KENTUCKY COMMUNITY AND TECHNICAL COLLEGE SYSTEM

REPORT ON AUDIT OF INSTITUTION
OF HIGHER EDUCATION
IN ACCORDANCE WITH OMB CIRCULAR A-133
June 30, 2009

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REPORT OF INDEPENDENT AUDITORS

To the Board of Regents of the
Kentucky Community and Technical College System
and
The Secretary of Finance and Administration Cabinet
of the Commonwealth of Kentucky

We have audited the accompanying financial statements of the business-type activities of Kentucky Community and Technical College System (the "System") as of and for the years ended June 30, 2009 and 2008, which comprise the System's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the System's management. 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 of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities of Kentucky Community and Technical College System as of June 30, 2009 and 2008, and its changes in net assets and cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

The Management's Discussion and Analysis (MD&A) on pages 5 through 13 and the Schedule of Funding Progress for the Retiree Medical Plan on page 60 are not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 1, 2009, on our consideration of the System's internal control over financial reporting and 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 the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

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Our audit was performed for the purpose of forming an opinion on the basic financial statements of Kentucky Community and Technical College System taken as a whole. The accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by U. S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

Crowe Horwath LLP

Crowe Horwath LLP

Louisville, Kentucky
October 1, 2009

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Management's Discussion and Analysis of the Kentucky Community and Technical College System (KCTCS or the System) financial statements provides an overview of the financial position and activities of KCTCS for the years ended June 30, 2009 and 2008. This discussion has been prepared by management and should be read in conjunction with the financial statements and the related notes thereto, 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 was strengthened further at June 30, 2009, with assets of $877.9 million and liabilities of $109.9 million. Net assets, which represent KCTCS' residual interest in assets after liabilities are deducted, were $768.0 million or 87.5 percent of total assets. Net assets at June 30, 2008 were 88.3 percent of total assets. Financial operations were in accordance with the revenue expectations and the approved expenditure plan.
- Total assets increased $94.8 million or 12.1 percent. The increase is primarily in loans, accounts and gifts receivable, and capital assets.
- Total liabilities increased by $18.4 million or 20.1 percent. The principal items of increase were other long-term obligations.
- Total net assets increased $76.4 million, or 11.0 percent. This resulted primarily from income before other revenues, expenses, gains and losses of $11.4 million, capital construction proceeds from the Commonwealth of Kentucky of $70.1 million and reductions of endowments of $4.8 million.
- Operating revenues were $184.2 million and operating expenses were $546.5 million, resulting in a loss from operations of $362.3 million. Nonoperating revenues of $373.7 million (including $214.9 million in state appropriations) resulted in $11.4 million in income before other revenue. Other revenues were $65.0 million in 2009.

Using the Financial Statements

The Financial Statements consist of a Statement of Net Assets (Balance Sheet), a Statement of Revenues, Expenses and Changes in Net Assets (Income Statement), a Statement of Cash Flows, and Notes to the Financial Statements. These financial statements are prepared in accordance with Governmental Accounting Standards Board (GASB) Statement No. 35, *Basic Financial Statements – and Management's Discussion and Analysis – for Public Colleges and Universities.* Accordingly, the accrual basis of accounting is used whereby revenues and assets are recognized when the service is provided and expenses and liabilities are recognized when others provide the service, regardless of when cash is exchanged.

Reporting Entity

The Kentucky Community and Technical College System 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 colleges provide both credit and noncredit instruction primarily to state residents. In fact, for most Kentuckians the journey to higher education begins at one of KCTCS' 16 colleges located on 67 campuses across the Commonwealth. KCTCS colleges are committed to making education accessible, relevant, and responsive to the needs of students, employers, and communities. While focusing on quality, KCTCS colleges are the best value in postsecondary education in Kentucky. Year in and year out, tuition and charges are the lowest in the Commonwealth. Students at KCTCS colleges benefit from a single, simple tuition and charge structure.

KCTCS' colleges offer a variety of certificate, diploma, and associate degree programs. In addition, the colleges provide a variety of programs and training opportunities to many of the Commonwealth's employers along with fire and rescue training to fire departments throughout the state. Similarly, the Kentucky Board of Emergency Medical Services is a component of KCTCS and certifies first responders, emergency medical technicians, and licenses paramedics and ambulance services throughout the state. KCTCS offers instructional programs in each of the Commonwealth's correctional institutions as well. All KCTCS colleges have Southern Association of Colleges and Schools (SACS) accreditation as consolidated comprehensive community and technical colleges.

The KCTCS' campuses are strategically located across the Commonwealth, from Ashland to Paducah, from Covington to Bowling Green. KCTCS is the largest provider of Internet-based courses in the state offering more than 1,800 on-line course sections through the Kentucky Virtual Campus. KCTCS colleges confer five types of credentials -- certificates, diplomas and three kinds of associate degrees -- upon students who complete credit programs. The single most popular area of study is the baccalaureate transfer program, which allows a student to earn an associate degree at a KCTCS college and transfer those credits to any Kentucky university. While continuing to emphasize its historical mission to provide general education, KCTCS is increasing its focus on occupational/technical education. KCTCS colleges offer approximately 600 programs.

The System also views postsecondary education as a crucial resource for workforce development. KCTCS forges partnerships between colleges and businesses to provide Kentucky workers with the skills required today and to help industries and individuals develop the capabilities they will need tomorrow.

KCTCS also enhances learning opportunities for all Kentuckians through noncredit continuing education. From personal improvement to cultural activities, community development programs at KCTCS institutions are tailored to meet local needs. KCTCS colleges sponsor an array of fine-arts programs that enrich their communities.

Statement of Net Assets

The Statement of Net Assets presents the financial position of KCTCS at the end of the fiscal year and includes all assets and liabilities. Net assets, the difference between total assets and total liabilities, are an important indicator of the current financial condition. Assets and liabilities are generally reported using current values. The major exception is capital assets, which are stated at historical cost, less accumulated depreciation. A summary of the assets, liabilities and net assets of KCTCS at June 30, 2009, 2008 and 2007, is as follows:

Condensed Statement of Net Assets (in thousands)

	2009	2008	2007
ASSETS			
Current assets	$ 248,689	$ 226,233	$ 211,799
Noncurrent assets	629,210	556,851	481,798
Total Assets	877,899	783,084	693,597
LIABILITIES			
Current liabilities	60,510	58,820	56,989
Noncurrent liabilities	49,355	32,628	15,174
Total Liabilities	109,865	91,448	72,163
NET ASSETS			
Invested in capital assets, net of related debt	514,824	443,713	386,065
Restricted			
Nonexpendable	17,258	17,127	19,504
Expendable	99,995	85,216	83,281
Unrestricted	135,957	145,580	132,584
Total Net Assets	$ 768,034	$ 691,636	$ 621,434

Assets: As of June 30, 2009, total assets amounted to $877.9 million. Of this amount, investment in capital assets (net of depreciation) of $529.1 million, or 60.3 percent of total assets, represented the largest asset class. Cash and cash equivalents amounted to $206.0 million or 23.5 percent, and loans and accounts receivable amounted to $70.2 million or 8.0 percent of total assets. During the year, total assets increased by $94.8 million, primarily in loans, accounts and gifts receivables, and capital assets.

Liabilities: As of June 30, 2009, total liabilities amounted to $109.9 million. Capital leases and other long-term obligations amounted to $51.5 million, or 46.9 percent of total liabilities. During the year, total liabilities increased by $18.4 million, primarily because of postemployment benefits recognized in accordance with GASB No, 45.

Net Assets: The equity of KCTCS of $768.0 million as of June 30, 2009 is reported on the Statement of Net Assets in four net asset categories: invested in capital assets, net of related debt, $514.8 million (67.0 percent); restricted-nonexpendable $17.2 million (2.2 percent); restricted expendable, $100.0 million (13.0 percent); and unrestricted, $136.0 million (17.7 percent).

Restricted net assets are subject to externally imposed restrictions governing their use. Although unrestricted net assets are not subject to externally imposed provisions, substantially all of the unrestricted net assets have been designated for support of instructional programs and initiatives and working capital requirements.

Total net assets increased by $76.4 million during the year ended June 30, 2009. This increase was comprised primarily of a capital assets increase, net of related debt, of $71.1 million.

2008 Versus 2007

- As of June 30, 2008, total assets amounted to $783.1 million. Of this amount, investment in capital assets (net of depreciation) of $459.0 million, or 58.6 percent of total assets, represented the largest asset class. Cash and cash equivalents amounted to $221.4 million or 28.3 percent, and loans and accounts receivable amounted to $44.0 million or 5.6 percent of total assets. During the year, total assets increased by $89.5 million. The increase was primarily in cash and cash equivalents and capital assets.

- As of June 30, 2008, total liabilities amounted to $91.4 million. Capital leases and other long-term obligations amounted to $34.5 million, or 37.7 percent of total liabilities. During the year, total liabilities increased by $19.3 million, primarily the result of other postemployment obligation required by GASB No. 45.

- Total net assets increased by $70.2 million during the year ended June 30, 2008. Invested in capital assets, net of related debt, increased by $57.6 million. Restricted net assets decreased by $0.4 million as endowment investments decreased. Unrestricted net assets increased $13.0 million, mainly due to overall revenues in excess of expenditures.

Statement of Revenues, Expenses and Changes in Net Assets

The Statement of Revenues, Expenses and Changes in Net Assets is 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 Statement of Revenues, Expenses and Changes in Net Assets as revenues, expenses, gains or losses.

Financial activities are reported as either operating or nonoperating. GASB Statement No. 35 requires state appropriations, certain grants, gifts and investment and endowment income to be classified as nonoperating 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. Institutional aid and grants-in-aid funded by federal and state grants are reported net of scholarship allowances. A summary of the Statement of Revenues, Expenses, and Changes in Net Assets for the years ended June 30, 2009, 2008, and 2007 is presented on the following page.

Condensed Statement of Revenues, Expenses and Changes in Net Assets
(in thousands)

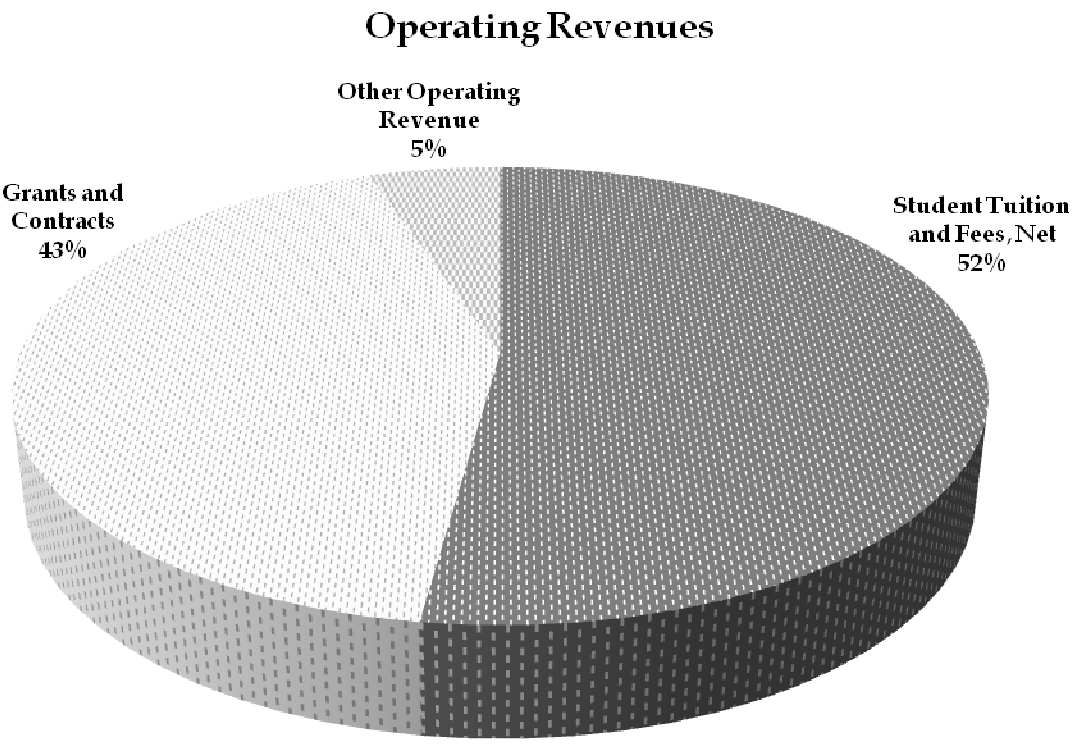
Total operating revenues were $184.2 million for the year ended June 30, 2009. Included in KCTCS' operating revenues are net student tuition and fees of $96.1 million (52.2percent), and grants and contracts of $78.5 million (42.6 percent).

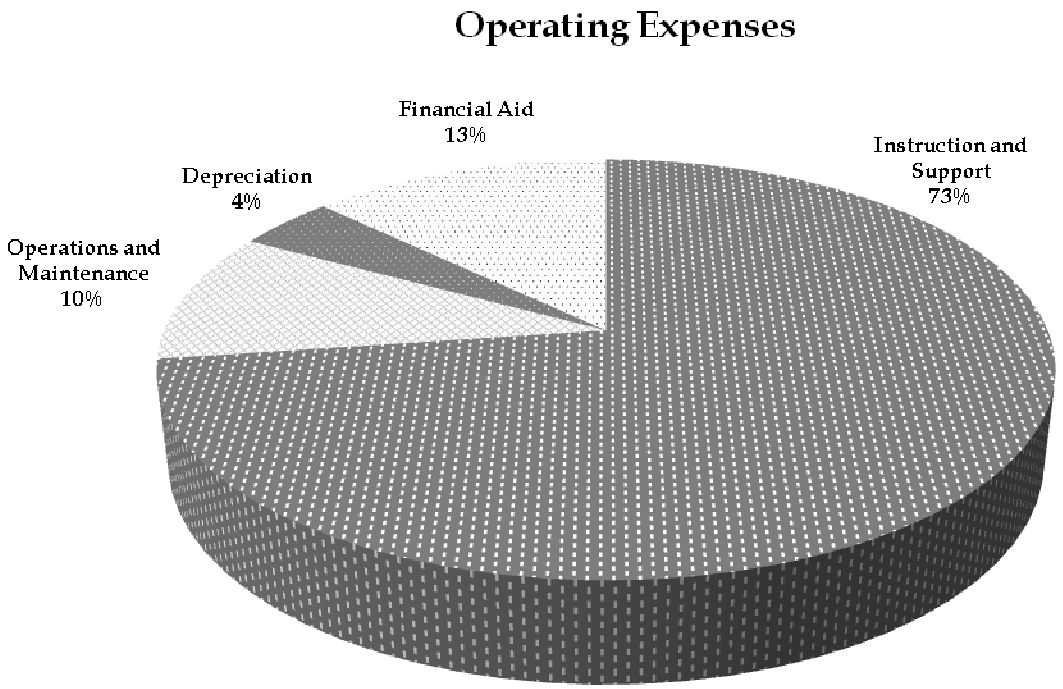
Operating expenses totaled $546.5 million. Of this amount, $523.6 million (95.8 percent of total operating expenses) was expended for educational and general programs, including instruction, academic support, libraries, public service, student services, institutional support, and operations and maintenance (excluding depreciation).

The loss from operations for the year amounted to $362.3 million. Nonoperating and other revenues, net of related expenses, amounted to $438.7 million, resulting in an increase in net assets of $76.4 million for the year. Nonoperating and other revenues reflect a $20.2 million increase due primarily to increases in capital construction proceeds of $21.1 million, federal and state grants and contracts increase of $18.0 million, and decreases in state appropriations of $6.9 million, other nonoperating revenues decreases of $8.0 million, and reductions to endowments of $3.9 million.

	2009	2008	2007
OPERATING REVENUES			
Student tuition and fees, net	$ 96,147	$ 92,336	$ 85,712
Grants and contracts	78,518	76,338	75,140
Auxiliary enterprises	-	596	516
Other operating revenue	9,583	8,432	8,161
Total operating revenues	184,248	177,702	169,529
OPERATING EXPENSES			
Educational and general, excluding depreciation	523,648	506,373	465,815
Depreciation	22,859	19,634	17,432
Total operating expenses	546,507	526,007	483,247
OPERATING LOSS	(362,259)	(348,305)	(313,718)
NONOPERATING REVENUES (EXPENSES)			
State appropriations	214,931	221,844	215,321
Federal and state grants and contracts	140,387	122,358	110,466
Other nonoperating revenues	18,336	26,373	22,294
Total nonoperating revenues	373,654	370,575	348,081
Income before other revenues, expenses, gains or losses	11,395	22,270	34,363
Capital construction appropriations from state	70,126	49,074	29,981
Net realized loss on disposal of capital assets	(291)	(200)	(165)
Increase (decrease) to endowments	(4,832)	(942)	3,347
Total other revenues (expenses)	65,003	47,932	33,163
Total increase in net assets	76,398	70,202	67,526
Net assets, beginning of year	691,636	621,434	553,908
Net assets, end of year	$ 768,034	$ 691,636	$ 621,434

The following chart depicts operating revenues and operating expenses. According to GASB, state appropriation is not accounted for as operating revenues, and is therefore excluded from the chart below:





2008 Versus 2007

Total operating revenues were $177.7 million for the year ended June 30, 2008, including net student tuition and fees of $92.3 million (52.0 percent) and grants and contracts of $76.3 million (43.0 percent).

Operating expenses totaled $526.0 million. Of this amount, $506.4 million (96.3 percent of total operating expenses) was expended for educational and general programs, including instruction, libraries, academic support, public service, student services, institutional support, and operations and maintenance (excluding depreciation).

The loss from operations for the year amounted to $348.3 million. Nonoperating and other revenues, net of related expenses, amounted to $418.5 million, resulting in an increase in net assets of $70.2 million for the year. Nonoperating revenues include state appropriations of $221.8 million (53.0 percent of total nonoperating and other revenues).

Statement of Cash Flows

The Statement of Cash Flows presents information, related to KCTCS' cash inflows and outflows, summarized by operating, capital, financing, and investing activities. The primary purpose of the Statement of Cash Flows is to provide information about the cash receipts and cash payments made by KCTCS during the year that will allow financial statement readers to assess:

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

A comparative summary of KCTCS' Statement of Cash Flows for the years ended June 30, 2009, 2008, and 2007 is as follows:

Condensed Statement of Cash Flows (in thousands)

	2009	2008	2007
Cash provided (used by):			
Operating activities	$ (326,006)	$ (341,493)	$ (299,091)
State appropriations	214,931	221,844	215,321
Other noncapital financing activities	172,007	152,175	130,522
Capital and related financing activities	(64,413)	(29,004)	(11,472)
Investing activities	(12,004)	(15,102)	1,220
Net change in cash and cash equivalents	(15,485)	(11,580)	36,500
Cash and cash equivalents, beginning of year	221,444	233,024	196,524
Cash and cash equivalents, end of year	$ 205,959	$ 221,444	$ 233,024

Major sources of cash received from operating activities are student tuition and fees ($110.6 million) and grants and contracts ($77.1 million). Major uses of cash for operating activities were payments to employees for salaries and benefits ($328.3 million) and to vendors and contractors ($131.9 million).

Capital and related financing activities include capital appropriations from the Commonwealth of Kentucky of $30.4 million, proceeds from disposal of capital assets of $0.5 million and proceeds from new capital debt and leases of $1.3 million. Cash of $93.8 million was expended for construction and acquisition of capital assets and $2.9 million was expended for principal and interest payments on debt.

Investing activities of $12.0 million include interest and dividends of $10.4 million. Cash of 22.4 million was used to purchase additional investments.

2008 Versus 2007

Major sources of cash received from operating activities are student tuition and fees ($93.0 million) and grants and contracts ($75.1 million). Major uses of cash for operating activities were payments to employees for salaries and benefits ($328.7 million) and to vendors and contractors ($112.9 million).

Capital and related financing activities include capital appropriations from the Commonwealth of Kentucky of $35.9 million. Cash of $80.4 million was expended for construction and acquisition of capital assets and $1.8 million was expended for principal and interest payments on debt.

Investing activities include $28.6 million used to purchase additional investments and interest and dividends on investments of 13.5 million.

Capital Assets and Debt Administration

Capital assets, net of accumulated depreciation, totaled $529.1 million at June 30, 2009, an increase of $70.1 million. Capital assets as of June 30, 2009, 2008, and 2007, and significant changes in capital assets during those years are as follows (in thousands):

Capital Assets

	Balance June 30, 2007	Net Additions FY 2008	Balance June 30, 2008	Net Additions FY 2009	Balance June 30, 2009
Land and land improvements	$ 29,612	$ 2,210	$ 31,822	$ 1,193	$ 33,015
Buildings and infrastructures	435,709	39,325	475,034	44,908	519,942
Equipment, autos and campus improvements	74,044	9,090	83,134	5,817	88,951
Library holdings	52,045	1,225	53,270	1,252	54,522
Construction in progress	76,051	24,423	100,474	33,219	133,693
Assets under capital lease obligations	2,260	-	2,260	2,723	4,983
Total assets	669,721	76,273	745,994	89,112	835,106
Accumulated depreciation	(270,268)	(16,706)	(286,974)	(18,983)	(305,957)
Capital assets, net	$ 399,453	$ 59,567	$ 459,020	$ 70,129	$ 529,149

At June 30, 2009, KCTCS had capital construction projects in progress totaling $133.7 million. These projects are principally financed by appropriations and bond proceeds from the Commonwealth of Kentucky.

Debt

At June 30, 2009, debts consisted of seventy-one capital leases totaling $14.3 million.

Economic Factors Impacting Future Periods

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

- Following three recurring state appropriation reductions since December 2007 totaling $17.9 million (8 percent of the original 2007-08 state appropriation to KCTCS), KCTCS ended 2008-09 with a revised state appropriation of $214.9 million. During its 2009 special session, the Kentucky General Assembly approved a budget balancing plan for 2009-10 and appropriated to KCTCS $214.9 million for 2009-10 from a combination of state appropriation and federal State Fiscal Stabilization Funds.

- The KCTCS Board of Regents has approved a 2009-10 operating budget totaling $713.0 million and a 2009-10 capital budget totaling $176.7 million. The 2009-10 operating budget includes an unrestricted budget reserve of $21.2 million. The reserve funds are for each college and for the systemwide operations and support programs.

- Tuition rates for 2009-10 have been increased from $121 per credit hour to $125 per credit hour for resident students. Nonresident students from counties contiguous to Kentucky will pay $250 per credit hour. Other nonresident students will pay $425 per credit hour. Online students will pay $125 per credit hour.

- KCTCS is implementing a systemwide multi-year major gifts campaign titled "Fulfilling the Promise." The campaign goal is $100 million. As of June 30, 2009, total gifts and pledges received were approximately $92 million.

- Changes in governmental accounting standards that took effect in 2007-08 required KCTCS to record on its financial statements an obligation for postemployment benefits for its 403(b) benefit plan employees. This obligation has a total estimated cost of $252 million calculated at a 4 percent discount rate using a 30-year amortization schedule. The 2008-09 expense required to retire this future obligation was $20.0 million; $18.3 million of this total has been invested with the Commonfund to offset future obligations.

  In March 2009, the KCTCS Board of Regents revised its employment policies so that employees hired with an effective date on or after July 1, 2009 that participate in a 403(b) retirement plan will not be eligible for postemployment health benefits.

- Despite the current economic situation, KCTCS continues to maintain its firm commitment to the vision and goals of the Postsecondary Education Improvement Act of 1997 (House Bill 1). During 2009-10 the KCTCS Board of Regents will be developing its 2010-16 strategic plan. In June 2009 the KCTCS Board of Regents adopted the following goals to be included in that strategic plan:

  - Advance excellence and innovation in teaching, learning, and service.
  - Increase student access, transfer, and success.
  - Cultivate diversity, multiculturalism, and inclusion.
  - Enhance the economic and workforce development of the Commonwealth.
  - Promote the recognition and value of KCTCS.

- In 2009-10 the KCTCS President's Leadership Initiative is entitled "ADVOCACY". Under the leadership of KCTCS President McCall, the advocacy campaign will involve all 16 colleges in delivering a common and consistent message that demonstrates the importance of KCTCS to Kentucky's future economic growth.

- KCTCS also has developed and in 2009-10 will be updating its business plan, the *KCTCS Plan for a Competitive Commonwealth 2008-2020*, with specific goals and quantifiable benchmarks to ensure progress is made to help secure Kentucky's long-term economic future. The *Plan* has helped define business strategies to address both the KCTCS role in the Commonwealth's public agenda for postsecondary education as well as ways to address the workforce development needs of Kentucky's businesses.

Although many economic challenges have faced KCTCS in the past year and will continue to impact the future, KCTCS management believes that KCTCS' sound financial position and practices will enable it to continue its progress to becoming the nation's premier community and technical college system.

KENTUCKY COMMUNITY AND TECHNICAL COLLEGE SYSTEM
STATEMENTS OF NET ASSETS
June 30, 2009 and 2008
(In Thousands)

	2009	2008
ASSETS		
Current assets		
Cash and cash equivalents	$ 184,207	$ 189,280
Short-term investments	41	55
Loans, accounts, grants and gifts receivable, net	62,344	34,885
Other current assets	2,097	2,013
Total current assets	248,689	226,233
Noncurrent assets		
Restricted cash and cash equivalents	21,752	32,164
Loans and other receivables	7,826	9,122
Endowment investments	24,877	27,098
Other long-term investments	45,606	29,447
Capital assets, net	529,149	459,020
Total noncurrent assets	629,210	556,851
Total Assets	877,899	783,084
LIABILITIES		
Current liabilities		
Accounts payable and accrued expenses	7,032	8,420
Employee withholdings and deposits	13,342	13,354
Compensated absences	11,510	10,465
Deferred revenue	26,445	24,695
Leases payable, current portion	2,181	1,886
Total current liabilities	60,510	58,820
Noncurrent liabilities		
Leases payable, noncurrent portion	12,145	13,421
Other long-term obligations	37,210	19,207
Total noncurrent liabilities	49,355	32,628
Total Liabilities	109,865	91,448
NET ASSETS		
Invested in capital assets, net of related debt	514,824	443,713
Restricted for:		
Nonexpendable		
Scholarships, instruction and other	17,258	17,127
Expendable		
Scholarships, instruction and other	22,868	29,119
Loans	16,411	15,864
Capital projects	60,716	40,233
Unrestricted	135,957	145,580
Total Net Assets	$ 768,034	$ 691,636

See accompanying notes to financial statements.

KENTUCKY COMMUNITY AND TECHNICAL COLLEGE SYSTEM
STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
Years ended June 30, 2009 and 2008
(In Thousands)

	2009	2008
REVENUES		
Operating revenues		
Student tuition and fees	$ 183,479	$ 168,470
Less: scholarships allowance	(87,332)	(76,134)
Net tuition and fees	96,147	92,336
Federal grants and contracts	40,190	36,297
State and local grants and contracts	38,316	40,021
Nongovernmental grants and contracts	12	20
Indirect cost recoveries	1,485	1,525
Sales and services	4,644	3,735
Auxiliary enterprises		
Grills, housing and dining	-	596
Other operating revenues	3,454	3,172
Total operating revenues	184,248	177,702
EXPENSES		
Operating expenses		
Educational and general		
Instruction	214,360	210,654
Public service	34,372	35,865
Libraries	6,195	5,950
Academic support	27,305	27,623
Student services	45,421	42,251
Institutional support	70,309	76,622
Operation and maintenance of physical plant	55,297	42,142
Depreciation	22,859	19,634
Student financial aid	70,389	64,709
Auxiliary enterprises		
Grills, housing and dining	-	557
Total operating expenses	546,507	526,007
Operating loss	(362,259)	(348,305)
NONOPERATING REVENUES (EXPENSES)		
State appropriations	214,931	221,844
Local appropriations	43	43
Federal and state grants and contracts	140,387	122,358
Gifts	4,372	6,423
Investment income	6,640	13,639
Interest expense, capital debt	(564)	(596)
Other nonoperating revenues	7,845	6,864
Nonoperating revenues	373,654	370,575
Income before other revenues, expenses, gains or losses	11,395	22,270
Capital construction appropriations from state	70,126	49,074
Loss on disposal of capital assets	(291)	(200)
Investment income and losses from endowments	(4,832)	(942)
Total other revenues	65,003	47,932
Increase in net assets	76,398	70,202
NET ASSETS		
Net assets, beginning of year	691,636	621,434
Net assets, end of year	$ 768,034	$ 691,636

See accompanying notes to financial statements.

KENTUCKY COMMUNITY AND TECHNICAL COLLEGE SYSTEM
STATEMENTS OF CASH FLOWS
Years ended June 30, 2009 and 2008
(In Thousands)

	2009	2008
Cash flows from operating activities		
Tuition and fees	$ 110,573	$ 92,982
Grants and contracts	77,058	75,082
Indirect cost recoveries	1,485	1,525
Sales and services	4,644	3,739
Payments to vendors and contractors	(131,892)	(112,864)
Student financial aid	(63,879)	(63,879)
Salaries, wages and benefits	(328,317)	(328,686)
Auxiliary enterprise receipts	-	596
Other receipts	4,322	3,207
Net cash from operating activities	(326,006)	(328,298)
Cash flows from noncapital financing activities		
State appropriations	214,931	221,844
Federal and local appropriations	140,429	122,401
Gifts received for non-capital purposes	5,730	6,590
Other liabilities	18,003	16,320
Other nonoperating receipts	7,845	6,864
Net cash from noncapital financing activities	386,938	374,019
Cash flows from capital and related financing activities		
Capital appropriations	30,412	35,879
Proceeds from disposal of capital assets	1,243	956
Purchase of capital assets	(94,523)	(80,357)
Principal paid on capital debt and leases	(2,304)	(1,246)
Proceeds from capital debt and leases	1,323	3,165
Interest paid on capital debt and leases	(564)	(596)
Net cash from capital and related financing activities	(64,413)	(42,199)
Cash flows from investing activities		
Proceeds from sales and maturities of investments	889	2,799
Interest on investments	10,361	13,495
Purchase of investments	(23,254)	(31,396)
Net cash from investing activities	(12,004)	(15,102)
Net change in cash and cash equivalents	(15,485)	(11,580)
Cash and cash equivalents, beginning of year	221,444	233,024
Cash and cash equivalents, end of year	$ 205,959	$ 221,444
Reconciliation of net operating revenues (expenses) to net cash from operating activities		
Operating loss	$ (362,259)	$ (348,305)
Adjustments to reconcile net income (loss) to net cash from operating activities		
Depreciation expense	22,859	19,634
Change in assets and liabilities		
Loans, accounts and grants receivable, net	12,083	313
Other current assets	(84)	(986)
Accounts payable and accrued expenses	(1,388)	1,072
Employee withholdings and deposits	(12)	607
Compensated absences	1,045	252
Deferred revenue	1,750	(885)
Net cash from operating activities	$ (326,006)	$ (328,298)

See accompanying notes to financial statements.

NOTE 1 - ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

KCTCS has adopted the provisions of GASB Statement No. 39, *Determining Whether Certain Organizations Are Component Units*. This statement provided additional guidance to be used in determining whether certain organizations for which KCTCS is not financially accountable should be reported as component units based on the nature and significance of their relationship with KCTCS. KCTCS has considered whether several organizations have met the criteria for inclusion as component units. 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.

KCTCS has the option to apply all Financial Accounting Standards Board (FASB) pronouncements issued after November 30, 1989, unless FASB conflicts with GASB. KCTCS has elected to not apply FASB pronouncements issued after the applicable date.

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

Accrual Basis: The financial statements have been prepared on the accrual basis of accounting. Under the accrual basis of accounting, revenues are recognized when earned and expenses are recorded when an obligation has been incurred. KCTCS reports as a Business Type Activity (BTA) as defined by GASB No. 35. 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 and endowment fund cash pending transfer to the custodian for investment by the endowment fund managers. Cash and cash equivalents held by the KCTCS endowment fund managers are included in noncurrent endowment investments.

Cash and cash equivalents consist of deposits in local banks of $40 million, and with the Commonwealth of Kentucky of $166.0 million. Deposits with local banks and investment 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 the Commonwealth's 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 gain/loss on sales, accrued income earned, and distribution of investment earnings for expenditure by participating funds.

(Continued)

NOTE 1 – ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
(Continued)

The Uniform Management of Institutional Funds Act (UMIFA), 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 gains) 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 prior years' accumulated earnings or net realized gain on sales. For the year ended June 30, 2008, net realized gains of $1,427,000 was transferred from the endowment to support current expenses. For the year ended June 30, 2009, financial markets recorded some of the highest negative investment returns in history, resulting in KCTCS' endowment with no accumulated realized or unrealized gains available to support expenses. Therefore, it was necessary to transfer from current operating funds $1,686,000 to support current expenses. This amount will be repaid in subsequent fiscal years with a transfer from the endowment to current operating funds as future endowment investment returns become available. The financial market downturn in fiscal 2009 also resulted in KCTCS' decision to significantly reduce the amount of endowment earnings for distribution in fiscal 2010, reducing the amount available for appropriation to one-half of the fiscal 2009 payout.

The National Conference of Commissioners on Uniform State Laws (NCCUSL) has approved the Uniform Prudent Management of Institutional Funds Act (UPMIFA) and recommended it for enactment by the legislatures of the various states. UPMIFA, as an up-date and successor to UMIFA (approved in 1972), is designed to provide a more unified basis for fund management. Currently, the Commonwealth of Kentucky has not adopted this Act.

Investments: Investments in marketable securities are stated at fair value, as determined by the major securities markets. Changes in unrealized gain (loss) on the carrying value of investments are reported as a component of investment income in the Statement of Revenues, Expenses and Changes in Net Assets.

Accounts and Grants Receivable: Accounts receivable consist of tuition and fee charges to students. Accounts receivable also include amounts due from the Federal government, state and local governments or private sources in connection with reimbursement of allowable expenditures made pursuant to KCTCS' 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 as a whole. KCTCS writes off specific accounts receivable when they are assessed as uncollectible.

Capital Assets: Capital assets are stated at cost at date of acquisition or, in the case of gifts, at fair market value at date of gift, except KCTCS has title to certain tracts of land, which were either donated or purchased at a nominal price with no book value assigned to these properties.

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.

Depreciation of capital assets is computed on a straight-line basis over the estimated useful lives of the respective 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 and expense incurred for employee vacation and sick pay are recorded as accrued compensated absences in the statement of net assets and as a component of compensation and benefit expense in the statement of revenues, expenses and changes in net assets.

(Continued)

NOTE 1 – ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Deferred Revenue: Deferred revenue consists primarily of unearned tuition and fees related to the summer session and upcoming fall session, and amounts from grant and contract sponsors that have not yet been earned under the terms of the agreements.

Net assets: Under GASB standards net assets are required to be classified for accounting and reporting purposes into the following categories:

- **Invested in capital assets, net of related debt:** Capital assets, net of accumulated depreciation and outstanding principal balances of debt attributable to the acquisition, construction or improvement of those assets.

- **Restricted:**
  Nonexpendable **-** Net assets subject to externally imposed stipulations that they be maintained permanently by KCTCS. Such assets include permanent endowment funds.

  Expendable **-** Net assets 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 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 statement of revenues, expenses and changes in net assets. 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 Grants and Contracts: Pell Grants, Supplemental Educational Opportunity Grants (SEOG), College Access Program (CAP) Grants and Kentucky Educational Excellence Scholarship (KEES) are considered nonexchange transactions and are recorded as nonoperating revenues in the accompanying financial statements in accordance with GASB Statement No. 24, *Accounting and Financial Reporting for Certain Grants and Other Financial Assistance*.

Operating Activities: KCTCS defines operating activities, as reported on the Statement of Revenues, Expenses, and Changes in Net Assets, as those that generally result from exchange transactions, such as payments received for providing goods and services and payments made for services and goods received. Nearly all of KCTCS' expenses are from exchange transactions. Certain significant revenues relied upon for operations, such as state appropriations, certain grants, gifts and investment income, are recorded as non-operating revenues, in accordance with GASB Statement No. 35.

(Continued)

NOTE 1 – ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Income Taxes: KCTCS is an agency and instrumentality of the Commonwealth of Kentucky, pursuant to Kentucky Revised Statutes sections 164.100 through 164.280. Accordingly, KCTCS is exempt from federal income taxes as an organization described in Section 170 (b) (1) (A) (ii) of the Internal Revenue Code of 1986. The affiliated Foundation has been granted exemption from federal income tax pursuant to the provisions of the Internal Revenue Code section 501(c)(3).

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 on 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, accrued expenses (vacation, long term disability, workers compensation and unemployment) and other liability accounts. Actual results could differ from those estimates.

Recent Accounting Pronouncements: In June 2008, the GASB issued Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments*. This statement addresses the recognition, measurement and disclosure of information regarding derivative instruments entered into by governments. The provisions of this statement are effective for fiscal periods beginning after June 15, 2009. KCTCS does not anticipate that this statement will have a material effect on its financial statements.

Adoption of New Accounting Pronouncements: In fiscal year 2008, the provisions of GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions,* and Statement No. 50, *Pension Disclosures – an amendment of GASB Statements No. 25 and No. 27*, became effective. Statement No. 45 establishes standards for the measurement, recognition, and display of other postemployment benefit expenses/expenditures and related liabilities (assets), note disclosures, and, if applicable, required supplementary information in the financial reports of employers subject to governmental accounting standards. Statement No. 50 more closely aligns the financial reporting requirements for pensions with those for other postemployment benefits and, in doing so, enhances information disclosed in notes to financial statements or presented as required supplementary information by pension plans and by employers that provide pension benefits. Note 10 details the effect in the 2009 financial statements of adopting these statements.

In November 2007, the GASB issued Statement No. 52, *Land and Other Real Estate Held as Investments by Endowments*. This statement establishes consistent standards for the reporting of land and other real estate held as investments by essentially similar entities. It requires endowments to report their land and other real estate investments at fair value. It also requires governments to report the changes in fair value as investment income and to disclose methods and significant assumptions employed to determine fair value and other information that they currently present for other investments reported at fair value. The provisions of this statement are effective for fiscal periods beginning after June 15, 2008. This statement did not have a material effect on KCTCS' financial statements.

(Continued)

NOTE 2 - LOANS, ACCOUNTS, GRANTS AND GIFTS RECEIVABLE

Loans, accounts, grants and gifts receivable (net of allowances) as of June 30, 2009 and 2008, are as follows (in thousands):

	2009	2008
Student (net of allowances of $4,959 and $3,578)	$ 7,752	$ 7,190
Capital appropriations receivable	39,714	13,195
Reimbursement receivable – grants and contracts	9,525	8,109
Pledges receivable, net	3,601	4,959
Accrued interest receivable	2,748	2,855
Loans receivable from fire districts	6,830	7,699
Total	70,170	44,007
Current portion	62,344	34,885
Noncurrent portion	$ 7,826	$ 9,122

KCTCS has a receivable from the Commonwealth of Kentucky of $39,714,000 at June 30, 2009. The receivable is due to the Commonwealth authorizing expenditures on projects which will be reimbursed by the Commonwealth upon the issuance of Property and Building Commission Bonds. The amount of the receivable at June 30, 2009, represents the funds expended on the projects through that date.

Contributions receivable totaling $3,822,000 is expected to be collected primarily over the next ten years, as follows (in thousands):

2010	$ 1,625
2011	814
2012	579
2013	360
2014	52
2015-2018	392
	3,822
Present value discount	221
Pledges receivable, net	$ 3,601

In accordance with GASB Statement No. 33, *Accounting and Financial Reporting for Nonexchange Transactions*, as amended by GASB Statement No. 36, *Recipient Reporting for Certain Shared Nonexchange Revenues,* KCTCS is required to record operating and capital pledges as revenue when all eligibility requirements have been met. Endowment pledges are not recognized as revenue until the gifts are actually received.

(Continued)

NOTE 3 – INVESTMENTS

All 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 an appraised or nominal value.

As of June 30, 2009, KCTCS had the following investments (in thousands). The investments consist of mutual funds, and property.

Investment Type	Fair Value 2009	Fair Value 2008
Bond Mutual Funds	$ 53,598	$ 36,789
Money Market Funds	140	954
Other	960	1,486
	54,698	39,229
Equities and Equity Funds	15,826	17,371
	$ 70,524	$ 56,600

KCTCS has an investment management agreement with the Commonfund (Fund). The Fund managed $70,471,000 of the investments at June 30, 2009. The Commonfund was founded in 1971 to serve higher education and not-for-profit organizations. It currently serves 1,800 organizations and has $42 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.

Custodial Credit Risk: For an investment, 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, 2009, all of KCTCS' U.S. Treasuries, U.S. Agencies, and Corporate Notes were held by the investment's counterparty.

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.

(Continued)

NOTE 4 - CAPITAL ASSETS, NET

Capital assets as of June 30, 2009 and 2008 and the changes therein for the years then ended are summarized as follows (in thousands):

	2009			
	Beginning Balance	Additions	Reductions	Ending Balance
Cost				
Land	$ 23,691	$ 123	$ -	$ 23,814
Land improvements	8,131	1,070	-	9,201
Infrastructure	42,360	-	830	41,530
Buildings and structures	432,674	46,191	453	478,412
Construction in progress	100,474	33,219	-	133,693
Vehicles	6,074	938	206	6,806
Equipment, furniture, etc.	68,994	8,727	3,912	73,809
Leasehold improvements	7,080	-	-	7,080
Library materials	53,270	1,252	-	54,522
Energy saving assets	2,260	2,723	-	4,983
Equine	45	-	10	35
Computer software	941	280	-	1,221
Total	745,994	94,523	5,411	835,106
Less accumulated depreciation				
Land improvements	4,432	170	-	4,602
Infrastructure	7,949	563	4	8,508
Buildings and structures	175,669	12,595	55	188,209
Vehicles	4,058	749	174	4,633
Equipment, furniture, etc.	40,890	6,493	3,643	43,740
Leasehold improvements	6,103	65	-	6,168
Energy saving assets	904	498	-	1,402
Library materials	46,780	1,482	-	48,262
Computer software	189	244	-	433
Total accumulated depreciation	286,974	22,859	3,876	305,957
Capital assets, net	$ 459,020	$ 71,664	$ 1,535	$ 529,149

	2008			
	Beginning Balance	Additions	Reductions	Ending Balance
Cost				
Land	$ 22,553	$ 1,138	$ -	$ 23,691
Land improvements	7,059	1,072	-	8,131
Infrastructure	39,123	3,237	-	42,360
Buildings and structures	396,687	36,907	920	432,674
Construction in progress	76,051	24,423	-	100,474
Vehicles	5,370	1,205	501	6,074
Equipment, furniture, etc.	61,428	11,150	2,643	69,935
Leasehold improvements	7,080	-	-	7,080
Library materials	52,045	1,225	-	53,270
Energy saving assets	2,260	-	-	2,260
Equine	65	-	20	45
Total	669,721	80,357	4,084	745,994
Less accumulated depreciation				
Land improvements	4,290	142	-	4,432
Infrastructure	6,360	1,589	-	7,949
Buildings and structures	165,892	9,777	-	175,669
Vehicles	4,000	559	501	4,058
Equipment, furniture, etc.	37,635	5,871	2,427	41,079
Leasehold improvements	6,036	67	-	6,103
Energy saving assets	678	226	-	904
Library materials	45,377	1,403	-	46,780
Total accumulated depreciation	270,268	19,634	2,928	286,974
Capital assets, net	$ 399,453	$ 60,723	$ 1,156	$ 459,020

Of the total capital construction projects at June 30, 2009 of $155,799,000 there is $22,106,000 remaining to complete the projects.

(Continued)

NOTE 5 – DEFERRED REVENUE

Deferred revenue as of June 30, 2009 and 2008 is as follows (in thousands):

	2009	2008
Unearned summer and fall tuition revenues	$ 6,833	$ 5,039
Grants and contracts	19,612	19,656
	$ 26,445	$ 24,695

NOTE 6 – NONCURRENT LIABILITIES

Noncurrent liabilities as of June 30, 2009 and 2008 are summarized as follows (in thousands):

	2009					
	Beginning Balance	Additions	Reductions	Ending Balance	Current Portion	Noncurrent Portion
Lease and bonds obligations						
Capital lease obligations	$ 15,307	$ 1,323	$ 2,304	$ 14,326	$ 2,181	$ 12,145
Total lease and bond obligations	15,307	1,323	2,304	14,326	2,181	12,145
Other liabilities						
Compensated absences	10,465	13,778	12,733	11,510	11,510	-
Other noncurrent liabilities	460	-	-	460	460	-
Long-term disability and postemployment benefits	19,307	18,016	-	37,323	113	37,210
Total other liabilities	30,232	31,794	12,733	49,293	12,083	37,210
Total noncurrent liabilities	$ 45,539	$ 33,117	$ 15,037	$ 63,619	$ 14,264	$ 49,355

	2008					
	Beginning Balance	Additions	Reductions	Ending Balance	Current Portion	Noncurrent Portion
Lease and bonds obligations						
Capital lease obligations	$ 13,388	$ 3,165	$ 1,246	$ 15,307	$ 1,886	$ 13,421
Total lease and bond obligations	13,388	3,165	1,246	15,307	1,886	13,421
Other liabilities						
Compensated absences	10,213	11,643	11,391	10,465	10,465	-
Other noncurrent liabilities	460	-	-	460	460	-
Long-term disability and postemployment benefits	3,031	16,421	145	19,307	100	19,207
Total other liabilities	13,704	28,064	11,536	30,232	11,025	19,207
Total noncurrent liabilities	$ 27,092	$ 31,229	$ 12,782	$ 45,539	$ 12,911	$ 32,628

(Continued)

NOTE 6 – NONCURRENT LIABILITIES (Continued)

Capital leases consist of the following leases at June 30, 2009 and 2008 (in thousands):

	2009	2008
Eighteen computer equipment capitalized leases, all with one to three year remaining terms with total annual payments ranging from $6,250 to $574,800 and interest rates from .0% to 8.14%	$ 2,883	$ 3,686
Two energy savings equipment capitalized leases with 9 to 11 year remaining terms with total annual payments from $224,633 to $284,377, and interest rates from 3.66% to 4.3%.	3,927	4,224
One building capitalized lease with monthly payments of $53,085, interest rate of 4.04% and 15 years remaining.	7,052	7,397
Forty-eight copier leases, with two to three year remaining terms with total annual payments ranging from $1,598 to $4,902 and 4.0% interest rates.	387	-
Two other equipment leases, with four year remaining terms with total annual payments ranging from $3,240 to $27,186 and interest rates from 4.0% to 5.27%.	77	-
	$ 14,326	$ 15,307

Principal maturities and interest on capital leases payable for the next five years and in subsequent five-year periods as of June 30, 2009 are as follows (in thousands):

Fiscal Year	Principal	Interest	Total
2010	$ 2,181	$ 511	$ 2,692
2011	1,862	439	2,301
2012	1,544	379	1,923
2013	986	334	1,320
2014	846	300	1,146
2015-2019	4,422	965	5,387
2020-2024	2,485	223	2,708
	$ 14,326	$ 3,151	$ 17,477

(Continued)

NOTE 7 - 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 $500 and $500,000. Losses in excess of $500,000 are insured by commercial carriers under contract with the State Fire and Tornado Insurance Fund up to a maximum of $700,000,000 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. KCTCS has general liability insurance with an aggregate total limit of $2,000,000 and a per occurrence limit of $1,000,000 without a deductible. An umbrella policy extends the liability aggregate total limit to $10,000,000 with a per occurrence limit of $10,000,000 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 $2,000,000 without a deductible. There have been no significant reductions in insurance coverage from 2008 to 2009. Settlements have not exceeded insurance coverage during the past three years.

Employees hired at the community colleges prior to January 14, 1998 (the date the KCTCS Board of Regents accepted management of the community colleges from the University of Kentucky), are covered under a self-insured long-term disability income program. This program is funded through a trust established by the University of Kentucky and now funded by KCTCS for the purpose of paying claims and establishing necessary reserves. KCTCS reimburses the fund for long-term disability payments made to its employees. The estimated liability for long-term disability claims at June 30, 2009 totals $2,633,000 of which $2,520,000 is included in "Other long-term obligations" and $113,000 is included in "Employee withholdings and deposits".

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)

NOTE 8 - NATURAL CLASSIFICATION

The operating expenses for KCTCS by natural classification were as follows for the years ended June 30, 2009 and 2008 (in thousands):

	2009	2008
Salaries and wages	$ 251,477	$ 250,877
Employee benefits	80,827	78,570
Supplies	14,458	14,353
Depreciation	22,859	19,634
Student scholarships and financial aid	69,597	63,879
Utilities	13,463	12,281
Communications	3,662	3,692
Advertising	1,926	2,284
Professional services	11,228	12,541
Fire commission state aid	5,893	5,893
Fire commission incentive	11,620	11,518
Fire commission pension	3,087	3,582
Fire commission worker's compensation	3,165	3,784
Travel	4,688	4,870
Repairs and maintenance	8,345	7,259
Bad debts	4,603	4,231
Rental/lease	3,715	4,084
Equipment not capitalized	20,422	10,482
Other, various	11,472	12,193
	$ 546,507	$ 526,007

NOTE 9 – 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 have the opportunity to choose between a defined benefit plan and a defined contribution 403(b) plan. Employees that choose a defined benefit plan can participate in either the Kentucky Teachers' Retirement System (KTRS) or the Kentucky Employees' Retirement System (KERS) depending on the requirements of the position. The decision to participate in a defined benefit plan or a 403(b) plan is made in the first 30 days of regular full-time employment. 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.

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

American Century Investors, Inc.
Fidelity Investments
ING
Teachers Insurance and Annuity Association/College Retirement Equities Fund (TIAA/CREF)

(Continued)

NOTE 9 – PENSION PLANS (Continued)

Regular full-time employees that were employed by predecessor organizations prior to the creation of KCTCS' personnel policies and benefits, either from a community or technical college, that voluntarily elect to join the KCTCS personnel system may 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 in the University of Kentucky Retirement Plan.

Participation in the University of Kentucky Retirement Plan is mandatory for regular full-time employees who are age 30 and older. Participation is voluntary for regular full-time employees under the age of 30. 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 three retirement plan carriers, as follows:

American Century Investors, Inc.
Fidelity Institutional Services Company
Teachers Insurance and Annuity Association/College Retirement Equities Fund (TIAA/CREF)

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

KERS participants contribute 5 percent of their covered compensation; KCTCS contributes 7.75 percent. KTRS participants contribute 6.16 percent or 9.855 percent; KCTCS contributes 13.105 percent or 13.84 percent, depending upon the participant's personnel classification.

KERS and KTRS issue stand-alone financial reports. Copies of these reports may be obtained by requesting them in writing at the following addresses:

Kentucky Retirement System
1260 Louisville Road
Perimeter Park West
Frankfort, Kentucky 40601

Kentucky Teachers Retirement System
477 Versailles Road
Frankfort, Kentucky 40601

KCTCS contributions and costs for all of its retirement plans for 2009 and 2008 were $21,953,000 and $21,808,000, respectively; the employees contributed $16,638,000 and $17,004,000 for 2009 and 2008, respectively. KCTCS total payroll costs were $251,477,000 and $250,877,000 for 2009 and 2008, respectively.

NOTE 10 - POSTEMPLOYMENT BENEFITS

As discussed in Note 9, KCTCS offers a defined contribution 403(b) retirement plan (the Plan). This Plan provides postemployment medical benefits to eligible retirees that were hired with an effective date prior to July 1, 2009. Employees hired or rehired with an effective date of July 1, 2009 or after who choose the defined benefit 403(b) plan option of retirement are not eligible for the postemployment health benefit. The required contribution for eligible employees is based on projected pay-as-you-go financing requirements. KCTCS funds on a cash basis as benefits are paid. No assets have been segregated and restricted to provide postemployment benefits. For fiscal year 2009, KCTCS contributed approximately $1,730,000 to the Plan.

(Continued)

NOTE 10 - POSTEMPLOYMENT BENEFITS (Continued)

KCTCS' annual other postemployment benefit ("OPEB") cost (expense) is calculated based on the annual required contribution of the employer ("ARC"), an amount actuarially determined in accordance with the parameters of GASB Statement 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) over a period of thirty years. The following table shows the components of the System's annual OPEB cost for the year, the amount actually contributed to the Plan and the changes in the System's net OPEB obligation for the years ended June 30, 2009 and 2008 (in thousands):

	2009	2008
Annual required contribution	$ 11,906	$ 10,227
Interest	705	705
Amortization	7,389	7,389
Annual OPEB cost (expense)	20,000	18,321
Contributions made	(1,730)	(1,900)
Increase in net OPEB obligation	18,270	16,421
Net OPEB obligation, beginning of year	16,421	-
Net OPEB obligation, end of year	$ 34,691	$ 16,421

The net OPEB obligation is included in other long-term liabilities on the accompanying statement of net assets.

KCTCS' annual OPEB cost, the percentage of annual OPEB cost contributed to the plan and the net OPEB obligation for 2009 and 2008 are as follows (in thousands):

Fiscal Year Ended	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
June 30, 2009	$ 20,000	8.7%	$ 34,691
June 30, 2008	$ 18,321	10.4%	$ 16,421

As of July 1, 2007, the most recent actuarial valuation date, the plan was not funded. A new actuarial valuation effective July 1, 2009 is in process and is scheduled for release fall 2009. The actuarial accrued liability for benefits for the July 1, 2007 date was $132,882,000 and the actuarial value of assets was $0, resulting in an unfunded actuarial accrued liability ("UAAL") of $132,882,000. The covered payroll (annual payroll of active employees covered by the plan) was $134,617,000, and the ratio of the UAAL to the covered payroll was 98.7 percent.

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, presents trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

(Continued)

NOTE 10 - POSTEMPLOYMENT BENEFITS (Continued)

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and the plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

In the July 1, 2007 actuarial valuation, the projected unit credit method was used. The actuarial assumptions included a 4 percent discount rate (net of administrative expenses), which is a blended rate of the expected long-term investment returns on plan assets and on the employer's own investments calculated based on the funded level of the plan at the valuation date, and an annual healthcare cost trend rate of 9 percent initially, reduced by decrements to an ultimate rate of 5 percent after five years. Both rates included a 3 percent inflation assumption. The actuarial value of assets was determined using techniques that spread the effects of short-term volatility in the market value of investments over a five-year period. The UAAL is being amortized as a level percentage of projected payrolls on an open basis. The remaining amortization period at June 30, 2009, was 28 years.

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability (AAL)	Unfunded AAL (UAAL)	Funded Ratio	Covered Payroll	UAAL as a Percentage of Covered Payroll
July 1, 2007	$ -	$ 132,882	$ 132,882	0.0%	$ 134,617	98.7%

NOTE 11 - CONTINGENCIES

KCTCS is a defendant in various lawsuits. However, management is of the opinion, based on advice of in-house legal counsel, that the ultimate outcome of all litigation will not have a material effect on the future operations or financial position of KCTCS.

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 are 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, 2009.

NOTE 12 - RECLASSIFICATIONS

Certain reclassifications to fiscal 2008 comparative amounts have been made to conform to the 2009 classifications. These reclassifications had no effect on net assets or the change in net assets.

SUPPLEMENTARY INFORMATION

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Federal Grant/Program Title	Federal CFDA	Pass-Through Entity Identifying Number	Federal Expenditures
U. S. DEPARTMENT OF EDUCATION			
Direct Grants -			
Student Financial Aid Cluster			
Federal Supplemental Educational Opportunity Grant Program	84.007		$ 1,966,502
Federal Work Study Program	84.033		1,732,304
Pell Grant Program	84.063		102,449,613
Academic Competitiveness Grant	84.375		454,927
Federal Family Education Loan Program	84.032		118,521,193
Total Student Financial Aid Cluster			225,124,539
TRIO Cluster			
Student Support Services	84.042		2,683,532
Educational Talent Search	84.044		664,329
Upward Bound	84.047		2,552,016
Total TRIO Cluster			5,899,877
Title III Strengthening Institutions	84.031		2,894,223
Congressionally - Directed Grant – Gateway	84.116		153,429
Equip/Tech for Winchester Campus – Bluegrass	84.116		330,332
High School Equivalency Program	84.141		405,643
Child Care Access/Parents in School	84.335		96,675
			234,904,718
Pass-Through Grants -			
Kentucky Adult Education			
ABE - Learning Center/Ashland - Boyd	84.002	KYAE-2009-009	112,545
ABE - Learning Center/Ashland – Boyd	84.002	KYAE-2008-009	4,101
ABE – Learning Center/Big Sandy – Floyd	84.002	KYAE-2009-031	135,433
ABE – Learning Center/Big Sandy – Floyd	84.002	KYAE-2008-031	3,789
ABE – Learning Center/Big Sandy – Johnson	84.002	KYAE-2008-049	1,956
ABE – Learning Center/Big Sandy – Johnson	84.002	KYAE-2009-049	74,480
ABE – Learning Center/Bluegrass – Fayette	84.002	KYAE-2009-029	442,829
ABE – Learning Center/Bluegrass – Fayette	84.002	KYAE-2008-029	14,149
ABE - Learning Center/Bowling Green	84.002	KYAE-2009-094	178,483

(Continued)

Federal Grant/Program Title	Federal CFDA	Pass-Through Entity Identifying Number	Federal Expenditures
ABE – Learning Center/Bowling Green – Warren	84.002	KYAE-2008-094	$ 2,151
ABE – Learning Center/Elizabethtown - Meade	84.002	KYAE-2008-065	533
ABE – Learning Center/Elizabethtown – Meade	84.002	KYAE-2009-065	56,038
ABE – Learning Center/Gateway – Grant	84.002	KYAE-2009-035	48,306
ABE – Learning Center/Gateway – Kenton	84.002	KYAE-2009-050	299,049
Abe – Learning Center/Gateway – Kenton	84.002	KYAE-2008-050	1,214
ABE – Learning Center/Henderson	84.002	KYAE-2008-043	1,626
ABE – Learning Center/Henderson	84.002	KYAE-2009-043	102,579
ABE – Learning Center/Hopkinsville – Christian	84.002	KYAE-2009-021	122,798
ABE – Learning Center/Jefferson – Carroll	84.002	KYAE-2008-019	962
ABE – Learning Center/Jefferson – Carroll	84.002	KYAE-2009-019	29,165
ABE – Learning Center/Jefferson – Gallatin	84.002	KYAE-2009-033	19,356
ABE – Learning Center/Jefferson – Gallatin	84.002	KYAE-2008-033	133
ABE – Learning Center/Jefferson – Shelby	84.002	KYAE-2008-087	2,203
ABE – Learning Center/Jefferson – Shelby	84.002	KYAE-2009-087	71,848
ABE – Learning Center/Jefferson – Trimble	84.002	KYAE-2009-093	17,495
ABE – Learning Center/Jefferson – Trimble	84.002	KYAE-2008-093	235
ABE – Learning Center/Madisonville – Hopkins	84.002	KYAE-2009-045	108,936
ABE – Learning Center/Madisonville – Hopkins	84.002	KYAE-2008-045	3,450
ABE – Learning Center/Madisonville – Muhlenberg	84.002	KYAE-2009-071	99,345
ABE – Learning Center/Madisonville – Muhlenberg	84.002	KYAE-2008-071	3,048
ABE – Learning Center/Maysville – Bracken	84.002	KYAE-2009-012	20,808
ABE – Learning Center/Maysville – Lewis	84.002	KYAE-2009-055	53,553
ABE – Learning Center/Maysville – Lewis	84.002	KYAE-2008-055	1,497
ABE – Learning Center/Maysville – Mason	84.002	KYAE-2009-061	40,604

(Continued)

Federal Grant/Program Title	Federal CFDA	Pass-Through Entity Identifying Number	Federal Expenditures
ABE – Learning Center/Maysville – Mason	84.002	KYAE-2008-061	$ 600
ABE – Learning Center/Maysville – Nicholas	84.002	KYAE-2009-073	20,595
ABE – Learning Center/Maysville – Robertson	84.002	KYAE-2009-082	19,411
ABE – Learning Center/Maysville – Robertson	84.002	KYAE-2008-082	(654)
ABE – Learning Center/Owensboro – Daviess	84.002	KYAE-2008-026	6,447
ABE – Learning Center/Owensboro – Daviess	84.002	KYAE-2009-026	194,876
ABE – Learning Center/Owensboro – Ohio	84.002	KYAE-2009-074	60,520
ABE – Learning Center/Somerset – Casey	84.002	KYAE-2009-020	64,600
ABE – Learning Center/Somerset – Casey	84.002	KYAE-2008-020	1,698
ABE – Learning Center/Somerset – McCreary	84.002	KYAE-2009-063	71,448
ABE – Learning Center/Somerset – McCreary	84.002	KYAE-2008-063	1,985
ABE - Learning Center/Southeast – Bell	84.002	KYAE-2008-006	2,970
ABE - Learning Center/Southeast - Bell	84.002	KYAE-2009-006	114,696
ABE – Learning Center/Southeast – Harlan	84.002	KYAE-2009-040	104,947
ABE – Learning Center/Southeast – Harlan	84.002	KYAE-2008-040	3,358
ABE – Learning Center/West Kentucky - McCracken	84.002	KYAE-2008-062	3,042
ABE – Learning Center/West Kentucky – McCracken	84.002	KYAE-2009-062	120,715
English as Second Language/Civics Ashland	84.002	KYAE-ELC-2009-301	12,217
English as Second Language/Civics Bluegrass	84.002	KYAE-ELC-2008-303	1,468
English as Second Language/Civics Bluegrass	84.002	KYAE-ELC-2009-303	38,490
English as Second Language/Civics Bowling Green	84.002	KYAE-ELC-2009-310	13,107
English as Second Language/Civics Owensboro	84.002	KYAE-ELC-2009-302	12,057
English as Second Language/Civics West Kentucky	84.002	KYAE-ELC-2009-304	13,739
			2,957,029

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Federal Grant/Program Title	Federal CFDA	Pass-Through Entity Identifying Number	Federal Expenditures
Kentucky Department of Education			
English Language Learners Academy	84.011	PO2 540 0800015944 1	$ 20,248
Hopkinsville Math Partnership	84.366	PO2 540 0800019168 1	107,264
Regional Kentucky Migrant Education Program	84.011	PO2 540 0800016152 1	241,802
Region 2 Kentucky Migrant Education Program	84.011	PO2 540 06000002820 1	52
			369,366
Council for Postsecondary Education			
Kentucky Migrant Education Program	84.011	M-0700009781 1	7,806
USCAN Pilot Program	84.116	PO2 415 0700006833 2	8,520
GEAR-UP Kentucky II Elizabethtown	84.334	PO2 415 M-05508299.6	13,214
GEAR-UP Kentucky II Hazard	84.334	M-055508279	119,743
GEAR-UP Kentucky II Hazard	84.334	M-055508279-6	230,366
			379,649
Kentucky Office of Career and Tech Education			
Carl D. Perkins 07-08	84.048	PO2 531 07000008308 1	174,179
Carl D. Perkins 08-09	84.048	PO2 531 0700008308 1	7,797,496
CWE/CWI-Perkins	84.048	PO2 531 0800016200 1	5,430
Creating Video Using Camtasia	84.048	PO2 531 0900022308 1	1,638
Maysville Tech Prep Summer	84.048	PO2 531 0800015144 1	2,502
Tech Prep 2008 – Big Sandy	84.048	M-0700007490-1	456
Tech Prep 2009 – Big Sandy	84.048	PO2 531 0800017218 1	107,078
Tech Prep C – Forward Big Sandy	84.048	MOA #080021122	23,492
Tech Prep 2008 – Bluegrass	84.048	M-0700007390 1	2,155
Tech Prep 2009 – Bluegrass	84.048	PO2 531 0800017125 1	92,249
Tech Prep C – Forward Bluegrass	84.048	MOA #080021122	42,640
Tech Prep 2009 – Jefferson	84.048	PO2 531 0800016431 1	56,140
Tech Prep 2008 – Gateway	84.048	M-0700007262	(52)
Tech Prep 2009 – Gateway	84.048	PO2 531 0800017076 1	197,580
Tech Prep C – Forward Gateway	84.048	MOA #080021122	37,611
Tech Prep 2009 – Owensboro	84.048	PO2 531 0800016440 1	66,583
Tech Prep C – Forward Owensboro	84.048	PO2 531 080002117 1	13,926
Tech Prep 2008 – Somerset	84.048	M-0700007525 1	195
Tech Prep 2009 – Somerset	84.048	PO2 531 0800017098 1	61,534
Tech Prep 2009 – Southeast	84.048	PO2 531 0800017090 1	44,428
Tech Prep 2009 – West Kentucky	84.048	PO2 531 0800016436 1	165,498
Tech Prep C – Forward West Kentucky	84.048	PO2 531 0800021162 1	32,110
Tech Prep Summer Carry Forward	84.048	PO2 531 0800015237 1	21,331
Tech Prep 3 Day Summit	84.048	PO2 531 0800015152 1	3,881
Tech Upgrade/Creating – Managing	84.048	PO2 531 080001457 1	326
Tech Upgrade/MicroSoft Server	84.048	PO2 531 080001457 1	961
Tech Upgrade/ Sem. 1 and 2 Workshop	84.048	PO2 531 080001457 1	1,629
Tech Upgrade/Sem 3 and 4 Workshop	84.048	PO2 531 080001457 1	1,629

(Continued)

Federal Grant/Program Title	Federal CFDA	Pass-Through Entity Identifying Number	Federal Expenditures
Tech Pre/Dual Credit Workshop	84.048	PO2 531 0800015143 1	$ 725
Technical Teacher Upgrade Training	84.048	PO2 531 0900022140 1	532
Web Design and Coding	84.048	PO2 531 00900022308 1	765
21st Century Grant – Bluegrass	84.287	M-04531930	11,792
			8,968,439
Morehead State University			
Tech Prep – MSU Sub	84.048	OSP 2009-015	2,700
University of Kentucky Research Foundation			
Migrant Vocational Grant	84.128	3048105201-09-233	22,009
Early Childhood Undergrad T A	84.XXX	Letter of Agreement	16,842
			38,851
Kentucky Department for Corrections			
Incarcerated Youth Offenders	84.331	PO2 527 0700008672 1	4,010
Incarcerated Youth Offenders	84.331	PO2 527 0800016809 1	119,335
			123,345
University of California			
Mountain Writing Project – Kentucky	84.928	06-KY11	51,126
JBL Associates, Inc.			
Institutional Mentoring	84.XXX	ED-04-CO-0107/0005	3,968
Summer Bridge/First Year Experience	84.XXX	08-SHOW-0012	3,316
			7,284
Workforce Strategy Center			
ABE Career Connections	84.XXX	OVAE 04-21	24,523
TOTAL U. S. DEPARTMENT OF EDUCATION			247,827,030
U. S. DEPARTMENT OF HEALTH AND HUMAN SERVICES			
Direct Grants –			
KBEMS Emergency Medical Services for Children	93.127		113,392
HRSA Nurse Education: Career	93.359		2,143
Health Care Facilities	93.887		779,457
			894,992
Pass-Through Grants –			
University of Kentucky Research Foundation			
Model State AHEC/Gateway	93.107	304813799-08-071	13,908
Model State AHEC/Gateway	93.107	3048105055-09-218	44,199
Model State AHEC/Southeast	93.107	3048103799-08-070	12,827
Model State AHEC/Southeast	93.107	3048105055-09-220	41,817
AHEC/Hispanic Health Care	93.283	3048104975-09-109	23,148

(Continued)

Federal Grant/Program Title	Federal CFDA	Pass-Through Entity Identifying Number	Federal Expenditures
Kentucky Cancer Program	93.283	3048014936-09-278	$ 12,160
Colorectal Cancer Study	93.393	3046909700-06-471	26,821
Early Childhood Quality Advancement	93.575	N/A	11,596
Early Childhood Quality Advancement	93.575	3048104682-09-088	68,847
Bridges to Success	93.859	3048105140-09-197	10,999
			266,322
University of Cincinnati			
Worker Health/Safety Training	93.142	Sub of 5U45ES006184-17	46,575
Kentucky Cabinet for Health and Families Services			
Ready To Work 2007-2008	93.558	M-06069722	213,710
Ready To Work 2008-2009	93.558	P02 736 0800017118 1	4,162,816
			4,376,526
Kentucky Adult Education			
KYAE/JRA Ashland	93.558	KYAE-2008-009	3,402
KYAE/JRA Big Sandy	93.558	KYAE-2008-031	(133)
KYAE/JRA Big Sandy Johnson Co.	93.558	KYAE-2008-049	411
KYAE/JRA Elizabethtown	93.558	KYAE-2008-065	1,516
KYAE/JRA Gateway	93.558	KYAE-2008-050	(83)
KYAE/JRA Henderson	93.558	KYAE-2008-043	(663)
KYAE/JRA Maysville Lewis Co.	93.558	KYAE-2008-055	(1,334)
KYAE/JRA Maysville Mason Co.	93.558	KYAE-2008-061	(487)
KYAE/JRA Owensboro	93.558	KYAE-2008-026	1,626
KYAE/JRA West Kentucky	93.558	KYAE-2008-062	1,295
			5,550
Eastern Kentucky University			
UTC Cross Training Support 08-09	93.558	EKU sub 451710-09-188	990
UTC Cross Training Support 08-09	93.563	EKU sub 451710-09-188	990
UTC Family Support Education Program	93.778	EKU sub 451710-09-187	1,078
UTC Family Support Education Program	93.778	EKU sub 451710-09-187	1,078
UTC Cross Training Support 08-09	93.778	EKU sub 451710-09-188	990
UTC Family Support Education Program	93.778	EKU sub 451710-09-187	1,078
			6,204
Kentucky Department for Medicaid Services			
Nurse Aide Training Registry 07-08	93.778	M-06077803 4	135
Nurse Aide Training Registry 08-09	93.778	PO2 746 0800019039 1	6,945
			7,080
TOTAL U. S. DEPARTMENT OF HEALTH AND HUMAN RESOURCES			5,603,249

(Continued)

Federal Grant/Program Title	Federal CFDA	Pass-Through Entity Identifying Number	Federal Expenditures
U. S. DEPARTMENT OF AGRICULTURE			
Direct Grants –			
USDA – Discover Biotech in Ag	10.226		$ 17,443
USDA – Entrepreneur Center	10.769		29,703
USDA – Entrepreneur Center	10.773		8,784
			55,930
Pass-Through Grants –			
Eastern Kentucky University			
UTC Cross Training Support 08-09	10.561	EKU sub 451710-09-188	1,980
UTC Family Support Education Program	10.561	EKU sub 451710-09-187	2,156
			4,136
TOTAL U. S. DEPARTMENT OF AGRICULTURE			60,066
U.S. DEPARTMENT OF COMMERCE			
Pass-Through Grants –			
P.R.I.D.E.			
P.R.I.D.E.	11.469	EF08-54	3,550
Kentucky Department of Homeland Security			
KCTCS-PSIC07	11.555	PO2 094 0800021062 1	205,975
TOTAL U.S. DEPARTMENT OF COMMERCE			209,525
U. S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT			
Pass-Through Grants –			
Paducah Housing Authority			
Project Fresh Coat	14.870	Letter of agreement	11,269
U. S. DEPARTMENT OF INTERIOR – PARKS SERVICE			
Direct Grants -			
Save America's Treasures	15.929		4
U. S. DEPARTMENT OF LABOR			
Direct Grants –			
Pathways in Nursing	17.261		302,713
Advanced Manufacturing Learning Center	17.261		458,546
DOL – Gateway to Energy Careers	17.268		16,402
DOL Biotech Kentucky	17.269		266,042
DOL – BRAIN	17.269		472,570
DOL CBJT – Advanced Mfg.	17.269		398,447
DOL – CBJT Nursing Expansion	17.269		181,633
DOL – ITEM Hopkinsville	17.269		244,797
DOL – Project NEWS	17.269		5,498
DOL – Tech Based Learning Solutions	17.269		34,794

(Continued)

Federal Grant/Program Title	Federal CFDA	Pass-Through Entity Identifying Number	Federal Expenditures
DOL – Homeland Security Careers	17.269		$ 8,933
DOL/OSHA Susan Harwood Grant	17.502		4,426
DOL/OSHA Susan Harwood Grant	17.502		39,584
DOL/OSHA Susan Harwood Grant 2	17.502		64,430
			2,498,815
Pass-Through Grants –			
Harlan County Community Action			
Career Advantage Program	17.255	DTR07Y05	(9,570)
Career Advantage Program 2008	17.255	Letter of agreement	112,150
			102,580
KentuckianaWorks One Stop			
Operator KentuckianaWorks One Stop	17.258	201-044-07	59,251
Operator KentuckianaWorks One Stop	17.258	Memorandum of Agreement	1,643,125
			1,702,376
WIB – Northern Kentucky ADD			
JAG Grant	17.259	N/A	4,291
JAG Grant	17.259	E08-875-41 WIA	112,222
Business Service Liaison/Gateway	17.267	E09-996-43-WIA KY 2009	76,534
			193,047
WIB – Paducah ADD			
WIA Youth Workforce Connection	17.259	WIA-A08422	2,609
WIA Youth Workforce Connection	17.259	A09-422	90,704
			93,313
Lincoln Trail ADD			
WIA/Yes I Can	17.259	N/A	7,511
WIA/Yes I Can Summer	17.259	N/A	(84)
WIA/Yes I Can 08-09	17.259	LTADD-WIA-08-09Y-01	220,789
Youth Program – STEM	17.259	E3 ECTC Youth Grant	13,332
			241,548
BRADD - Barren River ADD			
Hart County STEM	17.259	BR081008	1,880
WIB – West Kentucky ADD			
WIA/Workforce Connections	17.255	A08-440	3,469
WIA/Workforce Connections	17.255	A09-440	94,723
WIA/Project Yes FY08	17.259	A08523	2,360
WIA/Project Yes FY09	17.259	A095231	120,711
WIA/Cadiz Career Center	17.259	A09464	114,732
FY09 WIA	17.259	N/A	29,666
			365,661

(Continued)

Federal Grant/Program Title	Federal CFDA	Pass-Through Entity Identifying Number	Federal Expenditures
WIB – Bluegrass ADD			
Nursing Career Pathways	17.260	WIA Contract 8027	$ 8,410
Nursing Career Pathways FY08	17.260	WIA Contract 9009	164,519
			172,929
TOTAL U. S. DEPARTMENT OF LABOR			5,372,149
DEPARTMENT OF TRANSPORATION			
Pass-Through Grants -			
Morehead State University			
Reduce Under Age Drinking Among Students	20.601	N/A	4,483
KY Division of Emergency Mgmt.			
Training for HAZMAT Grant	20.703	PO2 095 0800014377 1	12,538
HAZMAT (HMEP)	20.703	PO2 095 0900022125 1	6,000
			18,538
TOTAL DEPARTMENT OF TRANSPORTATION			23,021
APPALACHIAN REGIONAL COMMISSION			
Direct Grants –			
Challenger Learning Center	23.001		95,130
Pass-Through Grants –			
Morehead State University			
KY AHED - Ashland	23.001	2006-07-160-1	8,458
KY AHED – Big Sandy	23.001	2006-07-160-2	5,000
KY AHED – Hazard	23.001	2006-07-160-3	3,498
KY AHED – Southeast	23.001	2006-07-160-4	5,000
			21,956
TOTAL APPALACHIAN REGIONAL COMMISSION			117,086
NATIONAL ENDOWMENT FOR ARTS			
Direct Grants –			
Higher Ground II	45.024		10,000
Pass-Through Grants -			
Arts Midwest			
Big Read Program Owensboro	45.024	27661	1
Big Read Program Gateway	45.024	27278	5
			6
TOTAL NATIONAL ENDOWMENT FOR ARTS			10,006

(Continued)

Federal Grant/Program Title	Federal CFDA	Pass-Through Entity Identifying Number	Federal Expenditures
NATIONAL ENDOWMENT FOR HUMANITIES			
Pass-Through Grants –			
Kentucky Humanities Council			
Creative Thinking Workshop	45.129	2009-009	$ 918
NATIONAL SCIENCE FOUNDATION			
Direct Grants -			
NSF – AMTEC	47.076		254,274
NSF – ATE Mechatronics Technician	47.076		125,563
NSF – Manf. and Pre-eng. Scholarships	47.076		68,669
NSF – Manf. Tech Scholarships	47.076		115,177
NSF – Manf. Tech Scholarships	47.076		186,773
NSF – Maysville STEM Scholars	47.076		11,808
NSF – Power Plant Tech Program	47.076		242,116
NSF – Science Excel (S-STEM)	47.076		96,383
NSF – Trng. Mach. Tool Technicians	47.076		105,952
NSF KIT Center Grant Yrs 5-7	47.076		133,765
			1,340,480
Pass-Through Grants -			
University of Kentucky Research Foundation			
LSAMP – Alliance for Minority	47.076	UKRF 3048032200-07-252	33,948
Info Tech thru Com Bsd Natural	47.079	UKRF 304810-4469-08-518	33,934
			67,882
Puget Sound Center for Teaching			
National Girls College Project	47.076	HRD-0631789	901
SCATE			
SCATE EEITE	47.076	Sub of NSF DUE#0602710	326
Springfield Technical Community College			
National Center for Telecommunication	47.076	N/A	6,145
Texas Engineering Experiment Station			
National Geospatial Tech Ctr	47.076	Sub No. DUE-0801893	59,764
TOTAL NATIONAL SCIENCE FOUNDATION			1,475,498
U. S. SMALL BUSINESS ADMINISTRATION			
Pass-Through Grants -			
University of Kentucky			
SECC Small Business Dev Center	59.037	N/A	19,647
SECC Small Business Dev Center	59.037	N/A	31,215
			50,862

(Continued)

Federal Grant/Program Title	Federal CFDA	Pass-Through Entity Identifying Number	Federal Expenditures
DEPARTMENT OF VETERANS AFFAIRS			
Direct Grants -			
VA Approving Grant ADM 07/08	64.124		$ 3,366
VA Approving Grant ADM 08/09	64.124		8,111
VA Approving Grant CF Account	64.124		29,398
VA Approving Grant OPER 07/08	64.124		84,391
VA Approving Grant OPER 08/09	64.124		232,704
			357,970
CORPORATION FOR NATIONAL AND COMMUNITY SERVICE			
Direct Grants -			
Americorps* VISTA	94.013		5,410
Pass-Through Grants –			
Northern Kentucky University			
Project ADAPT	94.005	NK 2007-021-4000120	51,661
Ready and Respond Grant	94.005	NK 2007-016-4000120	3,799
Ready Response	94.005	NK 2007-019-4000120	3,655
			59,115
American Association of Community Colleges			
Project Reach: Services for Community Colleges	94.007	N/A	869
Project Reach (BSCTC Café)	94.007	AACC-PR-2008-02	14,802
			15,671
TOTAL CORPORATION FOR NATIONAL AND COMMUNITY SERVICE			80,196
DEPARTMENT OF HOMELAND SECURITY			
Direct Grants –			
NFA State Fire Training Program	97.043		28,000
SAFER Grant	97.044		37,500
			65,500
Pass-Through Grants –			
Kentucky Division of Emergency Management			
Ag Web Project	97.004	PO2 095 0600004650 1	(148)
CSEPP Training for CSEPP Counties	97.040	PO2 095 0800018636 1	11,700
			11,552

(Continued)

Federal Grant/Program Title	Federal CFDA	Pass-Through Entity Identifying Number	Federal Expenditures
Kentucky Department of Homeland Security			
KCTCS Hazmat Inventory	97.067	PO2 094 0700012607 2	$ 136,411
KCTCS – IECGP	97.067	PO2 094 0900022334 1	206
KCTCS – State Fair I	97.067	PO2 094 0900023205 1	1,806
KCTCS – State Fair II	97.067	PO2 094 0900023208 1	4,250
KCTCS – State Fair III	97.067	PO2 094 0900023212 1	33,685
KCTCS Training – NIMS	97.067	PO2 094 0800017037 1	320,331
KCTCS Training – NIMS	97.067	PO2 094 0800017061 1	91,556
KCTCS Training and Exercise Program	97.067	PO2 080 0015009 1	11,549
			599,794
TOTAL DEPARTMENT OF HOMELAND SECURITY			676,846
TENNESSEE VALLEY AUTHORITY			
Direct Grants -			
Technical Education Training	62.XXX	N/A	11
Technical Education Training	62.XXX	N/A	5,000
			5,011
TOTAL FEDERAL FUNDS			$ 261,880,706

NOTE 1 – BASIS OF ACCOUNTING

This schedule includes the federal awards activity of Kentucky Community and Technical College System (the "System") and is presented on the accrual basis of accounting.

The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments and Non-profit Organizations*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements. Catalog of Federal Domestic Assistance (CFDA) numbers are presented for those programs for which such numbers were available. All programs are presented by federal department.

NOTE 2 – LOANS

KCTCS participates in the Family Federal Education Loan Program (including Stafford Loans, Supplemental Loans for Students, and Parents' Loans for Undergraduate Students).

NOTE 3 – SUBRECIPIENTS

Of the federal expenditures presented in the schedule, the System provided federal awards to the following subrecipients:

Grant	Subrecipient	Amount
U.S. Department of Labor		
DOL – CBJT Nursing Expansion	NKADD	$ 7,072
Advanced Manufacturing Learning Center	Toyota Motor Manufacturing	65,803
National Science Foundation		
NSF – AMTEC	Alamo Community College	6,234
NSF – AMTEC	Cuyahoga Community College	15,299
NSF – AMTEC	Pellissippi State Technical Community	3,599
NSF – AMTEC	Teachers College Press (Project Evaluation)	28,834
U.S. Department of Education		
Tech Prep 2009 – Big Sandy	Various Secondary School Districts	99,784
Tech Prep 2009 – Bluegrass	Various Secondary School Districts	83,534
Tech Prep 2009 – Gateway	Various Secondary School Districts	185,885
Tech Prep 2009 – Owensboro	Various Secondary School Districts	54,306
Tech Prep 2009 – Somerset	Various Secondary School Districts	57,748
Tech Prep 2009 – Southeast	Various Secondary School Districts	41,355
Tech Prep C – Forward Bluegrass	Various Secondary School Districts	42,640
Tech Prep C – Forward Gateway	Various Secondary School Districts	36,361
		$ 728,454

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Crowe Horwath LLP
Independent Member Crowe Horwath International

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*

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

We have audited the financial statements of Kentucky Community and Technical College System (the "System") as of and for the year ended June 30, 2009, and have issued our report thereon dated October 1, 2009. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards,* issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the System's internal control over financial reporting as a basis for designing our auditing procedures 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 over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the System's internal control over financial reporting.

A control deficiency 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 misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the System's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the System's financial statements that is more than inconsequential will not be prevented or detected by the System's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the System's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

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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*.

We noted certain other matters that we have reported to management in a separate letter dated October 1, 2009.

This report is intended solely for the information and use of the Board of Regents, management, federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Crowe Horwath LLP

Crowe Horwath LLP

Louisville, Kentucky
October 1, 2009

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Crowe Horwath LLP
Independent Member Crowe Horwath International

REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

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

Compliance

We have audited the compliance of Kentucky Community and Technical College System (the "System") with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2009. The System's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the System's management. Our responsibility is to express an opinion on the System's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards,* issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the System's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of the System's compliance with those requirements.

In our opinion, the System complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2009. However, the results of our auditing procedures disclosed an instance of noncompliance with those requirements, which is required to be reported in accordance with OMB Circular A-133 and which is described in the accompanying schedule of findings and questioned costs as item 09-01.

Internal Control Over Compliance

The management of the System is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the System's internal control over compliance with the requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the System's internal control over compliance.

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Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses as defined below. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses as defined below.

A *control deficiency* in the System's internal control over compliance 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 noncompliance with a type of compliance requirement of a federal program on a timely basis. A *significant deficiency* is a control deficiency, or combination of control deficiencies, that adversely affects the System's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the System's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the System's internal control.

The System's response to the finding identified in our audit is described in the accompanying schedule of findings and questioned costs. We did not audit the System's response and, accordingly, we express no opinion on it.

We noted certain other matters that we have reported to management in a separate letter dated October 1, 2009.

This report is intended solely for the information and use of the Board of Regents, management, federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Crowe Horwath LLP

Crowe Horwath LLP

Louisville, Kentucky
October 1, 2009

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PART I: SUMMARY OF AUDITORS' RESULTS

Financial Statements				
Type of auditors' report issued	Unqualified			
Internal control over financial reporting:				
Material weakness(es) identified?		Yes	X	No
Significant deficiency identified not considered to be material weaknesses?		Yes	X	None Reported
Noncompliance material to financial statements noted?		Yes	X	No
Federal Awards				
Internal control over major programs:				
Material weakness(es) identified?		Yes	X	No
Significant deficiency identified not considered to be material weakness(es)?		Yes	X	None Reported
Type of auditors' report issued on compliance for major programs	Unqualified			
Any audit findings disclosed that are required to be reported in accordance with OMB Circular A-133 (Section .510(a))?	X	Yes		No

Identification of major programs:

CFDA Number(s)	Name of Federal Program or Cluster Number
	Total Federal Student Aid (consisting of):
84.007	Federal Supplemental Educational Opportunity Grant Program
84.032	Federal Family Education Loan Program
84.033	Federal Work Student Program
84.063	Federal Pell Grant Program
84.375	Academic Competitiveness Grant 07-08
93.558	Ready to Work

Dollar threshold used to distinguish between Type A and Type B programs	$ 3,000,000			
Auditee qualified as low-risk auditee?	X	Yes		No

PART II – FINANCIAL STATEMENT FINDINGS

None

PART III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

FINDING 09-01 – Federal Family Education Loan Program (CFDA No. 84.032)

Criteria: Federal regulation 34 CFR 668.22 addresses the treatment of Title IV funds when a student withdraws from an institution including how to calculate the appropriate amount of aid the institution is required to return to the federal agency.

Condition: During our review of 33 students who withdrew from the colleges of the System, we noted that three calculations were performed correctly using the Department of Education software, however, the amount returned was less than the calculation.

Questioned Costs: $30.47

Effect: These colleges are not in compliance with the federal regulations which could adversely affect future funding.

Cause: The cause of this finding appears to be an error in the software which resulted in an incorrect amount of aid being transmitted back to the federal agency.

Recommendation: We recommend that KCTCS and its colleges review their current procedures and make the necessary changes to ensure all return of Title IV calculations are accurately prepared in accordance with the federal regulations.

Management's Response and Corrective Action:

System Response: KCTCS acknowledges the finding. As corrective action the KCTCS Student Financial Aid Office will on a semi-monthly basis, beginning fall 2009, review and maintain documentation on all return of Title IV aid calculations for all KCTCS colleges, individually and collectively. Further, the KCTCS Student Financial Aid Office will ensure that returns are: 1) calculated accurately, 2) reviewed by the appropriate member of college management prior to the funds being returned, and 3) returned in a timely manner.

Elizabethtown Community and Technical College: The College acknowledges the finding. College management has met with staff and reviewed student financial aid return to Title IV calculation policies and procedures. As a result of the review, modification of college practices has been implemented to include the calculation of return to Title IV loan funds calculated on the net amount of the loan, not the gross amount of the loan. In addition the college's Office of Student Financial Aid has implemented changes to prevent the same, or other, Title IV inaccuracies in future calculations. Process modifications include: distributed staff duties, semi-monthly review of return to Title IV calculations by management and additional Department of Education training.

Jefferson Community and Technical College: The College acknowledges the finding. College management has met with staff and reviewed student financial aid return to Title IV calculation policies and procedures. As a result of the review, modifications of college practices have been implemented to include the following corrective actions for all return of Title IV loan related calculations: 1) review of adjustments to loans awards, 2) regular and timely initiation of transactions to return the additional funds when required, and 3) funds to be electronically returned to lender via KHEAA on the next loan file transmission. Lastly, the College's Office of Student Financial Aid will continue to work with the KCTCS Office of Student Financial Aid to seek enhancement to College practices and procedures to ensure proper and timely return of required funds.

Somerset Community College: The College acknowledges the finding. College management has met with staff and reviewed student financial aid return to Title IV calculation policies and procedures. As a result of the review, modification of college practices has been implemented to include the calculation of return to Title IV loan funds calculated on the net amount of the loan, not the gross amount of the loan. In addition, the College's Office of Student Financial Aid is training staff to review on a weekly basis all students' calculations. Staff will sign off on the Title IV loan funds calculation summary page for documentation purposes as to its review and accuracy. It is anticipated that any errors will be caught and corrected immediately. When a student has changes in courses or grades, the College's Office of Admissions will notify the College's Office of Student Financial Aid and action will be taken immediately to help ensure the return to Title IV calculation is performed timely and accurately.

PART IV – SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

FINDING 08-01 – Federal Family Education Loan Program (CFDA No. 84.032)

During our review of exit counseling, we noted that exit counseling for 2 of the 33 students selected, was not provided to the student in accordance with the federal regulations.

Status: Corrective action has been taken.

FINDING 07-01 – Federal Family Education Loan Program (CFDA No. 84.032)

During our review of exit counseling, we noted that exit counseling for 4 of the 33 students selected, was not provided to the student in accordance with the federal regulations.

Status: Corrective action has been taken.

FINDING 06-01 – Federal Family Education Loan Program (CFDA No. 84.032)

During our review of exit counseling, we noted that exit counseling for 16 of the 43 students selected, was not provided to the student in accordance with the federal regulations.

Status: Corrective action has been taken.

FINDING 05-05 – Federal Family Education Loan Program (CFDA No. 84.032)

During our review of exit counseling, we noted that exit counseling for eleven of the 33 students selected, was not provided to the student in accordance with the federal regulations.

Status: Corrective action has been taken.

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KENTUCKY COMMUNITY AND TECHNICAL COLLEGE SYSTEM
SCHEDULE OF FUNDING PROGRESS
FOR THE RETIREE MEDICAL PLAN
Year ended June 30, 2009

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability (AAL)	Unfunded AAL (UAAL)	Funded Ratio	Covered Payroll	UAAL as a Percentage of Covered Payroll
July 1, 2007	$ -	$ 132,822	$ 132,822	0.0%	$ 134,617	98.7%