

DEAN || DORTON || ALLEN || FORD PLLC

**KENTUCKY COMMUNITY AND  
TECHNICAL COLLEGE SYSTEM**

**Report on Audit of Institution of Higher Education  
in Accordance with OMB Circular A-133**

**June 30, 2011**

KENTUCKY COMMUNITY AND TECHNICAL COLLEGE SYSTEM

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DEAN || DORTON || ALLEN || FORD  
P.L.L.C.**Independent Auditors' Report**

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

Secretary of Finance and  
 Administration Cabinet of the  
 Commonwealth of Kentucky

We have audited the accompanying financial statements of Kentucky Community and Technical College System (the System) as of June 30, 2011, and for the year then ended, which collectively comprise the System's basic financial statements as listed on 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 audit. The financial statements of Kentucky Community and Technical College System as of June 30, 2010, were audited by Dean Dorton Ford, PSC whose report dated October 1, 2010, expressed an unqualified opinion on those statements.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. 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 audit provides 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 System as of June 30, 2011, and the respective changes in its net assets and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis on pages 5 through 17 and the Schedule of Funding Progress for the Retiree Medical Plan on page 74 are not a required part of the basic financial statements but are 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 September 30, 2011 on our consideration of the System's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of the audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

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 purpose of additional analysis as required by the 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 to 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.

September 30, 2011  
Lexington, Kentucky

A handwritten signature in black ink that reads "Glenn Gordon Allen Ford, PLLC". The signature is written in a cursive, flowing style.

# KENTUCKY COMMUNITY AND TECHNICAL COLLEGE SYSTEM

## Management's Discussion and Analysis

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, 2011 and 2010. 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, 2011, with assets of \$1,071.8 million and liabilities of \$192.5 million. Net assets, which represent KCTCS' residual interest in assets after liabilities are deducted, were \$879.2 million or 82.0 percent of total assets. Net assets at June 30, 2010 were 82.5 percent of total assets. Financial outcomes were in accordance with the revenue expectations and the approved expenditure plan.
- Total assets increased \$72.0 million or 7.2 percent. The increase is primarily in cash, investments, and capital assets.
- Total liabilities increased by \$17.5 million or 10.0 percent. The principal item of increase was other long-term obligations.
- Total net assets increased \$54.6 million, or 6.6 percent. This resulted primarily from income before other revenues, expenses, gains and losses of \$25.1 million, capital construction proceeds from the Commonwealth of Kentucky of \$23.6 million and increases to endowments of \$6.0 million.
- Operating revenues were \$219.2 million and operating expenses were \$674.7 million, resulting in a loss from operations of \$455.4 million. Nonoperating revenues of \$480.5 million (including \$199.2 million in state appropriations) resulted in income before other revenue of \$25.1 million. Other revenues were \$29.5 million in 2011.

### Using the Financial Statements

The Financial Statements consist of Statements of Net Assets (Balance Sheets), Statements of Revenues, Expenses and Changes in Net Assets (Income Statements), Statements of Cash Flows, and Notes to the Financial Statements. These financial statements are prepared in accordance with standards issued by the Governmental Accounting Standards Board (GASB). Accordingly, the accrual basis of accounting is used whereby revenues 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 68 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.

## KENTUCKY COMMUNITY AND TECHNICAL COLLEGE SYSTEM

### Management's Discussion and Analysis

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. All KCTCS colleges have Southern Association of Colleges and Schools (SACS) accreditation as consolidated comprehensive community and technical colleges.

The KCTCS campuses are strategically located across the Commonwealth, from Ashland to Paducah, from Covington to Bowling Green. KCTCS is the largest provider of Internet-based courses in the state offering more than 2,100 on-line course sections through KCTCS On-line. KCTCS colleges confer five types of credentials -- certificates, diplomas and three kinds of associate degrees -- upon students who complete credit programs. The single most popular area of study is the baccalaureate transfer program, which allows a student to earn an associate degree at a KCTCS college and transfer those credits to any Kentucky university. While continuing to emphasize its historical mission to provide general education, KCTCS is increasing its focus on occupational/technical education. KCTCS colleges offer over 600 programs.

KCTCS also views postsecondary education as a crucial resource for workforce development. To further 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.

# KENTUCKY COMMUNITY AND TECHNICAL COLLEGE SYSTEM

## Management's Discussion and Analysis

### Statements of Net Assets

The Statements of Net Assets present the financial position of KCTCS at the end of the fiscal year and include 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, 2011, 2010 and 2009, is as follows:

Condensed Statements of Net Assets (amounts in thousands)

	<u>2011</u>	<u>2010</u>	<u>2009</u>
<b>Assets</b>			
Current assets	\$ 306,175	\$ 285,117	\$ 248,689
Noncurrent assets	<u>765,602</u>	<u>714,633</u>	<u>629,210</u>
 Total assets	 <u>1,071,777</u>	 <u>999,750</u>	 <u>877,899</u>
<b>Liabilities</b>			
Current liabilities	77,733	81,994	60,510
Noncurrent liabilities	<u>114,815</u>	<u>93,086</u>	<u>49,355</u>
 Total liabilities	 <u>192,548</u>	 <u>175,080</u>	 <u>109,865</u>
<b>Net Assets</b>			
Invested in capital assets, net of related debt	558,334	542,756	514,824
Restricted			
Nonexpendable	31,515	26,688	17,258
Expendable	65,308	71,497	99,995
Unrestricted	<u>224,072</u>	<u>183,729</u>	<u>135,957</u>
 Total net assets	 <u>\$ 879,229</u>	 <u>\$ 824,670</u>	 <u>\$ 768,034</u>

**Assets:** As of June 30, 2011, total assets amounted to \$1,071.8 million. Of this amount, investment in capital assets (net of depreciation) of \$583.2 million, or 54.4 percent of total assets, represented the largest asset class. Cash and cash equivalents amounted to \$304.2 million or 28.4 percent, and loans and accounts receivable amounted to \$42.1 million or 3.9 percent of total assets. During the year, total assets increased by \$72.0 million, primarily in cash, investments, and capital assets.

**Liabilities:** As of June 30, 2011, total liabilities amounted to \$192.5 million. Capital leases and other long-term obligations amounted to \$118.4 million, or 61.5 percent of total liabilities. During the year, total liabilities increased by \$17.5 million, primarily because of other long-term obligations.

**Net Assets:** The equity of KCTCS of \$879.2 million as of June 30, 2011 is reported on the Statements of Net Assets in four net asset categories: invested in capital assets, net of related debt, \$558.3 million (63.5 percent); restricted-nonexpendable \$31.5 million (3.6 percent); restricted expendable, \$65.3 million (7.4 percent); and unrestricted, \$224.1 million (25.5 percent).

# KENTUCKY COMMUNITY AND TECHNICAL COLLEGE SYSTEM

## Management's Discussion and Analysis

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 \$54.6 million during the year ended June 30, 2011. This increase was comprised primarily of an unrestricted assets increase of \$40.3 million, capital assets, net of debt increase of \$15.6 million, restricted nonexpendable assets increase of \$4.8 million, and expendable capital projects of \$4.4 million.

### 2010 Versus 2009

- As of June 30, 2010, total assets amounted to \$999.8 million. Of this amount, investment in capital assets (net of depreciation) of \$568.5 million, or 56.9 percent of total assets, represented the largest asset class. Cash and cash equivalents amounted to \$261.0 million or 26.1 percent, and loans and accounts receivable amounted to \$50.8 million or 5.1 percent of total assets. During the year, total assets increased by \$121.9 million. The increase was primarily in cash and cash equivalents, investments, and capital assets.
- As of June 30, 2010, total liabilities amounted to \$175.1 million. Capital leases and other long-term obligations amounted to \$96.2 million, or 54.9 percent of total liabilities. During the year, total liabilities increased by \$65.2 million, primarily because of employee withholdings, leases payable and other long-term obligations.
- Total net assets increased by \$56.6 million during the year ended June 30, 2010. Invested in capital assets, net of related debt, increased by \$27.9 million. Restricted net assets decreased by \$19.1 million as capital project assets decreased. Unrestricted net assets increased \$47.8 million, mainly due to overall revenues in excess of expenditures.

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

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

Financial activities are reported as either operating or nonoperating. State appropriations, certain grants, gifts and investment and endowment income are required 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 Statements of Revenues, Expenses, and Changes in Net Assets for the years ended June 30, 2011, 2010, and 2009 is presented on the following page.

KENTUCKY COMMUNITY AND TECHNICAL COLLEGE SYSTEM

Management's Discussion and Analysis

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

	<u>2011</u>	<u>2010</u>	<u>2009</u>
<b>Operating revenues</b>			
Student tuition and fees, net	\$ 114,535	\$ 107,009	\$ 96,147
Grants and contracts	89,971	84,647	78,518
Other operating revenue	14,730	10,757	9,583
Total operating revenues	<u>219,236</u>	<u>202,413</u>	<u>184,248</u>
<b>Operating expenses</b>			
Educational and general, excluding depreciation	646,488	627,878	523,648
Depreciation	28,164	25,122	22,859
Total operating expenses	<u>674,652</u>	<u>653,000</u>	<u>546,507</u>
<b>Operating loss</b>	(455,416)	(450,587)	(362,259)
<b>Nonoperating revenues (expenses)</b>			
State appropriations	199,156	200,555	214,931
Federal and state grants and contracts	249,505	211,794	140,387
Other nonoperating revenues	31,854	36,332	18,336
Total nonoperating revenues	<u>480,515</u>	<u>448,681</u>	<u>373,654</u>
<b>Income (loss) before other revenues, expenses, gains or losses</b>	25,099	(1,906)	11,395
Capital construction appropriations	23,646	57,131	70,126
Net realized loss on disposal of capital assets	(154)	(1,214)	(291)
Additions (reductions) to endowments	5,968	2,625	(4,832)
Total other revenues (expenses)	<u>29,460</u>	<u>58,542</u>	<u>65,003</u>
<b>Total increase in net assets</b>	54,559	56,636	76,398
<b>Net assets, beginning of year</b>	<u>824,670</u>	<u>768,034</u>	<u>691,636</u>
<b>Net assets, end of year</b>	<u>\$ 879,229</u>	<u>\$ 824,670</u>	<u>\$ 768,034</u>

Total operating revenues were \$219.2 million for the year ended June 30, 2011. Included in KCTCS' operating revenues are net student tuition and fees of \$114.5 million (52.2 percent), and grants and contracts of \$90.0 million (41.0 percent).

Operating expenses totaled \$674.7 million. Of this amount, \$646.5 million (95.8 percent of total operating expenses) was expended for educational and general programs, including instruction, academic support, libraries, public service, student services, institutional support, and operations and maintenance (excluding depreciation).

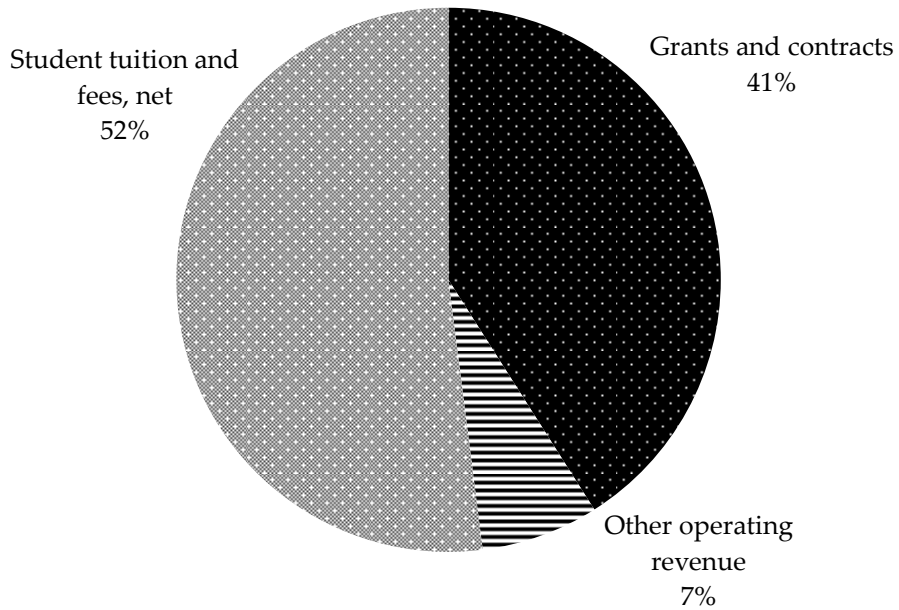
The loss from operations for the year amounted to \$455.4 million. Nonoperating and other revenues, net of related expenses, amounted to \$510.0 million, resulting in an increase in net assets of \$54.6 million for the year. Nonoperating and other revenues reflect a \$2.8 million increase due primarily to decreases in capital construction proceeds of \$33.5 million, federal and state grants and contracts increase of \$37.7 million, decreases in state appropriations of \$1.4 million, other nonoperating revenues decreases of \$4.5 million, and additions to endowments of \$3.3 million.

# KENTUCKY COMMUNITY AND TECHNICAL COLLEGE SYSTEM

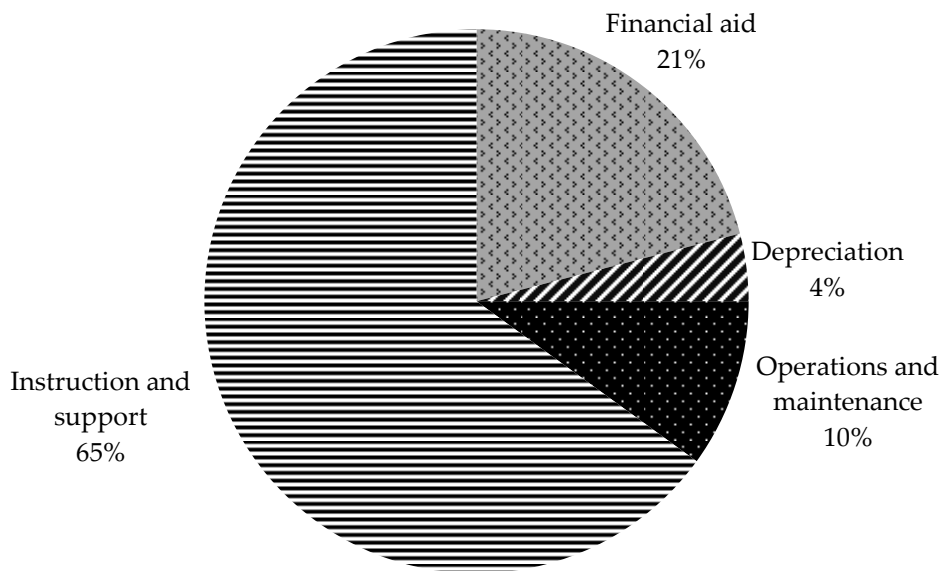
## Management's Discussion and Analysis

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

### Operating Revenues



### Operating Expenses



# KENTUCKY COMMUNITY AND TECHNICAL COLLEGE SYSTEM

## Management's Discussion and Analysis

### 2010 Versus 2009

Total operating revenues were \$202.4 million for the year ended June 30, 2010, including net student tuition and fees of \$107.0 million (52.9 percent) and grants and contracts of \$84.6 million (41.8 percent).

Operating expenses totaled \$653.0 million. Of this amount, \$627.9 million (96.2 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 \$450.6 million. Nonoperating and other revenues, net of related expenses, amounted to \$507.2 million, resulting in an increase in net assets of \$56.6 million for the year. Nonoperating revenues include state appropriations of \$200.6 million (39.5 percent of total nonoperating and other revenues).

### Statements of Cash Flows

The Statements of Cash Flows present information, related to KCTCS' cash inflows and outflows, summarized by operating, capital, financing, and investing activities. The primary purpose of the Statements of Cash 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' Statements of Cash Flows for the years ended June 30, 2011, 2010, and 2009 is as follows:

### Condensed Statements of Cash Flows (amounts in thousands)

	<u>2011</u>	<u>2010</u>	<u>2009</u>
<b>Cash (used in) provided by:</b>			
Operating activities	\$ (435,164)	\$ (375,108)	\$ (326,006)
State appropriation	199,156	200,555	214,931
Other noncapital financing activities	299,700	273,903	172,007
Capital and related financing activities	(9,835)	(9,119)	(64,413)
Investing activities	<u>(10,644)</u>	<u>(35,210)</u>	<u>(12,004)</u>
Net increase (decrease) in cash and cash equivalents	43,213	55,021	(15,485)
<b>Cash and cash equivalents, beginning of year</b>	<u>260,980</u>	<u>205,959</u>	<u>221,444</u>
<b>Cash and cash equivalents, end of year</b>	<u>\$ 304,193</u>	<u>\$ 260,980</u>	<u>\$ 205,959</u>

## KENTUCKY COMMUNITY AND TECHNICAL COLLEGE SYSTEM

### Management's Discussion and Analysis

Major sources of cash received from operating activities are student tuition and fees (\$113.1 million) and grants and contracts (\$91.0 million). Major uses of cash for operating activities were payments to employees for salaries and benefits (\$381.6 million) and student financial aid (\$137.8 million).

Capital and related financing activities include capital appropriations from the Commonwealth of Kentucky of \$35.0 million, proceeds from new capital debt and leases of \$2.7 million, and proceeds from disposal of capital assets of \$0.2 million. Cash of \$43.2 million was expended for construction and acquisition of capital assets and \$4.6 million was expended for principal and interest payments on debt.

Investing activities of \$10.6 million include interest and dividends of \$5.2 million. Cash of \$15.8 million was used to purchase additional investments.

#### **2010 Versus 2009**

Major sources of cash received from operating activities for the year ended June 30, 2010 are student tuition and fees (\$147.0 million) and grants and contracts (\$83.3 million). Major uses of cash for operating activities were payments to employees for salaries and benefits (\$364.4 million) and to vendors and contractors (\$137.5 million).

Capital and related financing activities include capital appropriations from the Commonwealth of Kentucky of \$45.8 million. Cash of \$65.8 million was expended for construction and acquisition of capital assets and \$3.3 million was expended for principal and interest payments on debt.

Investing activities include \$40.8 million used to purchase additional investments and interest and dividends on investments of \$5.6 million.

### **Capital Assets and Debt Administration**

Capital assets, net of accumulated depreciation, totaled \$583.2 million at June 30, 2011, an increase of \$14.7 million. Capital assets as of June 30, 2011, 2010, and 2009, and significant changes in capital assets during those years are as follows (in thousands):

#### **Capital Assets (amounts in thousands)**

	Balance June 30, <u>2009</u>	Net Additions FY 2010	Balance June 30, <u>2010</u>	Net Additions FY 2011	Balance June 30, <u>2011</u>
Land and land improvements	\$ 33,015	\$ 1,426	\$ 34,441	\$ 3,037	\$ 37,478
Buildings and infrastructures	519,942	137,047	656,989	12,081	669,070
Equipment, autos and campus improvements	88,951	12,692	101,643	6,669	108,312
Library holdings	54,522	1,229	55,751	1,875	57,626
Construction in progress	133,693	(91,709)	41,984	13,615	55,599
Energy saving assets	4,983	-	4,983	-	4,983
Total assets	<u>835,106</u>	<u>60,685</u>	<u>895,791</u>	<u>37,277</u>	<u>933,068</u>
Accumulated depreciation	<u>(305,957)</u>	<u>(21,318)</u>	<u>(327,275)</u>	<u>(22,605)</u>	<u>(349,880)</u>
Capital assets, net	<u>\$ 529,149</u>	<u>\$ 39,367</u>	<u>\$ 568,516</u>	<u>\$ 14,672</u>	<u>\$ 583,188</u>

# KENTUCKY COMMUNITY AND TECHNICAL COLLEGE SYSTEM

## Management's Discussion and Analysis

At June 30, 2011, KCTCS had capital construction projects in progress totaling \$55.6 million. These projects are principally financed by appropriations and bond proceeds from the Commonwealth of Kentucky.

### **Debt**

At June 30, 2011, debt consisted of 175 capital leases totaling \$24.9 million.

# KENTUCKY COMMUNITY AND TECHNICAL COLLEGE SYSTEM

## Management's Discussion and Analysis

### Economic Factors Impacting Future Periods

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

- The KCTCS state appropriation (including federal State Fiscal Stabilization Funds for fiscal years 2010 and 2011) has decreased roughly \$21.1 million since fiscal year 2008 – down from \$221.8 million in FY 2008 to \$200.7 million for FY 2012. Federal funds are expected to remain roughly flat for the near future with potential cuts in student aid programs and sponsored project activity possible contingent on the federal budget situation being resolved.
- The KCTCS Board of Regents approved a 2011-12 operating budget totaling \$903.2 million and a 2011-12 capital budget totaling \$150.9 million. The 2011-12 operating budget includes unrestricted budget reserve funds of which \$21.2 million is nonrecurring and \$4.4 million is recurring. Total unrestricted reserve funds for 2011-12 equal \$25.6 million. The reserve funds are for each college and for the systemwide operations and support programs.
- Tuition rates for 2011-12 have been increased from \$130 per credit hour to \$135 per credit hour for resident students. Nonresident students from counties contiguous to Kentucky will pay \$270 per credit hour. Other nonresident students will pay \$465 per credit hour. Online students will pay \$135 per credit hour. Along with these rates for first-time students, the KCTCS Board of Regents approved guaranteed tuition rates for returning students. Students enrolled during the fall 2010 or spring 2011 terms and who return in fall 2011 or spring 2012 are eligible for tuition at 2010-11 rates. Because of KCTCS' low tuition rates for 2011-12, the guaranteed rates for previous term enrolled students, and the growing difference in KCTCS' tuition rates versus Kentucky's other postsecondary education institutions, KCTCS believes its enrollment will maintain current levels or increase.
- The 2010 General Assembly enacted House Bill 160 (HB160), the Transfer Bill. HB160 takes effect in the 2012-13 academic year for first-time students. HB160 will help provide KCTCS students with a clear-cut understanding of which courses will apply toward a four-year degree and create consistency among core courses across Kentucky's public postsecondary education institutions. HB160 also requires advance notice to KCTCS and the Council on Postsecondary Education (CPE) when course changes are proposed that would have an effect on transfer. KCTCS, in anticipation of the implementation of HB160, has created a common course numbering system among its 16 colleges.
- Official fall 2010 enrollment was 106,664 students. This was a 6.3 percent increase over fall 2009 enrollment of 100,348 students. Because of the uncertainty of the economy, students choosing a KCTCS college as their college of first choice and KCTCS' low tuition rates, HB 160's clear-cut path for transfer, student financial aid and enrollment applications are expected to maintain current levels or continue to increase.
- KCTCS has implemented a system-wide multi-year major gifts campaign titled "Fulfilling the Promise." The campaign goal is \$100 million. As of June 30, 2011, total gifts and pledges received stand at \$100,609,152.

## KENTUCKY COMMUNITY AND TECHNICAL COLLEGE SYSTEM

### Management's Discussion and Analysis

- Changes in governmental accounting standards that took effect in 2007-08 required KCTCS to record on its financial statements an obligation for postemployment benefits for its 403(b) benefit plan employees. In March 2009 the KCTCS Board of Regents revised its employment policies so that for employees hired with an effective date on or after July 1, 2009, that chose to participate in a 403(b) retirement plan, postemployment health benefits will no longer be provided by KCTCS. In early 2011 KCTCS had the actuarial study updated to calculate the projected postemployment obligation. The total estimated present value cost as of July 1, 2011 was \$337.7 million with an unfunded actuarial accrued liability of \$214.5 million. A 4 percent discount rate on a 15-year amortization schedule with 11 years remaining was the basis for the calculation. The 2011-12 expense required to retire this future obligation is \$31.8 million. Of this total, \$29.8 million will be invested with the Commonfund to offset future obligations.
- Despite the current volatility in economic conditions and an uncertain outlook, KCTCS continues to maintain its firm commitment to the vision and goals of the Postsecondary Education Improvement Act of 1997 (House Bill 1). The KCTCS Strategic Plan 2010-16 envisions KCTCS to be the nation's premier community and technical college system. The Plan is designed to place more Kentucky citizens on the path to a postsecondary credential (certificate, diploma and/or associate degree) and a successful career path. The plan includes five goals with specific performance indicators and six-year targets creating an effective way to measure success. The goals are:
  - Advance excellence and innovation in teaching, learning, and service.
  - Cultivate diversity, multiculturalism, and inclusion.
  - Increase student access, transfer, and success.
  - Enhance the economic and workforce development of the Commonwealth.
  - Promote the recognition and value of KCTCS.
- The 2010-11 KCTCS President's Leadership Initiative focused on "TRANSFORMATION". The 2011-2012 President's Leadership Initiative builds on the "TRANSFORMATION" initiative and will focus on "CHANGE". The 2010-11 Transformation Initiative identified "who" and "what" needed to change in order to transform KCTCS, the 2011-12 Change Initiative will focus on "when" and "how" to change. A primary component of the 2011-12 CHANGE initiative is the KCTCS President leading KCTCS in the development and implementation of change management and project management processes and methods to successfully transition KCTCS from its current state to its desired future state as defined by "Transformation" strategies developed by the 2010-11 TRANSFORMATION initiative. For each transformational strategy there will be detailed action steps to provide measurement and accountability. This new KCTCS leadership initiative uses team structures based on change management research and best practices. The timeline for the accomplishment of the strategies ranges from fiscal years 2012 through 2016.

## KENTUCKY COMMUNITY AND TECHNICAL COLLEGE SYSTEM

### Management's Discussion and Analysis

Among the transformational strategies and areas targeted to be addressed are:

- *Curriculum Review:*
  - Create a technical program development and review process supported by research development and analysis.
  - Create a standardized, rapid-response curriculum and program approval development process.
- *Developmental Education:*
  - Develop and implement an alternative model for the delivery of developmental/transitional education in English, reading, and math, which is modularized, self-paced, competency-driven, and computer-assisted/lab-based.
- *Dual Credit:*
  - Develop a consistent, statewide program of dual credit, using the National Association of Concurrent Enrollment Programs standards as a framework.
- *Financial Aid:*
  - Establish unified financial aid standards at all KCTCS colleges based on industry-wide best practices.
- *Job Placement and Career Development:*
  - Provide comprehensive career development and job placement services to engage students in their educational pursuit from pre-enrollment to post-graduation.
- *Student Services:*
  - Develop a comprehensive outsourced student services delivery model that provides a seamless, scalable, virtual 24/7/365 student services call center help desk for all KCTCS students.
- *Transfer:*
  - Develop a holistic/integrated approach to transfer by developing coherent structures and integrated processes in the design and delivery of instructional and student services utilizing the Foundations of Excellence Transfer Focus.
  - Utilize a comprehensive approach to developing partnerships and agreements with four-year institutions by creating pathways for students completing associate degrees to transfer to baccalaureate degree programs.

# KENTUCKY COMMUNITY AND TECHNICAL COLLEGE SYSTEM

## Management's Discussion and Analysis

The benefits of successful implementation of the transformational strategies are expected to result in the following:

### For Students:

- Increased access to KCTCS programs
- Enhanced awareness and access to financial aid
- Improved convenience and quality of services
- Increased retention and academic success
- Enhanced success in pursuing 4-year degrees
- Increased opportunities for good paying jobs

### For KCTCS:

- System-wide standards and benchmarks
- Comprehensive, consistent, and integrated approaches
- Enhanced skills and talents of KCTCS employees
- New and enhanced technological innovations
- Enhanced cost-effectiveness, productivity, and efficiency

### For Kentucky:

- Well educated and highly trained workforce
- Employability of Kentucky citizens
- Globally competitive business and industries
- Higher standard of living
- Economic prosperity
- Quality of life

In summary, although many economic challenges have faced KCTCS and will continue to impact the future, KCTCS management believes that our past and current financial management practices have positioned KCTCS to continue to grow during these uncertain times. Further, the KCTCS transformational strategies will enable KCTCS to plan for and embrace change as a path for opportunity to continue its progress to becoming the nation's premier community and technical college system.

KENTUCKY COMMUNITY AND TECHNICAL COLLEGE SYSTEM

Statements of Net Assets

June 30, 2011 and 2010

(amounts in thousands)

	<u>2011</u>	<u>2010</u>
<b>Assets</b>		
Current assets:		
Cash and cash equivalents	\$ 268,186	\$ 239,152
Short-term investments	38	38
Loans, accounts and pledges receivable, net of allowances	36,131	44,021
Other current assets	1,820	1,906
Total current assets	<u>306,175</u>	<u>285,117</u>
Noncurrent assets:		
Restricted cash and cash equivalents	36,007	21,828
Loans and other receivables	5,999	6,805
Endowment investments	35,270	29,007
Other long-term investments	105,138	88,477
Capital assets, net	583,188	568,516
Total noncurrent assets	<u>765,602</u>	<u>714,633</u>
Total assets	<u>1,071,777</u>	<u>999,750</u>
<b>Liabilities</b>		
Current liabilities:		
Accounts payable and accrued expenses	8,269	9,052
Employee withholdings and deposits	14,575	22,729
Compensated absences	12,051	11,095
Deferred revenue	39,266	36,052
Leases payable - current	3,572	3,066
Total current liabilities	<u>77,733</u>	<u>81,994</u>
Noncurrent liabilities:		
Leases payable - noncurrent	21,282	22,694
Other long-term obligations	93,533	70,392
Total noncurrent liabilities	<u>114,815</u>	<u>93,086</u>
Total liabilities	<u>192,548</u>	<u>175,080</u>
<b>Net Assets</b>		
Invested in capital assets, net of related debt	558,334	542,756
Restricted for:		
Nonexpendable		
Scholarships, instruction and other	31,515	26,688
Expendable		
Scholarships, instruction and other	8,597	19,520
Loans	17,073	16,791
Capital projects	39,638	35,186
Unrestricted	224,072	183,729
Total net assets	<u>\$ 879,229</u>	<u>\$ 824,670</u>

See accompanying notes.

# KENTUCKY COMMUNITY AND TECHNICAL COLLEGE SYSTEM

## Statements of Revenues, Expenses and Changes in Net Assets

June 30, 2011 and 2010

(amounts in thousands)

	<u>2011</u>	<u>2010</u>
<b>Operating revenues</b>		
Student tuition and fees	\$ 245,761	\$ 223,576
Less: Scholarship allowances	<u>(131,226)</u>	<u>(116,567)</u>
Net tuition and fees	114,535	107,009
Federal grants and contracts	50,557	44,117
State and local grants and contracts	39,561	40,563
Nongovernmental grants and contracts	(147)	(33)
Indirect cost recoveries	2,424	1,974
Sales and services	5,291	5,478
Other operating revenues	<u>7,015</u>	<u>3,305</u>
Total operating revenues	219,236	202,413
<b>Operating expenses</b>		
Educational and general:		
Instruction	232,593	237,567
Public service	37,835	36,662
Libraries	7,732	6,688
Academic support	28,151	29,509
Student services	54,748	51,738
Institutional support	79,380	74,317
Operation and maintenance of physical plant	66,330	75,108
Depreciation	28,163	25,122
Student financial aid	<u>139,720</u>	<u>116,289</u>
Total operating expenses	674,652	653,000
Operating loss	(455,416)	(450,587)
<b>Nonoperating revenues (expenses)</b>		
State appropriations	199,156	200,555
Federal and local appropriations	14,541	17,682
Federal and state grants and contracts	249,505	211,794
Gifts	3,655	3,084
Investment income	6,631	9,094
Interest expense - capital debt	(936)	(631)
Other nonoperating revenues / (expenses)	<u>7,963</u>	<u>7,103</u>
Net nonoperating revenues	480,515	448,681
Income (loss) before other revenues, expenses, gains or losses	25,099	(1,906)
Capital construction proceeds from state	23,646	57,131
Net realized loss on disposal of capital assets	(154)	(1,214)
Additions to endowments	<u>5,968</u>	<u>2,625</u>
Total other revenues	29,460	58,542
Increase in net assets	54,559	56,636
Net assets - beginning of year	<u>824,670</u>	<u>768,034</u>
Net assets - end of year	<u>\$ 879,229</u>	<u>\$ 824,670</u>

See accompanying notes.

# KENTUCKY COMMUNITY AND TECHNICAL COLLEGE SYSTEM

## Statements of Cash Flows

June 30, 2011 and 2010

(amounts in thousands)

	<u>2011</u>	<u>2010</u>
<b>Cash flows from operating activities:</b>		
Tuition and fees	\$ 113,084	\$ 146,990
Grants and contracts	91,009	83,250
Indirect cost recoveries	2,424	1,974
Sales and services	5,291	5,478
Payments to vendors and contractors	(134,952)	(137,478)
Student financial aid	(137,817)	(114,847)
Salaries, wages and benefits	(381,615)	(364,372)
Other receipts	7,412	3,897
Net cash from operating activities	<u>(435,164)</u>	<u>(375,108)</u>
<b>Cash flows from noncapital financing activities:</b>		
State appropriations	199,156	200,555
Federal state and local grants, contracts and appropriations	264,046	229,476
Gifts received for non-capital purposes	4,550	4,142
Other liabilities	23,141	33,182
Other nonoperating receipts	7,963	7,103
Net cash from noncapital financing activities	<u>498,856</u>	<u>474,458</u>
<b>Cash flows from capital and related financing activities:</b>		
Capital appropriations	34,996	45,781
Proceeds from disposal of capital assets	170	63
Purchase of capital assets	(43,159)	(65,766)
Principal paid on leases	(3,622)	(2,639)
Proceeds from leases	2,716	14,073
Interest paid on leases	(936)	(631)
Net cash from capital and related financing activities	<u>(9,835)</u>	<u>(9,119)</u>
<b>Cash flows from investing activities:</b>		
Proceeds from sales and maturities of investments	7,221	281
Interest on investments	5,244	5,553
Purchase of investments	(23,109)	(41,044)
Net cash from investing activities	<u>(10,644)</u>	<u>(35,210)</u>
Net change in cash	43,213	55,021
Cash-beginning of year	260,980	205,959
Cash-end of year	<u>\$ 304,193</u>	<u>\$ 260,980</u>
<b>Reconciliation of net operating loss to net cash from operating activities</b>		
Operating loss	\$ (455,416)	\$ (450,587)
Adjustments to reconcile net operating loss to net cash from operating activities:		
Depreciation expense	28,163	25,122
Increase (decrease) in cash due to change in:		
Notes, loans and accounts receivable, net	(3,230)	29,567
Other assets	86	191
Accounts payable and accrued liabilities	(783)	2,020
Employee withholdings and deposits	(8,154)	9,387
Compensated absences	956	(415)
Deferred revenue	3,214	9,607
Net cash from operating activities	<u>\$ (435,164)</u>	<u>\$ (375,108)</u>

See accompanying notes.

# KENTUCKY COMMUNITY AND TECHNICAL COLLEGE SYSTEM

## Notes to Financial Statements

### 1. Organization and Summary of Significant Accounting Policies

#### Reporting Entity

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

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

#### Basis of Presentation

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

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

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

#### Accrual Basis

The financial statements have been prepared on the accrual basis of accounting. Under the accrual basis of accounting, revenues are recognized when earned and expenses are recorded when an obligation has been incurred. KCTCS reports as a Business Type Activity (BTA). 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 \$31.5 million, and with the Commonwealth of Kentucky of \$272.7 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.

# KENTUCKY COMMUNITY AND TECHNICAL COLLEGE SYSTEM

## Notes to Financial Statements

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

#### 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.

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

If a donor has not provided specific instructions, state law permits the Board of Regents to authorize for expenditure the net appreciation (realized and unrealized) of the investments of endowment funds. When administering its authority to spend net appreciation, the Board of Regents is required to consider KCTCS's "long- and short- term needs, present and anticipated financial requirements, expected total return on its investments, price-level trends, and general economic conditions." Any net appreciation that is spent is required to be spent for the purposes for which the endowment was established.

The Board of Regents chooses to spend only a portion of the investment income (including changes in the value of investments) each year. Under the policy established by the Board of Regents, 5 percent of the average market value of endowment investments at the end of the previous three years has been authorized for expenditure. The remaining amount, if any, is retained to be used in future years when the amount computed using the spending policy exceeds the investment income. At June 30, 2011, net appreciation of \$2,774,661 is available to be spent, of which \$2,478,882 is restricted to specific purposes.

#### 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 Statements of Revenues, Expenses and Changes in Net Assets.

# KENTUCKY COMMUNITY AND TECHNICAL COLLEGE SYSTEM

## Notes to Financial Statements

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

#### Loans, Accounts and Pledges Receivable

Accounts receivable consist of tuition and fee charges to students. Accounts receivable also include amounts due from the Federal government, state and local governments or private sources in connection with reimbursement of allowable expenditures made pursuant to KCTCS' grants and contracts. Accounts receivable are recorded net of estimated uncollectible amounts. KCTCS determines its allowance by considering a number of factors, including the length of time accounts receivable are past due, previous loss history and the condition of the general economy as a whole. KCTCS writes off specific accounts receivable when they are assessed as uncollectible. Pledges receivables are commitments from donors to give stated amounts over a specific future period of time. KCTCS records pledges receivable at the present value of the net realizable amount. Loans receivable from fire districts consist of amounts loaned to volunteer fire departments for the purchase of major equipment and construction of facilities. KCTCS records loans from fire districts at the net realizable amount.

#### Capital Assets

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

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

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

#### Compensated Absences

The liability and expense incurred for employee vacation and sick pay are recorded as accrued compensated absences in the Statements of Net Assets and as a component of compensation and benefit expense in the Statements 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.

# KENTUCKY COMMUNITY AND TECHNICAL COLLEGE SYSTEM

## Notes to Financial Statements

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

#### Net Assets

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 Statements 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.

#### Federal Grants and Contracts

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

# KENTUCKY COMMUNITY AND TECHNICAL COLLEGE SYSTEM

## Notes to Financial Statements

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

#### Operating Activities

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

#### Income Taxes

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

#### Restricted Asset Spending Policy

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

#### Use of Estimates

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

#### Recent Accounting Pronouncements

In June 2011, the GASB issued Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*. The objective of this statement is to improve financial reporting by standardizing the presentation of deferred outflows of resources and deferred inflows of resources and their effects on net position. It alleviates uncertainty about reporting those financial statement elements by providing guidance where none previously existed. The requirements of this statement are effective for financial statements for periods beginning after December 15, 2011. KCTCS is currently evaluating the effects of this statement on its financial statements.

# KENTUCKY COMMUNITY AND TECHNICAL COLLEGE SYSTEM

## Notes to Financial Statements

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

#### Recent Accounting Pronouncements (continued)

In December 2010, the GASB issued Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*. The objective of this statement is to improve financial reporting by contributing to the GASB's efforts to codify all sources of generally accepted accounting principles for state and local governments so that they derive from a single source. It eliminates the need for financial statement preparers to determine which accounting principles apply to state and local governments. The requirements of this statement are effective for financial statements for periods beginning after December 15, 2011. KCTCS does not expect this statement to have a significant impact on its financial statements.

#### Subsequent Events

Management has evaluated subsequent events for accounting and disclosure requirements through September 30, 2011, the date that the financial statements were available to be issued. There were no events occurring during the evaluation period that require recognition or disclosure in the financial statements.

#### Reclassifications

Certain reclassifications to fiscal 2010 comparative amounts have been made to conform to the 2011 classifications.

### 2. Loans, Accounts and Pledges Receivable

Loans, accounts and pledges receivable (net of allowances) as of June 30, 2011 and 2010, are as follows (amounts in thousands):

	<u>2011</u>	<u>2010</u>
Student (net of allowances of \$6,142 and \$5,980)	\$ 10,486	\$ 8,874
Other receivables	710	348
Capital appropriations receivable	-	11,350
Reimbursement receivable – grants and contracts	20,446	18,793
Pledges receivable	1,648	2,543
Accrued interest receivable	2,998	2,679
Bridge loans	503	583
Loans receivable from fire districts	<u>5,339</u>	<u>5,656</u>
Total	42,130	50,826
Current portion	<u>36,131</u>	<u>44,021</u>
Non-current portion	<u>\$ 5,999</u>	<u>\$ 6,805</u>

KENTUCKY COMMUNITY AND TECHNICAL COLLEGE SYSTEM

Notes to Financial Statements

**2. Loans, Accounts and Pledges Receivable** (continued)

Pledges receivable and loans from fire districts totaling \$1,915,000 and \$5,339,000, respectively, are expected to be collected primarily over the next ten years, as follows (amounts in thousands):

	<u>Pledges Receivable</u>	<u>Loans from Fire Districts</u>
2012	\$ 558	\$ 933
2013	197	846
2014	68	668
2015	40	540
2016	26	500
2017-2021	<u>1,026</u>	<u>1,852</u>
	1,915	5,339
Present value discount	<u>267</u>	<u>-</u>
	<u>\$ 1,648</u>	<u>\$ 5,339</u>

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.

**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.

KCTCS had the following investments as of June 30:

<u>Investment Type</u>	<u>Fair Value</u>	
	<u>2011</u>	<u>2010</u>
Bond funds	\$ 112,699	\$ 89,923
Money market funds	364	6,512
Equities and equity funds	26,451	20,350
Other	932	737
	<u>\$ 140,446</u>	<u>\$ 117,522</u>

KCTCS has an investment management agreement with the Commonfund (Fund). The Fund managed \$140.1 million of the investments at June 30, 2011; which consist of funds of funds. The Commonfund was founded in 1971 to serve higher education and not for profit organizations. It currently serves 1,500 organizations and has \$26 billion in assets under management. The Commonfund is unrated.

# KENTUCKY COMMUNITY AND TECHNICAL COLLEGE SYSTEM

## Notes to Financial Statements

### 3. Investments (continued)

#### Concentration of Credit Risk

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

#### 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, 2011, 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.

**KENTUCKY COMMUNITY AND TECHNICAL COLLEGE SYSTEM**

Notes to Financial Statements

**4. Capital Assets, Net**

Capital assets as of June 30, 2011 and 2010 and the changes therein for the years then ended are summarized as follows (in thousands):

		-----2011-----			
Cost		Beginning Balance	Additions	Reductions	Ending Balance
Land	\$	24,286	\$ 2,841	\$ 22	\$ 27,105
Land improvements		10,155	218	-	10,373
Infrastructure		44,955	-	-	44,955
Buildings and structures		612,034	12,329	248	624,115
Construction in progress		41,984	13,615	-	55,599
Vehicles		7,625	1,121	477	8,269
Equipment, furniture, etc.		85,687	10,713	4,857	91,543
Leasehold improvements		7,080	-	-	7,080
Library materials		55,751	1,883	8	57,626
Energy saving assets		4,983	-	-	4,983
Equine		30	5	25	10
Computer software		1,221	434	245	1,410
Total		<u>895,791</u>	<u>43,159</u>	<u>5,882</u>	<u>933,068</u>
Less accumulated depreciation					
Land improvements		5,097	188	-	5,285
Infrastructure		8,080	1,780	-	9,860
Buildings and structures		203,270	14,546	224	217,592
Vehicles		5,190	975	487	5,678
Equipment, furniture, etc.		47,261	8,156	4,597	50,820
Leasehold improvements		6,238	65	-	6,303
Energy saving assets		1,900	498	-	2,398
Library materials		49,604	1,724	5	51,323
Computer software		635	231	245	621
Total accumulated depreciation		<u>327,275</u>	<u>28,163</u>	<u>5,558</u>	<u>349,880</u>
Capital assets, net	\$	<u>568,516</u>	\$ <u>14,996</u>	\$ <u>324</u>	\$ <u>583,188</u>
		-----2010-----			
Cost		Beginning Balance	Additions	Reductions	Ending Balance
Land	\$	23,814	\$ 472	\$ -	\$ 24,286
Land improvements		9,201	954	-	10,155
Infrastructure		41,530	3,425	-	44,955
Buildings and structures		478,412	134,776	1,154	612,034
Construction in progress		133,693	(91,709)	-	41,984
Vehicles		6,806	1,080	261	7,625
Equipment, furniture, etc.		73,809	15,539	3,661	85,687
Leasehold improvements		7,080	-	-	7,080
Library materials		54,522	1,229	-	55,751
Energy saving assets		4,983	-	-	4,983
Equine		35	-	5	30
Computer software		1,221	-	-	1,221
Total		<u>835,106</u>	<u>65,766</u>	<u>5,081</u>	<u>895,791</u>
Less accumulated depreciation					
Land improvements		4,602	495	-	5,097
Infrastructure		8,508	1,807	2,235	8,080
Buildings and structures		188,209	12,992	(2,069)	203,270
Vehicles		4,633	789	232	5,190
Equipment, furniture, etc.		43,740	6,927	3,406	47,261
Leasehold improvements		6,168	70	-	6,238
Energy saving assets		1,402	498	-	1,900
Library materials		48,262	1,342	-	49,604
Computer software		433	202	-	635
Total accumulated depreciation		<u>305,957</u>	<u>25,122</u>	<u>3,804</u>	<u>327,275</u>
Capital assets, net	\$	<u>529,149</u>	\$ <u>40,644</u>	\$ <u>1,277</u>	\$ <u>568,516</u>

Of the total capital construction projects at June 30, 2011 of \$96,008,000, there is \$40,409,000 remaining to complete the projects.

**KENTUCKY COMMUNITY AND TECHNICAL COLLEGE SYSTEM**

Notes to Financial Statements

**5. Deferred Revenue**

Deferred revenue as of June 30, 2011 and 2010 is as follows (amounts in thousands):

	<u>2011</u>	<u>2010</u>
Unearned summer and fall tuition revenues	\$ 9,091	\$ 8,568
Grants and contracts	<u>30,175</u>	<u>27,484</u>
	<u>\$ 39,266</u>	<u>\$ 36,052</u>

Included in grants and contracts are monies deferred for the Kentucky Workforce Investment Network System (KY WINS) program.

**6. Noncurrent Liabilities**

Noncurrent liabilities as of June 30, 2011 and 2010 are summarized as follows (amounts in thousands):

	-----2011-----					
	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Current Portion</u>	<u>Non Current Portion</u>
Lease obligations						
Capital lease obligations	\$ 25,760	\$ 2,716	\$ 3,622	\$ 24,854	\$ 3,572	\$ 21,282
Total lease obligations	<u>25,760</u>	<u>2,716</u>	<u>3,622</u>	<u>24,854</u>	<u>3,572</u>	<u>21,282</u>
Other liabilities						
Compensated absences	11,095	14,885	13,929	12,051	12,051	-
Long-term disability and post retirement benefits	<u>70,505</u>	<u>23,729</u>	<u>556</u>	<u>93,678</u>	<u>145</u>	<u>93,533</u>
Total other liabilities	<u>81,600</u>	<u>38,614</u>	<u>14,485</u>	<u>105,729</u>	<u>12,196</u>	<u>93,533</u>
Total noncurrent obligations	<u>\$ 107,360</u>	<u>\$ 41,330</u>	<u>\$ 18,107</u>	<u>\$ 130,583</u>	<u>\$ 15,768</u>	<u>\$ 114,815</u>
	-----2010-----					
	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Current Portion</u>	<u>Non Current Portion</u>
Lease obligations						
Capital lease obligations	\$ 14,326	\$ 14,073	\$ 2,639	\$ 25,760	\$ 3,066	\$ 22,694
Total lease obligations	<u>14,326</u>	<u>14,073</u>	<u>2,639</u>	<u>25,760</u>	<u>3,066</u>	<u>22,694</u>
Other liabilities						
Compensated absences	11,510	12,469	12,884	11,095	11,095	-
Other noncurrent liabilities	460	-	460	-	-	-
Long-term disability and post retirement benefits	<u>37,323</u>	<u>33,182</u>	<u>-</u>	<u>70,505</u>	<u>113</u>	<u>70,392</u>
Total other liabilities	<u>49,293</u>	<u>45,651</u>	<u>13,344</u>	<u>81,600</u>	<u>11,208</u>	<u>70,392</u>
Total noncurrent obligations	<u>\$ 63,619</u>	<u>\$ 59,724</u>	<u>\$ 15,983</u>	<u>\$ 107,360</u>	<u>\$ 14,274</u>	<u>\$ 93,086</u>

**KENTUCKY COMMUNITY AND TECHNICAL COLLEGE SYSTEM**

Notes to Financial Statements

**6. Noncurrent Liabilities** (continued)

Capital leases consist of the following leases at June 30, 2011 and 2010 (amounts in thousands):

	<u>2011</u>	<u>2010</u>
Computer equipment capitalized leases, all with 1 to 4 year remaining terms with total annual payments ranging from \$6,368 to \$574,800 and interest rates from 1.24% to 5.31%.	\$ 2,003	\$ 2,682
Four energy savings capitalized leases with 8 to 14 year remaining terms with total annual payments from \$224,633 to \$664,402, and interest rates from 3.66% to 4.65%.	13,760	14,598
One building capitalized lease with monthly payments of \$53,085, interest rate of 4.04% and 13 years remaining.	6,148	6,529
Copier leases, with 1 to 5 year remaining terms with total annual payments ranging from \$738 to \$249,709 and interest rates from 3.33% to 6.88%.	2,801	1,887
Other equipment leases, with 1 to 4 year remaining terms with total annual payments ranging from \$756 to \$34,833 and interest rates from 0% to 5.27%.	<u>142</u>	<u>64</u>
	<u>\$ 24,854</u>	<u>\$ 25,760</u>

Principal maturities and interest on capital leases payable for the next five years and in subsequent five-year periods as of June 30, 2011 are as follows (amounts in thousands):

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2012	\$ 3,572	\$ 1,105	\$ 4,677
2013	2,903	951	3,854
2014	2,293	808	3,101
2015	1,973	685	2,658
2016	1,831	586	2,417
2017-2021	7,698	1,757	9,455
2022-2026	<u>4,584</u>	<u>361</u>	<u>4,945</u>
	<u>\$ 24,854</u>	<u>\$ 6,253</u>	<u>\$ 31,107</u>

# KENTUCKY COMMUNITY AND TECHNICAL COLLEGE SYSTEM

## Notes to Financial Statements

### 6. Noncurrent Liabilities (continued)

#### Operating Leases

KCTCS is obligated under several operating leases for office equipment, classroom space, and office space with expirations through October 2020. Rent expense was \$3,850,000 and \$3,994,000 for 2011 and 2010, respectively. Future minimum lease payments as of June 30, 2011 are as follows (amounts in thousands):

Years ending June 30	
2012	\$1,300
2013	735
2014	417
2015	388
2016	249
Thereafter	196
	<u>\$3,285</u>

### 7. Risk Management

KCTCS is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. These risks are covered by (1) the State Fire and Tornado Insurance Fund (the Fund), (2) Sovereign Immunity and the State Board of Claims, or (3) in the case of risks not covered by the Fund and Sovereign Immunity, commercial insurance.

The Fund covers losses to property from fire, wind, earthquake, flood, and other named perils between \$500 and \$500,000. Losses in excess of \$500,000 are insured by commercial carriers under contract with the State Fire and Tornado Insurance Fund up to a maximum of \$700,000,000 per occurrence.

The Commonwealth of Kentucky is covered by sovereign immunity. Per KRS 44.073, state institutions of higher education, including KCTCS, under KRS Chapter 164 are considered agencies of the state. As such, KCTCS is covered by the Board of Claims for acts of negligence up to \$200,000 for a single claim and an aggregate of \$350,000 per negligent act. The Board has primary and exclusive jurisdiction over all acts of negligence for state institutions of higher education.

For risks not covered by sovereign immunity, KCTCS has purchased commercial insurance policies covering risks of loss due to damage to property and automobiles, general and automobile liability claims, employee dishonesty, and student accidents. KCTCS has general liability insurance with an aggregate total limit of \$2,000,000 and a per occurrence limit of \$1,000,000 without a deductible. An umbrella policy extends the liability aggregate total limit to \$10,000,000 with a per occurrence limit of \$10,000,000 without a deductible.

# KENTUCKY COMMUNITY AND TECHNICAL COLLEGE SYSTEM

## Notes to Financial Statements

### 7. Risk Management (continued)

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 2010 to 2011. Settlements have not exceeded insurance coverage during the past three years.

Employees hired at the community colleges prior to January 14, 1998 (the date the KCTCS Board of Regents accepted management of the community colleges from the University of Kentucky), are covered under a self-insured long-term disability income program. This program is funded through a trust established by the University of Kentucky and now funded by KCTCS for the purpose of paying claims and establishing necessary reserves. KCTCS reimburses the fund for long-term disability payments made to its employees. The estimated liability for long-term disability claims at June 30, 2011 totals \$2,076,000 of which \$1,931,000 is included in "Other long-term obligations" and \$145,000 is included in "Employee withholdings and deposits".

### 8. Natural Classification

The operating expenses for KCTCS by natural classification were as follows for the years ended June 30, 2011 and 2010 (amounts in thousands):

	<u>2011</u>	<u>2010</u>
Salaries and wages	\$ 266,212	\$ 260,400
Student scholarships and financial aid	137,817	114,847
Employee benefits	108,205	112,943
Depreciation	28,163	25,122
Equipment not capitalized	20,436	29,267
Supplies	17,202	16,203
Utilities	15,107	13,156
Professional services	13,808	13,452
Fire commission incentive	11,600	11,589
Repairs and maintenance	10,158	10,644
Fire commission state aid	5,639	5,757
Travel	5,452	5,420
Bad debts	4,330	3,991
Communications	4,255	3,706
Fire commission workers compensation	3,985	3,457
Rental/lease	3,850	3,994
Fire commission pension	3,404	3,369
Advertising	2,167	1,839
Participant support costs	1,917	2,768
Other, various	10,945	11,076
	<u>\$ 674,652</u>	<u>\$ 653,000</u>

# KENTUCKY COMMUNITY AND TECHNICAL COLLEGE SYSTEM

## Notes to Financial Statements

### 9. Pension Plans

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

Regular full-time employees subject to KCTCS personnel policies have the opportunity to choose between a defined benefit plan and a defined contribution 403(b) plan. Employees that choose a defined benefit plan can participate in either *Kentucky Teachers' Retirement System (KTRS)* or *Kentucky Employees' Retirement System (KERS)* depending on the requirements of the position. The decision to participate in a defined benefit plan or a 403(b) plan is made in the first 30 days of regular full-time employment. Employees hired with an effective date of July 1, 2009 or after who choose the 403(b) plan option of retirement have a five year vesting period (60 months) of continuous service to be eligible to receive the employee's accrued benefits derived from employer contributions. These employees are immediately vested for employee accrued contributions. Other employees already enrolled in the 403(b) plan option prior to July 1, 2009 do not have the vesting period requirement and are vested with employee and employer contributions from the date of initial employment. Employees that have a break in service and are rehired with an effective date of July 1, 2009 or after default to having the five year vesting period (60 months) of continuous service to be eligible to receive the employee's accrued benefits derived from employer contributions from the date of rehire. These employees are immediately vested for employee accrued contributions.

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

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

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

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

- Fidelity Institutional Services Company
- Teachers Insurance and Annuity Association/College Retirement Equities Fund (TIAA/CREF)

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

# KENTUCKY COMMUNITY AND TECHNICAL COLLEGE SYSTEM

## Notes to Financial Statements

### 9. Pension Plans (continued)

KERS participants hired with an effective date prior to September 1, 2008 contribute 5 percent of their covered compensation; KCTCS contributes 16.98 percent. KERS participants hired with an effective date on or after September 1, 2008 contribute 6 percent of their covered compensation; KCTCS contributes 16.98 percent. KTRS participants hired with an effective date prior to July 1, 2008 contribute 6.33 percent; KCTCS contributes 14.01 percent. KTRS participants hired with an effective date on or after July 1, 2008 contribute 7.16 percent or 10.11 percent, depending on the participant's personnel classification; KCTCS contributes 14.84 percent or 13.36 percent.

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  
479 Versailles Road  
Frankfort, Kentucky 40601

KCTCS contributions and costs for all of its retirement plans for 2011 and 2010 were \$24,648,000 and \$22,577,000, respectively; the employees contributed \$16,541,000 and \$16,190,000 for 2011 and 2010, respectively. KCTCS' total payroll costs were \$266,212,000 and \$260,400,000 for 2011 and 2010, respectively.

### 10. Postemployment Benefits

As discussed in Note 9, KCTCS offers a defined contribution 403(b) retirement plan (the Plan). This Plan provides postemployment medical benefits to eligible retirees that were hired with an effective date prior to July 1, 2009. Employees hired or rehired with an effective date of July 1, 2009 or after who choose the defined benefit 403(b) plan option of retirement are not eligible for the postemployment health benefit. The required contribution for eligible employees is based on projected pay-as-you-go financing requirements. KCTCS funds on a cash basis as benefits are paid. No assets have been segregated and restricted to provide postemployment benefits. For fiscal year 2011, KCTCS contributed approximately \$2,261,000 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 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) over a period of thirty years. In June 2010 in order to reduce the term from 30 to 15 years (using July 1, 2007 as the initial effective date for KCTCS when GASB Statement 45 was first applicable) KCTCS recorded a onetime catch-up accrued expense in the amount of approximately \$14.7 million.

**KENTUCKY COMMUNITY AND TECHNICAL COLLEGE SYSTEM**

Notes to Financial Statements

**10. Postemployment Benefits** (continued)

The following table shows the components of KCTCS's annual OPEB cost for the year, the amount actually contributed to the Plan and the changes in KCTCS's net OPEB obligation for the years ended June 30, 2011 and 2010 (amounts in thousands):

	<u>2011</u>	<u>2010</u>
Annual required contribution	\$ 11,302	\$ 10,644
Interest	1,173	811
Amortization	<u>13,515</u>	<u>8,973</u>
Annual OPEB cost (expense)	25,990	20,428
Contributions made	<u>(2,261)</u>	<u>(1,960)</u>
Increase in net OPEB obligation	23,729	18,468
One time adjustment	-	14,713
Net OPEB obligation, beginning of year	<u>67,872</u>	<u>34,691</u>
Net OPEB obligation, end of year	<u>\$ 91,601</u>	<u>\$ 67,872</u>

The net OPEB obligation is included in other long-term liabilities on the accompanying Statements of Net Assets.

KCTCS' annual OPEB cost, the percentage of annual OPEB cost contributed to the plan and the net OPEB obligation for 2011 and 2010 are as follows (amounts in thousands):

<u>Fiscal Year</u> <u>Ended</u>	<u>Annual</u> <u>OPEB Cost</u>	<u>Percentage of</u> <u>Annual OPEB</u> <u>Cost Contributed</u>	<u>Net OPEB</u> <u>Obligation</u>
June 30, 2011	\$ 25,990	8.7%	\$ 91,601
June 30, 2010	\$ 20,428	9.6%	\$ 67,872

As of June 30, 2011, the plan was not funded. The actuarial accrued liability for benefits for the July 1, 2011 date was \$214,445,748 and the actuarial value of assets was \$0, resulting in an unfunded actuarial accrued liability ("UAAL") of \$214,445,748. The covered payroll (annual payroll of active employees covered by the plan) was \$150,469,663, and the ratio of the UAAL to the covered payroll was 142.5 percent.

KENTUCKY COMMUNITY AND TECHNICAL COLLEGE SYSTEM

Notes to Financial Statements

**10. Postemployment Benefits (continued)**

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.

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, 2011 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 8 percent initially, reduced by decrements to an ultimate rate of 4.5 percent after eighteen years. Salaries were assumed to increase at a rate of 3 percent. The UAAL is being amortized as a level percentage of projected payrolls on an open basis. The remaining amortization period at June 30, 2011, was 11 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, 2011	\$ 0	\$ 214,446	\$ 214,446	0.0%	\$ 150,470	142.5%

**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, 2011.

## SUPPLEMENTARY INFORMATION

KENTUCKY COMMUNITY AND TECHNICAL COLLEGE SYSTEM

Schedule of Expenditures of Federal Awards

Year ended June 30, 2011

Federal Grant/Program Title	Federal CFDA	Pass-Through Entity Identifying Number	Federal Expenditures
<b>U. S. DEPARTMENT OF EDUCATION</b>			
<b>Direct Grants -</b>			
<b>Student Financial Aid Cluster</b>			
Federal Supplemental Educational Opportunity Grant Program	84.007		\$ 3,407,915
Federal Work Study Program	84.033		3,057,244
Pell Grant Program	84.063		207,559,204
Academic Competitiveness Grant	84.375		759,990
Direct Loan Program	84.268		206,520,605
Total Student Financial Aid Cluster			421,304,958
<b>TRIO Cluster</b>			
Student Support Services	84.042		3,034,422
Educational Talent Search	84.044		673,822
Upward Bound	84.047		2,674,243
Total TRIO Cluster			6,382,487
Title III Strengthening Institutions	84.031		1,947,905
Improving College Readiness Maysville	84.116		170,892
Congressionally-Directed Grant Gateway	84.116		11,350
Advanced Industrial Integrated	84.116		99,928
FIPSE Equipment Grant West KY	84.116		250,000
High School Equivalency Program	84.141		509,717
			430,677,237
<b>Pass-Through Grants -</b>			
Commonwealth of Kentucky			
ARRA State Fiscal Stabilization Funds (SFSF)	84.394	84.394A (ARRA/SFSF)	11,580,300
Kentucky Adult Education			
ABE-Learning Center/ Ashland - Boyd	84.002	KYAE-2010-009	5,190
ABE-Learning Center/ Ashland - Boyd	84.002	PO2 415 1100001962 1	109,488
ABE-Learning Center/ Big Sandy - Floyd	84.002	KYAE-2010-031	5,973
ABE-Learning Center/ Big Sandy - Floyd	84.002	PO2 415 1100001836 1	135,754
ABE-Learning Center/ Big Sandy - Johnson	84.002	KYAE-2010-049	3,049
ABE-Learning Center/ Big Sandy - Johnson	84.002	PO2 415 1100001883 1	86,794
ABE-Learning Center/ Bluegrass - Boyle	84.002	PO2 415 1100001763 1	45,827
ABE-Learning Center/ Bluegrass - Fayette	84.002	KYAE-2010-029	23,802
ABE-Learning Center/ Bluegrass - Fayette	84.002	PO2 415 1100001816 1	379,622
ABE-Learning Center/ Bowling Green - Warren	84.002	KYAE-2010-094	6,815
ABE-Learning Center/ Bowling Green - Warren	84.002	PO2 415 1100001737 1	181,038
ABE-Learning Center/ Elizabethtown - Meade	84.002	KYAE-2010-065	1,238
ABE-Learning Center/ Elizabethtown - Meade	84.002	PO2 415 1100001863 1	52,925
ABE-Learning Center/ Elizabethtown - Washington	84.002	PO2 415 1100001732 1	21,818
ABE-Learning Center/ Gateway - Grant	84.002	KYAE-2010-035	2,222
ABE-Learning Center/ Gateway - Grant	84.002	PO2 415 1100001878 1	57,532
ABE-Learning Center/ Gateway - Kenton	84.002	KYAE-2010-050	9,082
ABE-Learning Center/ Gateway - Kenton	84.002	PO2 415 1100001741 1	255,118
ABE-Learning Center/ Henderson	84.002	KYAE-2010-043	3,011
ABE-Learning Center/ Henderson	84.002	PO2 415 1100001896 1	101,752

KENTUCKY COMMUNITY AND TECHNICAL COLLEGE SYSTEM

Schedule of Expenditures of Federal Awards

Year ended June 30, 2011

Federal Grant/Program Title	Federal CFDA	Pass-Through Entity Identifying Number	Federal Expenditures
ABE-Learning Center/Hopkinsville - Christian	84.002	KYAE-2010-021	5,571
ABE-Learning Center/Hopkinsville - Christian	84.002	PO2 415 1100001793 1	129,200
ABE-Learning Center/Jefferson - Bullitt	84.002	PO2 415 1100001773 1	136,558
ABE-Learning Center/Jefferson - Carroll	84.002	KYAE-2010-019	1,411
ABE-Learning Center/Jefferson - Carroll	84.002	PO2 415 1100001787 1	32,814
ABE-Learning Center/Jefferson - Gallatin	84.002	KYAE-2010-033	1,781
ABE-Learning Center/Jefferson - Gallatin	84.002	PO2 415 1100001841 1	21,067
ABE-Learning Center/Jefferson - Shelby	84.002	KYAE-2010-087	2,310
ABE-Learning Center/Jefferson - Shelby	84.002	PO2 415 1100001820 1	80,172
ABE-Learning Center/Jefferson - Trimble	84.002	KYAE-2010-093	714
ABE-Learning Center/Jefferson - Trimble	84.002	PO2 415 1100001738 1	21,832
ABE-Learning Center/Madisonville - Hopkins	84.002	KYAE-2010-045	5,062
ABE-Learning Center/Madisonville - Hopkins	84.002	PO2 415 1100001899 1	127,870
ABE-Learning Center/Madisonville - Muhlenberg	84.002	KYAE-2010-071	4,709
ABE-Learning Center/Madisonville - Muhlenberg	84.002	PO2 415 1100001847 1	105,785
ABE-Learning Center/Maysville - Bracken	84.002	KYAE-2010-012	741
ABE-Learning Center/Maysville - Bracken	84.002	PO2 415 1100001768 1	23,787
ABE-Learning Center/Maysville - Lewis	84.002	KYAE-2010-055	1,721
ABE-Learning Center/Maysville - Lewis	84.002	PO2 415 1100001874 1	53,237
ABE-Learning Center/Maysville - Mason	84.002	KYAE-2010-061	1,755
ABE-Learning Center/Maysville - Mason	84.002	PO2 415 1100001868 1	43,333
ABE-Learning Center/Maysville - Nicholas	84.002	KYAE-2010-073	812
ABE-Learning Center/Maysville - Nicholas	84.002	PO2 415 1100001844 1	22,093
ABE-Learning Center/Maysville - Robertson	84.002	KYAE-2010-082	1,170
ABE-Learning Center/Maysville - Robertson	84.002	PO2 415 1100001826 1	20,921
ABE-Learning Center/Owensboro - Daviess	84.002	KYAE-2010-026	8,199
ABE-Learning Center/Owensboro - Daviess	84.002	PO2 415 1100001799 1	192,995
ABE-Learning Center/Owensboro - Ohio	84.002	KYAE-2010-074	1,667
ABE-Learning Center/Owensboro - Ohio	84.002	PO2 415 1100001843 1	66,891
ABE-Learning Center/Somerset - Casey	84.002	KYAE-2010-020	2,144
ABE-Learning Center/Somerset - Casey	84.002	PO2 415 1100001789 1	70,560
ABE-Learning Center/Somerset - McCreary	84.002	KYAE-2010-063	3,762
ABE-Learning Center/Somerset - McCreary	84.002	PO2 415 1100001866 1	78,159
ABE-Learning Center/Southeast KY - Bell	84.002	KYAE-2010-006	4,145
ABE-Learning Center/Southeast KY - Bell	84.002	PO2 415 1100001751 2	122,811
ABE-Learning Center/Southeast KY - Harlan	84.002	KYAE-2010-040	4,485
ABE-Learning Center/Southeast KY - Harlan	84.002	PO2 415 1100001890 2	116,484
ABE-Learning Center/West KY - McCracken	84.002	KYAE-2010-062	6,513
ABE-Learning Center/West KY - McCracken	84.002	PO2 415 1100001867 1	128,095
English as Second Language/Civics - Ashland	84.002	KYAE-ELC-2010-302	579
English as Second Language/Civics - Ashland	84.002	PO2 415 1100002622 1	9,246
English as Second Language/Civics - Bluegrass	84.002	KYAE-ELC-2010-304	672
English as Second Language/Civics - Bluegrass	84.002	PO2 415 1100002628 1	41,811
English as Second Language/Civics - Bowling Green	84.002	KYAE-ELC-2010-311	897
English as Second Language/Civics - Bowling Green	84.002	PO2 415 1100002647 1	14,777
English as Second Language/Civics - Hopkinsville	84.002	PO2 415 1100002625 1	11,879
English as Second Language/Civics - Owensboro	84.002	PO2 415 1100002627 1	8,806
English as Second Language/Civics - West Kentucky	84.002	PO2 415 1100002646 1	7,129
			3,237,182
Kentucky Council on Postsecondary Education			
Gear Up KY II FY2009-10	84.334	P334S050032	72,753
Gear Up KY II FY2010-11	84.334	PO2 451 51100000129	198,172
			270,925

**KENTUCKY COMMUNITY AND TECHNICAL COLLEGE SYSTEM**

Schedule of Expenditures of Federal Awards

Year ended June 30, 2011

<u>Federal Grant/Program Title</u>	<u>Federal CFDA</u>	<u>Pass-Through Entity Identifying Number</u>	<u>Federal Expenditures</u>
Kentucky Department of Education			
Regional KY Migrant Ed Program	84.011	PO2 540 0900024935 1	101,785
Regional KY Migrant Ed Program	84.011	PON2 540 1100000324 1	167,549
Meade Co. Even Start 2010	84.213	PON2 540 0900013066 1	22,297
Meade Co. Even Start 2011	84.213	PON2 540 1100000001 1	96,414
Hop CC Math Partnerships	84.366	PON2 540 0900012565 1	3,634
			<hr/> 391,680 <hr/>
Kentucky Office of Career and Technical Education			
Blackboard and Windows 7 Training	84.048	PO2 531 1000004180 1	1,955
Carl D. Perkins 09-10	84.048	PO2 531 0900024439 2	117,168
Carl D. Perkins 09-10 Administration	84.048	PO2 531 1000005912 1	770
Carl D. Perkins 09-10 Administration	84.048	PO2 531 1000002968 1	4,082
Carl D. Perkins 09-10 Corrections	84.048	PO2 531 0900025705 1	2,155
Carl D. Perkins 09-10 Curriculum	84.048	PO2 531 1000000638 1	247
Carl D. Perkins 09-10 Technical Assessment	84.048	PO2 531 1000000857 1	730
Carl D. Perkins 10-11	84.048	PON2 531 1000003561 1	6,358,996
Carl D. Perkins 10-11 Technical Assessment	84.048	PON2 531 1000004026 1	187,691
Carl D. Perkins 10-11 Support for Tech Program	84.048	PON2 531 1000004021 1	47,827
Carl D. Perkins Reserve Funds Tech Prep	84.048	N/A	85,355
CTSO-Advisor Travel	84.048	PO2 531 1100001668 1	9,607
KACTE Summer Conference	84.048	PO2 531 1100001834 1	5,605
Technical Upgrade Training	84.048	PON2 531 110000 1675 1	1,080
Technical Upgrade Training	84.048	PON2 531 1100001980 1	10,020
			<hr/> 6,833,288 <hr/>
University of Kentucky Research Foundation			
Vocational Rehabilitation Grant	84.128	UKRF 3048105801-10-010	<hr/> -6,374 <hr/>
University of Minnesota			
Making the Connection	84.305	A000452201	<hr/> 31,792 <hr/>
Kentucky Department of Corrections			
Incarcerated Individuals Prog	84.331	PON2 527 100003499 1	<hr/> 48,033 <hr/>
University of California			
Mountain Writing Project - KY	84.928	06-KY11	<hr/> 38,912 <hr/>
JBL Associates, Inc.			
Institutional Mentoring	84.XXX	ED-04-CO-0107 0005	8,278
Summer Bridge/First Year Experience	84.XXX	08-SHOW-0012	65
			<hr/> 8,343 <hr/>
Eastern Kentucky PRIDE, Inc.			
PRIDE Grant	84.215	EF-10	<hr/> 3,923 <hr/>
<b>TOTAL U. S. DEPARTMENT OF EDUCATION</b>			<hr/> <b>453,115,241</b> <hr/>
<b>U. S. DEPARTMENT OF HEALTH AND HUMAN SERVICES</b>			
<b>Direct Grants -</b>			
Health Professions Opportunity	93.093		381,514
EMSC Partnership Grant	93.127		95,532
HRSA Nurse Education, Practice	93.359		184,694

KENTUCKY COMMUNITY AND TECHNICAL COLLEGE SYSTEM

Schedule of Expenditures of Federal Awards

Year ended June 30, 2011

Federal Grant/Program Title	Federal CFDA	Pass-Through Entity Identifying Number	Federal Expenditures
Nursing Assist and H. H. Aide	93.359		89,215
ARRA-Health Careers Opportunity Prog.	93.411		168,560
Health Care and Other Facilities	93.887		114,210
Allied Health Education	93.887		235,620
			1,269,345
<b>Pass-Through Grants -</b>			
University of Kentucky Research Foundation			
AHEC Model Gateway	93.107	UKRF 3048106508-10-129	8,117
AHEC Model Gateway	93.107	3048107786-11-161	48,669
AHEC Model Southeast KY	93.107	UKRF 3048106508-10-131	12,108
AHEC Model Southeast KY	93.107	PO4800002956	39,031
Early Childhood Quality-STARS	93.575	UKRF 3048106065-10-080	15,536
Early Childhood Quality-STARS	93.575	3048107331-11-010	55,496
Bridges to Success	93.859	UKRF 3048105140-09-197	9,718
			188,675
University of Cincinnati			
Worker Health & Safety Training	93.142	5U45ES006184-18	1,860
Hazard Materials Worker Health/Safety	93.142	2U45ES006184-19	140,498
ARRA Worker Health/Safety Training	93.701	3U45ES006184-18S1 006476	48,591
			190,949
Kentucky Cabinet for Health and Family Services			
Ready to Work 2009-2010	93.558	PO2 736 0800017118 4	493,044
Ready to Work 2010-2011	93.558	PON2 736 1000003550 1	10,185,404
Nurse Aid Training FY09-10	93.778	PO2 746 0800019039 1	107
Nurse Aid Training FY10-11	93.778	PO2 746 10000003895 1	3,698
			10,682,253
Catholic Charities Foundation			
ESL Catholic Charities/Refugee	93.576	sub of 90RE0174/01	29,192
Kentucky Department of Education			
Latino Youth HIV/AIDS	93.938	PON2 540 1000001631 1	12,145
Macro International, Inc.			
Healthy Vision Community	93.XXX	72082-105-1442	7,799
Pitt Community College			
ARRA HIT Consortium Project	93.721	SUB of EP-HIT-10-001	260,086
<b>TOTAL U. S. DEPARTMENT OF HEALTH AND HUMAN SERVICES</b>			12,640,445
<b>U. S. DEPARTMENT OF AGRICULTURE</b>			
<b>Direct Grants -</b>			
USDA/Ashland	10.769		75,659
USDA/Rural Development	10.769		7,534
USDA/Entrepreneurial Center	10.773		327
USDA/Rural Business Enterprise	10.773		18,468
			101,988
<b>TOTAL U. S. DEPARTMENT OF AGRICULTURE</b>			101,988

**KENTUCKY COMMUNITY AND TECHNICAL COLLEGE SYSTEM**

Schedule of Expenditures of Federal Awards

Year ended June 30, 2011

<u>Federal Grant/Program Title</u>	<u>Federal CFDA</u>	<u>Pass-Through Entity Identifying Number</u>	<u>Federal Expenditures</u>
<b>U. S. DEPARTMENT OF COMMERCE</b>			
<b>Pass-Through Grants -</b>			
Murray State University			
ARRA-Collection and Mapping	11.558	PO0001421	<u>25,452</u>
<b>TOTAL U. S. DEPARTMENT OF COMMERCE</b>			<u>25,452</u>
<b>U. S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT</b>			
<b>Pass-Through Grants -</b>			
Breathitt County Fiscal Court			
Intergenerational Building	14.251	B05SPKY0493	<u>17,012</u>
<b>TOTAL U. S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT</b>			<u>17,012</u>
<b>U.S. DEPARTMENT OF LABOR</b>			
<b>Direct Grants -</b>			
DOL - Disabled Vets Training	17.261		91,372
DOL Gateway to Energy Careers	17.268		159,184
DOL BRAIN	17.269		6,467
DOL CBJT Nursing Expansion	17.269		221,454
DOL CBJT-Advanced Mfg.	17.269		467,679
DOL Homeland Security Careers	17.269		246,080
DOL ITEM Hopkinsville	17.269		441,138
DOL Project NEWS	17.269		570,389
DOL Tech Based Learning Solutions	17.269		118,845
ARRA DOL I-TRAIN Nursing Grant	17.275		709,902
DOL OSHA Training	17.502		<u>106,334</u>
			<u>3,138,843</u>
<b>Pass-Through Grants -</b>			
Eastern Kentucky Concentrated Employment Program (EKCEP)			
ARRA Distance Earning Initiative	17.258	Memorandum of Agreement	125,447
ARRA Computer Fundamentals	17.258	HCTC022010-1	1,275
ARRA EKCEP/Gas Metal Welding	17.258	MCTC110909-2	14,040
ARRA EKCEP/Industrial Maintenance	17.258	MCTC100909-1	-500
ARRA EKCEP/Nursing Assistant/KMA	17.258	MCTC110909-3	9,585
ARRA Industrial Maintenance Training	17.258	SKCTC102609-01	172,447
ARRA KY Medication Aide Training	17.258	HCTC022010-3	14,050
ARRA MET Project - Knox. Co.	17.258	SKCTC012710-01	25,719
ARRA Mine MET - Pikeville Campus	17.258	BSCTC032010-6	7,158
ARRA Mine MET - Prestonsburg Campus	17.258	BSCTC032010-7	5,512
ARRA Weatherization Training	17.258	SKCTC112509-01	53,969
ARRA WS Building Project EKCEP	17.258	SKCTC100109-1	60,201
ARRA WS Paramedic EKCEP	17.258	SKCTC082009-1	<u>119,980</u>
			<u>608,884</u>
Harlan County Community Action			
Career Advantage Program	17.255	Letter of Agreement	239
Career Advantage Program	17.255	DTR09Y05	<u>92,015</u>
			<u>92,254</u>

KENTUCKY COMMUNITY AND TECHNICAL COLLEGE SYSTEM

Schedule of Expenditures of Federal Awards

Year ended June 30, 2011

Federal Grant/Program Title	Federal CFDA	Pass-Through Entity Identifying Number	Federal Expenditures
KentuckianaWorks			
Kentuckiana Works One Stop	17.258	201-044-09	67,430
ARRA One Stop Career Center	17.258	201-044-10	181,908
One Stop Career Center	17.258	201-044-10	1,638,666
			1,888,004
Kentucky Adult Education			
ARRA Skill Up Health - Daviess	17.260	PO2 415 1100003891 1	51,626
ARRA Skill Up KY Trades - Daviess	17.260	PO2 415 1100003884 1	61,554
ARRA Skill Up Jefferson County	17.260	PO2 415 1100003322 1	18,075
ARRA Skill Up Mason County	17.260	PO2 415 1100004295 1	44,850
			176,105
Kentucky Department of Education			
3-D Virtual Reality Simulation	17.259	PO2 531 1100000850 1	69,962
ARRA KY Breaking Through ADMIN	17.260	PO2 531 1000000783 1	187,600
ARRA KY Breaking Through Initiative	17.260	PO2 531 1000000783 1	391,990
			649,552
WIB - Bluegrass ADD			
ARRA WIA Job Training	17.258	WIA #1038	45,750
WIA - Nursing	17.258	10009	1,862
			47,612
WIB - Green River ADD			
ARRA Prescription for Successful Health	17.260	WIA JG0 01 ARRA	108,717
WIB -Lake Cumberlands ADD			
ARRA ADD - HIGH Grant	17.260	H100148101	53,559
WIB -Lincoln Trail ADD			
Merging WKFRFC Needs FN	17.259	LTADD-WIA-BRAC NEG 01	5,670
WIB - Northern Kentucky ADD			
ARRA Gateway Training NKADD	17.258	E10-996-43-WIA	5,730
ARRA-Pre Apprenticeship	17.258	E10-996-43-WIA	18,900
JAG Grant	17.258	E10-875-41-WIA	4,544
JAG Grant	17.258	E11-875-41-WIA	121,622
BSL Gateway	17.260	E10-996-43-WIA	652
Business & Industry Services	17.260	E11-996-43-WIA	77,463
			228,911
WIB - West Kentucky ADD			
ARRA WIA PRN Program WKY	17.258	A10440 - ARRA	43,595
ARRA 2010 WIA Summer Youth	17.258	JT100029 - SYS	74,045
ARRA State Energy Sector Partnership	17.258	JT100030-SYS ARRA	118,203
ARRA Summer Works Youth Program	17.258	JT100032-SYS ARRA	39,485
ARRA Summer Works Youth Program SYS	17.258	JT1000026	112,600
ARRA-WIB Stimulus Program	17.258	A095231 - ARRA	164,645
Cadiz Career Center	17.258	#A100464	37,476
Mine Fire Brigade Training	17.258	JT10040	249,212

**KENTUCKY COMMUNITY AND TECHNICAL COLLEGE SYSTEM**

Schedule of Expenditures of Federal Awards

Year ended June 30, 2011

Federal Grant/Program Title	Federal CFDA	Pass-Through Entity Identifying Number	Federal Expenditures
WIA Workforce Connections	17.259	A10440	3,165
WIA Youth Program (Project YES)	17.259	A10523	4,569
WIA Youth Workforce Connection	17.259	A10422	3,392
Workforce Connection/Hopkin CC	17.259	A11 422	95,717
Workforce Connections/Mad CC	17.259	A11440	109,396
ARRA WIB-Project Going Green	17.275	JT100028	246,355
Cadiz Career Center	17.260	A10464	8,826
			1,310,681
<b>TOTAL U.S. DEPARTMENT OF LABOR</b>			8,308,790
 <b>U. S. DEPARTMENT OF TRANSPORTATION</b>			
<b>Pass-Through Grants -</b>			
Kentucky Transportation Cabinet			
KEMISIS	20.703	K9-10-02	299,999
 Kentucky Division of Emergency Management			
Hazmat (HMEP)	20.703	PO2 095 1000004191 1	35,345
Hazmat (HMEP)	20.703	PON2 095 1100001220 1	48,044
			83,389
<b>TOTAL U. S. DEPARTMENT OF TRANSPORTATION</b>			383,388
 <b>APPALACHIAN REGIONAL COMMISSION</b>			
<b>Direct Grants -</b>			
Challenger Learning Center of KY	23.011		57,012
 <b>Pass-Through Grants -</b>			
East Tennessee State University			
Colorectal Cancer Story	23.011	270121-22	2,216
 Morehead State University			
KY AHED - Ashland	23.001	2006-07-160-1	292
KY AHED - Big Sandy	23.001	2006-07-160-2	4,999
KY AHED - Hazard	23.001	2006-07-160-3	1,124
KY AHED - Maysville	23.001	2009-10-037-006	3,734
KY AHED - Southeast	23.001	2007-08-169-001	5,380
			15,530
<b>TOTAL APPALACHIAN REGIONAL COMMISSION</b>			74,757
 <b>NATIONAL MUSEUM AND LIBRARY SERVICES</b>			
<b>Pass-Through Grants -</b>			
Northern Kentucky University Research Foundation			
Library Education	45.313	NKURF-2010-01-4000522-01	105,250
<b>TOTAL NATIONAL MUSEUM AND LIBRARY SERVICES</b>			105,250

**KENTUCKY COMMUNITY AND TECHNICAL COLLEGE SYSTEM**

Schedule of Expenditures of Federal Awards

Year ended June 30, 2011

<u>Federal Grant/Program Title</u>	<u>Federal CFDA</u>	<u>Pass-Through Entity Identifying Number</u>	<u>Federal Expenditures</u>
<b>NATIONAL SCIENCE FOUNDATION</b>			
<b>Direct Grants -</b>			
NSF - Advanced Industrial Tech	47.076		186,463
NSF - AMTEC	47.076		-75
NSF - AMTEC National Center for Excellence	47.076		1,438,903
NSF - ATE Mechatronics Technician	47.076		140,255
NSF - Building Biotech Workforce	47.076		178,310
NSF - Discover Mechatronics	47.076		3,608
NSF - Manufacturing Tech Scholarships	47.076		34,845
NSF - Manufacturing & Pre Engineer Scholars	47.076		117,089
NSF - Maysville STEM Scholars	47.076		71,960
NSF - Power Plant Tech Program	47.076		626
NSF - Science Excel (S-STEM)	47.076		125,665
NSF - Team STEM	47.076		55,507
NSF - Training Machine Tool Technicians	47.076		96
			<u>2,353,251</u>
<b>Pass-Through Grants -</b>			
Puget Sound Center for Teaching National Center for Telecommunication	47.076	N/A	<u>1,263</u>
Texas Engineering Experiment Station National Geospatial Tech Center	47.076	Sub of NSF DUE#0801893	<u>71,603</u>
University of Kentucky Research Foundation Engineering Veteran Pathways	47.041	3048107607-11-156	10,749
LSAMP-Alliance for Minority	47.076	3048032200-07-252	14,272
Floyd County GEMS	47.076	N/A	<u>688</u>
			25,709
Western Kentucky University Enhance Undergrad Chemistry	47.076	518145-10-001	<u>91,900</u>
<b>TOTAL NATIONAL SCIENCE FOUNDATION</b>			<u>2,543,725</u>
<b>U.S. SMALL BUSINESS ADMINISTRATION</b>			
<b>Pass-Through Grants -</b>			
University of Kentucky Research Foundation Small Business Development	59.037	10603001-Z-0018-29	16,500
Small Business Development	59.037	3048107699-11-224	<u>39,476</u>
<b>TOTAL U.S. SMALL BUSINESS ADMINISTRATION</b>			<u>55,976</u>
<b>DEPARTMENT OF VETERANS AFFAIRS</b>			
<b>Direct Grants -</b>			
Kentucky Approving Agency for Veteran's Education	64.124		<u>383,672</u>
<b>TOTAL DEPARTMENT OF VETERANS AFFAIRS</b>			<u>383,672</u>

**KENTUCKY COMMUNITY AND TECHNICAL COLLEGE SYSTEM**

Schedule of Expenditures of Federal Awards

Year ended June 30, 2011

<u>Federal Grant/Program Title</u>	<u>Federal CFDA</u>	<u>Pass-Through Entity Identifying Number</u>	<u>Federal Expenditures</u>
<b>DEPARTMENT OF ENERGY</b>			
<b>Pass-Through Grants -</b>			
Kentucky Housing Corporation (KHC) ARRA-BPI Energy Auditor	81.042	MOA	21,411
<b>TOTAL DEPARTMENT OF ENERGY</b>			21,411
 <b>CORPORATION FOR NATIONAL AND COMMUNITY SERVICE</b>			
<b>Pass-Through Grants -</b>			
Northern Kentucky University Research Foundation Ready and Respond Grant	94.005	NK 2007-016-4000120	20
American Association of Community Colleges New Media Service Learning	94.005	AACC-SL-2010-09	3,000
<b>TOTAL CORPORATION FOR NATIONAL AND COMMUNITY SERVICE</b>			3,020
 <b>DEPARTMENT OF HOMELAND SECURITY</b>			
<b>Direct Grants -</b>			
FY10-11 State Fire Training	97.043		28,000
<b>Pass-Through Grants -</b>			
Kentucky Department of Homeland Security KCTCS IECGP	97.042	PO2 094 1100001070 1	342,687
KCTCS-FY11 IECGP	97.067	PO2 094 0900022334 1	93,420
			436,107
Kentucky Division of Emergency Management KCTCS - Natural Hazards Mitigate	97.017	PO2 095 1000002477 1	100,944
CSEPP Training for CSEPP	97.040	PO2 095 1100003860 1	7,100
CSEPP Training for CSEPP	97.040	PO2 095 0800018636 1	-2,220
			105,824
Murray State University MITOC - IMDSS	97.XXX	OSP 2010-005	24,850
MITOC - IMDSS	97.XXX	OSP 2010-094	682
			25,531
Science Applications International Corp. (SAIC) SAIC - SAVER	97.XXX	23F-0107J	18,755
SAIC - SAVER	97.XXX	GX 23F-0107J-P010060101	22,113
SAIC - SAVER	97.XXX	23F-0107J	13,495
			54,362
<b>TOTAL DEPARTMENT OF HOMELAND SECURITY</b>			649,825

**KENTUCKY COMMUNITY AND TECHNICAL COLLEGE SYSTEM**

Schedule of Expenditures of Federal Awards

Year ended June 30, 2011

<u>Federal Grant/Program Title</u>	<u>Federal CFDA</u>	<u>Pass-Through Entity Identifying Number</u>	<u>Federal Expenditures</u>
<b>TENNESSEE VALLEY AUTHORITY</b>			
<b>Direct Grants -</b>			
TVA Grant	62.XXX		<u>5,000</u>
<b>TOTAL TENNESSEE VALLEY AUTHORITY</b>			<u>5,000</u>
 <b>TOTAL FEDERAL FUNDS</b>			 <u><u>\$ 478,434,953</u></u>

# KENTUCKY COMMUNITY AND TECHNICAL COLLEGE SYSTEM

## Notes to the Schedule of Expenditures of Federal Awards

### 1. Basis of Presentation

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

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

### 2. Federal Student Loan Program

KCTCS participates in the Direct Loan Program (including Direct Subsidized and Direct Unsubsidized Loans for Students, and Direct PLUS Loans for parents of undergraduate students).

### 3. Subrecipients

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

<u>Grant</u>	<u>Subrecipient</u>		
U.S. Department of Labor			
DOL – CBJT Nursing Expansion	NKADD	\$	58,788
ARRA I Train Nursing Grant	Buffalo Trace Area Development		32,062
National Science Foundation			
AMTEC	Teacher's College (CCRC)		89,970
AMTEC	Lansing Community College		74,839
AMTEC	Henry Ford Community College		25,296
AMTEC	Macomb Community College		18,708
AMTEC	Alamo Community College		18,360
AMTEC	Cuyahoga Community College		14,991
AMTEC	Pellissippi State Community College		14,972
AMTEC	Danville Community College		11,475
AMTEC	Spartanburg Community College		9,690
U.S. Department of Health and Human Services			
ARRA Worker Health Safety Training	Young Adult Development In Action, Inc.		46,389
U.S. Department of Homeland Security			
Natural Hazards Mitigate	University of Louisville		100,594
SAIC- SAVAR	Pulaski County Fire & Rescue		<u>23,783</u>
		<u>\$</u>	<u>539,917</u>

DEAN || DORTON || ALLEN || FORD<sub>PLC</sub>

**Report on Internal Control Over Financial Reporting  
and on Compliance and Other Matters Based on an  
Audit of Financial Statements Performed in Accordance  
with Government Auditing Standards**

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

We have audited the financial statements of Kentucky Community and Technical College System (the System) as of and for the year ended June 30, 2011, and have issued our report thereon dated September 30, 2011. 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 effectiveness over 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 deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A significant deficiency is a deficiency, or combination of deficiencies in internal control that is less severe than a material weakness, yet important enough to merit attention to those charged with governance.

A material weakness is a deficiency, or combination of deficiencies in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of the 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 the internal control that might be significant deficiencies or material weakness. We did not identify any deficiencies in internal control over financial reporting that we consider to be a material weakness, as defined above.

### Compliance and Other Matters

As part of obtaining reasonable assurance about whether the System's financial statements are free of material misstatements, 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.

This report is intended solely for the information and use of the management and Board of Regents of the System and is not intended to be and should not be used by anyone other than these specified parties.

September 30, 2011  
Lexington, Kentucky

A handwritten signature in black ink, reading "Dean Dorton Allen Ford, PLLC". The signature is written in a cursive, flowing style.

DEAN || DORTON || ALLEN || FORD<sub>llc</sub>**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 Kentucky Community and Technical College System's (the System) compliance 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, 2011. 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 referred to above 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 identified in the accompanying schedule of findings and questioned costs 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 compliance requirements referred to above that are applicable to each of its major federal programs identified in the accompanying schedule of findings and questioned costs for the year ended June 30, 2011. However, the results of our auditing procedures disclosed instances of noncompliance with those requirements, which are required to be reported in accordance with OMB Circular A-133 and which are described in the accompanying schedule of findings and questioned costs as items 11-01, 11-02, 11-03, and 11-04.

Internal Control Over Compliance

Management of the System is responsible for establishing and maintaining effective internal control over compliance with the compliance requirements referred to above. In planning and performing our audit, we

Board of Regents  
Versailles, KY

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 and to test and report on internal control over compliance in accordance with OMB Circular A-133, 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.

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

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be deficiencies, significant deficiencies, or material weaknesses in internal control over compliance. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above. However, we identified certain deficiencies in internal control over compliance that we consider to be significant deficiencies as described in the accompanying schedule of findings and questioned costs as items 11-01, 11-02, 11-03, and 11-04. A *significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

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

We noted certain other matters that we have reported to management in a separate letter dated September 30, 2011.

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.

A handwritten signature in black ink that reads "Deane Dorton Allen Jody PLLC". The signature is written in a cursive, flowing style.

September 30, 2011  
Lexington, Kentucky

KENTUCKY COMMUNITY AND TECHNICAL COLLEGE SYSTEM

Schedule of Findings and Questioned Costs

Year ended June 30, 2011

**Section I – Summary of Auditors’ Results (under Section .505(d)(1) of OMB Circular A-133):**

Financial Statements:

- a. The type of report issued on the financial statements: **Unqualified Opinion**
- b. Internal control over financial reporting:  
Material weaknesses: **No**  
Significant deficiencies identified that are not considered to be material weaknesses: **No**
- c. Non-compliance which is material to the financial statements: **No**

Federal Award:

- d. Internal control over major programs:  
Material weaknesses: **No**  
Significant deficiencies identified that are not considered to be material weaknesses: **Yes**
- e. The type of report issued on compliance for major programs: **Unqualified Opinion**
- f. Any audit findings which are required to be reported under Section .510(a) of OMB Circular A-133: **Yes**
- g. Major programs:
  - Student Financial Aid Cluster:**
    - Federal Supplemental Educational Opportunity Grant Program, CFDA 84.007**
    - Direct Loan Program, CFDA 84.268**
    - Federal Work Student Program, CFDA 84.033**
    - Federal Pell Grant Program, CFDA 84.063**
    - Academic Competitiveness Grant 08-09, CFDA 84.375**
  - WIA Cluster:**
    - WIA Adult Program, CFDA 17.258**
    - WIA Youth Activities, CFDA 17.259**
    - WIA Dislocated Workers, CFDA 17.260**
  - TRIO Cluster:**
    - Student Support Services, CFDA 84.042**
    - Educational Talent Search, CFDA 84.044**
    - Upward Bound, CFDA 84.047**
  - State Fiscal Stabilization Fund (SFSF) – Education State Grants, Recovery Act (Education Stabilization Fund), CFDA 84.394**
  - Adult Education, CFDA 84.002**
  - DOL I Train Nursing Grant, CFDA 17.275**

KENTUCKY COMMUNITY AND TECHNICAL COLLEGE SYSTEM

Schedule of Findings and Questioned Costs

Year ended June 30, 2011

**Section I – Summary of Auditors’ Results (under Section .505(d)(1) of OMB Circular A-133), continued:**

- h. Dollar threshold used to distinguish between Type A and Type B programs: **\$3,000,000**
- i. Auditee qualified as a low-risk auditee: **Yes**

**Section II – Financial Statement Findings (under Section .505(d)(2) of OMB Circular A-133):**

Findings Relating to the Financial Statements Reported in Accordance with *Government Auditing Standards*:  
**None**

**Section III – Federal Award Findings and Questioned Costs (under Section .505(d)(3) of OMB Circular A-133):**

Findings and Questioned Costs relating to Federal Awards: **11-01, 11-02, 11-03 and 11-04**

**Finding 11-01:**

**Federal Program:** U.S. Department of Education  
Direct Loan Program, CFDA 84.268

**Condition:**

System Office

During our testing of the Direct Loan program we noted that KCTCS System office was not reconciling its Direct Loan account on a timely basis. This reconciliation is performed by comparing the System’s internal records for Direct Loans to the School Account Statement provided to the Common Origination and Disbursement System (COD).

**Criteria:**

Per 34 CFR 685.102, a school that participates in the Direct Loan Program is required to reconcile the funds that it has received (from the G5 system) to pay its students with the actual disbursement records that it has forwarded to the Common Origination and Disbursement (COD) system. Reconciliation takes place on a monthly basis, with a final reconciliation that is conducted after the award year ends on June 30.

**Cause:**

The System did not have a control in place to ensure that all of the requirements of the Direct Loan program are being followed.

# KENTUCKY COMMUNITY AND TECHNICAL COLLEGE SYSTEM

## Schedule of Findings and Questioned Costs

Year ended June 30, 2011

### **Finding 11-01, (continued):**

#### **Effect:**

By preparing this reconciliation the System is substantiating all of the Direct Loan funds that have been drawn down over the past month. This reconciliation process also allows the System to report any necessary adjustments to the COD system in a timely manner. Without performing this type of reconciliation loan amounts reported to the COD for individual parents and students might not be correct.

#### **Recommendation:**

We recommend that the System develop a procedure such that the System's internal Direct Loan account records are reconciled to the Student Account Statement provided by the COD system on a monthly basis, as part of the monthly financial statement close process.

#### **Management Response:**

The KCTCS Office of Student Financial Aid acknowledges the finding and accepts the recommendations.

KCTCS began initial participation in Direct Lending during the fall 2010 semester. Initial disbursement of loans started in September 2010 and reconciliation reporting was scheduled to begin in October 2010. However, October reports were not made available by the Department of Education until November 2010. Challenges with customizations in the reconciliation process in PeopleSoft proved unsuccessful over a period of two months. In February 2011 we began working with the Department of Education to use a new reconciliation tool provided by the Department called DL Tools. KCTCS began utilizing this process in March 2011 and has successfully reconciled on a monthly basis since April 2011. NOTE: The KCTCS customization was shared with Oracle and is now being used by PeopleSoft colleges across the country.

### **Finding 11-02:**

**Federal Program:** U.S. Department of Education  
Direct Loan Program, CFDA 84.268

#### **Condition:**

Big Sandy Community and Technical College  
Elizabethtown Community and Technical College  
Gateway Community and Technical College  
Maysville Community and Technical College

During our testing of the Direct Loan program we noted that the Colleges did not notify the guaranty agency of student status changes (students withdrawing or graduating) in a timely manner.

# KENTUCKY COMMUNITY AND TECHNICAL COLLEGE SYSTEM

## Schedule of Findings and Questioned Costs

Year ended June 30, 2011

### **Finding 11-02, (continued):**

#### **Criteria:**

Per 34 CFR 685.309, unless the school expects to complete its next roster file within 60 days, the school must notify the lender or the guaranty agency within 30 days, if it discovers that a student who received a loan either did not enroll or ceased to be enrolled on at least a half-time basis. The school is responsible for timely reporting whether they report directly or via a third party servicer.

#### **Cause:**

The Colleges did not have a control in place to ensure that timely reporting of all status changes (withdrawing or graduating students) is occurring.

#### **Effect:**

By not reporting student status changes to the guaranty agency in a timely manner, the student's repayment period may not begin at the appropriate time as required by the regulations.

#### **Recommendation:**

We noted that the System sends status change reports to the National Clearinghouse who then sends them on to lenders, guaranty agencies, etc. However, the System has the ultimate responsibility to report to these third parties. Therefore, we recommend that the System establish an internal control to verify that students who receive a loan who either did not enroll or ceased to be enrolled on at least a half-time basis are reported to the Secretary or the guaranty agency within a timely manner after these files are sent to the National Clearinghouse.

#### **Management Response:**

Big Sandy Community and Technical College, Elizabethtown Community and Technical College, Gateway Community and Technical College, and Maysville Community and Technical College acknowledge the finding and accept the recommendations.

KCTCS Office of Student Financial Aid will request a file of students receiving federal loans from the National Clearinghouse to compare to the initial KCTCS loans data report for accuracy. If exceptions are determined the applicable college will be responsible to manually submit student enrollment information directly to the National Student Loan Data System.

# KENTUCKY COMMUNITY AND TECHNICAL COLLEGE SYSTEM

## Schedule of Findings and Questioned Costs

Year ended June 30, 2011

### **Finding 11-03:**

**Federal Program:** U.S. Department of Education  
Direct Loan Program, CFDA 84.268  
Pell Grant Program, CFDA 84.063  
Federal Supplemental Educational Opportunity Grant Program, CFDA 84.007

### **Condition:**

Big Sandy Community and Technical College  
Bluegrass Community and Technical College  
Bowling Green Technical College  
Gateway Community and Technical College  
Hazard Community and Technical College  
Madisonville Community College  
Maysville Community and Technical College  
Somerset Community College

During our testing of the Return of Title IV Funds calculations, we noted several instances where the incorrect application of the withdrawal date was used for students that withdrew during spring break.

### **Criteria:**

Colleges must comply with the provisions of CFR 668.22.

### **Cause:**

The Colleges implemented a new system during fiscal year ended June 30, 2011 in which the Return of Title IV Funds calculations were performed by the PeopleSoft software. Several of the Return of Title IV Funds calculations were incorrect due to an error in the application of the withdrawal date for students that withdrew during spring break.

### **Effect:**

36 of the 1,482 students that withdrew during spring break had incorrect Return of Title IV Funds calculations due to the error in the application of the withdrawal date in the PeopleSoft software. This resulted in \$3,982.60 federal funds not being returned in a timely manner.

### **Recommendation:**

We recommend that the KCTCS Office of Student Financial Aid work with KCTCS Technology Solutions to update the options in the PeopleSoft software to address the issue with the application of the withdrawal date during a scheduled break. This update to the software should be tested on a sample to ensure that it is working properly. We also recommend implementing a control procedure that requires a sample of the calculations be tested for accuracy going forward.

# KENTUCKY COMMUNITY AND TECHNICAL COLLEGE SYSTEM

## Schedule of Findings and Questioned Costs

Year ended June 30, 2011

### **Finding 11-03, (continued):**

#### **Management Response:**

Big Sandy Community and Technical College, Bluegrass Community and Technical College, Bowling Green Technical College, Gateway Community and Technical College, Hazard Community and Technical College, Madisonville Community College, Maysville Community and Technical College, and Somerset Community College acknowledge the finding and accept the recommendations.

KCTCS will return an additional \$3,982.60 in Federal Title IV funds for the 36 errors, a change of 0.34 percent. The KCTCS Office of Student Financial Aid is working with KCTCS Technology Solutions to customize the "Calculate" button to not be available during periods of scheduled breaks, thus eliminating the colleges' ability to override data when calculating return to Title IV funds during this time period.

### **Finding 11-04:**

**Federal Program:** U.S. Department of Education  
Direct Loan Program, CFDA 84.268  
Pell Grant Program, CFDA 84.063  
Federal Supplemental Educational Opportunity Grant Program, CFDA 84.007  
Federal Work Study Program, CFDA 84.033

#### **Condition:**

##### System Office

We were unable to verify that students who were not meeting the requirements for the System's satisfactory academic progress were notified of the violation after the completion of the fall 2010 semester.

#### **Criteria:**

The System must comply with the provisions of satisfactory academic progress as outlined in 34 CFR 668.16, CFR 668.32 and 668.34.

#### **Cause:**

The System uses an electronic transmission system to notify students of violations of the System's satisfactory academic progress requirements. The System was unable to provide supporting documents to prove that the communication was transmitted to the students as required.

# KENTUCKY COMMUNITY AND TECHNICAL COLLEGE SYSTEM

## Schedule of Findings and Questioned Costs

Year ended June 30, 2011

### **Finding 11-04, (continued):**

#### **Effect:**

If students are not notified that they are in violation of the System's satisfactory academic progress requirements they do not have the opportunity to make adjustments to maintain their eligibility for aid.

#### **Recommendation:**

We recommend that the System verify and maintain supporting documentation as proof that the electronic transmissions regarding satisfactory academic progress have been transmitted to the students as required.

#### **Management Response:**

The KCTCS Office of Student Financial Aid acknowledges the finding and accepts the recommendation.

During the 2010 fall semester colleges improperly inserted information into student Standard Academic Progress (SAP) PeopleSoft records that subsequently caused the batch notification process to fail. KCTCS Technology Solutions took corrective action to prevent the colleges from improperly inserting information. The local colleges were made aware of the corrective action and retrained on the proper procedure for appeal override. KCTCS Office of Student Financial Aid reran the SAP process and PeopleSoft failed to log the notification to the communication table. Attempts were made to restore information from CedarCrestone to substantiate that the SAP notifications were transmitted to students. KCTCS noted that the SAP notification process has run successfully without incident since January 2011.

# KENTUCKY COMMUNITY AND TECHNICAL COLLEGE SYSTEM

## Schedule of Prior Year Audit Findings

Year ended June 30, 2011

### Finding 10-01:

**Federal Program:** U.S. Department of Education  
Federal Family Educational Loan Program (FFEL), CFDA 84.032  
Pell Grant Program (Pell), CFDA 84.063

### Condition:

During our testing of Return of Title IV Funds calculations, we noted several instances where incorrect information was used and compliance requirements were not met. A total of 26 students out of our sample size of 50 students were affected as detailed by College below:

#### Big Sandy Community and Technical College:

We noted that 1 student had unofficially withdrawn from the College and had documentation to support the student earning 100% of Title IV aid; however, the College did not notify the Secretary or the guaranty agency of this student's status change in a timely matter.

For another student we noted that the College used the incorrect amount of net loans disbursed for the Return of Title IV Funds calculations; however, they had earned 100% of Title IV aid and therefore the return calculation was not impacted.

#### Bluegrass Community and Technical College:

We noted that 1 student had unofficially withdrawn from the College, therefore the College used the midpoint of the enrollment period for the date of withdrawal; however, the College did not notify the Secretary or the guaranty agency of this student's status change in a timely matter.

For 4 other students, we noted that incorrect withdrawal dates were used; however, they had earned 100% of Title IV aid and therefore return calculations were not impacted.

# KENTUCKY COMMUNITY AND TECHNICAL COLLEGE SYSTEM

## Schedule of Prior Year Audit Findings

Year ended June 30, 2011

### **Finding 10-01, (continued):**

#### **Condition, (continued):**

##### Elizabethtown Community and Technical College:

We noted that the College used the incorrect enrollment period information to calculate their Spring enrollment period for Return of Title IV Fund purposes. This resulted in the College returning excess federal funds back to the government and the student paying the College too much money for institutional charges. Per management, this would result in recalculations for 189 of 1,042 Return of Title IV Funds calculations for the Spring semester.

Within our sample, 2 students had incorrect enrollment period information used. For 1 student, this resulted in \$6 too much of Pell funds being returned to the government. The other student had earned 100% of Title IV aid and therefore the return calculation was not impacted. For this same student, we noted that an incorrect withdrawal date was used; however, as stated above they had earned 100% of Title IV aid and therefore the return calculation was not impacted.

##### Gateway Community and Technical College:

We noted that the College used the incorrect enrollment period information to calculate their Spring enrollment period for Return of Title IV Fund purposes. This resulted in the College returning excess federal funds back to the government and the student paying the College too much money for institutional charges. Per management, this would result in recalculations for 49 of 578 Return of Title IV Funds calculations for the Spring semester.

Within our sample, 1 student had incorrect enrollment period information used; however, this student had earned 100% of Title IV aid and therefore the return calculation was not impacted. For this student and another student, we noted that incorrect withdrawal dates were used. For one of these students, as stated above they had earned 100% of Title IV aid and therefore the return calculation was not impacted. However, for the other student, this results in \$13 of FFEL needing to be returned to the government, causing the College to miss the 45 day requirement of returning unearned Title IV aid.

##### Hazard Community and Technical College:

We noted that 1 student had unofficially withdrawn from the College and had documentation to support the student earning 100% of Title IV aid; however, the College did not notify the Secretary or the guaranty agency of this student's status change in a timely matter.

For another student, we noted that an incorrect withdrawal date was used. This results in \$174 of Pell being returned to the government but not returned within the 45 day requirement of returning unearned Title IV aid.

# KENTUCKY COMMUNITY AND TECHNICAL COLLEGE SYSTEM

## Schedule of Prior Year Audit Findings

Year ended June 30, 2011

### **Finding 10-01, (continued):**

#### **Condition, (continued):**

##### Henderson Community College:

We noted that the College used the incorrect enrollment period information to calculate their Spring enrollment period for Return of Title IV Fund purposes. This resulted in the College returning excess federal funds back to the government and the student paying the College too much money for institutional charges. Per management, this would result in recalculations for 9 of 136 Return of Title IV Funds calculations for the Spring semester.

We did not have a student within our sample affected by the incorrect information.

##### Hopkinsville Community College:

We noted that the College used the incorrect enrollment period information to calculate their Fall enrollment period for Return of Title IV Fund purposes. This resulted in the College returning excess federal funds back to the government and the student paying the College too much money for institutional charges. Per management, this would result in recalculations for 40 of 226 Return of Title IV Funds calculations for the Spring semester.

We did not have a student within our sample affected by the incorrect information.

##### Jefferson Community and Technical College:

We noted that the College used the incorrect enrollment period information to calculate their Spring enrollment period for Return of Title IV Fund purposes. This resulted in the College returning excess federal funds back to the government and the student paying the College too much money for institutional charges. Per management, this would result in recalculations for 245 of 1272 Return of Title IV Funds calculations for the Spring semester.

We did not have a student within our sample affected by the incorrect information.

##### Madisonville Community College:

We noted that the College used the incorrect enrollment period information to calculate their Spring enrollment period for Return of Title IV Fund purposes. This resulted in the College returning excess federal funds back to the government and the student paying the College too much money for institutional charges. Per management, this would result in recalculations for 106 of 336 Return of Title IV Funds calculations for the Spring semester.

# KENTUCKY COMMUNITY AND TECHNICAL COLLEGE SYSTEM

## Schedule of Prior Year Audit Findings

Year ended June 30, 2011

### **Finding 10-01, (continued):**

#### **Condition, (continued):**

##### Madisonville Community College, continued:

Within our sample, 1 student had incorrect enrollment period information used; however, they had earned 100% of Title IV aid and therefore the return calculation was not impacted. For this same student, we noted that the incorrect withdrawal date was used; however, as stated above they had earned 100% of Title IV aid and therefore the return calculation was not impacted.

##### Maysville Community and Technical College:

We noted that the College used the incorrect enrollment period information to calculate their Fall and Spring enrollment periods for Return of Title IV Fund purposes. This resulted in the College returning excess federal funds back to the government and the student paying the College too much money for institutional charges. Per management, this would result in recalculations for 25 of 308 Return of Title IV Funds calculations for the Fall semester, and 28 of 408 Return of Title IV Funds calculations for the Spring semester.

Within our sample, 2 students had incorrect enrollment period information used; however, one had earned 100% of Title IV aid and the other had the midpoint of the enrollment period used therefore this results in no effect to the calculations. For one of these students, we noted that an incorrect withdrawal date was used; however, as stated above they had earned 100% of Title IV aid and therefore the return calculation was not impacted. For the other student, we noted that \$870 of Pell funds were returned to the government but not returned within the 45 day requirement of returning unearned Title IV aid.

##### Owensboro Community and Technical College:

We noted that 1 student had unofficially withdrawn from the College and had documentation to support the student earning 100% of Title IV aid; however, the College did not notify the Secretary or the guaranty agency of this student's status change in a timely matter.

##### Somerset Community College:

We noted that 1 student had unofficially withdrawn from the College and had documentation to support the student earning 100% of Title IV aid; however, the College did not notify the Secretary or the guaranty agency of this student's status change in a timely matter.

For 2 other students, we noted that incorrect withdrawal dates were used; however, they had both earned 100% of Title IV aid and therefore return calculations were not impacted.

# KENTUCKY COMMUNITY AND TECHNICAL COLLEGE SYSTEM

## Schedule of Prior Year Audit Findings

Year ended June 30, 2011

### **Finding 10-01, (continued):**

#### **Condition, (continued)**

##### Southeast Kentucky Community and Technical College:

We noted that the College used the incorrect enrollment period information to calculate their Fall and Spring enrollment periods for Return of Title IV Fund purposes. This resulted in the College returning excess federal funds back to the government and the student paying the College too much money for institutional charges. Per management, this would result in recalculations for 11 of 221 Return of Title IV Funds calculations for the Fall semester, and 103 of 363 Return of Title IV Funds calculations for the Spring semester.

Within our sample, 5 students had incorrect enrollment period information used. For 1 student, this resulted in \$18 too much of FFEL funds being returned to the government. For this same student, we noted that \$1,146 of FFEL funds were returned to the government but not returned within the 45 day requirement of returning unearned Title IV aid. The other 4 students had all earned 100% of Title IV aid and therefore return calculations were not impacted. For 2 of these 4 students, we noted that incorrect withdrawal dates were used; however, as stated above they had both earned 100% of Title IV aid and therefore return calculations were not impacted.

##### West Kentucky Community and Technical College:

We noted that 1 student had unofficially withdrawn from the College and had documentation to support the student earning 100% of Title IV aid; however, the College did not notify the Secretary or the guaranty agency of this student's status change in a timely matter.

#### **Criteria:**

Colleges must comply with the provisions of §668.22 and §668.610.

#### **Cause:**

The System and the Colleges currently do not have adequate controls in place to ensure the Return of Title IV Funds calculations are being completed properly, unearned federal funds are being returned timely, and student status changes are being reported to the Secretary or the guaranty agency within a timely manner.

#### **Effect:**

Several Return of Title IV Funds calculations were incorrect in the current year due to incorrect enrollment periods and withdrawal dates being used. This has caused some federal funds to not be returned timely. By not having adequate controls over this area, incorrect Return of Title IV Funds calculations could also be produced in the future as well.

# KENTUCKY COMMUNITY AND TECHNICAL COLLEGE SYSTEM

## Schedule of Prior Year Audit Findings

Year ended June 30, 2011

### **Finding 10-01, (continued):**

#### **Effect, (continued)**

The provisions of §682.610 were not followed and thus some students were not reported as having ceased enrollment in a timely manner.

#### **Recommendation:**

We recommend that all Colleges implement a control that will ensure the proper enrollment periods and withdrawal dates are being used in the calculations of Return of Title IV Funds. We also recommend that the System implement a control where they do a periodic check of a sample of Return of Title IV Funds calculations to ensure correct calculations are being complete.

We noted that the Colleges send status change reports to the National Clearinghouse who then sends them on to lenders, guaranty agencies, etc.; however, the Colleges have the ultimate responsibility to report to these third parties. Therefore, we recommend that the Colleges establish an internal control to verify that students who receive a loan who either did not enroll or ceased to be enrolled on at least a half-time basis are reported to the Secretary or the guaranty agency within a timely manner after these files are sent to the National Clearinghouse.

We additionally recommend that written policies and procedures be established at the System and College level and that the System's internal audit team periodically checks to make sure this are being adhered to.

#### **Current Status:**

We noted that the enrollment period and withdrawal issues had been addressed by implementing a new system wide procedure utilizing PeopleSoft to perform these calculations. KCTCS personnel were then testing these calculations on a sample basis. However, during our testing we found errors in the return calculations, see finding 11-03.

### **Finding 10-02:**

#### **Condition:**

During our testing of the Student Financial Aid Cluster, we noted a lack of written policies and procedures around several compliance requirement areas including eligibility, reporting, and special tests and provisions (Return of Title IV Funds and student status changes).

# KENTUCKY COMMUNITY AND TECHNICAL COLLEGE SYSTEM

## Schedule of Prior Year Audit Findings

Year ended June 30, 2011

### **Finding 10-02, (continued):**

#### **Criteria:**

The A-102 Common Rule and OMB Circular A-110 (2 CFR part 215) require that non-Federal entities receiving Federal awards establish and maintain internal control designed to reasonably ensure compliance with Federal laws, regulations, and program compliance requirements.

#### **Cause:**

The System and the Colleges currently do not have written policies and procedures that help ensure that management's directives are carried out.

#### **Effect:**

Lack of written policies and procedures around significant compliance requirement areas could lead to inconsistencies of practices across the System and Colleges and compliance requirements not being met. As noted in Finding 10-01, the lack of written policies and procedures contributed to several instances of Return of Title IV Funds calculations not being correct and compliance requirements not being met.

#### **Recommendation:**

We recommend that policies and procedures around all significant compliance requirement areas including eligibility, reporting, and special tests and provisions (Return of Title IV Funds and student status changes) be written immediately to mitigate future risks and prevent further errors attributable to federal programs.

#### **Current Status:**

We noted that the System Office produced a policy and procedure manual effective January 1, 2011.

## KENTUCKY COMMUNITY AND TECHNICAL COLLEGE SYSTEM

Officers of the KCTCS Board of Regents, KCTCS Board of Regents and KCTCS President's Cabinet

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KENTUCKY COMMUNITY AND TECHNICAL COLLEGE SYSTEM

Schedule of Funding Progress for the Retiree Medical Plan

Year ended June 30, 2011

(amounts in thousands)

Actuarial Valuation Date	Actuarial Value of <u>Assets</u>	Actuarial Accrued Liability <u>(AAL)</u>	Unfunded AAL <u>(UAAL)</u>	Funded <u>Ratio</u>	Covered <u>Payroll</u>	UAAL as a Percentage of Covered <u>Payroll</u>
July 1, 2011	\$ 0	\$ 214,446	\$ 214,446	0.0%	\$ 150,470	142.5%

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