

KENTUCKY COMMUNITY AND TECHNICAL COLLEGE SYSTEM

REPORT ON AUDIT OF INSTITUTION
OF HIGHER EDUCATION
IN ACCORDANCE WITH OMB CIRCULAR A-133
June 30, 2008

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Crowe Horwath LLP
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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, 2008 and 2007, 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, 2008 and 2007, 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.

As discussed in Notes 1 and 10 to the financial statements, the System has adopted 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 Standards No. 25 and No. 27*.

The Management's Discussion and Analysis (MD&A) on pages 5 through 15 is 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, 2008, 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, 2008

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KENTUCKY COMMUNITY AND TECHNICAL COLLEGE SYSTEM
MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2008 and 2007

Management's Discussion and Analysis of the Kentucky Community and Technical College System (KCTCS) financial statements provides an overview of the financial position and activities of KCTCS for the years ended June 30, 2008 and 2007. 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, 2008, with assets of \$783.1 million and liabilities of \$91.4 million. Net assets, which represent KCTCS' residual interest in assets after liabilities are deducted, were \$691.6 million or 88.3 percent of total assets. Net assets at June 30, 2007 were 89.6 percent of total assets. Financial operations were in accordance with the revenue expectations and the approved expenditure plan.
- Total assets increased \$89.5 million or 12.9 percent. The increase is primarily in cash and cash equivalents and capital assets.
- Total liabilities increased by \$19.3 million or 26.7 percent. The principal items of increase were capital lease obligations and the other postemployment benefit obligation required by GASB No. 45.
- Total net assets increased \$70.2 million or 11.3 percent. This resulted primarily from income before other revenues, expenses, gains and losses of \$22.3 million, capital construction appropriations from the Commonwealth of Kentucky of \$49.1 million and a net loss in endowment earnings of \$0.9 million.
- Operating revenues were \$177.7 million and operating expenses were \$526.0 million, resulting in a loss from operations of \$348.3 million. Nonoperating revenues of \$370.6 million (including \$221.8 million in state appropriations and federal and state grants and contracts of \$122.4 million) when combined with other revenues of \$47.9 million resulted in an increase in net assets of \$70.2 million or a 11.3 percent increase in net assets.

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. 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 state. 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 obtained or are in the process of obtaining 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 1,200 on-line course sections through the Kentucky Virtual University. 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 have instituted approximately 2,900 new programs and program options since 1998.

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, 2008, 2007 and 2006, is as follows:

Condensed Statements of Net Assets (in thousands)

	<u>2008</u>	<u>2007</u>	<u>2006</u>
ASSETS			
Current assets	\$ 226,233	\$ 211,799	\$ 171,458
Noncurrent assets	<u>556,851</u>	<u>481,798</u>	<u>446,583</u>
Total Assets	<u>783,084</u>	<u>693,597</u>	<u>618,041</u>
LIABILITIES			
Current liabilities	58,820	56,989	52,997
Noncurrent liabilities	<u>32,628</u>	<u>15,174</u>	<u>11,649</u>
Total Liabilities	<u>91,448</u>	<u>72,163</u>	<u>64,646</u>
NET ASSETS			
Invested in capital assets, net of related debt	443,713	386,065	362,215
Restricted			
Nonexpendable	17,127	19,504	13,968
Expendable	85,216	83,281	79,609
Unrestricted	<u>145,580</u>	<u>132,584</u>	<u>97,603</u>
Total Net Assets	<u>\$ 691,636</u>	<u>\$ 621,434</u>	<u>\$ 553,395</u>

Assets: 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, primarily in cash and cash equivalents and capital assets.

Liabilities: 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 the other postemployment obligation required by GASB No. 45.

Net Assets: The equity of KCTCS of \$691.6 million as of June 30, 2008 is reported on the Statement of Net Assets in four net asset categories: invested in capital assets, net of related debt, \$443.7 million (64.2 percent); restricted-nonexpendable \$17.1 million (2.5 percent); restricted expendable, \$85.2 million (12.3 percent); and unrestricted, \$145.6 million (21.1 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 \$70.2 million during the year ended June 30, 2008. Invested in capital assets, net of related debt, increased by \$57.6 million as net additions to capital assets of \$59.6 million exceeded the current year increase in debt of \$2.0 million. Restricted net assets decreased by \$0.4 million as endowment investments decreased. Unrestricted net assets increased \$13.0 million, primarily due to overall revenues in excess of expenditures.

2007 Versus 2006

- As of June 30, 2007, total assets amounted to \$693.6 million. Of this amount, investment in capital assets (net of depreciation) of \$399.5 million, or 57.6 percent of total assets, represented the largest asset class. Cash and cash equivalents amounted to \$233.0 million or 33.6 percent of total assets, and loans and accounts receivable amounted to \$30.7 million or 4.4 percent of total assets. During the year, total assets increased by \$75.6 million. The increase was primarily in cash and cash equivalents and capital assets.
- As of June 30, 2007, total liabilities amounted to \$72.2 million. Capital leases and other long-term obligations amounted to \$16.3 million, or 22.6 percent of total liabilities. During the year, total liabilities increased by \$7.5 million primarily in employee withholding and deposits and deferred revenue.
- Total net assets increased by \$68.0 million during the year ended June 30, 2007. Invested in capital assets, net of related debt, increased by \$23.9 million. Restricted net assets increased by \$9.2 million as endowment investments, and gift revenue increased. Unrestricted net assets increased \$35.0 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 are prepared using the accrual basis of accounting. The change in net assets is an indicator of whether the overall financial position has improved or declined during the year. All items that increase or decrease net assets must appear on the 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, 2008, 2007, and 2006 is presented on the following page.

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

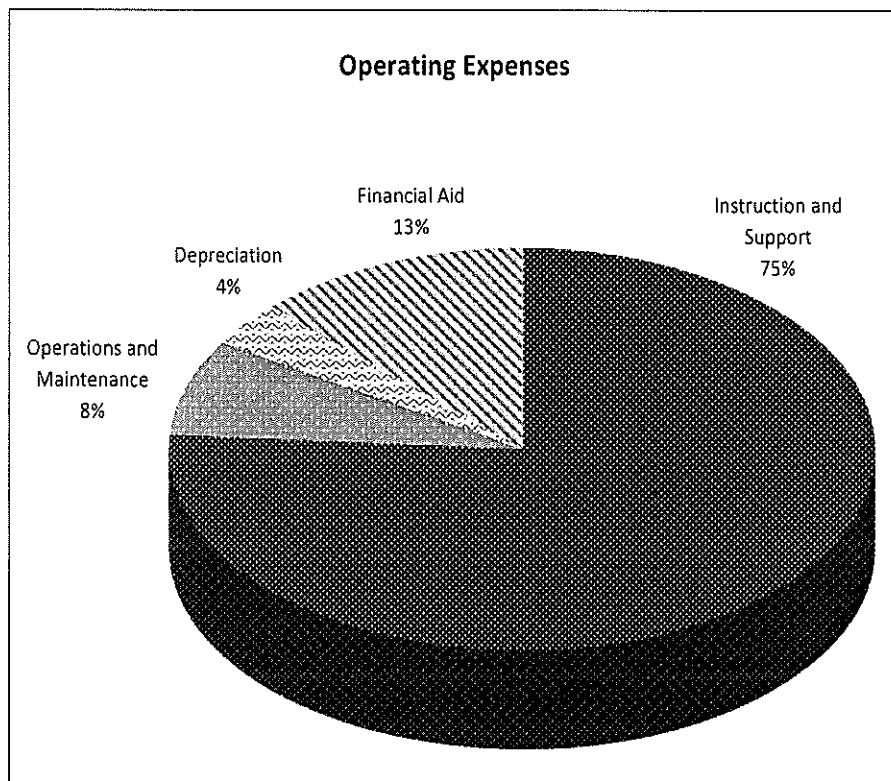
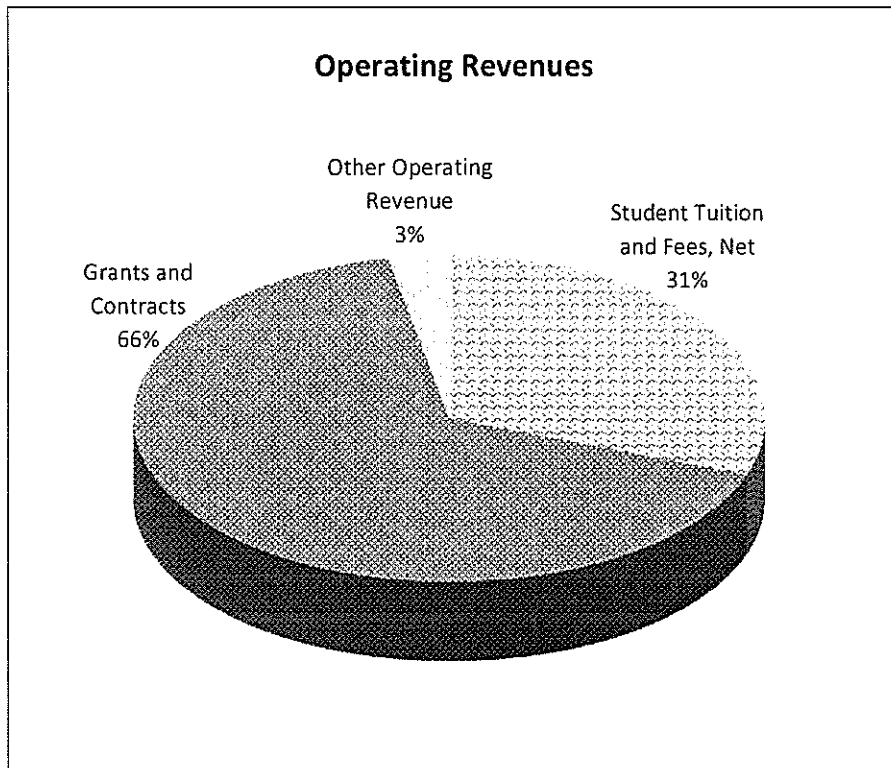
	<u>2008</u>	<u>2007</u>	<u>2006</u>
OPERATING REVENUES			
Student tuition and fees, net	\$ 92,336	\$ 85,712	\$ 72,360
Grants and contracts	76,338	75,140	70,894
Auxiliary enterprises	596	516	665
Other operating revenue	<u>8,432</u>	<u>8,161</u>	<u>7,191</u>
Total operating revenues	<u>177,702</u>	<u>169,529</u>	<u>151,110</u>
OPERATING EXPENSES			
Educational and general, excluding depreciation	506,373	465,815	441,781
Depreciation	<u>19,634</u>	<u>17,432</u>	<u>16,440</u>
Total operating expenses	<u>526,007</u>	<u>483,247</u>	<u>458,221</u>
OPERATING LOSS	<u>(348,305)</u>	<u>(313,718)</u>	<u>(307,111)</u>
NONOPERATING REVENUES (EXPENSES)			
State appropriations	221,844	215,321	201,776
Federal and state grants and contracts	122,358	110,466	109,523
Other nonoperating revenues	<u>26,373</u>	<u>22,294</u>	<u>19,760</u>
Total nonoperating revenues	<u>370,575</u>	<u>348,081</u>	<u>331,059</u>
Income before other revenues, expenses, gains or losses	<u>22,270</u>	<u>34,363</u>	<u>23,948</u>
Capital construction appropriations from state	49,074	29,981	32,521
Net realized loss on disposal of capital assets	(200)	(165)	(676)
Increase (decrease) to endowments	<u>(942)</u>	<u>3,347</u>	<u>1,428</u>
Total other revenues (expenses)	<u>47,932</u>	<u>33,163</u>	<u>33,273</u>
Total increase in net assets	70,202	67,526	57,221
Net assets, beginning of year	621,434	553,395	496,174
Net assets from KBEMS transfers on July 1, 2006	-	513	-
Net assets, end of year	<u>\$ 691,636</u>	<u>\$ 621,434</u>	<u>\$ 553,395</u>

Total operating revenues were \$177.7 million for the year ended June 30, 2008. Included in KCTCS' operating revenues are 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, academic support, libraries, 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 and other revenues reflect a \$37.2 million increase due primarily to an increase in state operating and capital appropriations of \$25.6 million and an increase in federal and state grants of \$11.9 million.

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:



2007 Versus 2006

Total operating revenues were \$169.5 million for the year ended June 30, 2007, including net student tuition and fees of \$85.7 million (50.6 percent) and grants and contracts of \$75.1 million (44.3 percent).

Operating expenses totaled \$483.2 million. Of this amount, \$465.8 million (96.4 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 \$313.7 million. Nonoperating and other revenues, net of related expenses, amounted to \$381.2 million, resulting in an increase in net assets of \$67.5 million for the year. Nonoperating revenues include state operating and capital appropriations of \$245.3 million (64.3 percent of total nonoperating and other revenues) and federal and state grants and contracts of \$110.5 million (29.0 percent).

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, 2008, 2007, and 2006 is as follows:

Condensed Statements of Cash Flows (in thousands)

	<u>2008</u>	<u>2007</u>	<u>2006</u>
Cash provided (used by):			
Operating activities	\$ (341,493)	\$ (299,091)	\$ (281,066)
State appropriations	221,844	215,321	201,776
Other noncapital financing activities	152,175	130,522	119,167
Capital and related financing activities	(29,004)	(11,472)	7,462
Investing activities	<u>(15,102)</u>	<u>1,220</u>	<u>3,613</u>
Net change in cash and cash equivalents	(11,580)	36,500	50,952
Cash and cash equivalents, beginning of year	<u>233,024</u>	<u>196,524</u>	<u>145,572</u>
Cash and cash equivalents, end of year	<u>\$ 221,444</u>	<u>\$ 233,024</u>	<u>\$ 196,524</u>

Major sources of cash received from operating activities are student tuition and fees (\$79.8 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 \$49.1 million, proceeds from disposal of capital assets of \$1.0 million and proceeds from new capital debt and leases of \$3.2 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 of \$15.1 million include interest and dividends of \$13.5 million. Cash of \$28.6 million was used to purchase additional investments.

2007 Versus 2006

Major sources of cash received from operating activities are student tuition and fees (\$85.2 million) and grants and contracts (\$72.5 million). Major uses of cash for operating activities were payments to employees for salaries and benefits (\$299.3 million) and to vendors and contractors (\$106.5 million).

Capital and related financing activities include capital appropriations from the Commonwealth of Kentucky of \$30.0 million. Cash of \$46.6 million was expended for construction and acquisition of capital assets and \$1.3 million was expended for principal and interest payments on debt.

Investing activities include \$5.8 used to purchase additional investments and interest and dividends on investments of 7.0 million.

Capital Assets and Debt Administration

Capital assets, net of accumulated depreciation, totaled \$459.0 million at June 30, 2008, an increase of \$59.6 million. Capital assets as of June 30, 2008, 2007, and 2006, and significant changes in capital assets during those years are as follows (in thousands):

	<u>Capital Assets</u>				
	Balance June 30, 2006	Net Additions FY 2007	Balance June 30, 2007	Net Additions FY 2008	Balance June 30, 2008
Land and land improvements	\$ 27,215	\$ 2,397	\$ 29,612	\$ 2,210	\$ 31,822
Buildings and infrastructures	435,719	(10)	435,709	39,224	474,933
Equipment, autos and campus improvements	68,854	5,190	74,044	9,191	83,235
Library holdings	49,133	2,912	52,045	1,225	53,270
Construction in progress	42,697	33,354	76,051	24,423	100,474
Assets under capital lease obligations	<u>2,260</u>	<u>-</u>	<u>2,260</u>	<u>-</u>	<u>2,260</u>
Total assets	625,878	43,843	669,721	76,273	745,994
Accumulated depreciation	<u>(255,184)</u>	<u>(15,084)</u>	<u>(270,268)</u>	<u>(16,706)</u>	<u>(286,974)</u>
Capital assets, net	<u>\$ 370,694</u>	<u>\$ 28,759</u>	<u>\$ 399,453</u>	<u>\$ 59,567</u>	<u>\$ 459,020</u>

At June 30, 2008, KCTCS had capital construction projects in progress totaling \$141.3 million with \$30.3 million remaining to complete the projects. These projects are principally financed by appropriations and bond proceeds from the Commonwealth of Kentucky.

Debt

At June 30, 2008, debts consisted of twelve capital leases totaling \$15.3 million.

Economic Factors Impacting Future Periods

The following are known facts and circumstances that will affect future financial results:

- The General Assembly of the Commonwealth of Kentucky adjourned its 2008 regular session approving an appropriations bill (House Bill [HB] 406) for the 2008-10 bienniums. HB 406 directed a 3 percent reduction in the recurring base state appropriation for all public postsecondary education institutions, including KCTCS, for fiscal year (FY) 2009. KCTCS' 3 percent decrease in recurring base state appropriation amounted to \$6.6 million. This decrease in state funding for FY 2009 is in addition to a 3 percent state appropriation reduction taken in FY 2008 amounting to \$6.9 million. This means that the KCTCS base state appropriation was reduced by \$13.5 million. HB 406 also authorizes some new capital projects (new facility construction and renovation projects) for KCTCS. In FY 2009, \$7.2 million including matching bond funds for capital renewal projects is authorized.
- The KCTCS Board of Regents approved an operating budget for FY 2009 totaling \$670.3 million of which \$471.7 million are unrestricted funds and \$198.6 million are restricted funds. Compared to FY 2008, unrestricted funds saw a very limited increase of \$0.7 million, restricted funds increased \$3.9 million, and total funds increased marginally by \$4.6 million. Of the total budget, state appropriations comprise 33 percent and tuition revenue comprises 26 percent.
- Tuition rates for FY 2009 were increased from \$115 per credit hour to \$121 per credit hour for resident students. Nonresident students from counties contiguous to Kentucky will pay \$156 per credit hour. Other nonresident students will pay \$390 per credit hour. Online students will pay \$121 per credit hour. The FY 2009 projected revenue increase from these tuition rate increases is approximately \$5.7 million.
- The FY 2009 operating budget includes an unrestricted budget reserve of \$17.5 million. The reserve includes reserve funds for each college and for system wide operations and support. Several years ago, the KCTCS Board of Regents established the budget reserve as a hedge against a possible shortfall in state general fund revenue. From fiscal year 2001-02 through 2003-04 and again in fiscal years 2007-08 and 2008-09 the Commonwealth of Kentucky experienced severe revenue shortfalls, resulting in substantial budget reductions to KCTCS and Kentucky's other public postsecondary education institutions. For KCTCS the shortfall during fiscal year 2001-02 through 2003-04 resulted in state funding cuts amounting to more than \$18.0 million. State funding cuts in FY 2008 and FY 2009 amount to \$13.5 million.
- KCTCS has employees that are participants in Kentucky's public employees' retirement systems - Kentucky Teachers Retirement System (KTRS) and Kentucky Employees Retirement System (KERS). In June of 2008 the Governor of Kentucky called the Kentucky General Assembly into special session to address the actuarial deficits (currently estimated at approximately \$27 billion) of KTRS and KERS. The Kentucky General Assembly passed and the Governor signed into law House Bill 1 of the 2008 Special Session. The law extended various requirements for employees working under KTRS and KERS to get pension, health and leave benefits and limited the availability of others joining the retirement systems effective September 1, 2008. Among the changes were employee and employer contribution rate increases for both current and new employees with no prior service. The estimated financial impact to KCTCS for FY 2009 is projected to be approximately \$337,000 for KTRS and \$370,000 for KERS.
- KCTCS is implementing a system wide multi-year major gifts campaign titled "Fulfilling the Promise." Campaign goals will be determined in FY 2009.
- KCTCS has and will continue to use a long-term endowment investment strategy to maximize total returns, at an appropriate level of risk. Inclusive of the investment strategy is a spending rate policy to insulate programs funded by the endowment from temporary market volatility.

- Changes in governmental accounting standards that took effect in FY 2008 required KCTCS to record on its financial statements an obligation for post-retirement benefits for its 403(b) benefit plan employees. This obligation has a total estimated cost at \$252 million calculated at a 4 percent discount rate using a 30 year amortization schedule. The FY 2008 contribution required to fund this future obligation was \$18.3 million of which \$16.2 million was invested with the Commonfund to offset future obligation. Similarly, another \$18.3 million is required in FY 2009 of which approximately \$2.1 million will be used for current benefits payments; the remaining \$16.2 million will be invested to meet the future obligation. KCTCS has earmarked unrestricted funds to retire this obligation. To capture changes within KCTCS' employee base that affect the total calculated obligation and resulting required annual contribution (changes such as retirements, new hires, long-term disability, or plan changes), an actuarial study will be performed every two years. The next study will be issued in fall 2009.
- In spite of economic hard times with state budget cuts, KCTCS continues to maintain its firm commitment to the tenets and vision of House Bill 1 (HB1), the Postsecondary Education Improvement Act of 1997. KCTCS management believes that KCTCS is very well positioned to continue providing excellent service to the Commonwealth of Kentucky. The vision of HB1 is embodied in KCTCS' pursuit to be recognized as the nation's best comprehensive community and technical college system. The KCTCS Strategic Plan 2006-2010 is designed to place more Kentuckians on the path to a postsecondary credential (certificate, diploma, or Associate's degree) and a successful career. The plan is built on four goals with corresponding core indicators of success with one- and five-year targets, creating a yardstick to measure success. The goals are as follows:
 - Promote Excellence in Teaching and Learning
 - Increase Student Access and Success
 - Expand Diversity and Global Awareness
 - Enhance the Economic Development of Communities and the Commonwealth
- In FY 2008 the KCTCS President's Leadership Initiative was entitled "ARISE," an acronym standing for the following themes:
 - Accountability...
 - Reinvent...
 - Implementation...
 - Strategies...
 - Evaluation...

Within the *ARISE* initiative were specific measurable targets that assisted KCTCS in gauging its progress with the following: 1) College and Workforce Readiness - development of P-12 partnership plans at each college as intervention strategies that improve college and workforce readiness of high school graduates; 2) Virtual Learning Initiative - selection of one or more academic programs for a new model of online learning; and 3), Workforce Competitiveness Initiative - the creation of a strategic workforce competitiveness program to respond proactively to the identified needs of Kentucky's businesses and industries. The success of *ARISE* set the stage for President McCall's FY 2009 leadership initiative.

- In FY 2009 the KCTCS President's Leadership Initiative is entitled "*FACET*," an acronym standing for Focused Action on the Commonwealth's Educational Transformation through the:
 - Workforce Competitiveness Initiative
 - Virtual Learning Initiative
 - Transfer Initiative

The target measurement for workforce education and training is to reengineer KCTCS' workforce education and training to be more responsive to the needs of Kentucky's businesses and industries. The reengineering will be evidenced by:

- Meetings conducted by the KCTCS President with representatives of three industry sectors to determine the KCTCS response to statewide training needs.
- Targeted industry sector needs assessment conducted, three partnering initiatives confirmed, and a plan of action developed at all KCTCS' colleges.
- The establishment of a system-wide Management/Supervisory Institute.
- Identification, documentation and distribution to all colleges 20 KCTCS Workforce Competitiveness best practices.
- Establishment of Workforce Competitiveness Teams at all KCTCS' colleges.

The target measurement for virtual learning will be *KCTCS Online* - KCTCS' solution to delivering flexible workforce education and training in modular format. *KCTCS Online* will be implemented and expanded as evidenced by:

- 24/7 delivery of the Business Administration program.
- 24/7 delivery of the Information Technology program.
- Competency-based curriculum delivered in modularized courses.
- Full array of student services online.
- One or more additional programs selected for development for *KCTCS Online*.

KCTCS will enhance the focus on two-to-four year transfer as a means to increase the educational attainment of Kentuckians. The target measurement for the transfer initiative will be KCTCS' implementation of:

- Meetings conducted by the KCTCS President with each public university president to address transfer barriers for KCTCS students.
 - Transfer/career center services established at all colleges based on best practices.
 - College Transfer Liaisons Peer Team established.
 - All 43 current 2+2 agreements reviewed to determine need for revision.
 - At least one new 2+2 agreements established at each college.
- In FY 2008 KCTCS unveiled an economic impact study highlighting the benefits of KCTCS to the overall economy of the Commonwealth of Kentucky. The study examined the economic value, in terms of future earnings of receiving an Associate's Degree or a certificate, relative to receiving a high school degree. A part of the study examined changes in the number of graduates and the earnings of graduates of KCTCS since the implementation of HBI.
 - KCTCS developed a business plan, the *KCTCS Plan for a Competitive Commonwealth*, 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 KCTCS's role in the Commonwealth's public agenda for postsecondary education as well as ways to address the workforce development needs of Kentucky's businesses. The FY 2009 KCTCS President's Leadership Initiative *FACET* further defines the implementation of the *Plan* as evidenced by the establishment of specific targets and outcome measures.
 - KCTCS' colleges provide programs that are relevant to the workplace with programs in every one of the 25 hottest jobs in America (as defined by Money magazine) - exciting careers in such varied fields as computers, health care and business. KCTCS colleges have and will continue to move rapidly to add or change academic and technical programs in these areas.

- Effective July 1, 2008 KCTCS and the East Kentucky Center for Science, Mathematics, and Technology, Inc. (Center) entered into a memorandum of agreement to transfer the operation of staff, assets and liabilities from the Center to KCTCS. The Center serves as a doorway to the universe of scientific knowledge for the people of the Appalachian region of eastern Kentucky, southern West Virginia, and western Virginia and is located on the Prestonsburg campus of Big Sandy Community and Technical College. The Center serves the citizens of the region as a focal point of educational programs and resources for science, mathematics, and technology. The Center is committed to improving the comprehension and understanding of accepted scientific, mathematical, and technological concepts and principals through student achievement and by providing the region's educators with ongoing opportunities for professional development.
- Since the passage of HB1 in 1997 and the creation of KCTCS in 1998, KCTCS has become the largest provider of postsecondary education and workforce training in the Commonwealth. KCTCS carries a unique strategic advantage in the recruitment of students as its colleges are the most affordable option for pursuing higher education in Kentucky. This is evidenced by its continuing enrollment growth with enrollment increasing in the last 4 years by almost 11,000 students from 81,990 in fall 2004 to 92,828 in fall 2007, or a 13.3 percent increase. To recognize this accomplishment and further strengthen its strategic focus going forward, KCTCS has implemented a new branding campaign: *Higher Education Begins Here*. The campaign reflects KCTCS' role in making it the number one provider of postsecondary education and workforce training in the Commonwealth.

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

KENTUCKY COMMUNITY AND TECHNICAL COLLEGE SYSTEM
 STATEMENTS OF NET ASSETS
 June 30, 2008 and 2007
 (In Thousands)

	<u>2008</u>	<u>2007</u>
ASSETS		
Current assets		
Cash and cash equivalents	\$ 189,280	\$ 186,891
Short-term investments	55	2,759
Loans, accounts and gifts receivable, net	34,885	21,122
Other current assets	<u>2,013</u>	<u>1,027</u>
Total current assets	<u>226,233</u>	<u>211,799</u>
Noncurrent assets		
Restricted cash and cash equivalents	32,164	46,133
Loans and other receivables	9,122	9,608
Endowment investments	27,098	26,604
Other long-term investments	29,447	-
Capital assets, net	<u>459,020</u>	<u>399,453</u>
Total noncurrent assets	<u>556,851</u>	<u>481,798</u>
Total Assets	<u>783,084</u>	<u>693,597</u>
LIABILITIES		
Current liabilities		
Accounts payable and accrued expenses	8,420	7,348
Employee withholdings and deposits	13,354	12,747
Compensated absences	10,465	10,213
Deferred revenue	24,695	25,580
Leases payable, current portion	<u>1,886</u>	<u>1,101</u>
Total current liabilities	<u>58,820</u>	<u>56,989</u>
Noncurrent liabilities		
Leases payable, noncurrent portion	13,421	12,287
Other long-term obligations	<u>19,207</u>	<u>2,887</u>
Total noncurrent liabilities	<u>32,628</u>	<u>15,174</u>
Total Liabilities	<u>91,448</u>	<u>72,163</u>
NET ASSETS		
Invested in capital assets, net of related debt	443,713	386,065
Restricted for:		
Nonexpendable		
Scholarships, instruction and other	17,127	19,504
Expendable		
Scholarships, instruction and other	29,119	27,441
Loans	15,864	15,187
Capital projects	40,233	40,653
Unrestricted	<u>145,580</u>	<u>132,584</u>
Total Net Assets	<u>\$ 691,636</u>	<u>\$ 621,434</u>

See accompanying notes.

KENTUCKY COMMUNITY AND TECHNICAL COLLEGE SYSTEM
STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
Years ended June 30, 2008 and 2007
(In Thousands)

	<u>2008</u>	<u>2007</u>
REVENUES		
Operating revenues		
Student tuition and fees	\$ 168,470	\$ 151,741
Less: scholarships allowance	<u>(76,134)</u>	<u>(66,029)</u>
Net tuition and fees	92,336	85,712
Federal grants and contracts	36,297	33,931
State and local grants and contracts	40,021	41,104
Nongovernmental grants and contracts	20	105
Indirect cost recoveries	1,525	1,330
Sales and services	3,735	3,523
Auxiliary enterprises		
Grills, housing and dining	596	516
Other operating revenues	<u>3,172</u>	<u>3,308</u>
Total operating revenues	<u>177,702</u>	<u>169,529</u>
EXPENSES		
Operating expenses		
Educational and general		
Instruction	210,654	190,563
Public service	35,865	35,826
Libraries	5,950	5,789
Academic support	27,623	22,593
Student services	42,251	39,588
Institutional support	76,622	72,216
Operation and maintenance of physical plant	42,142	37,876
Depreciation	19,634	17,432
Student financial aid	64,709	60,764
Auxiliary enterprises		
Grills, housing and dining	<u>557</u>	<u>600</u>
Total operating expenses	<u>526,007</u>	<u>483,247</u>
Operating loss	<u>(348,305)</u>	<u>(313,718)</u>
NONOPERATING REVENUES (EXPENSES)		
State appropriations	221,844	215,321
Local appropriations	43	40
Federal and state grants and contracts	122,358	110,466
Gifts	6,423	4,920
Investment income	13,639	11,156
Interest expense, capital debt	(596)	(436)
Other nonoperating revenues	<u>6,864</u>	<u>6,614</u>
Nonoperating revenues	<u>370,575</u>	<u>348,081</u>
Income before other revenues, expenses, gains or losses	22,270	34,363
Capital construction appropriations from state	49,074	29,981
Loss on disposal of capital assets	(200)	(165)
Investment income and (losses) gains from endowments	<u>(942)</u>	<u>3,347</u>
Total other revenues	<u>47,932</u>	<u>33,163</u>
Increase in net assets	70,202	67,526
NET ASSETS		
Net assets, beginning of year	621,434	553,395
Net assets from KBEMS transfers on July 1, 2006	<u>-</u>	<u>513</u>
Net assets, end of year	<u>\$ 691,636</u>	<u>\$ 621,434</u>

See accompanying notes.

KENTUCKY COMMUNITY AND TECHNICAL COLLEGE SYSTEM
STATEMENTS OF CASH FLOWS
Years ended June 30, 2008 and 2007
(In Thousands)

	<u>2008</u>	<u>2007</u>
Cash flows from operating activities		
Tuition and fees	\$ 79,787	\$ 85,189
Grants and contracts	75,082	72,478
Indirect cost recoveries	1,525	1,330
Sales and services	3,735	3,523
Payments to vendors and contractors	(112,864)	(106,490)
Student financial aid	(63,879)	(59,470)
Salaries, wages and benefits	(328,686)	(299,327)
Auxiliary enterprise receipts	596	516
Other receipts	<u>3,211</u>	<u>3,160</u>
Net cash from operating activities	(341,493)	(299,091)
Cash flows from noncapital financing activities		
State appropriations	221,844	215,321
Federal and local appropriations	122,401	110,506
Gifts received for non-capital purposes	6,590	13,660
Other liabilities	16,320	(341)
Cash and cash equivalents from KBEMS transfer	-	200
Other nonoperating receipts	<u>6,864</u>	<u>6,497</u>
Net cash from noncapital financing activities	374,019	345,843
Cash flows from capital and related financing activities		
Capital appropriations	49,074	29,981
Proceeds from disposal of capital assets	956	252
Purchase of capital assets	(80,357)	(46,609)
Principal paid on capital debt and leases	(1,246)	(883)
Proceeds from capital debt and leases	3,165	5,792
Interest paid on capital debt and leases	(596)	(436)
Other capital receipts related to KBEMS transfer	<u>-</u>	<u>431</u>
Net cash from capital and related financing activities	(29,004)	(11,472)
Cash flows from investing activities		
Proceeds from sales and maturities of investments	2,799	76
Interest on investments	13,495	6,957
Purchase of investments	<u>(31,396)</u>	<u>(5,813)</u>
Net cash from investing activities	<u>(15,102)</u>	<u>1,220</u>
Net change in cash	(11,580)	36,500
Cash, beginning of year	<u>233,024</u>	<u>196,524</u>
Cash, end of year	<u>\$ 221,444</u>	<u>\$ 233,024</u>
Reconciliation of net operating revenues (expenses) to net cash from operating activities		
Operating loss	\$ (348,305)	\$ (313,718)
Adjustments to reconcile net operating loss to net cash from operating activities		
Depreciation expense	19,634	17,432
Change in assets and liabilities		
Notes, loans and accounts receivable, net	(12,882)	(4,747)
Other current assets	(986)	(1,007)
Accounts payable and accrued expenses	1,072	586
Employee withholdings and deposits	607	424
Compensated absences	252	524
Deferred revenue	<u>(885)</u>	<u>1,415</u>
Net cash from operating activities	<u>\$ (341,493)</u>	<u>\$ (299,091)</u>

See accompanying notes.

KENTUCKY COMMUNITY AND TECHNICAL COLLEGE SYSTEM
NOTES TO FINANCIAL STATEMENTS
June 30, 2008 and 2007

NOTE 1 - ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

KCTCS has 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 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 \$58.0 million and with the Commonwealth of Kentucky of \$163.4 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)

KENTUCKY COMMUNITY AND TECHNICAL COLLEGE SYSTEM
NOTES TO FINANCIAL STATEMENTS
June 30, 2008 and 2007

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, a transfer from the endowment of any prior years' accumulated earnings or net realized gain on sales. KCTCS' endowment spending rule provides for an annual distribution of 5.5 percent of the three-year moving average market value of fund units. For the years ended June 30, 2008 and 2007, net realized gains of \$1,427,009 and \$1,157,155, respectively, were transferred from endowment to support current expenses.

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.

Pledges Receivable: 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*, an amendment of GASB Statement No. 33, 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.

Accounts and Grants Receivable: Accounts receivable consist of tuition and fee charges to students and auxiliary enterprise services provided to students, faculty and staff. 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.

Loans Receivable from Fire Districts: KCTCS administers and operates the Commission on Fire Protection Personnel Standards and Education per legislation of the Commonwealth of Kentucky. The purpose of the Fire Commission is to establish minimum standards and education of fire protection and to establish a procedure for the certification of fire protection personnel and fire protection instructors. The Commission has the authority to certify fire protection training and education programs and to disburse funds from the Firefighter Foundation Fund in the form of loans to fire departments (volunteer, or combination paid and volunteer) throughout Kentucky that qualify in accordance with House Bill 631. The Fire Commission receives its funding from insurance premium surcharge proceeds collected by the Commonwealth and transferred to KCTCS for funding the Commission.

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.

(Continued)

KENTUCKY COMMUNITY AND TECHNICAL COLLEGE SYSTEM
NOTES TO FINANCIAL STATEMENTS
June 30, 2008 and 2007

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

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.

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 non-operating 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.

(Continued)

KENTUCKY COMMUNITY AND TECHNICAL COLLEGE SYSTEM
NOTES TO FINANCIAL STATEMENTS
June 30, 2008 and 2007

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

Federal Grants and Contracts: In accordance with GASB Statement No. 24, *Accounting and Financial Reporting for Certain Grants and Other Financial Assistance* and recent updates in GASB's *Implementation Guide*, 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.

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, gifts and investment income, are recorded as nonoperating revenues, in accordance with GASB Statement No. 35.

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).

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 fiscal year 2003-04, KCTCS 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 its foundations met the criteria for inclusion as a component unit. Currently, KCTCS believes this organization is not a component unit.

In June 2007, the GASB issued Statement No. 51, *Accounting and Financial Reporting for Intangible Assets*. This statement requires that all intangible assets not specifically excluded by its scope provisions be classified as capital assets. Accordingly, existing authoritative guidance related to the accounting and financial reporting for capital assets should be applied to these intangible assets, as applicable. The statement also provides authoritative guidance that specifically addresses the nature of these intangible assets. The provisions of this statement are effective for financial statements for fiscal periods beginning after June 15, 2009. The System has not yet evaluated the impact that the adoption of this statement will have on its financial 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. KCTCS does not anticipate that this statement will have a material effect on its financial statements.

(Continued)

KENTUCKY COMMUNITY AND TECHNICAL COLLEGE SYSTEM
 NOTES TO FINANCIAL STATEMENTS
 June 30, 2008 and 2007

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

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 2008 financial statements of adopting these statements.

Reclassifications: Certain reclassifications to fiscal 2007 comparative amounts have been made to conform to the 2008 classifications.

NOTE 2 - LOANS, ACCOUNTS, GRANTS AND GIFTS RECEIVABLE

Loans, accounts, grants and gifts receivable (net of allowances) as of June 30, 2008 and 2007, are as follows (in thousands):

	<u>2008</u>	<u>2007</u>
Student (net of allowances of \$3,578 and \$2,689)	\$ 7,190	\$ 7,514
Capital appropriations receivable	13,195	-
Reimbursement receivable - grants and contracts	8,109	8,058
Pledges receivable, net	4,959	6,001
Accrued interest receivable	2,855	1,420
Loans receivable from fire districts	<u>7,699</u>	<u>7,737</u>
Total	44,007	30,730
Current portion	<u>34,885</u>	<u>21,122</u>
Noncurrent portion	<u>\$ 9,122</u>	<u>\$ 9,608</u>

KCTCS has a receivable from the Commonwealth of Kentucky ("Commonwealth") of \$13,194,830 at June 30, 2008. 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, 2008, represents the funds expended on the project through that date.

(Continued)

KENTUCKY COMMUNITY AND TECHNICAL COLLEGE SYSTEM
 NOTES TO FINANCIAL STATEMENTS
 June 30, 2008 and 2007

NOTE 2 - LOANS, ACCOUNTS, GRANTS AND GIFTS RECEIVABLE (Continued)

Contributions receivable totaling \$5,257,808 is expected to be collected primarily over the next ten years, as follows (in thousands):

2009	\$ 2,522
2010	808
2011	668
2012	523
2013	330
2014-2018	<u>406</u>
	5,257
 Present value discount	 <u>298</u>
 Pledges receivable, net	 <u>\$ 4,959</u>

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, 2008 and 2007, KCTCS had the following investments (in thousands). The investments consist of mutual funds and property.

<u>Investment Type</u>	<u>Fair Value</u>	
	<u>2008</u>	<u>2007</u>
Bond Mutual Funds	\$ 36,789	\$ 6,605
Money Market Funds	954	3,627
Other	<u>1,486</u>	<u>1,182</u>
	39,229	11,414
Equities and Equity Funds	<u>17,371</u>	<u>17,949</u>
	<u>\$ 56,600</u>	<u>\$ 29,363</u>

KCTCS has an investment management agreement with the Common Fund (Fund). The Fund managed \$56,530,778 of the investments at June 30, 2008. The Common Fund 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 Common Fund 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, 2008, 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)

KENTUCKY COMMUNITY AND TECHNICAL COLLEGE SYSTEM
NOTES TO FINANCIAL STATEMENTS
June 30, 2008 and 2007

NOTE 4 - CAPITAL ASSETS, NET

Capital assets as of June 30, 2008 and 2007 and the changes therein for the years then ended are summarized as follows (in thousands):

	-----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	<u>669,721</u>	<u>80,357</u>	<u>4,084</u>	<u>745,994</u>
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	<u>270,268</u>	<u>19,634</u>	<u>2,928</u>	<u>286,974</u>
Capital assets, net	<u>\$ 399,453</u>	<u>\$ 60,723</u>	<u>\$ 1,156</u>	<u>\$ 459,020</u>
	-----2007-----			
	Beginning Balance	Additions	Reductions	Ending Balance
Cost				
Land	\$ 20,630	\$ 1,923	\$ -	\$ 22,553
Land improvements	6,585	474	-	7,059
Infrastructure	39,082	41	-	39,123
Buildings and structures	396,738	100	151	396,687
Construction in progress	42,697	33,354	-	76,051
Vehicles	4,810	750	190	5,370
Equipment, furniture, etc.	56,863	6,990	2,425	61,428
Leasehold improvements	7,080	-	-	7,080
Library materials	49,133	2,912	-	52,045
Energy saving assets	2,260	-	-	2,260
Equine	-	65	-	65
Total	<u>625,878</u>	<u>46,609</u>	<u>2,766</u>	<u>669,721</u>
Less accumulated depreciation				
Land improvements	4,162	128	-	4,290
Infrastructure	4,814	1,546	-	6,360
Buildings and structures	156,507	9,385	-	165,892
Vehicles	3,719	437	156	4,000
Equipment, furniture, etc.	35,189	4,638	2,192	37,635
Leasehold improvements	5,971	65	-	6,036
Energy saving assets	452	226	-	678
Library materials	44,370	1,007	-	45,377
Total accumulated depreciation	<u>255,184</u>	<u>17,432</u>	<u>2,348</u>	<u>270,268</u>
Capital assets, net	<u>\$ 370,694</u>	<u>\$ 29,177</u>	<u>\$ 418</u>	<u>\$ 399,453</u>

Of the total capital construction projects at June 30, 2008 of approximately \$141,255,000 there is \$30,308,000 remaining to complete the projects.

(Continued)

KENTUCKY COMMUNITY AND TECHNICAL COLLEGE SYSTEM
NOTES TO FINANCIAL STATEMENTS
June 30, 2008 and 2007

NOTE 6 - NONCURRENT LIABILITIES (Continued)

Capital lease obligations as of June 30, 2008 and 2007 consist of the following (in thousands):

	<u>2008</u>	<u>2007</u>
Nine computer equipment capitalized leases, all with one to five year remaining terms with total annual payments ranging from \$44,232 to \$585,600 and interest rates from .8% to 8.14%.	\$ 3,686	\$ 1,038
Energy savings equipment capitalized leases with 9 to 11 year remaining terms. One with an annual payment of \$284,377, and an interest rate of 3.66%, and one lease with semi-annual payments of \$112,316, and a rate of 4.3%.	4,224	4,622
A building lease with monthly payments of \$53,085, interest rate of 4.04% and 16 years remaining.	<u>7,397</u>	<u>7,728</u>
	<u>\$15,307</u>	<u>\$ 13,388</u>

Principal maturities and interest on capital leases payable for the next five years and in subsequent five-year periods as of June 30, 2008 are as follows (in thousands):

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2009	\$ 1,885	\$ 553	\$ 2,438
2010	1,799	482	2,281
2011	1,517	421	1,938
2012	1,419	374	1,793
2013	981	333	1,314
2014-2018	4,469	1,143	5,612
2019-2023	3,078	344	3,422
2024-2028	<u>159</u>	<u>1</u>	<u>160</u>
	<u>\$15,307</u>	<u>\$ 3,651</u>	<u>\$ 18,958</u>

See Note 10 for disclosures related to additions for postemployment benefits due to adoption of GASB No. 45.

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 \$500,000,000 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.

(Continued)

KENTUCKY COMMUNITY AND TECHNICAL COLLEGE SYSTEM
NOTES TO FINANCIAL STATEMENTS
June 30, 2008 and 2007

NOTE 7 - RISK MANAGEMENT (Continued)

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 2007 to 2008. 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 liability claims at June 30, 2008 totals \$2,886,203 of which \$2,785,803 is included in "Other long-term obligations" and \$100,400 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.

NOTE 8 - NATURAL CLASSIFICATION

The operating expenses for KCTCS by natural classification were as follows for the years ended June 30, 2008 and 2007 (in thousands):

	<u>2008</u>	<u>2007</u>
Salaries and wages	\$ 241,156	\$ 230,406
Employee benefits	88,291	66,087
Supplies	14,353	15,595
Depreciation	19,634	17,432
Student scholarships and financial aid	63,879	59,470
Utilities	12,281	12,027
Communications	3,692	3,584
Advertising	2,284	2,156
Professional services	12,541	10,174
Fire commission state aid	5,893	5,896
Fire commission incentive	11,518	11,500
Fire commission pension	3,582	3,030
Fire commission worker's compensation	3,784	3,784
Travel	4,870	4,483
Repairs and maintenance	7,259	6,919
Bad debts	4,231	3,620
Rental/lease	4,084	3,775
Equipment not capitalized	10,482	12,376
Other, various	<u>12,193</u>	<u>10,932</u>
	<u>\$ 526,007</u>	<u>\$ 483,246</u>

(Continued)

KENTUCKY COMMUNITY AND TECHNICAL COLLEGE SYSTEM
NOTES TO FINANCIAL STATEMENTS
June 30, 2008 and 2007

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 403(b) plan. Employees that choose a defined benefit plan can participate in either KTRS or 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.

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

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

Regular full-time employees that existed 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. Defined benefit plans 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 to 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 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 Kentucky Teachers' Retirement System (KTRS) or Kentucky Employees' Retirement System (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 2008 and 2007 were \$21,808,165 and \$20,663,835, respectively; the employees contributed \$17,004,201 and \$16,608,095 for 2008 and 2007, respectively. KCTCS total payroll costs were \$241,155,874 and \$230,406,261 for 2008 and 2007, respectively.

(Continued)

KENTUCKY COMMUNITY AND TECHNICAL COLLEGE SYSTEM
 NOTES TO FINANCIAL STATEMENTS
 June 30, 2008 and 2007

NOTE 10 - POSTEMPLOYMENT BENEFITS

As discussed in Note 9, KCTCS offers a 403(b) retirement plan. This Plan provides postemployment medical benefits to eligible retirees. The required contribution 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 postretirement benefits. For fiscal year 2008, KCTCS contributed approximately \$1,900,000 to the Plan.

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 No. 45 (as adopted in fiscal year 2008. See Note 1). 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 (in thousands):

Normal cost	\$ 10,227
Interest	705
Amortization	<u>7,389</u>
Annual required contribution	18,321
Contributions made	<u>(1,900)</u>
Increase in net OPEB obligation	16,421
Net OPEB obligation, beginning of year	<u>-</u>
Net OPEB obligation, end of year	<u>\$ 16,421</u>

The net OPEB obligation is included in other long-term liabilities on the accompanying statement of net assets (see Note 6).

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

Fiscal Year <u>Ended</u>	Annual Required <u>Contribution</u>	Percentage of Annual Required Contribution <u>Contributed</u>	Net OPEB <u>Obligation</u>
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. The actuarial accrued liability for benefits was \$132,882,121 and the actuarial value of assets was \$0, resulting in an unfunded actuarial accrued liability ("UAAL") of \$132,882,121. The covered payroll (annual payroll of active employees covered by the plan) was \$134,617,239, 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)

KENTUCKY COMMUNITY AND TECHNICAL COLLEGE SYSTEM
 NOTES TO FINANCIAL STATEMENTS
 June 30, 2008 and 2007

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 investment rate of return (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, 2008, was twenty-nine 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	\$ 0	\$ 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, 2008.

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SUPPLEMENTAL INFORMATION

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KENTUCKY COMMUNITY AND TECHNICAL COLLEGE SYSTEM
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
Year ended June 30, 2008

<u>Federal Grant/Program Title</u>	<u>Federal CFDA</u>	<u>Pass-Through Entity Identifying Number</u>	<u>Federal Expenditures</u>
U. S. DEPARTMENT OF EDUCATION			
Direct Grants -			
Student Financial Aid Cluster			
Federal Supplemental Educational Opportunity Grant Program	84.007		\$ 958,442
Federal Work Study Program	84.033		1,662,543
Federal Pell Grant Program	84.063		86,289,237
Academic Competitiveness Grant 07-08	84.375		459,822
Federal Family Education Loan Program	84.032		<u>95,950,068</u>
Total Student Financial Aid Cluster			<u>185,320,112</u>
TRIO Cluster			
Student Support Services	84.042		2,591,370
Educational Talent Search	84.044		640,005
Upward Bound	84.047		2,127,420
Educational Opportunity Center Program	84.066		<u>54,235</u>
Total TRIO Cluster			<u>5,413,030</u>
Title III Strengthening Institutions	84.031		2,809,866
High School Equivalency Program	84.141		419,136
Child Care Access/Parents in School	84.335		<u>106,110</u>
			<u>194,068,254</u>
Pass-Through Grants -			
Kentucky Adult Education			
ABE - Learning Center/Jefferson - Carroll	84.002	KYAE-2007-019	733
ABE - Learning Center/Maysville - Lewis	84.002	KYAE-2007-055	411
ABE - Learning Center/Maysville - Mason	84.002	KYAE-2007-061	516
ABE - Learning Center/Maysville - Robertson	84.002	KYAE-2007-082	(18)
ABE - Learning Center/Owensboro	84.002	KYAE-2007-026	7,622
ABE - Learning Center/Somerset - Casey	84.002	KYAE-2007-020	1,388
ABE - Learning Center/Somerset - McCreary	84.002	KYAE-2007-063	1,756
ABE - Learning Center/Henderson	84.002	KYAE-2007-043	2,240
ABE - Learning Center/Madisonville - Hopkins	84.002	KYAE-2007-045	3,858
ABE - Learning Center/Southeast - Harlan	84.002	KYAE-2007-040	2,966
ABE - Learning Center/Big Sandy - Floyd	84.002	KYAE-2007-031	2,910

(Continued)

KENTUCKY COMMUNITY AND TECHNICAL COLLEGE SYSTEM
 SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
 Year ended June 30, 2008

<u>Federal Grant/Program Title</u>	<u>Federal CFDA</u>	<u>Pass-Through Entity Identifying Number</u>	<u>Federal Expenditures</u>
ABE - Learning Center/Elizabethtown	84.002	KYAE-2007-065	\$ 2,311
ABE - Learning Center/West Kentucky	84.002	KYAE-2007-062	3,690
ABE - Learning Center/Jefferson - Shelby	84.002	KYAE-2007-087	1,592
ABE - Learning Center/Jefferson - Gallatin	84.002	KYAE-2007-033	1,017
ABE - Learning Center/Jefferson - Trimble	84.002	KYAE-2007-093	601
ABE - Learning Center/Ashland - Boyd	84.002	KYAE-2007-009	4,772
ABE - Learning Center/Madisonville - Muhlenberg	84.002	KYAE-2007-071	2,287
KYAE WES - North American Stainless	84.002	WES-2007-201K	1,938
ABE - Learning Center/Jefferson - Carroll	84.002	KYAE-2008-019	30,198
ABE - Learning Center/Maysville - Lewis	84.002	KYAE-2008-055	50,582
ABE - Learning Center/Maysville - Mason	84.002	KYAE-2008-061	45,430
ABE - Learning Center/Maysville - Robertson	84.002	KYAE-2008-082	20,886
ABE - Learning Center/Owensboro	84.002	KYAE-2008-026	200,386
ABE - Learning Center/Somerset - Casey	84.002	KYAE-2008-020	61,153
ABE - Learning Center/Somerset - McCreary	84.002	KYAE-2008-063	71,277
ABE - Learning Center/Henderson	84.002	KYAE-2008-043	100,887
ABE - Learning Center/Madisonville - Hopkins	84.002	KYAE-2008-045	119,001
ABE - Learning Center/Southeast - Harlan	84.002	KYAE-2008-040	112,710
ABE - Learning Center/Big Sandy - Floyd	84.002	KYAE-2008-031	131,474
ABE - Learning Center/Elizabethtown	84.002	KYAE-2008-065	54,404
ABE - Learning Center/West Kentucky	84.002	KYAE-2008-062	117,921
ABE - Learning Center/Jefferson - Shelby	84.002	KYAE-2008-087	72,886
ABE - Learning Center/Jefferson - Gallatin	84.002	KYAE-2008-033	21,192
ABE - Learning Center/Jefferson - Trimble	84.002	KYAE-2008-093	20,178
ABE - Learning Center/Ashland - Boyd	84.002	KYAE-2008-009	115,250
ABE - Learning Center/Madisonville - Muhlenberg	84.002	KYAE-2008-071	88,538
English as Second Language/Civics	84.002	KYAE-ELC-2007-303	1,715
ABE - Learning Center/Bluegrass	84.002	KYAE-2007-029	12,943
ABE - Learning Center/Bowling Green	84.002	KYAE-2007-094	6,703
ABE - Learning Center/Gateway	84.002	KYAE-2007-050	17,526

(Continued)

KENTUCKY COMMUNITY AND TECHNICAL COLLEGE SYSTEM
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
Year ended June 30, 2008

<u>Federal Grant/Program Title</u>	<u>Federal CFDA</u>	<u>Pass-Through Entity Identifying Number</u>	<u>Federal Expenditures</u>
ABE - Learning Center/Southeast - Bell	84.002	KYAE-2007-006	\$ 1,643
ABE - Learning Center/Big Sandy - Johnson	84.002	KYAE-2007-049	2,001
ABE - Learning Center/Bluegrass	84.002	KYAE-2008-029	429,029
ABE - Learning Center/Bowling Green	84.002	KYAE-2008-094	189,072
ABE - Learning Center/Gateway	84.002	KYAE-2008-050	289,302
ABE - Learning Center/Southeast - Bell	84.002	KYAE-2008-006	111,808
ABE - Learning Center/Big Sandy - Johnson	84.002	KYAE-2008-049	60,100
English as Second Language/Civics	84.002	KYAE-ELC-2008-308	36,545
English as Second Language/Civics Bluegrass	84.002	KYAE-ELC-2008-307	5,259
English as Second Language/Civics Owensboro	84.002	KYAE-ELC-2008-302	9,929
English as Second Language/Civics Bowling Green	84.002	KYAE-ELC-2008-308	<u>12,300</u>
			<u>2,662,818</u>
Kentucky Department of Education Region 2 Kentucky Education Program	84.011	PO2540 06000002820 1	<u>17,590</u>
Council for Postsecondary Education Kentucky Migrant Education Program	84.011	M-0700009781 1	154,836
GEAR-UP Kentucky II Elizabethtown	84.334	P334SO50032-06	47,844
GEAR-UP Kentucky II Elizabethtown	84.334	PO2 415 M-05508299.6	194,522
GEAR-UP Kentucky II Hazard	84.334	M-05508279	122,718
GEAR-UP Kentucky II Hazard	84.334	M-055508279	<u>226,926</u>
			<u>746,846</u>
Kentucky Office of Career and Tech Education Perkins/Virtual Learning	84.048	PO2 531 07000009901 1	<u>45,000</u>
Murray State University Tech Prep Sub with Murray State	84.048	MOA OSP 2008-022	731
Tech Prep - Gateway	84.048	M-06190841	<u>4,964</u>
			<u>5,695</u>
University of Kentucky Research Foundation Gateway/AHEC/VOC REHAB	84.048	3048103635-08-190	<u>22,350</u>
Morehead State University Tech Prep - Morehead State	84.048	Sub # 2006-07-171-001	<u>6,000</u>
Kentucky Office of Career and Tech Education Tech Prep - Bluegrass	84.048	M-06187869	(23,436)
Tech Prep - Big Sandy	84.048	M-06188300	452
Tech Prep Carryforward	84.048	M-0700010505-1	12,000
Tech Prep - Southeast	84.048	M-06190885	(306)

(Continued)

KENTUCKY COMMUNITY AND TECHNICAL COLLEGE SYSTEM
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
Year ended June 30, 2008

<u>Federal Grant/Program Title</u>	<u>Federal CFDA</u>	<u>Pass-Through Entity Identifying Number</u>	<u>Federal Expenditures</u>
Tech Prep Carryforward	84.048	M-0700010515-1	\$ 21,870
Tech Prep - Owensboro	84.048	M-06185525	(1)
Tech Prep - Jefferson	84.048	M-06187434	167
Tech Prep - West Kentucky	84.048	M-06187147	2
Construction Tech Upgrade Train	84.048	531 0700006619 1	1,410
Tech Training Upgrade Teachers	84.048	PO2-531-0700006235 1	3,705
Tech Prep Bluegrass 07-08	84.048	M-0700007390 1	169,047
Tech Prep 2008 - Somerset	84.048	M-0700007525 1	51,912
Tech Prep - Carryforward	84.048	M-0700010633 1	995
Tech Prep - Big Sandy	84.048	M-0700007490 1	156,280
Tech Prep - Southeast	84.048	M-0700007490 1	84,328
Tech Prep - Gateway	84.048	M-0700007262 1	251,048
Tech Prep - OCTC	84.048	M-0700007274 1	66,879
Tech Prep - OCTC/Carryforward	84.048	M-0700010632 1	9,311
Tech Prep - JCTC	84.048	M-070007244 1	59,503
Tech Prep - JCTC/Carryforward	84.048	M-0700010516 1	5,200
Tech Prep - West Kentucky CTC	84.048	M-0700007465 1	152,913
Tech Prep - WKCTC/Carryforward	84.048	M-0700010636 1	14,997
Tech Prep - Carryforward 06-07	84.048	M-0700010507 1	6,919
Carl D. Perkins 06-07	84.048	M-0600001400	52,081
Carl D. Perkins 07-08	84.048	PO2 531 07000008308 1	7,401,257
Tech Prep - Summer Summit	84.048	PO2 0800015152 1	4,800
Tech Prep - Summer/Carryforward	84.048	PO2 0800015327 1	20,688
Tech Upgrade - Sem 1 and 2 Workshop	84.048	PO2 531 080001457 1	1,609
Tech Upgrade - Sem 3 and 4 Workshop	84.048	PO2 531 080001457 1	1,978
Tech Upgrade - MicroSoft Server	84.048	PO2 531 080001457 1	1,278
Tech Upgrade - Welding	84.048	PO2 531 080001457 1	4,451
Tech Pre/Dual Credit Workshop	84.048	PO2 531 0800015143 1	16,146
Maysville Perkins Summer	84.048	PO2 531 0800016210 1	1,639
21 st Century Grant: Bluegrass	84.048	M-04531930	82,926
			<u>8,634,048</u>
Boyd County Schools			
21 st Century Grant: Ashland	84.287	06063003BS	<u>2,472</u>
Kentucky Department for Corrections			
Incarcerated Youth Offenders	84.331	PO2 527 0600003363 1	1,950
Incarcerated Youth Offenders	84.331	PO2 527 0700008672 1	<u>83,001</u>
			<u>84,951</u>
University of California			
Mountain Writing Project - Kentucky	84.298	06-KY11	<u>56,422</u>
Federal Correctional Institution			
Business Technology/Correction	84.XXX	J01202C-318	<u>43,010</u>
Workforce Strategy Center			
ABE Career Connections	84.XXX	OVAE 04-21	<u>12,386</u>
TOTAL U. S. DEPARTMENT OF EDUCATION			<u><u>206,407,842</u></u>

(Continued)

KENTUCKY COMMUNITY AND TECHNICAL COLLEGE SYSTEM
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
Year ended June 30, 2008

<u>Federal Grant/Program Title</u>	<u>Federal CFDA</u>	<u>Pass-Through Entity Identifying Number</u>	<u>Federal Expenditures</u>
U. S. DEPARTMENT OF HEALTH AND HUMAN SERVICES			
Direct Grants -			
KBEMS Emergency Medical Services for Children	93.127		\$ 121,313
HRSA Gateway to Nursing	93.178		151,571
HRSA Nurse Education: Career	93.359		<u>276,968</u>
			<u>549,852</u>
Pass-Through Grants -			
University of Kentucky Research Foundation			
AHEC Model State/Southeast	93.107	3048065300-07-207	13,349
AHEC Model State/Southeast	93.107	3048103799-08-070	43,633
AHEC Model State/Gateway	93.107	3048065300-07-205	11,495
AHEC Model State/Gateway	93.107	304813799-08-071	42,592
Child Care Quality Services	93.275	UKRF-468955-06-100	4,640
Child Care Quality Services	93.275	UKRF-3048023200-07-045	13,776
AHEC Hispanic Health Care	93.283	3048102111-08-006	23,148
Kentucky Cancer Program/Gateway	93.283	3048051600-07-253	10
Cancer Project Gateway	93.283	304810371608406	13,204
AHEA/Southeast/Cancer Study	93.393	3046909700-06-471	24,439
AHEA/Southeast/Cancer Study	93.393	3046909700-06-471	9,524
Early Childhood Quality Advancement	93.575	N/A	<u>63,404</u>
			<u>263,214</u>
Kentucky Cabinet for Health and Families Services			
Ready To Work 2006-2007	93.558	M-06069722	196,040
Ready To Work 2007-2008	93.558	M-06069722	<u>3,948,741</u>
			<u>4,144,781</u>
Kentucky Adult Education			
KYAE/JRA Maysville Lewis Co.	93.558	KYAE-2008-055	\$ 12,910
KYAE/JRA Maysville Mason Co.	93.558	KYAE-2008-061	11,007
KYAE/Job Readiness Owensboro	93.558	KYAE-2008-026	32,221
KYAE/JRA Somerset McCreary Co.	93.558	KYAE-2008-063	8,344
KYAE/Job Readiness Henderson	93.558	KYAE-2008-043	4,257
KYAE/JRA Madisonville Hopkins Co.	93.558	KYAE-2008-045	9,041
KYAE/JRA Southeast KY Harlan Co.	93.558	KYAE-2008-040	9,152
KYAE/Job Readiness Big Sandy	93.558	KYAE-2008-031	203
KYAE/Etown/Meade/Job Read	93.558	KYAE-2008-065	15,229
KYAE/Job Readiness West KY	93.558	KYAE-2008-062	22,487
KYAE/Job Readiness Ashland	93.558	KYAE-2008-009	35,407
KYAE/Job Readiness	93.558	KYAE-2008-029	15,951
KYAE/BG/Warren/JRA	93.558	KYAE-2008-094	6,136
KYAE/Job Readiness	93.558	KYAE-2008-050	27,734
KYAE/Job Readiness	93.558	KYAE-2008-006	5,540
KYAE/Job Readiness	93.558	KYAE-2008-049	<u>10,263</u>
			225,882

(Continued)

KENTUCKY COMMUNITY AND TECHNICAL COLLEGE SYSTEM
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
Year ended June 30, 2008

<u>Federal Grant/Program Title</u>	<u>Federal CFDA</u>	<u>Pass-Through Entity Identifying Number</u>	<u>Federal Expenditures</u>
Eastern Kentucky University			
UTC Family Support Education	93.558	EKU-08-148	\$ 5,361
UTC Cross Training Support 06-07	93.558	EKU-07-123	20
UTC Cross Training Support 07-07	93.558	EKU-08-180	1,017
UTC Cross Training Support 06-07	93.563	EKU-07-123	20
UTC Cross Training Support 07-07	93.563	EKU-08-180	1,017
UTC Cross Training Support 06-07	93.778	EKU-07-123	20
UTC Cross Training Support 07-07	93.778	EKU-08-180	<u>1,017</u>
			<u>8,472</u>
Kentucky Department for Medicaid Services			
Nurse Aide Training Registry 06-07	93.778	M-06077803	650
Nurse Aide Training Registry 07-08	93.778	M-06077803 4	<u>4,699</u>
			<u>5,349</u>
Kentucky Department for Education HIV Prevention/Gateway			
	93.938	PO N2540 07000044961	<u>5,632</u>
TOTAL U. S. DEPARTMENT OF HEALTH AND HUMAN RESOURCES			<u>5,203,182</u>
U. S. DEPARTMENT OF AGRICULTURE - CSRS			
Direct Grants -			
USDA - Discover Biotech in Ag	10.226		4,080
Knott County Construction	10.769		17,224
Rural Business Enterprise Grant	10.769		294
Entrepreneur Center	10.769		30,324
USDA/Entrepreneurial Center	10.773		<u>3,299</u>
			<u>55,221</u>
Pass-Through Grants -			
Eastern Kentucky University			
UTC Cross Training Support 06-07	10.561	EKU-07-123	39
UTC Cross Training Support 07-07	10.561	EKU-08-180	<u>2,035</u>
			<u>2,074</u>
TOTAL U. S. DEPARTMENT OF AGRICULTURE - CSRS			<u>57,295</u>
U. S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT			
Pass-Through Grants -			
Paducah Housing Authority			
Project Fresh Coat	14.870	Letter of agreement	<u>13,718</u>
U. S. DEPARTMENT OF INTERIOR - PARKS SERVICE			
Direct Grants -			
Save America's Treasures	15.929		<u>412</u>

(Continued)

KENTUCKY COMMUNITY AND TECHNICAL COLLEGE SYSTEM
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
Year ended June 30, 2008

<u>Federal Grant/Program Title</u>	<u>Federal CFDA</u>	<u>Pass-Through Entity Identifying Number</u>	<u>Federal Expenditures</u>
U. S. DEPARTMENT OF JUSTICE			
Pass-Through Grants -			
University of Louisville Research Foundation			
Portable Tactical Operations Center	16.560	ULRF 05-0941	\$ <u>29,035</u>
U. S. DEPARTMENT OF LABOR			
Direct Grants -			
Pathways in Nursing	17.261		392,434
Advanced Manufacturing Learning Center	17.261		742,238
DOL Biotech KY	17.269		295,739
DOL - Brain	17.269		443,101
DOL CBJT - Advanced Mfg.	17.269		26,113
DOL/OSHA Susan Harwood Grant	17.502		72,845
DOL/OSHA Susan Harwood Grant 2	17.502		61,027
DOL/OSHA Susan Harwood Grant	17.502		<u>35,627</u>
			<u>2,069,124</u>
Pass-Through Grants -			
Harlan County Community Action			
Southeast Scholars Program	17.255	DTR05Y07	3,229
Career Advantage Program	17.255	DTR07Y05	<u>141,456</u>
			<u>144,685</u>
WIB - West Kentucky ADD			
WIA/ Workforce Connections	17.255	A08-440	105,606
WIA Youth Program/Madisonville	17.259	WIA-A07440	2,441
WIA Youth Program/West KY Tech	17.259	WIA-A07523	10,214
WIA (Project YES)	17.259	WIA-A08523	105,042
KY Coal Demand Driven Response	17.267	HG-15358-06-60-KCYCS MCC	<u>299,045</u>
			<u>522,348</u>
Kentucky Office of Employment and Training			
JCC Truck Driving/Prog Cost & Entrepr	17.258	M-05463416	1,153
JCC Truck Driving/Prog Cost & Entrepr	17.259	M-05463416	1,153
JCC Truck Driving/Prog Cost & Entrepr	17.260	M-05463416	<u>1,188</u>
			<u>3,494</u>
KentuckianaWorks One Stop			
Operator KentuckianaWorks One Stop	17.258	201-044-07	<u>1,221,729</u>
WIB - Northern Kentucky ADD			
JAG WIA Grant	17.259	E07-875-41-WIA	2,047
Business Service Liaison/Gateway	17.267	E05-996-43-WIA	16
Business Service Liaison/Gateway	17.267	E05-996-43-WIA	1,980
JAG Grant	17.259	N/A	<u>97,497</u>
			<u>101,540</u>

(Continued)

KENTUCKY COMMUNITY AND TECHNICAL COLLEGE SYSTEM
 SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
 Year ended June 30, 2008

<u>Federal Grant/Program Title</u>	<u>Federal CFDA</u>	<u>Pass-Through Entity Identifying Number</u>	<u>Federal Expenditures</u>
WIB - Paducah ADD			
WIA Youth Services/Hopkinsville	17.259	WIA-A07422	\$ 2,186
WIA Youth Workforce Connection	17.259	WIA-A08422	<u>191,897</u>
			<u>194,083</u>
Lincoln Trail ADD			
WIA/Yes I Can Summer	17.259	N/A	35,270
WIA/Yes I Can	17.259	N/A	<u>190,612</u>
			<u>225,882</u>
WIB - Bluegrass ADD			
Nursing Career Pathways	17.260	WIA 7009	69,592
Nursing Career Pathways FY08	17.260	WIA 8027	<u>175,670</u>
			<u>245,262</u>
TOTAL U. S. DEPARTMENT OF LABOR			<u>4,728,147</u>
DEPARTMENT OF TRANSPORTATION			
Pass-Through Grants -			
Kentucky Department of Transportation			
Pedestrian/Vehicular Connector	20.219	C-04033888	<u>337,111</u>
KY Division of Emergency Mgmt.			
Training for HAZMAT Grant	20.703	0700006261 1	14,080
Training for HAZMAT Grant	20.703	PO2 095 0800014377 1	<u>15,187</u>
			<u>29,267</u>
TOTAL DEPARTMENT OF TRANSPORTATION			<u>366,378</u>
APPALACHIAN REGIONAL COMMISSION			
Direct Grants -			
Harlan Heritage Project/Southeast	23.011		2,565
Challenger Learning Center	23.011		<u>119,739</u>
			<u>122,304</u>
Pass-Through Grants -			
Morehead State University			
KY AHED KY Appalachian High Ed	23.001	2006-07-160-1	3,754
KY AHED/Hazard	23.001	2004-05-186	5,076
KY AHED - Big Sandy	23.001	2006-07-160-2	5,009
KY AHED - Big Sandy	23.001	2006-07-160-3	<u>4,600</u>
			<u>18,439</u>
Zane State College			
Power Plant Training/Ashland	23.001	N/A	<u>10,347</u>
TOTAL APPALACHIAN REGIONAL COMMISSION			<u>151,090</u>

(Continued)

KENTUCKY COMMUNITY AND TECHNICAL COLLEGE SYSTEM
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
Year ended June 30, 2008

<u>Federal Grant/Program Title</u>	<u>Federal CFDA</u>	<u>Pass-Through Entity Identifying Number</u>	<u>Federal Expenditures</u>
NATIONAL ENDOWMENT FOR ARTS			
Pass-Through Grants			
Arts Midwest			
Big Read Program Owensboro	45.024	#27664	\$ 7,499
The Big Read	45.024	#27278	9,995
			<u>17,494</u>
NATIONAL SCIENCE FOUNDATION			
Direct Grants -			
NSF KIT Center Grant Yrs 5-7	47.076		349,108
NSF KIT Center Supplemental	47.076		100
NSF - AMTEC	47.076		321,661
NSF - Power Plant Tech Program	47.076		226,046
NSF - Science Excel (S-STEM)	47.076		54,484
NSF - Manf. Tech Scholarships	47.076		168,513
NSF-ATE Mechatronics Technician	47.076		173,815
NSF - Manf. Tech Scholarships	47.076		79,612
			<u>1,373,339</u>
Pass-Through Grants -			
University of Kentucky			
Appalachian Math and Science Program	47.049	UKRF-4-66358-03-193	1,898
LSAMP - Alliance for Minority	47.076	UKRF 3048032200-07-252	14,189
			<u>16,087</u>
Haywood Community College			
L-Sites	47.076	Sub for NSF # DUE-0302685	21,015
SCATE			
SCATE EEITE	47.076	Sub of NSF DUE#0602710	3,143
TOTAL NATIONAL SCIENCE FOUNDATION			<u>1,413,584</u>
U. S. SMALL BUSINESS ADMINISTRATION			
Pass-Through Grants -			
University of Kentucky			
SECC Small Business Dev Center	59.037	UKRF-3048051900-07-278	18,048
SECC Small Business Dev Center	59.037	N/A	31,353
			<u>49,401</u>
DEPARTMENT OF VETERANS AFFAIRS			
Direct Grants -			
VA Approving Grant CF Account	64.124		31,824
VA Approving Grant ADM 06/07	64.124		4,594
VA Approving Grant OPER 06/07	64.124		103,669
VA Approving Grant ADM 07/08	64.124		7,074
VA Approving Grant OPER 07/08	64.124		185,713
			<u>332,874</u>

(Continued)

KENTUCKY COMMUNITY AND TECHNICAL COLLEGE SYSTEM
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
Year ended June 30, 2008

<u>Federal Grant/Program Title</u>	<u>Federal CFDA</u>	<u>Pass-Through Entity Identifying Number</u>	<u>Federal Expenditures</u>
CORPORATION FOR NATIONAL AND COMMUNITY SERVICE			
Direct Grants			
Americorps* VISTA	94.013		\$ <u>1,335</u>
Pass-Through Grants -			
Northern Kentucky University			
Ready Response	94.005	NK 2007-019-4000120	9,125
Project ADAPT	94.005	NK 2007-021-4000120	39,458
Ready and Respond Grant	94.005	NK 2007-016-4000120	4,572
Ready and Respond Grant	94.005	NK 2007-018-4000120	<u>5,589</u>
			<u>58,744</u>
American Association of Community Colleges			
Project Reach: Services for Comm Colleges	94.007	N/A	<u>10,787</u>
TOTAL CORPORATION FOR NATIONAL AND COMMUNITY SERVICE			<u>70,866</u>
DEPARTMENT OF HOMELAND SECURITY			
Pass-Through Grants -			
Kentucky Division of Emergency Management			
CSEPP Training FY07-08	97.040	0700006269 1	<u>8,530</u>
Kentucky Department of Homeland Security			
KOHs Exercise & Evaluation PT 2	97.067	PO2 094 0700006929 2	97,153
KCTCS Hazmat Inventory	97.067	PO2 094 0700012607 2	2,159
Homeland Security Exercise	97.067	PO2 094 060004104 3	223,716
KCTCS Training & Exercise Program	97.067	PO2 080 0015009 1	<u>112,922</u>
			<u>435,950</u>
TOTAL DEPARTMENT OF HOMELAND SECURITY			<u>444,480</u>
TENNESSEE VALLEY AUTHORITY			
Direct Grants			
Technical Education Training			<u>4,989</u>
TOTAL FEDERAL FUNDS			<u>\$ 219,290,787</u>

KENTUCKY COMMUNITY AND TECHNICAL COLLEGE SYSTEM
NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
Year ended June 30, 2008

NOTE 1 - BASIS OF ACCOUNTING

This schedule includes the federal awards activity of Kentucky Community and Technical College System (KCTCS) 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).

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Crowe Horwath LLP
Member 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, 2008, and have issued our report thereon dated October 1, 2008. 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, 2008.

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, 2008

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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, 2008. 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, 2008. 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 08-01.

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. However, as discussed below, we identified a certain deficiency in internal control over compliance that we consider to be a significant deficiency.

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. We consider the deficiency in internal control over compliance described in the accompanying schedule of findings and questioned costs as item 08-01 to be a significant deficiency.

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. We did not consider the deficiency described in the accompanying schedule of findings and questioned costs to be a material weakness.

However, we noted certain other matters that we have reported to management in a separate letter dated October 1, 2008.

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.

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

Louisville, Kentucky
October 1, 2008

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KENTUCKY COMMUNITY AND TECHNICAL COLLEGE SYSTEM
 SCHEDULE OF FINDINGS AND QUESTIONED COSTS
 June 30, 2008

PART I: SUMMARY OF AUDITORS' RESULTS

Financial Statements

Type of auditors' report issued	<u>Unqualified</u>			
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)?	_____ X _____	Yes	_____ _____	None Reported
Type of auditors' report issued on compliance for major programs	<u>Unqualified</u>			
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:

<u>CFDA Number(s)</u>	<u>Name of Federal Program or Cluster Number</u>
84.063	Total Federal Student Aid (consisting of):
84.033	Federal Pell Grant Program
84.007	Federal Work Student Program
84.375	Federal Supplemental Educational Opportunity Grant Program
84.032	Academic Competitiveness Grant 07-08
	Federal Family Education Loan Program
84.042	Total TRIO Cluster (consisting of):
84.044	Student Support Services
84.047	Educational Talent Search
84.066	Upward Bound
	Educational Opportunity Center Program

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

KENTUCKY COMMUNITY AND TECHNICAL COLLEGE SYSTEM
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
June 30, 2008

PART II - FINANCIAL STATEMENT FINDINGS

None

PART III - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

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

Criteria: According to 34 CFR 685.304(b), students must receive exit counseling prior to leaving the College, if known, and/or the required materials mailed to the last known address within 30 days the College becomes aware that a student is no longer attending the institution.

Condition: 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.

Effect: The System is not in compliance with the federal regulations concerning exit counseling.

Cause: The cause of this finding appears to be the lack of management oversight.

Recommendation: We recommend that the System review its current procedures pertaining to exit counseling and make the necessary changes to ensure the appropriate materials are provided or sent to the borrowers in accordance with the federal regulations.

Management's Response:

System Response: KCTCS, and specifically the System Office of Student Financial Aid, will work with its colleges, individually and collectively, to address the noncompliance deficiency of 34 CFR 685.304(b) regarding exit counseling. Further, KCTCS will forward exit counseling information for the Federal Family Education Loan Program to the colleges to be electronically retained (for future retrieval and audit purposes). Particular emphasis will be placed with colleges where cases of noncompliance within KCTCS have been found. Lastly, KCTCS will reemphasize "best practice" measures successfully used by most of its colleges to further strengthen its processes in effort to avoid any further deficiencies. Included within these best practices are a series of phone conferences, regularly scheduled meetings, reminders, monitoring, and general communication.

Bluegrass Community and Technical College: The College acknowledges the finding. The College has met with staff and reviewed its procedures in effort to ensure future compliance with the requirements of 34 CFR 685.304 (b) regarding the 30 day rule for notification. Using available PeopleSoft queries and exit reports affected FFELP students will be identified and notified. The College will continue to review reports weekly and will send an electronic notification to students informing them of the exit requirements and directing them to the KHEAA website. For students without an electronic address the College's Office of Student Financial Aid will follow up with a U. S. Postal Services mail notification. Additionally, the Office of Student Financial Aid will review the maintenance of the electronic database of reports, as well as a printed copy, to verify completion of this requirement for audits purposes.

KENTUCKY COMMUNITY AND TECHNICAL COLLEGE SYSTEM
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
June 30, 2008

PART IV - SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

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: See current year finding 08-01.

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: See current year finding 08-01.

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: See current year finding 08-01.

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