECHNICAL COLLEGE SYSTEM

## Notes to Financial Statements

June 30, 2019 and 2018

### 11. Postemployment Benefit Plans (OPEB) (Continued)

**Actuarial Assumptions** (continued) - The target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

Asset Class*	June 30, 2018		June 30, 2017	
	Target Allocation	30 Year Expected Geometric Rate of Return	Target Allocation	30 Year Expected Geometric Rate of Return
U.S. Large Cap Equity	40.00%	4.20%	38.40%	4.30%
U.S. Small Cap Equity	0.00%	0.00%	2.60%	4.80%
Developed Int'l Equity	23.00%	5.20%	15.80%	5.20%
Emerging Markets Equity	0.00%	0.00%	4.20%	5.40%
Fixed Income - Inv Grade	18.00%	1.20%	16.00%	1.20%
Real Estate	6.00%	3.80%	6.00%	4.00%
Private Equity	5.00%	6.30%	7.00%	6.60%
High Yield	0.00%	0.00%	2.00%	4.30%
Other Additional Categories**	6.00%	3.30%	7.00%	3.30%
Cash (LIBOR)	2.00%	0.90%	1.00%	0.50%
Total	100%		100%	

\* As the life insurance plan investment policy is subject to change, the above reflects the pension allocation and returns that achieve the target 7.5% long-term rate of return. \*\* Modeled as 50% High Yield and 50% Bank Loans.

**Discount Rate** - The discount rate used to measure the total OPEB liability for life insurance was 7.50 percent. The projection of cash flows used to determine the discount rate assumed that employer contributions will be made at statutorily required rates. Based on those assumptions, the OPEB plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on OPEB plan investments was applied to all periods of projected benefit payments to determine the total OPEB liability.

**Sensitivity of the Net OPEB Liability to Changes in the Discount Rate** - The following presents the net OPEB liability, as well as what the net OPEB liability would be if it were calculated using a discount rate that is 1-percentage-point lower or 1-percentage-point higher than the current discount rate:

	June 30, 2019		
	1% Decrease (6.5%)	Discount Rate (7.5%)	1% Increase (8.5%)
Net OPEB liability	\$452,000	\$297,000	\$170,000
	June 30, 2018		
	1% Decrease (6.5%)	Discount Rate (7.5%)	1% Increase (8.5%)
Net OPEB liability	\$404,000	\$243,000	\$111,000

Continued



# KENTUCKY COMMUNITY AND TECHNICAL COLLEGE SYSTEM

## Notes to Financial Statements

June 30, 2019 and 2018

### 11. Postemployment Benefit Plans (OPEB) (Continued)

**OPEB Liability, OPEB Expense, Deferred Outflows of Resources and Deferred Inflows of Resources** - At June 30, 2019 and 2018, KCTCS reported a net OPEB liability of \$297,000 and \$243,000 for its proportionate share of the collective net OPEB liability that reflected a reduction for state OPEB support provided to KCTCS. The collective net OPEB liability was measured as of June 30, 2018 and 2017, and the total OPEB liability used to calculate the collective net OPEB liability was based on a projection of KCTCS's long-term share of contributions to the OPEB plan relative to the projected contributions of all participating employers, actuarially determined. At June 30, 2018 and 2017, KCTCS's proportion was 1.05% and 1.11%.

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

	2019	2018
KCTCS proportionate share of the net OPEB liability	\$ 297,000	\$ 243,000
State's proportionate share of the net pension OPEB associated with KCTCS	-	-
Total	<u>\$ 297,000</u>	<u>\$ 243,000</u>

For the years ended June 30, 2019 and 2018, KCTCS recognized OPEB expense of \$31,141 and \$30,634 associated with the KTRS life insurance plan. At June 30, 2019 and 2018, KCTCS reported deferred outflows and inflows of resources related to the KTRS life insurance plan from the following sources:

	June 30, 2019	
	Deferred Outflows of Resources	Deferred Inflows of Resources
Net difference between projected and actual earnings on OPEB plan investments	\$ 81,000	\$ -
Difference between expected and actual experience	-	6,000
Changes in proportion and differences between KCTCS contributions and proportionate share of contributions	-	8,000
KCTCS contributions subsequent to the measurement date	12,180	-
Total	<u>\$ 93,180</u>	<u>\$ 14,000</u>

	June 30, 2018	
	Deferred Outflows of Resources	Deferred Inflows of Resources
Net difference between projected and actual earnings on OPEB plan investments	\$ 51,000	\$ -
KCTCS contributions subsequent to the measurement date	5,322	-
Total	<u>\$ 56,322</u>	<u>\$ -</u>

Continued

## KENTUCKY COMMUNITY AND TECHNICAL COLLEGE SYSTEM

### Notes to Financial Statements

June 30, 2019 and 2018

#### 11. Postemployment Benefit Plans (OPEB) (Continued)

**OPEB Liability, OPEB Expense, Deferred Outflows of Resources and Deferred Inflows of Resources** (continued) - Of the total amount reported as deferred outflows of resources related to OPEB, \$12,180 resulting from contributions subsequent to the measurement date and before the end of the fiscal year will be included as a reduction of the net OPEB liability in the year ended June 30, 2020. Other amounts reported as deferred outflows and inflows of resources related to the KTRS life insurance plan will be recognized in OPEB expense as follows:

Years ended June 30	
2020	\$ 21,000
2021	21,000
2022	21,000
2023	9,000
2024	(3,000)
Thereafter	(2,000)
	<hr/>
	\$ 67,000

**OPEB plan fiduciary net position** - Detailed information about the OPEB plan's fiduciary net position is available in the separately issued KTRS financial report.

#### Kentucky Employees Retirement System (KERS) OPEB Plan

**Plan Description** - The KERS OPEB Plan is a cost-sharing multiple-employer defined benefit OPEB plan, which was available to KCTCS employees hired prior to January 1, 2014. This plan provides medical insurance for eligible retirees and is administered by Kentucky Retirement System (KRS) who publishes a financial report located at <https://kyret.ky.gov>.

**Benefits Provided** – Benefits provided depend on the plan Tier in which a member is enrolled. There are three Tiers and members are assigned to Tiers depending on their KERS participation date. Tier 1 includes members with a participation date prior to July 1, 2003. Members in Tier 1 are eligible for benefits if they are receiving a retirement payment. Tier 1 benefits include a portion of a medical premium paid by KERS. The amount of the medical premium paid is a percentage that is determined based on the number of years of service. Tier 2 includes members with participation dates of July 1, 2003 through August 31, 2008. Members in Tier 2 are eligible for benefits if they are receiving a retirement payment and have at least 120 months of service at retirement. Tier 3 includes members with a participation date after August 31, 2008. Members in Tier 3 are eligible for benefits if they are receiving a retirement payment and have at least 180 months of service at retirement. Tier 2 and Tier 3 benefits include a monthly medical premium allowance of \$10 for each year of service. The monthly premium allowance is increased by 1.5% each July 1.

**Contributions** - Benefit and contribution rates are established by state statute. Per Kentucky Revised Statute 61.565(3) contribution requirements of active employees and participating organizations are established and may be amended by the KRS Board. KERS participants hired with an effective date on or after September 1, 2008 contribute 1 percent of their covered compensation. KERS participants hired prior to September 1, 2008 do not contribute to the plan but do receive plan benefits. KCTCS contributed 8.41 percent for years ended June 30, 2019 and 2018. This rate was actuarially determined to produce an amount that, when combined with employee contributions, is expected to finance the cost of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. Contributions to the KERS OPEB plan from KCTCS were \$2.0 million and \$1.9 million and the implicit subsidy was \$309,262 and \$238,452 for years ended June 30, 2019 and 2018.

Continued

# KENTUCKY COMMUNITY AND TECHNICAL COLLEGE SYSTEM

## Notes to Financial Statements

June 30, 2019 and 2018

### 11. Postemployment Benefit Plans (OPEB) (Continued)

**Actuarial Assumptions** - The total OPEB liability was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Valuation date	June 30, 2018 (rolled forward) and 2017
Measurement date	June 30, 2018 and 2017
Inflation	2.30%
Payroll growth rate	0.00%
Salary increases	3.05%
Investment rate of return	6.25%
Healthcare cost trend rate	Pre-65: 7.25% and 7.00%, beginning January 1, 2019 and 2020, decreasing to an ultimate trend rate of 4.05% over 13 and 12 years. Post-65: 5.10% and 5.00%, beginning January 2019 and 2020, decreasing to an ultimate trend rate of 4.05% over 11 and 10 years.

Mortality rates for active members were based on RP-2000 Combined Mortality Table projected with Scale BB to 2013. Mortality rates for healthy retired members and beneficiaries were based on the RP-2000 Combined Mortality Table projected with Scale BB to 2013, set-back for one year for females. For disabled members, mortality rates were based on the RP-2000 Combined Disabled Mortality Table projected with Scale BB to 2013, set back four years for males.

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

Asset Class	June 30, 2018		June 30, 2017	
	Target Allocation	Long-Term Nominal Rate of Return	Target Allocation	Long-Term Nominal Rate of Return
Combined Equity	35.00%	5.77%	35.00%	13.82%
Global Bonds	4.00%	3.00%	4.00%	2.63%
Global Credit	2.00%	3.75%	2.00%	3.63%
High Yield	7.00%	5.50%	7.00%	5.75%
Emerging Market Debt	5.00%	6.00%	5.00%	5.50%
Private Credit	10.00%	8.50%	10.00%	8.75%
Core Real Estate	5.00%	9.00%	5.00%	7.63%
Absolute Return	10.00%	5.00%	10.00%	5.63%
Real Return	10.00%	7.00%	10.00%	6.13%
Private Equity	10.00%	6.50%	10.00%	8.25%
Cash Equivalent	2.00%	1.50%	2.00%	1.88%
Total	100%		100%	

There were no changes in assumptions or benefit terms as of June 30, 2019. There were no changes between the measurement date of the collective net OPEB liability and the KCTCS reporting date that are expected to have a significant effect on KCTCS' proportionate share of the collective net OPEB liability. For the June 30, 2017 measurement date, the assumed investment rate of return was changed from 7.50 percent to 6.25 percent; inflation assumption was changed from 3.25 percent to 2.30 percent, which also resulted in a 0.95 percent decrease in the salary assumption at all years of service and payroll growth assumption was changed from 4.00 percent to 0.00 percent.

Continued



# KENTUCKY COMMUNITY AND TECHNICAL COLLEGE SYSTEM

## Notes to Financial Statements

June 30, 2019 and 2018

### 11. Postemployment Benefit Plans (OPEB) (Continued)

**Discount Rate** - For measurement dates June 30, 2018 and 2017, the discount rate used to determine the total OPEB liability was 5.86 percent and 5.83 percent (decreased from 6.90 percent). The projection of cash flows used to determine the discount rate assumed that contributions will be made at rates equal to the actuarially determined contribution rates. For measurement dates June 30, 2018 and 2017, the discount rate determination used an expected rate of return of 6.25 percent and a municipal bond rate of 3.62 percent and 3.56 percent, respectively, which was reported in Fidelity Index's "20 -Year Municipal GO AA Index" as of June 30, 2018 and 2017. However, the cost associated with the implicit employer subsidy was not included in the calculation of the actuarially determined contributions, and any cost associated with the implicit subsidy will not be paid out of the KRS' trusts. Therefore, the municipal bond rate was applied to future expected benefit payments associated with the implicit subsidy.

**Sensitivity of the Net OPEB Liability to Changes in the Discount Rate and Healthcare Cost Trend Rates** - The following presents the net OPEB liability, as well as what the net OPEB liability would be if it were calculated using a discount rate that is 1-percentage-point lower or 1-percentage-point higher than the current discount rate:

June 30, 2019			
	1% Decrease (4.86%)	Discount Rate (5.86%)	1% Increase (6.86%)
Net OPEB liability	\$40,043,008	\$34,128,850	\$29,206,763

June 30, 2018			
	1% Decrease (4.83%)	Discount Rate (5.83%)	1% Increase (6.83%)
Net OPEB liability	\$44,536,793	\$38,094,261	\$32,740,115

The following presents the net OPEB liability, as well as what the 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:

June 30, 2019			
	1% Decrease (6% and 4% decreasing to 3%)	Healthcare Cost Trend Rates (7% and 5% decreasing to 4%)	1% Increase (8% and 6% decreasing to 5%)
Net OPEB liability	\$29,016,647	\$34,128,850	\$40,277,018

June 30, 2018			
	1% Decrease (6.25% and 4.1% decreasing to 3%)	Healthcare Cost Trend Rates (7.25% and 5.1% decreasing to 4%)	1% Increase (8.25% and 6.1% decreasing to 5%)
Net OPEB liability	\$32,367,788	\$38,094,261	\$45,284,868

Continued

# KENTUCKY COMMUNITY AND TECHNICAL COLLEGE SYSTEM

## Notes to Financial Statements

June 30, 2019 and 2018

### 11. Postemployment Benefit Plans (OPEB) (Continued)

#### OPEB Liability, OPEB Expense, Deferred Outflows of Resources and Deferred Inflows of Resources –

KCTCS' net OPEB liability of \$34.1 million and \$38.1 million was measured as of June 30, 2018 and 2017 and its proportionate share of the collective net OPEB liability was 1.44 percent and 1.50 percent as of June 30, 2018 and 2017. The proportionate share was determined using employers' actual contributions for fiscal years ended June 30, 2018 and 2017. For years ended June 30, 2019 and 2018, KCTCS recognized OPEB expense of \$1.0 million and \$1.6 million associated with the KERS OPEB Plan.

At June 30, 2019, KCTCS reported deferred outflows and inflows of resources related to the KERS OPEB Plan from the following sources:

	June 30, 2019	
	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ -	\$ 2,228,459
Changes in assumptions	3,587,657	128,984
Net difference between projected and actual earnings on OPEB plan investments	-	499,881
Changes in proportion and differences between KCTCS contributions and proportionate share of contributions	-	1,419,886
KCTCS contributions subsequent to the measurement date	1,988,928	-
Total	<u>\$ 5,576,585</u>	<u>\$ 4,277,210</u>

	June 30, 2018	
	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ -	\$ 47,141
Changes in assumptions	4,987,689	-
Net difference between projected and actual earnings on OPEB plan investments	-	493,056
Changes in proportion and differences between KCTCS contributions and proportionate share of contributions	-	279,560
KCTCS contributions subsequent to the measurement date	2,149,187	-
Total	<u>\$ 7,136,876</u>	<u>\$ 819,757</u>

Of the total amount reported as deferred outflows of resources related to OPEB, \$2.0 million resulting from contributions subsequent to the measurement date and before the end of the fiscal year will be included as a reduction of the net OPEB liability in the year ended June 30, 2020.

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# KENTUCKY COMMUNITY AND TECHNICAL COLLEGE SYSTEM

## Notes to Financial Statements

June 30, 2019 and 2018

### 11. Postemployment Benefit Plans (OPEB) (Continued)

**OPEB Liability, OPEB Expense, Deferred Outflows of Resources and Deferred Inflows of Resources** (continued) - Other amounts reported as deferred outflows and inflows of resources related to the KERS OPEB Plan will be recognized in OPEB expense as follows:

Years ended June 30

2020	\$ 59,585
2021	59,585
2022	59,585
2023	<u>(868,308)</u>
	<u>\$ (689,553)</u>

**OPEB plan fiduciary net position** - Detailed information about the OPEB plan's fiduciary net position is available in the separately issued KERS financial report.

#### KCTCS Retiree Health OPEB Plan

The KCTCS Retiree Health OPEB Plan ("OPEB Plan") is a single-employer defined benefit other postemployment benefit plan which is administered by KCTCS and does not issue a stand-alone financial report. This OPEB plan provides healthcare benefits for eligible retirees who participate in the 403(b) defined contribution plan. The OPEB plan is funded by an irrevocable IRS Section 115 trust which KCTCS established during the year ended June 30, 2013 with a contribution of \$163.7 million. This OPEB plan was closed to new entrants as of July 1, 2009.

Employees and surviving spouses participating in this plan include former University of Kentucky faculty and staff; KCTCS 403(b) participants with a hire date prior to July 1, 2009; and University of Kentucky opt-over retirees.

**Benefits Provided** - Benefits are provided through a third-party insurer and cover the partial cost of the monthly health insurance premium which is based on Medicare retiree status and stated Medicare coverage rates. Pre-Medicare eligible employees have the same healthcare plan choices as active employees. Post-Medicare eligible employees receive monthly benefits determined to meet the premium obligations for the Medicare Advantage Plan.

**Contributions** - There were no contributions made to the KCTCS OPEB Plan during the fiscal year ended June 30, 2019.

The KCTCS OPEB covered the following as of the measurement dates of June 30, 2018 and 2017:

Inactive employees or beneficiaries currently receiving benefit payments	908
Inactive employees entitled to but not yet receiving benefit payments	-
Active employees	<u>1,581</u>
Total	<u>2,489</u>

**Net OPEB Asset** - The net OPEB asset was measured as of June 30, 2018 and 2017 and the total OPEB liability used to calculate the net OPEB asset was determined by an actuarial valuation as of July 1, 2017 which was rolled-forward for June 30, 2018 measurement date.

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# KENTUCKY COMMUNITY AND TECHNICAL COLLEGE SYSTEM

Notes to Financial Statements  
June 30, 2019 and 2018

## 11. Postemployment Benefit Plans (OPEB) (Continued)

**Actuarial Assumptions** - The total OPEB liability in the June 30, 2017 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Valuation date	July 1, 2017
Healthcare inflation	2.5%
Salary increases	3.0%
Investment rate of return	7.0%
Healthcare cost trend rate	For June 30, 2018 and 2017, 7.35% and 7.5% KCTCS (Pre-65 and Post-65); 6.88% and 7% UK Pre-65; 5.93% and 6% UK Post-65 to an ultimate rate of 4.5% for 2038 and later years.

Mortality rates for healthy lives were based on RP-2014 Combined Healthy Mortality Table for Males and Females Backed Off to 2006 and Projected Generationally with Scale MP-2017. Mortality rates for disabled lives were based on RP-2014 Disabled Mortality Table for Males and Females Backed Off to 2006 and Projected Generationally with Scale MP-2017.

The expected return on plan assets is 7.0 percent based on the plan sponsor's expectation that plan assets will return at least 7.0 percent on a long term basis. The long-term expected real rate of return is based on a capital market 20-year geometric return from an asset allocation analysis performed on July 10, 2018. The target allocation and best estimates of real rates of return for each major asset class are summarized in the following table:

	June 30, 2018		June 30, 2017	
	Target Allocation	Long-Term Expected Real Rate of Return	Target Allocation	Long-Term Expected Real Rate of Return
Global Equity	55.00%	8.10%	55.00%	9.40%
Public Natural Resources	5.00%	7.70%	5.00%	8.60%
Hedge Strategies	16.00%	5.80%	16.00%	6.70%
Core Bonds	10.00%	4.20%	10.00%	4.50%
Treasury Inflation-Protected Securities	3.00%	2.80%	3.00%	3.90%
Credit	6.00%	11.00%	6.00%	10.10%
Private Real Estate	5.00%	7.40%	5.00%	6.40%
Total	100%		100%	

**Discount Rate** - The discount rate used to measure the total OPEB liability was 7.0 percent for June 30, 2018 and 2017. The projection of cash flows used to determine the discount rate assumed that contributions will be made at rates equal to the actuarially determined contribution rates. Based on those assumptions, the fiduciary net position was projected to be available to make all projected payments for current active and inactive employees. Therefore, the long-term expected rate of return on the plan investments was applied to all periods of projected benefit payments to determine the total OPEB liability.

Continued

# KENTUCKY COMMUNITY AND TECHNICAL COLLEGE SYSTEM

## Notes to Financial Statements

June 30, 2019 and 2018

### 11. Postemployment Benefit Plans (OPEB) (Continued)

#### Changes in the Net OPEB Liability (Asset) -

	Total OPEB Liability	Plan Fiduciary Net Position	Net OPEB Liability (Asset)
Balances at 6/30/17	\$ 191,648,950	\$ 170,932,728	\$ 20,716,222
Changes for the year:			
Service cost	4,839,271	-	4,839,271
Interest	11,366,312	-	11,366,312
Differences between expected and actual	(39,171,680)	-	(39,171,680)
Changes in assumptions	(1,929,172)	-	(1,929,172)
Contributions - employer	-	-	-
Net investment income	-	18,684,370	(18,684,370)
Benefit payments	(3,356,637)	(3,356,637)	-
Administrative expense	-	(143,679)	143,679
Net changes	(28,251,906)	15,184,054	(43,435,960)
Balances at 6/30/18	\$ 163,397,044	\$ 186,116,782	\$ (22,719,738)
Balances at 6/30/18	\$ 163,397,044	\$ 186,116,782	\$ (22,719,738)
Changes for the year:			
Service cost	2,901,484	-	2,901,484
Interest	11,323,533	-	11,323,533
Changes in assumptions	(2,046,262)	-	(2,046,262)
Contributions - employer	-	-	-
Contributions - employee	589,335	-	589,335
Net investment income	-	14,029,874	(14,029,874)
Benefit payments	(3,853,897)	(3,853,897)	-
Net changes	8,914,193	10,175,977	(1,261,784)
Balances at 6/30/19	\$ 172,311,237	\$ 196,292,759	\$ (23,981,522)

**Changes in Assumptions and Benefit Terms Since Prior Measurement Date** – Changes for fiscal 2019: Healthcare trend rates were updated from 7.5% to 7.35% for KCTCS, from 7% to 6.88% for UK Pre-65 and from 6% to 5.93% for UK Post-65. Mortality rates for healthy employees were updated from RP-2014 Combined Healthy Mortality Table for Males and Females Backed off to 2006 and Projected Generationally with Scale MP-2016 to RP-2014 Combined Healthy Mortality Table for Males and Females Backed off to 2006 and Projected Generationally with Scale MP-2017. Mortality rates for disabled employees were updated from RP-2014 Disabled Mortality Table for Males and Females Backed off to 2006 and Projected Generationally with Scale MP-2016 to RP-2014 Disabled Mortality Table for Males and Females Backed off to 2006 and Projected Generationally with Scale MP-2017.

Changes for fiscal 2018: Per capita costs were decreased by an average of 1.4% based on updated premium information and census data. The discount rate was increased from 6.00% to 7.00%. The salary increase was set at 3.00%. Healthcare and contribution trend rates were updated from an initial rate of 7% and an ultimate rate of 4% in 2036 to an initial rate of 7.5%, 7% and 6% for KCTCS, UK Pre-65 and UK Post-65, respectively, and an ultimate rate of 4.5% in fiscal 2038. The lapse rate for current and future retirees and their spouses was updated from 10% to 3%. The participation rate was updated from 95% to 90%.

Continued



# KENTUCKY COMMUNITY AND TECHNICAL COLLEGE SYSTEM

Notes to Financial Statements  
June 30, 2019 and 2018

## 11. Postemployment Benefit Plans (OPEB) (Continued)

**Changes in Assumptions and Benefit Terms Since Prior Measurement Date** (continued) - Retirees electing spousal coverage was updated from 30% to 15%. Future retirees who have waived coverage and are assumed to stay without coverage until age 65 and to elect coverage at age 65 was updated from 100% to 75%. The impact of the Affordable Care Act excise tax on high-cost healthcare plans was estimated and updated. Mortality rates for healthy employees were updated from RP-2014 Combined Healthy Mortality Table for Males and Females Projected Generationally with Scale MP-2014 to RP-2014 Combined Healthy Mortality Table for Males and Females Backed off to 2006 and Projected Generationally with Scale MP-2016. Mortality rates for disabled employees were updated from RP-2014 Disabled Mortality Table for Males and Females Projected Generationally with Scale MP-2014 to RP-2014 Disabled Mortality Table for Males and Females Backed off to 2006 and Projected Generationally with Scale MP-2016.

**Changes Since Measurement Date** - There were no changes between the measurement date of the net OPEB asset and KCTCS' reporting date that are expected to have a significant effect on the net OPEB asset.

**Sensitivity of the Net OPEB Asset to Changes in the Discount Rate and Healthcare Cost Trend Rates** - The following presents the net OPEB asset, as well as what the net OPEB asset would be if it were calculated using a discount rate that is 1-percentage-point lower or 1-percentage-point higher than the current discount rate:

	June 30, 2019		
	1% Decrease (6.0%)	Discount Rate (7.0%)	1% Increase (8.0%)
Net OPEB liability (asset)	\$ 2,570,519	\$ (23,981,522)	\$ (45,505,774)

	June 30, 2018		
	1% Decrease (6.0%)	Discount Rate (7.0%)	1% Increase (8.0%)
Net OPEB liability (asset)	\$ 3,638,091	\$ (22,719,738)	\$ (43,982,586)

The following presents the net OPEB asset, as well as what the net OPEB asset 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:

	June 30, 2019		
	1% Decrease	Healthcare Cost Trend Rates	1% Increase
	(6.35%, 5.88% and 4.93% decreasing to 3.5%)	(7.35%, 6.88% and 5.93% decreasing to 4.5%)	(8.35%, 7.88% and 6.93% decreasing to 5.5%)
Net OPEB liability (asset)	\$ (47,813,309)	\$ (23,981,522)	\$ 5,543,002

Continued



# KENTUCKY COMMUNITY AND TECHNICAL COLLEGE SYSTEM

Notes to Financial Statements

June 30, 2019 and 2018

## 11. Postemployment Benefit Plans (OPEB) (Continued)

### Sensitivity of the Net OPEB Asset to Changes in the Discount Rate and Healthcare Cost Trend Rates (continued)-

	June 30, 2018		
	1% Decrease	Healthcare Cost Trend Rates	1% Increase
	(6.5%, 6% and 5% decreasing to 3.5%)	(7.5%, 7% and 6% decreasing to 4.5%)	(8.5%, 8% and 7% decreasing to 5.5%)
Net OPEB liability (asset)	\$ (45,007,866)	\$ (22,719,738)	\$ 4,927,144

**OPEB Expense, Deferred Outflows of Resources and Deferred Inflows of Resources** - For the years ended June 30, 2019 and 2018, KCTCS recognized OPEB (income) and expense of \$(8.9) million and \$2.7 million associated with the KCTCS OPEB Plan. At June 30, 2019 and 2018, KCTCS reported deferred inflows of resources related to OPEB from the following sources:

	June 30, 2019
	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 30,562,520
Changes of assumptions	2,975,028
Difference between projected and actual earnings on OPEB plan investments	4,957,841
Total	<u>\$ 38,495,389</u>
	June 30, 2018
	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 39,171,680
Changes of assumptions	1,929,172
Difference between projected and actual earnings on OPEB plan investments	5,060,715
Total	<u>\$ 46,161,567</u>

Continued

# KENTUCKY COMMUNITY AND TECHNICAL COLLEGE SYSTEM

## Notes to Financial Statements

June 30, 2019 and 2018

### 11. Postemployment Benefit Plans (OPEB) (Continued)

**OPEB Expense, Deferred Outflows of Resources and Deferred Inflows of Resources** (continued) - Amounts reported as deferred inflows of resources related to OPEB will be recognized in OPEB expense as follows:

Years ended June 30

2020	\$ (10,438,765)
2021	(10,438,765)
2022	(10,438,765)
2023	(6,187,526)
2024	(991,568)
	<u>\$ (38,495,389)</u>

**Payable to the KCTCS Plan** - At June 30, 2019, KCTCS had no amounts payable for contributions to the plan.

The following table summarizes the significant components of KCTCS' net OPEB liability (asset), deferred inflows and outflows of resources and OPEB expense recognized for the fiscal years ended June 30, 2019 and 2018:

	June 30, 2019			
	KTRS	KERS	KCTCS	Total
Net OPEB liability	\$ 20,594,000	\$ 34,128,850	\$ -	\$ 54,722,850
Net OPEB (asset)	\$ -	\$ -	\$ (23,981,522)	\$ (23,981,522)
Deferred outflows	\$ 1,285,498	\$ 5,576,585	\$ -	\$ 6,862,083
Deferred inflows	\$ 2,678,000	\$ 4,277,210	\$ 38,495,389	\$ 45,450,599
OPEB (income) expense recognized	\$ (196,090)	\$ 1,052,333	\$ (8,927,962)	\$ (8,071,719)

	June 30, 2018			
	KTRS	KERS	KCTCS	Total
Net OPEB liability	\$ 22,914,000	\$ 38,094,261	\$ -	\$ 61,008,261
Net OPEB (asset)	\$ -	\$ -	\$ (22,719,738)	\$ (22,719,738)
Deferred outflows	\$ 964,409	\$ 7,136,876	\$ -	\$ 8,101,285
Deferred inflows	\$ 233,000	\$ 819,757	\$ 46,161,567	\$ 47,214,324
OPEB expense recognized	\$ 669,582	\$ 1,629,800	\$ 2,725,607	\$ 5,024,989

In addition to the OPEB plans summarized in the table, above, KCTCS also maintains a long-term disability plan for community college employees who did not opt into the KCTCS benefit system with a hire date prior to January 14, 1998 (the date the KCTCS Board of Regents accepted management of the community colleges from the University of Kentucky). This plan is funded through a trust which was established by the University of Kentucky and is now funded by KCTCS on a pay-as-you-go-basis. The estimated liability for long-term disability claims totaled \$1.2 million and \$1.3 million as of June 30, 2019 and 2018 and is included in net other postemployment benefit liability on the Statements of Net Position.

Continued

## KENTUCKY COMMUNITY AND TECHNICAL COLLEGE SYSTEM

Notes to Financial Statements  
June 30, 2019 and 2018

### 12. Commitments and Contingencies

**Construction Commitments** - The estimated cost to complete construction projects under contract at June 30, 2019 is \$64.3 million. The projects are to be financed principally by proceeds from a state bond lease agreement and appropriations from the Commonwealth of Kentucky.

**Claims and Litigation** - KCTCS is a party to various legal proceedings and claims that arise in the ordinary course of business. Among these matters is the "Bennett v. KCTCS, et al" class action lawsuit, which was filed on October 1, 2018 in Franklin Circuit Court. This lawsuit names KCTCS as a party defendant for how KCTCS collects debts through the Department of Revenue. As of October 4, 2019, KCTCS management is unable to estimate the likelihood or range of any potential liability, and accordingly, no amounts are recorded in the financial statements at June 30, 2019.

**Government Grants** - KCTCS receives financial assistance from federal and state agencies in the form of grants and awards. The expenditure of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and is subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the applicable fund. KCTCS has had no disallowed claims in the past. In the opinion of management, such potential disallowed claims, if any, would not have a material adverse effect on the overall financial position of KCTCS at June 30, 2019.

Continued



**KENTUCKY COMMUNITY AND TECHNICAL COLLEGE SYSTEM**  
**Required Supplementary Information**  
**June 30, 2019 and 2018**

Schedule of KCTCS' Proportionate Share of the Net Pension Liability  
Kentucky Teacher's Retirement System  
(in thousands)

	2019	2018	2017	2016	2015
KCTCS' proportionate share of the net pension liability	\$ 54,584	\$ 113,107	\$ 251,694	\$ 219,423	\$ 209,139
State's proportionate share of the collective net pension liability	56,662	127,090	34,486	33,391	36,216
	<u>\$ 111,246</u>	<u>\$ 240,197</u>	<u>\$ 286,180</u>	<u>\$ 252,814</u>	<u>\$ 245,355</u>
KCTCS' proportion of the net pension liability	0.40%	0.40%	0.81%	0.90%	0.97%
KCTCS' covered payroll	\$ 34,408	\$ 35,898	\$ 39,577	\$ 43,116	\$ 46,018
KCTCS' proportionate share of the net pension liability as a percentage of its covered payroll	158.64%	315.08%	635.96%	508.91%	454.47%
Plan fiduciary net position as a percentage of the total pension liability	59.30%	39.83%	35.22%	42.49%	45.59%

*Notes:*

*This table represents data that is one year in arrears.*

*These are 10-year schedules, however, the information in this schedule is not required to be presented retroactively. Years will be added to this schedule in future fiscal years until 10-years of information is available.*

*Changes in assumptions: For fiscal year 2019, the KTRS plan discount rate increased from 4.49% to 7.50%. For fiscal year 2018, the KTRS plan discount rate increased from 4.20 percent to 4.49 percent. For fiscal year 2017, the KTRS plan discount rate decreased from 4.88 percent to 4.20 percent. For fiscal year 2016, there was a decrease in the assumed investment rate of return from 7.75 percent to 7.50 percent; a decrease in the assumed rate of inflation from 3.50 percent to 3.25 percent; a decrease in the assumed rate of wage inflation from 1.00 percent to 0.75 percent and a decrease in the payroll growth assumption from 4.50 percent to 4.00 percent.*

Schedule of KCTCS Pension Contribution  
Kentucky Teacher's Retirement Plan  
(in thousands)

	2019	2018	2017	2016	2015
Contractually required contribution	\$ 4,046	\$ 4,663	\$ 5,814	\$ 6,383	\$ 6,668
Contributions in relation to the contractually required contribution	<u>\$ 4,046</u>	<u>\$ 4,663</u>	<u>\$ 5,814</u>	<u>\$ 6,383</u>	<u>\$ 6,668</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
KCTCS covered payroll	\$ 30,701	\$ 34,408	\$ 35,898	\$ 39,577	\$ 43,116
Contributions as a percentage of covered payroll	13.18%	13.55%	16.20%	16.13%	15.47%

*Notes:*

*These are 10-year schedules, however, the information in this schedule is not required to be presented retroactively. Years will be added to this schedule in future fiscal years until 10-years of information is available.*

Continued

**KENTUCKY COMMUNITY AND TECHNICAL COLLEGE SYSTEM**  
**Required Supplementary Information**  
**June 30, 2019 and 2018**

Schedule of KCTCS' Proportionate Share of the Net Pension Liability  
Kentucky Employees Retirement System  
(in thousands)

	2019	2018	2017	2016	2015
KCTCS' proportionate share of the net pension liability	\$ 195,996	\$ 201,115	\$ 193,547	\$ 186,537	\$ 174,855
KCTCS' proportion of the net pension liability	1.44%	1.50%	1.70%	1.86%	1.95%
KCTCS' covered payroll	\$ 22,028	\$ 23,258	\$ 27,453	\$ 30,224	\$ 32,208
KCTCS' proportionate share of the net pension liability as a percentage of its covered payroll	889.76%	864.71%	705.01%	617.18%	542.89%
Plan fiduciary net position as a percentage of the total pension liability	12.84%	13.30%	14.80%	18.83%	22.32%

**Notes:**

*This table represents data that is one year in arrears.*

*These are 10-year schedules, however, the information in this schedule is not required to be presented retroactively. Years will be added to this schedule in future fiscal years until 10-years of information is available.*

*Changes in assumptions: There were no changes for fiscal year 2019. For fiscal year 2018, the KERS plan discount rate and assumed investment rate of return decreased from 6.75 percent to 5.25 percent, the assumed rate of inflation decreased from 3.25 percent to 2.30 percent which also resulted in a 0.95% decrease in the salary increase assumption at all years of service. The payroll growth assumption decreased from 4.00 percent to 0.00 percent. For fiscal year 2017, the KERS plan discount rate and assumed investment rate of return decreased from 7.50 percent to 6.75 percent, the assumed rate of inflation decreased from 3.50 percent to 3.25 percent, the assumed rate of wage inflation decreased from 1.00 percent to 0.75 percent, the payroll growth assumption decreased from 4.50 percent to 4.00 percent. The assumed rates of retirement, withdrawal and disability were updated to more accurately reflect experience.*

*Changes in benefit terms: During the 2018 legislative session, House Bill 185 was enacted, which updated the benefit provisions for active members who die in the line of duty. Benefits paid to the spouses of deceased members have been increased from 25% of the member's final rate of pay to 75% of the member's average pay. If the member does not have a surviving spouse, benefits paid to surviving dependent children have been increased from 10% of the member's final pay rate to 50% of average pay for one child, 65% of average pay for two children, or 75% of average pay for three children. The Total Pension Liability as of June 30, 2018 is determined using these updated benefit provisions.*

Schedule of KCTCS' Pension Contribution  
Kentucky Employees Retirement Plan  
(in thousands)

	2019	2018	2017	2016	2015
Contractually required contribution	\$ 8,205	\$ 9,032	\$ 9,353	\$ 10,544	\$ 11,722
Contributions in relation to the contractually required contribution	\$ 8,205	\$ 9,032	\$ 9,353	\$ 10,544	\$ 11,722
Contribution deficiency (excess)	\$ -	\$ -	\$ -	\$ -	\$ -
KCTCS covered payroll	\$ 20,008	\$ 22,028	\$ 23,258	\$ 27,453	\$ 30,224
Contributions as a percentage of covered payroll	41.01%	41.00%	40.21%	38.41%	38.78%

**Notes:**

*These are 10-year schedules, however, the information in this schedule is not required to be presented retroactively. Years will be added to this schedule in future fiscal years until 10-years of information is available.*

Continued

**KENTUCKY COMMUNITY AND TECHNICAL COLLEGE SYSTEM**  
**Required Supplementary Information**  
**June 30, 2019 and 2018**

Schedule of KCTCS' Proportionate Share of the Net Other Postemployment Benefit Liability  
Kentucky Teacher's Retirement System - Medical Insurance Plan  
(in thousands)

	2019	2018
KCTCS' proportion of the net other postemployment benefit liability	0.59%	0.64%
KCTCS' proportionate share of the net other postemployment benefit liability	\$ 20,297	\$ 22,671
State's proportionate share of the net other postemployment benefit liability	9,933	10,281
	<u>\$ 30,230</u>	<u>\$ 32,952</u>
KCTCS' covered payroll	\$ 34,408	\$ 35,898
KCTCS' proportionate share of the net other postemployment benefit liability as a percentage of its covered payroll	58.99%	63.15%
Plan fiduciary net position as a percentage of the total other postemployment benefit liability	25.50%	21.18%

*Notes:*

*This table represents data that is one year in arrears.*

*These are 10-year schedules, however, the information in this schedule is not required to be presented retroactively. Years will be added to this schedule in future fiscal years until 10-years of information is available.*

*Changes in assumptions: For fiscal year 2019, healthcare cost trend rates were decreased to 0.00% from 1.02% for Medicare Part B Premiums. The municipal bond index rate increased from 3.56% to 3.89%.*

*Changes of benefit terms: For fiscal year 2018, the eligibility for non-single subsidies (NSS) for the KEHP-participating members who retired prior to July 1, 2010 was restored, but the state will only finance, via its KEHP "Shared Responsibility" contributions, the costs of the NSS related to those KEHP-participating members who retired on or after July 1, 2010.*

Schedule of KCTCS' OPEB Contribution  
Kentucky Teacher's Retirement System - Medical Insurance Plan  
(in thousands)

	2019	2018
Contractually required contribution	\$ 913	\$ 908
Contributions in relation to the contractually required contribution	\$ 913	\$ 908
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>
KCTCS covered payroll	\$ 30,701	\$ 34,408
Contributions as a percentage of covered payroll	2.97%	2.64%

*Notes:*

*These are 10-year schedules, however, the information in this schedule is not required to be presented retroactively. Years will be added to this schedule in future fiscal years until 10-years of information is available.*

Continued



**KENTUCKY COMMUNITY AND TECHNICAL COLLEGE SYSTEM**  
**Required Supplementary Information**  
**June 30, 2019 and 2018**

Schedule of KCTCS' Proportionate Share of the Net Other Postemployment Benefit Liability  
Kentucky Teacher's Retirement System - Life Insurance Plan  
(in thousands)

	2019	2018
KCTCS' proportion of the net other postemployment benefit liability	1.05%	1.11%
KCTCS' proportionate share of the net other postemployment benefit liability	\$ 297	\$ 243
KCTCS' covered payroll	\$ 34,408	\$ 35,898
KCTCS' proportionate share of the net other postemployment benefit liability as a percentage of its covered payroll	0.86%	0.68%
Plan fiduciary net position as a percentage of the total other postemployment benefit liability	75.00%	79.99%

*Notes:*

*This table represents data that is one year in arrears.*

*These are 10-year schedules, however, the information in this schedule is not required to be presented retroactively. Years will be added to this schedule in future fiscal years until 10-years of information is available.*

*Changes in assumptions: For fiscal year 2019, the municipal bond index rate increased from 3.56% to 3.89%. The amortization period was changed from 27 years to 30 years and the inflation rate was changed from 3.00% to 3.50%.*

Schedule of KCTCS' OPEB Contribution  
Kentucky Teacher's Retirement System - Life Insurance Plan  
(in thousands)

	2019	2018
Contractually required contribution	\$ 12	\$ 5
Contributions in relation to the contractually required contribution	\$ 12	\$ 5
Contribution deficiency (excess)	\$ -	\$ -
KCTCS covered payroll	\$ 30,701	\$ 34,408
Contributions as a percentage of covered payroll	0.04%	0.01%

*Notes:*

*These are 10-year schedules, however, the information in this schedule is not required to be presented retroactively. Years will be added to this schedule in future fiscal years until 10-years of information is available.*

Continued

**KENTUCKY COMMUNITY AND TECHNICAL COLLEGE SYSTEM**  
**Required Supplementary Information**  
**June 30, 2019 and 2018**

Schedule of KCTCS' Proportionate Share of the Net Other Postemployment Benefit Liability  
Kentucky Employees Retirement System  
(in thousands)

	2019	2018
KCTCS' proportion of the net other postemployment benefit liability	1.44%	1.50%
KCTCS' proportionate share of the net other postemployment benefit liability	\$ 34,129	\$ 38,094
KCTCS' covered payroll	\$ 22,028	\$ 23,258
KCTCS' proportionate share of the net other postemployment benefit liability as a percentage of its covered payroll	154.93%	163.79%
Plan fiduciary net position as a percentage of the total other postemployment benefit liability	27.32%	24.40%

*Notes:*

*This table represents data that is one year in arrears.*

*These are 10-year schedules, however, the information in this schedule is not required to be presented retroactively. Years will be added to this schedule in future fiscal years until 10-years of information is available.*

*Changes in assumptions: For fiscal year 2019, the discount rate was changed from 5.83 percent to 5.86 percent. For fiscal year 2018, the assumed investment rate of return was changed from 7.50 percent to 6.25 percent. The inflation assumption was changed from 3.25 percent to 2.30 percent, which also resulted in a 0.95 percent decrease in the salary assumption at all years of service. The payroll growth assumption was changed from 4.00 percent to 0.00 percent. The discount rate was changed from 6.90 percent to 5.83 percent.*

Schedule of KCTCS' OPEB Contribution  
Kentucky Employees Retirement System  
Other Postemployment Benefit Plan  
(in thousands)

	2019	2018
Contractually required contribution	\$ 1,989	\$ 1,853
Contributions in relation to the contractually required contribution	\$ 1,989	\$ 1,853
Contribution deficiency (excess)	\$ -	\$ -
KCTCS covered payroll	\$ 20,008	\$ 22,028
Contributions as a percentage of covered payroll	9.94%	8.41%

*Notes:*

*These are 10-year schedules, however, the information in this schedule is not required to be presented retroactively. Years will be added to this schedule in future fiscal years until 10-years of information is available.*

Continued

**KENTUCKY COMMUNITY AND TECHNICAL COLLEGE SYSTEM**  
**Required Supplementary Information**  
**June 30, 2019 and 2018**

Schedule of Changes in the Net OPEB Liability (Asset) and Related Ratios  
Kentucky Community and Technical College System  
Other Postemployment Benefit Plan  
(in thousands)

	2019	2018
<b>Total OPEB liability</b>		
Service cost	\$ 2,902	\$ 4,839
Interest	11,324	11,366
Differences between expected and actual experience	-	(39,171)
Changes of assumptions	(2,046)	(1,929)
Contributions - employee	589	-
Benefit payments	(3,854)	(3,357)
Net change in total OPEB liability	\$ 8,915	\$ (28,252)
Total OPEB liability - beginning	163,397	191,649
Total OPEB liability - ending	<u>\$ 172,312</u>	<u>\$ 163,397</u>
<b>Plan fiduciary net position</b>		
Net investment income	\$ 14,030	\$ 18,685
Benefit payments	(3,854)	(3,357)
Administrative expense	-	(144)
Net change in plan fiduciary net position	\$ 10,176	\$ 15,184
Plan fiduciary net position - beginning	186,117	170,933
Plan fiduciary net position - ending	<u>\$ 196,293</u>	<u>\$ 186,117</u>
<b>Net OPEB asset</b>	(23,981)	(22,720)
Plan fiduciary net position as a percentage of the total OPEB liability	113.92%	113.90%
Covered-employee payroll	\$ 89,871	\$ 95,490
Net OPEB asset as a percentage of covered-employee payroll	26.68%	23.79%

**Notes:**

These are 10-year schedules, however, the information in this schedule is not required to be presented retroactively. Years will be added to this schedule in future fiscal years until 10-years of information is available.

Changes in assumptions: For fiscal year 2019, healthcare trend rates were updated from 7.5% to 7.35% for KCTCS, from 7% to 6.88% for UK Pre-65 and from 6% to 5.93% for UK Post-65. Mortality rates for healthy employees were updated from RP-2014 Combined Healthy Mortality Table for Males and Females Backed off to 2006 and Projected Generationally with Scale MP-2016 to RP-2014 Combined Healthy Mortality Table for Males and Females Backed off to 2006 and Projected Generationally with Scale MP-2017. Mortality rates for disabled employees were updated from RP-2014 Disabled Mortality Table for Males and Females Backed off to 2006 and Projected Generationally with Scale MP-2016 to RP-2014 Disabled Mortality Table for Males and Females Backed off to 2006 and Projected Generationally with Scale MP-2017.

For fiscal year 2018, the discount rate was changed from 6% to 7%. The salary increase rate was set at 3%. Health Care and Contribution trend rates were updated from 7% in fiscal 2016 and an ultimate rate of 4% in fiscal 2036 to an initial rate of 7.50%, 7% and 6% in fiscal 2018 for KCTCS, UK Pre-65, UK Post-65, respectively, and an ultimate rate of 4.50% in fiscal 2038 for all plans. The lapse rate for current and future retirees and their spouses was updated from 10% to 3%. The participation rate was updated from 95% to 90%. Retirees electing spousal coverage was updated from 30% to 15%. 75% of future KCTCS retirees who have waived coverage are assumed to stay without coverage until age 65 and to elect coverage at age 65. This was updated from 100%. The impact of the Affordable Care Act excise tax on high-cost healthcare plans was estimated and updated. KCTCS health per capita costs were updated based on updated premium and census data. Mortality for health employees was updated from RP-2014 Combined Healthy Mortality Table for Males and Females Projected Generationally with scale MP-2014 to RP-2014 Combined Healthy Mortality Table for Males and Females Backed off to 2006 and Projected Generationally with Scale MP-2016. Mortality for disabled employees was updated from RP-2014 Disabled Mortality Table for Males and Females Projected Generationally with scale MP-2014 to RP-2014 Disabled Mortality Table for Males and Females Backed off to 2006 and Projected Generationally with Scale MP-2016.



**KENTUCKY COMMUNITY AND TECHNICAL COLLEGE SYSTEM**  
Officers of the KCTCS Board of Regents, KCTCS Board of Regents  
and KCTCS President's Cabinet

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Dr. Gail R. Henson, Vice-Chair  
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Michael Murray, Esq.  
Dr. Kristin Williams

**Independent Auditor's Report 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**

Members of the Board of Regents  
Kentucky Community and Technical College System  
Versailles, Kentucky

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 Kentucky Community and Technical College System (the System), a component unit of the Commonwealth of Kentucky, as of and for the year ended June 30, 2019, and the related notes to the financial statements, which collectively comprise the System's basic financial statements and have issued our report thereon dated October 4, 2019.

**Internal Control over Financial Reporting**

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

## Compliance and Other Matters

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

## Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control over financial reporting 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.

  
Crowe LLP

Lexington, Kentucky  
October 4, 2019