

KENTUCKY COMMUNITY AND TECHNICAL COLLEGE SYSTEM

2007-08  
AUDIT CORRESPONDENCE

**Office of the President**  
**Dr. Michael B. McCall**  
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Versailles, KY 40383  
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www.kctcs.edu

Board of Regents  
Finance, Technology and Human Resources Committee  
Kentucky Community and Technical College System  
Versailles, Kentucky

**Board and Committee Members:**

The letters included in this audit correspondence document represent correspondence from Crowe Horwath LLP as part of their audit of the Kentucky Community and Technical College System ("System") as of June 30, 2008 and for the year then ended. Each letter has a specific purpose and is issued separately to the appropriate party noted. They are included herein together as a matter of convenience to you. The following is a summary of the information related to each of the letters contained in this document.

- ◆ **Management Letter:** This letter includes comments and recommendations resulting from the audit. It also includes responses from management at the System to those comments and recommendations.
- ◆ **Letter Required by Statement on Auditing Standards No. 114:** Certain matters, as stipulated in Statement on Auditing Standards No. 114, are to be communicated to "Those Charged with Governance" in relation to the audit of financial statements, which at the System is the Finance, Technology and Human Resources Committee. This letter provides this communication.
- ◆ **Letter on Compliance with House Bill 622:** The independent auditor is required to perform procedures included in the "Minimum Audit Scope Compliance House Bill 622", dated August 1983, issued by the Commonwealth of Kentucky Finance and Administration Cabinet. This letter reports on the System's compliance with House Bill 622.
- ◆ **Closing Package Letter:** The Commonwealth of Kentucky Finance and Administration Cabinet provides the System with standard forms ("Closing Package") that are to be completed and included in the Commonwealth's Annual Financial Report. The independent auditor is required to perform certain procedures related to the information included on the standard forms and include the Closing Package letter with those forms when they are submitted to the Finance and Administration Cabinet. This letter is a copy of the letter that was submitted with the Closing Package.



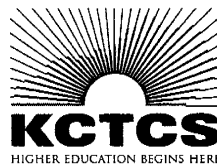
KCTCS is an equal opportunity employer and education institution.

- ◆ Representation Letter: This letter represents to the Auditor of Public Accounts that the independent auditor is independent of the System and the Commonwealth in accordance with American Institute of Certified Public Accountants independence standards and is in compliance with *Government Auditing Standards* concerning continuing education requirements, independence, internal quality control system, and peer review requirements.
- ◆ Lease Law Compliance Letter: The independent auditor is required to perform a compliance examination of the System's real property leasing procedures to determine compliance with the provisions set forth in KRS 48.111, 48.190 and 56.800 through 56.823. This letter reports that the System has no leases that fall under the provisions of these statutes.

Sincerely,



Michael B. McCall, Ed.D.  
President



## **MANAGEMENT LETTER**

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

In planning and performing our audit of the financial statements of Kentucky Community and Technical College System (“KCTCS” or “System”) as of and for the year ended June 30, 2008, in accordance with auditing standards generally accepted in the United States of America, we considered the System’s internal control over financial reporting (“internal control”) as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the System’s internal control. Accordingly, we do not express an opinion on the effectiveness of the System’s internal control. Our consideration of internal control encompassed the System’s central office and the following institutions administered by the System: Ashland Community and Technical College, Big Sandy Community and Technical College, Bluegrass Community and Technical College, Bowling Green Technical College, Elizabethtown Community and Technical College, Gateway Community and Technical College, Hazard Community and Technical College, Henderson Community College, Hopkinsville Community College, Jefferson Community and Technical College, Madisonville Community College, Maysville Community and Technical College, Owensboro Community and Technical College, Somerset Community College, Southeast Kentucky Community and Technical College, and West Kentucky Community and Technical College. We noted certain matters involving internal control and its operation that might be of interest to you.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain matters that we wish to communicate to you. Matters communicated in this letter are classified as follows.

- Best Practice - A matter which you may find of interest.
- Deficiency - A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis.

**Deficiency is noted as follows:**

**1. Capital Assets**

While performing our audit procedures in the confirmation of leases, KCTCS staff discovered a lease with a corresponding capital asset that had not been recorded. The lease payments were expensed instead of being capitalized and a liability recorded.

We recommend that KCTCS develop procedures to review the appropriate signed agreements and amendments to agreements for assets requiring capitalization and liabilities. The implementation of this recommendation will help ensure the proper recording of capital assets in the general ledger.

**Management's Response:**

KCTCS revised its business procedures related to this finding in fall of 2008, specifically business procedure 3.13 Capital Assets and 4.7 Leases of Equipment were revised. The error in recording occurred prior to the procedure revisions. The appropriate adjustments have been made and management is confident that staff is now aware of the revisions to procedures and adherence to the revisions in procedure will occur hereafter.

**Best Practices are noted as follows:**

**1. Conflict of Interest Statements**

KCTCS does not have signed conflict of interest policy for its faculty and staff.

We recommend that KCTCS develop a conflict of interest policy. Further, KCTCS should have key personnel in decision making roles sign the statement of non conflict of interest on a periodic basis. Implementation of this recommendation will assist KCTCS and its employees in avoiding conflicts of interest and helping to ensure greater compliance with the System's code of ethical standards and policies of independence.

**Management's Response:**

Based on this recommended "best practice" KCTCS will gather information for the development and implementation of a formal conflict of interest policy.

**2. Review of Return of Funds Calculations**

We noted that student financial aid return of fund calculations are not being reviewed by a supervisor once they are processed. The effect of this could be erroneous calculations resulting in incorrect funds being returned to the applicable federal agencies.

We recommend that the System review its current processes and establish procedures at each College to ensure all student financial aid return calculations are reviewed by the appropriate supervisor prior to funds being returned.

**Management's Response:**

Based on this recommended "best practice" KCTCS will revise its processes for student financial aid return of funds calculations. The revision will include the requirement that a supervisor review and sign off the calculation once the calculations are processed.

The System's responses to the findings identified in our audit are described above. We did not audit the System's responses and, accordingly, we express no opinion on them.

This communication is intended solely for the information and use of the Board of Regents, management, and others within the organization, and is not intended to be and should not be used by anyone other than these specified parties.

*Crowe Horwath LLP*

Crowe Horwath LLP

Louisville, Kentucky  
October 1, 2008

**STATEMENT ON AUDITING STANDARDS NO. 114**

**ENGAGEMENT LETTER**

**MANAGEMENT REPRESENTATION LETTER**



Crowe Horwath LLP  
Member Horwath International

Finance, Technology and Human Resources Committee  
Kentucky Community and Technical College System  
Versailles, Kentucky

Professional standards require that we communicate matters related to our audit of the financial statements of the Kentucky Community and Technical College System (“the System”) that we consider significant and relevant to the responsibilities of Those Charged with Governance in overseeing the financial reporting process. Those Charged with Governance includes the person(s) with responsibility for overseeing the strategic direction of and obligations related to the accountability of the System. We cover such matters below.

#### **AUDITOR’S RESPONSIBILITY UNDER AUDITING STANDARDS GENERALLY ACCEPTED IN THE UNITED STATES OF AMERICA**

Those Charged with Governance should understand that the auditor is responsible for forming and expressing an opinion about whether the financial statements that have been prepared by management with the oversight of Those Charged with Governance are presented fairly, in all material respects, in conformity with accounting principles generally accepted in the United States of America and that the audit of the financial statements does not relieve management or Those Charged with Governance of their responsibilities. Refer to our engagement letter with the System for further information on the responsibilities of management and Crowe.

#### **AUDITOR’S RESPONSIBILITY UNDER GOVERNMENT AUDITING STANDARDS**

As part of obtaining reasonable assurance about whether the System’s financial statements are free of material misstatement, we performed tests of the System’s 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 or disclosures. 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*.

## PLANNED SCOPE AND TIMING OF THE AUDIT

We are to communicate with Those Charged with Governance an overview of the planned scope and timing of the audit. Accordingly, we communicated the following matters regarding the planned scope and timing of the audit with Those Charged with Governance on May 12, 2008.

- How we proposed to address the significant risks of material misstatement, whether due to fraud or error.
- Our approach to internal control relevant to the audit.
- The concept of materiality in planning and executing the audit, focusing on the factors considered rather than on specific thresholds or amounts.
- Where the entity has an internal audit function, the extent to which the auditor will use the work of internal audit, and how the external and internal auditors can best work together.
- The views and knowledge of Those Charged with Governance about matters they consider warrant our attention during the audit.

## SIGNIFICANT ACCOUNTING POLICIES AND MANAGEMENT JUDGEMENTS AND ACCOUNTING ESTIMATES

Significant Accounting Policies: Those Charged with Governance should also be informed of the initial selection of and changes in significant accounting policies or their application. Also, Those Charged with Governance should be aware of methods used to account for significant unusual transactions and the effect of significant accounting policies in controversial or emerging areas where there is a lack of authoritative consensus. We believe management has the primary responsibility to inform Those Charged with Governance about such matters. To assist you in your oversight role, we also provide the following:

Accounting Standard	Impact of Adoption
<p><b>GASB Statement No. 45, <i>Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions</i>.</b> Statement 45 establishes standards for the measurement, recognition and display of other postemployment benefit expenses and related liabilities (assets) and note disclosures.</p>	<p>Upon adoption of this Statement, the System will begin recording on a going forward basis the unfunded actuarial accrued liability in its postretirement benefits of \$132,882,121. In 2008, the System was required to recognize \$18,321,012 as its annual expense. Prior to adopting GASB 45 the expense would have been approximately \$1,900,000. To fund this expenditure on an annual basis, unrestricted interest earnings have been earmarked for the purpose of retiring this obligation. To capture changes within the System's employee base that affect the total calculated obligation and resulting annual required contribution (changes such as retirements, new hires, long-term disability, etc.) an actuarial study will be performed every two years.</p>

Management Judgments and Accounting Estimates: Further, accounting estimates are an integral part of the financial statements prepared by management and are based upon management's current judgments. These judgments are based upon knowledge and experience about past and current events and assumptions about future events. Certain estimates are particularly sensitive because of their significance and because of the possibility that future events affecting them may differ markedly from management's current judgments and may be subject to significant change in the near term.

The process used by management in formulating particularly sensitive accounting estimates and the primary basis for our conclusions regarding the reasonableness of those estimates primarily involved the following areas for this year:

Area / Accounting Policy	Judgments and Estimates
Allowance for Doubtful Accounts and Bad Debt Expense	The allowance for doubtful accounts was determined by management by a process involving consideration of past experiences, current aging information, contacts with the students and other available data including geographical and economic factors. We tested this accounting estimate by reviewing, on a test basis, the information listed above and by developing our own expectation of the amount of the allowance.
Fair Values of Investments	The disclosure of fair values of investments requires management to use certain assumptions and estimates pertaining to the fair market values of its assets and liabilities. We reviewed the reasonableness of these estimates and assumptions.
Useful Lives of Fixed Assets	Management has determined the economic useful lives of fixed assets based on past history of similar types of assets, future plans as to their use, and other factors that impact their economic value to the entity. We have tested management's estimate of the economic useful lives based on past asset acquisitions and other factors that impact their economic value to the entity.
Postretirement Obligations	Amounts reported for postretirement obligations require management to use estimates that may be subject to significant change in the near term. These estimates are based on projection of the weighted average discount rate, rate of increase in future compensation levels, and weighted average expected long-term rate of return on pension assets. We reviewed the reasonableness of these estimates and assumptions.
Workmen's Compensation Reserve	This reserve is an accrual for amounts payable on known claims. We tested this accrual by reviewing a third party report for such claims.

Area/ Accounting Policy	Judgments and Estimates
Disability Income Reserve	This reserve includes an actuarially determined long-term portion and a current portion based on approved and pending claims. We tested this accrual by reviewing a report provided by the actuary.
Compensated Absences	Compensated absences are estimated based on vacation and sick hours accumulated by each employee and the respective pay rate of each employee. We tested this accrual by testing compensated absences for a sample of employees.

## AUDITOR'S JUDGMENTS ABOUT QUALITATIVE ASPECTS OF SIGNIFICANT ACCOUNTING PRACTICES

We are to discuss with Those Charged with Governance our comments about the following matters related to the System's accounting policies and financial statement disclosures.

- The appropriateness of the accounting policies to the particular circumstances of the entity, considering the need to balance the cost of providing information with the likely benefit to users of the entity's financial statements.
- The overall neutrality, consistency, and clarity of the disclosures in the financial statements.
- The effect of the timing of transactions in relation to the period in which they are recorded.
- The potential effect on the financial statements of significant risks and exposures, and uncertainties that are disclosed in the financial statements.
- The extent to which the financial statements are affected by unusual transactions including nonrecurring amounts recognized during the period, and the extent to which such transactions are separately disclosed in the financial statements.
- The issues involved, and related judgments made, in formulating particularly sensitive financial statement disclosures.
- The factors affecting asset and liability carrying values, including the entity's bases for determining useful lives assigned to tangible and intangible assets.

## CORRECTED AND UNCORRECTED MISSTATEMENTS

Corrected Misstatements: We are to inform Those Charged with Governance of material corrected misstatements that were brought to the attention of management as a result of our audit procedures. There was one adjustment from the audit to record a capital lease previously not recorded in the financial records.

Uncorrected Misstatements: We are to inform Those Charged with Governance of uncorrected misstatements that were aggregated by us during the current engagement and pertaining to the latest and prior period presented that were determined by management to be immaterial, both individually and in the aggregate, to the financial statements taken as a whole. For your consideration, we have distinguished misstatements between known misstatements and likely misstatements. There were no such adjustments.

**COMMUNICATIONS REGARDING OUR INDEPENDENCE FROM THE SYSTEM**

Auditing standards generally accepted in the United States of America require independence for all audits and we confirm that we are independent auditors with respect to the System under the independence requirements established by the American Institute of Certified Public Accountants.

Additionally, we wish to communicate that we have no relationships with the System that, in our professional judgment, may reasonably be thought to bear on our independence and that we gave significant consideration to in reaching the conclusion that our independence has not been impaired.

**OTHER COMMUNICATIONS**

Communication Item	Results
<p><b>Other Information In Documents Containing Audited Financial Statements</b>                      Those Charged with Governance often consider information prepared by management that accompanies the financial statements. To assist your consideration of this information, you should know that we are required by audit standards to read such information and consider whether such information, or the manner of its presentation, is materially inconsistent with information in the consolidated financial statements. If we consider the information materially inconsistent based on this reading, we are to seek a resolution of the matter.</p>	<p>We read Management’s Discussion and Analysis and noted no material inconsistencies or misstatement of facts in the information based on our reading thereof.</p>
<p><b>Significant Difficulties Encountered During the Audit</b>                      We are to inform Those Charged with Governance of any significant difficulties encountered in dealing with management related to the performance of the audit.</p>	<p>There were no significant difficulties encountered in dealing with management related to the performance of the audit.</p>
<p><b>Disagreements With Management</b>                      We are to discuss with Those Charged with Governance any disagreements with management, whether or not satisfactorily resolved, about matters that individually or in the aggregate could be significant to the System’s financial statements or the auditor’s report.</p>	<p>During our audit, there were no such disagreements with management.</p>

Communication Item	Results
<p><b>Consultations With Other Accountants</b>            If management consulted with other accountants about auditing and accounting matters, we are to inform Those Charged with Governance of such consultation, if we are aware of it, and provide our views on the significant matters that were the subject of such consultation.</p>	<p>We are not aware of any instances where management consulted with other accountants about auditing or accounting matters since no other accountants contacted us, which they are required to do by Statement on Auditing Standards No. 50, before they provide written or oral advice.</p>
<p><b>Representations The Auditor Is Requesting From Management</b>            We are to provide Those Charged with Governance with a copy of management's requested written representations to us.</p>	<p>We direct your attention to a copy of the letter of management's representation to us provided separately.</p>
<p><b>Significant Issues Discussed, or Subject to Correspondence, With Management</b>            We are to communicate with Those Charged with Governance any significant issues that were discussed or were the subject of correspondence with management.</p>	<p>There were no such significant issues discussed, or subject to correspondence, with management.</p>
<p><b>Other Findings or Issues We Find Relevant or Significant</b>            We are to communicate to Those Charged with Governance other findings or issues, if any, arising from the audit that are, in our professional judgment, significant and relevant to Those Charged with Governance regarding their oversight of the financial reporting process.</p>	<p>There were no such other findings or issues that are, in our judgment, significant and relevant to Those Charged with Governance regarding their oversight of the financial reporting process.</p>

We were pleased to serve your System as its independent auditors and look forward to our continued relationship. We provide the above information to assist you in performing your oversight responsibilities, and would be pleased to discuss this letter or any matters further, should you desire. This letter is intended solely for the information and use of Those Charged with Governance and, if appropriate, management and is not intended to be and should not be used by anyone other than these specified parties.

*Crowe Horwath LLP*

Crowe Horwath, LLP

Louisville, Kentucky  
 October 1, 2008





Crowe Chizek and Company LLC  
Member Horwath International

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March 11, 2008

Mr. Wendell Followell  
Kentucky Community and Technical College System  
300 North Main Street  
Versailles, Kentucky 40383

Dear Mr. Followell:

This letter confirms the arrangements for Crowe Chizek and Company LLC ("Crowe Chizek" or "us" or "we" or "our") to audit and report on the financial statements of Kentucky Community and Technical College System University (the "KCTCS" or "you" or "your"), including its Federal Awards Program (A-133) for the year ending June 30, 2008. We will also issue a separate letter on the minimum Scope for Compliance with KRS 164A.550 to KRS164A.630 as well as a report issued under Codification of Statements on Auditing Standards AU 623.11 through 623.17 applicable to the Closing Package furnished by KCTCS to the Finance and Administration Cabinet. The attached Crowe Chizek Engagement Terms is an integral part of this letter and its terms are incorporated herein.

## AUDIT SERVICES

### Our Responsibilities

We will audit the financial statements of the University for the period indicated. The objective of the audit is the expression of an opinion on the financial statements. We will plan and perform the audit in accordance with auditing standards generally accepted in the United States of America, the standards for financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; the Single Audit Act Amendments of 1996, and the provisions of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards require that we obtain reasonable, rather than absolute, assurance about whether the financial statements are free of material misstatement whether caused by error or fraud, to report on the Schedule of Expenditures of Federal Awards, and on your compliance with laws and regulations and on its internal controls as required for a single audit. Therefore, a material misstatement may remain undetected.

We will examine, on a test basis, evidence supporting the amounts and disclosures in your financial statements and evaluate the accounting principles used and the overall financial statement presentation. We will assess the risk that error or fraud might misstate the financial statements by an amount we believe would influence the financial statement users. An audit is

not designed to detect error or fraud that is immaterial to the financial statements. Our opinion on the financial statements will state whether we believe that the financial statements present fairly, in all material respects, your financial position, change in net assets, and cash flows in conformity with accounting principles generally accepted in the United States of America.

In addition to our report on the financial statements, we plan to report on:

- The Schedule of Expenditures of Federal Awards which will be subjected to the auditing procedures applied in our audit of the financial statements
- Internal control related to the financial statements and compliance with laws, regulations, and the provisions of contracts or grant agreements, noncompliance with which could have a material effect on the financial statements in accordance with *Government Auditing Standards*
- Internal control related to major programs and an opinion on compliance with laws, regulations, and the provisions of contracts or grant agreements that could have a direct and material effect on each major program in accordance with the Single Audit Act Amendments of 1996 and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*.

An audit includes obtaining an understanding of the entity and its environment, including its internal control, sufficient to assess the risks of material misstatement of the financial statements and to design the nature, timing, and extent of further audit procedures. An audit is not designed to provide assurance on internal control or to identify significant deficiencies in internal control. However, we will communicate in writing to those charged with governance and management matters that come to our attention which, in our judgment, are significant deficiencies or material weaknesses in internal control that could adversely affect your ability to initiate, authorize, record, process or report financial data reliably in accordance with generally accepted accounting principles. We will also communicate suggestions we have to improve controls and business operations. Our engagement is not designed to address legal or regulatory matters, which matters should be discussed by you with your legal counsel.

We will also perform tests of controls including testing underlying transactions, as required by OMB Circular A-133, to evaluate the effectiveness of the design and operation of controls that we consider relevant to preventing or detecting material noncompliance with compliance requirements applicable to each of your major federal awards programs. We will determine major programs in accordance with OMB Circular A-133. Our tests will be less in scope than would be necessary to render an opinion on these controls and, accordingly, no opinion will be expressed. We will inform you of any nonreportable conditions or other matters involving internal control, if any, as required by OMB Circular A-133.

As part of obtaining reasonable assurance about whether the financial statements are free of material misstatement, we will also perform tests of your compliance with applicable laws, regulations, contracts and grants. However, because of the concept of reasonable assurance and because we will not perform a detailed examination of all transactions, there is a risk that

material errors, irregularities, or illegal acts, including fraud or defalcations, may exist and not be detected by us. However, the objective of our audit of compliance relative to the financial statements will not be to provide an opinion on overall compliance with such provisions, and we will not express such an opinion. We will advise you, however, of any matters of that nature that come to our attention, unless they are clearly inconsequential.

OMB Circular A-133 requires that we plan and perform the audit to obtain reasonable assurance about whether you have complied with certain provisions of laws, regulations, contracts and grants. Our procedures will consist of the applicable procedures described in the OMB Circular A-133 Compliance Supplement for the types of compliance requirements that could have a direct and material effect on each of your major programs. The purpose of our audit will be to express an opinion on your compliance with requirements applicable to major Federal award programs.

Our audit and work product are intended for the benefit and use of KCTCS only. The audit will not be planned or conducted in contemplation of reliance by any other party or with respect to any specific transaction and is not intended to benefit or influence any other party. Therefore, items of possible interest to a third party may not be specifically addressed or matters may exist that could be assessed differently by a third party. Our reports on internal control and compliance will each include a statement that the report is intended for the information and use of the finance committee, management, specific legislative or regulatory bodies, and federal awarding agencies, and if applicable, pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

The working papers for this engagement are the property of Crowe Chizek and constitute confidential information. However, we may be requested to make certain workpapers available to your oversight agency or grantors pursuant to authority given to them by law, regulation, or contract. If requested, access to such workpapers will be provided under the supervision of our personnel. Furthermore, upon request, we may provide photocopies of selected workpapers to your oversight agency or grantors. The workpapers for this engagement will be retained for a minimum of three years after the date our report is issued or for any additional period requested by the oversight agency or pass-through entity. If we are aware that a federal awarding agency, pass-through entity, or auditee is contesting an audit finding, we will contact the party contesting the audit finding for guidance prior to destroying the workpapers.

*Government Auditing Standards* require that we provide you with a copy of our most recent peer review report, letter of comment and response thereto, which documents accompany this letter.

### The KCTCS's Responsibilities

Your management is responsible for the financial statements, including selecting and applying the accounting policies. Management is also responsible for establishing and maintaining effective internal control that will, among other things, permit the preparation of financial statements in conformity with accounting principles generally accepted in the United States of

America. KCTCS's management is also responsible for complying with applicable laws, regulations, contracts and grants and such responsibility extends to identifying the requirements and designing internal control policies and procedures to provide reasonable assurance that compliance is achieved. Additionally, as required by OMB Circular A-133, it is management's responsibility to follow up and take corrective action on reported audit findings and to prepare a summary schedule of prior audit findings, which should be available for our review, and a corrective action plan.

Management has the responsibility to adopt sound accounting policies, maintain an adequate and efficient accounting system, and to safeguard assets design and implement programs and controls to prevent and detect fraud. Management's judgments are typically based on its knowledge and experience about past and current events and its expected courses of action. Management's responsibility for financial reporting includes establishing a process to prepare the accounting estimates included in the financial statements and adjusting the financial statements to correct material misstatements.

Management is responsible for making available to us, on a timely basis, all financial records and related information and your personnel to whom we may direct inquiries. Management agrees to provide us with written representations relating to matters contained in or related to the financial statements including that the effects of any uncorrected misstatements aggregated by us during the current engagement and pertaining to the latest period presented are immaterial, both individually and in the aggregate, to the financial statements taken as a whole, and to its compliance with the requirements of its Federal programs. Because of the importance of management's representations to an effective audit, you agree to release Crowe Chizek and its personnel from any liability and costs relating to our services under this letter attributable to any misrepresentations by management.

At the conclusion of the engagement, it is management's responsibility to submit the reporting package (including financial statements, schedule of expenditures of federal awards, summary schedule of prior audit findings, auditor's reports, and corrective action plan) along with the Data Collection Form to the designated federal clearinghouse and, if appropriate, to pass-through entities. The Data Collection Form and the reporting package must be submitted within the earlier of thirty days after receipt of the auditor's reports or nine months after the end of the audit period, unless a longer period is agreed to in advance by the oversight agency for audit.

#### **FEES**

Our fee for these services will be \$190,000. The fee estimate is based on anticipated cooperation from your personnel and the assumption that unexpected circumstances will not be encountered during the audit. These fees do not consider any time that might be necessary to assist management in the implementation or adoption of new or existing accounting, reporting, regulatory, or tax requirements that may apply. If there is a significant change in your

Mr. Wendell Followell  
Kentucky Community and Technical College System  
March 11, 2008  
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organizational structure or size due to acquisitions or other events, we reserve the right to revise our fees. If significant additional time is necessary, we will discuss it with you and arrive at a new fee estimate before we incur the additional costs. Our invoices for these fees will be rendered periodically as work progresses and are payable upon receipt. We estimate that fees will be billed monthly as follows:

May 2008	\$40,000
June 2008	\$25,000
July 2008	\$15,000
August 2008	\$45,000
September 2008	\$35,000
October 2008	\$12,000
November 2008	\$10,000
December 2008	\$8,000

If we elect to terminate our services for nonpayment, you will be obligated to compensate us for all time expended and to reimburse us for all out-of-pocket expenditures through the date of termination.

\* \* \* \* \*

This engagement letter and the attached Crowe Chizek Engagement Terms reflect the entire agreement between us relating to the services covered by this letter. The headings included in this letter are to assist in ease of reading only; the letter and attachment are to be construed as a single document, with the provisions of each section applicable throughout. This agreement may not be amended or varied except by a written document signed by both parties. It replaces and supersedes any other proposals, correspondence, agreements and understandings, whether written or oral, relating to the services covered by this letter. The agreements of the Corporation and Crowe Chizek contained in this engagement letter shall survive the completion or termination of this engagement. If any term hereof is found unenforceable or invalid, this shall not affect the other terms hereof, all of which shall continue in effect as if the stricken term had not been included

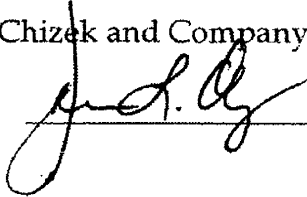
Mr. Wendell Followell  
Kentucky Community and Technical College System  
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If the terms of this letter and the attached Crowe Chizek Engagement Terms are acceptable to you, please sign and date below and return a copy of this letter at your earliest convenience. If you have any questions, please contact Laurie Haun at (502) 420-4482.

Very truly yours,

Crowe Chizek and Company LLC

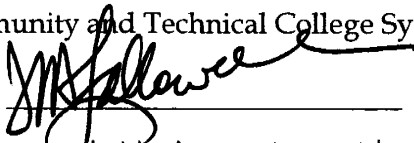
By: \_\_\_\_\_



I have reviewed the arrangements outlined above and in the attached Crowe Chizek Engagement Terms, and I accept on behalf of the University the terms and conditions as stated.

Kentucky Community and Technical College System

Signature: \_\_\_\_\_



Printed Name: \_\_\_\_\_

Wendell A. Followell

Title: \_\_\_\_\_

System Director of Business Services

Date: \_\_\_\_\_

3/14/08

## Crowe Chizek Engagement Terms

We want you to understand the basis under which we offer our services to you and determine our fees, as well as to clarify the relationship and responsibilities between your organization and ours. These terms are part of our engagement letter and apply to all future services, unless a specific engagement letter is entered into for those services. We specifically note that no advice we may provide should be construed to be investment advice.

**YOUR ASSISTANCE** - For us to provide our services effectively and efficiently, you agree to provide us timely with the information we request and to make your employees available for our questions. You will also provide our personnel with access to the Internet (if available). The availability of your personnel and the timetable for their assistance are key elements in the successful completion of our services and in the determination of our fees. Completion of our work depends on appropriate and timely cooperation from your personnel; complete, accurate, and timely responses to our inquiries; and timely communication by you of all significant accounting and financial reporting matters of which you are aware. If for any reason this does not occur, a revised fee to reflect the additional time or resources required by us will be mutually agreed upon, and you agree to hold us harmless against all matters that arise in whole or in part from any resulting delay.

If circumstances arise that, in our professional judgment, prevent us from completing this engagement, we retain the right to take any course of action permitted by professional standards, including declining to express an opinion or issue other work product or withdrawing from the engagement.

**THIRD PARTY PROVIDER** - We may use a third-party service provider in providing professional services to you which may require our sharing your confidential information with the provider. If we use a third-party service provider, we will enter into a confidentiality agreement with the provider to require them to maintain the confidentiality of your confidential information. The terms of our engagement letter and these engagement terms shall apply to any third party provider.

**CONFIDENTIALITY** - We will maintain the confidentiality of your confidential information in accordance with professional standards. You agree not to disclose any confidential material you obtain from us without our prior written consent, except to the extent such disclosure is an agreed objective of this engagement. Your use of our work product shall be limited to its stated purpose and to your business use only. We retain the right to use the ideas, concepts, techniques, industry data, and know-how we use or develop in the course of the engagement. You agree to the use of fax, email, and voicemail to communicate both sensitive and non-sensitive matters; provided, however, that nonpublic personal information regarding your customers or consumers shall not be communicated by unencrypted email.

**CHANGES** - We may periodically communicate changes in laws, rules, or regulations to you. However, you have not engaged us to and we do not undertake an obligation to advise you of changes in laws, rules, regulations, industry or market conditions, your own business practices, or other circumstances, except to the extent required by professional standards.

**PUBLICATION** - You agree to obtain our specific permission before using our report or our firm's name in a published document, and you agree to submit to us copies of such documents to obtain our permission before they are filed or published.

**NO TRANSFER OR ASSIGNMENT OF CLAIMS** - No claim against Crowe Chizek, or any recovery from or against Crowe Chizek, may be sold, assigned or otherwise transferred, in whole or in part.

**TIME LIMIT ON CLAIMS** - In no event shall any action against you or Crowe Chizek, arising from or relating to this engagement letter or the services provided by Crowe Chizek relating to this engagement, be brought after the earlier of 1) two (2) years after the date on which occurred the act or omission alleged to have been the cause of the injury alleged; or 2) the expiration of the applicable statute of limitations or repose.

**RESPONSE TO LEGAL PROCESS** - If we are requested by subpoena, other legal process, or other proceedings to produce documents pertaining to you and we are not a named party to the proceeding, you will reimburse us for our professional time, plus out-of-pocket expenses, as well as reasonable attorney fees we incur in responding to such request.

**MEDIATION** - If a dispute arises, in whole or in part, out of or related to this engagement, or after the date of this agreement, between you or any of your affiliates or principals, and Crowe Chizek, and if the dispute cannot be settled through negotiation, you and Crowe Chizek agree first to try in good faith to settle the dispute by mediation administered by the American Arbitration Association under its mediation rules for professional accounting and related services disputes before resorting to litigation or any other dispute-resolution procedure. The results of mediation shall be binding only upon agreement of each party to be bound. Costs of any mediation shall be shared equally by both parties.

**JURY TRIAL** - In the unlikely event that differences concerning our services or fees arise between us that are not resolved by mutual agreement or mediation, you and we agree to waive a trial by jury to facilitate judicial resolution and save the time and expense of both parties.

**LEGAL AND REGULATORY CHANGE** - The scope of services and the fees for the services covered by the accompanying letter are based on current laws and regulations. If changes in laws or regulations change your requirements or the scope of our work, you and we agree that our fees will be modified to a mutually agreed-upon amount to reflect the changed level of our effort.

**AFFILIATES** - Crowe Chizek is a member of Horwath International Association, a Swiss association (Horwath). Each member firm of Horwath is a separate and independent legal entity. Crowe Chizek and its affiliates are not responsible or liable for any acts or omissions of any other member of Horwath and hereby specifically disclaim any and all responsibility or liability for acts or omissions of any other member of Horwath.

December 21, 2007

To the Executives of  
Crowe Chizek and Company LLC  
and the Center for Public Company Audit Firms Peer Review Committee

We have reviewed the system of quality control for the accounting and auditing practice of Crowe Chizek and Company LLC (the firm) applicable to non-SEC issuers in effect for the year ended June 30, 2007. The firm's accounting and auditing practice applicable to SEC issuers was not reviewed by us since the Public Company Accounting Oversight Board (PCAOB) is responsible for inspecting that portion of the firm's accounting and auditing practice in accordance with PCAOB requirements. A system of quality control encompasses the firm's organizational structure and the policies adopted and procedures established to provide it with reasonable assurance of complying with professional standards. The elements of quality control are described in the Statements on Quality Control Standards issued by the American Institute of Certified Public Accountants (the AICPA). The design of the system, and compliance with it, are the responsibilities of the firm. Our responsibility is to express an opinion on the design of the system, and the firm's compliance with that system based on our review.

Our review was conducted in accordance with standards established by the Peer Review Committee of the Center for Public Company Audit Firms and included procedures to plan and perform the review that are summarized in the attached description of the peer review process. Our review would not necessarily disclose all weaknesses in the system of quality control or all instances of lack of compliance with it since it was based on selective tests. Because there are inherent limitations in the effectiveness of any system of quality control, departures from the system may occur and not be detected. Also, projection of any evaluation of a system of quality control to future periods is subject to the risk that the system of quality control may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, the system of quality control for the accounting and auditing practice applicable to non-SEC issuers of Crowe Chizek and Company LLC in effect for the year ended June 30, 2007, has been designed to meet the requirements of the quality control standards for an accounting and auditing practice established by the AICPA, and was complied with during the year then ended to provide the firm with reasonable assurance of complying with professional standards.

\* \* \* \* \*

As is customary in a peer review, we have issued a letter under this date that sets forth comments relating to certain policies and procedures or compliance with them. The matters described in the letter were not considered to be of sufficient significance to affect the opinion expressed in this report.

*Moss Adams LLP*

**Attachment to the Peer Review Report of Crowe Chizek and Company LLC  
Description of the Peer Review Process**

**Overview**

Firms enrolled in the AICPA Center for Public Company Audit Firms (the Center) Peer Review Program have their system of quality control periodically reviewed by independent peers. These reviews are system and compliance oriented with the objective of evaluating whether:

The reviewed firm's system of quality control for its accounting and auditing practice applicable to non-SEC issuers has been designed to meet the requirements of the Quality Control Standards established by the AICPA.

The reviewed firm's quality control policies and procedures applicable to non-SEC issuers were being complied with to provide the firm with reasonable assurance of complying with professional standards.

A peer review is based on selective tests directed at assessing whether the design of and compliance with the firm's system of quality control for its accounting and auditing practice applicable to non-SEC issuers provides the firm with reasonable, not absolute, assurance of complying with professional standards. Consequently a peer review on the firm's system of quality control is not intended to, and does not, provide assurance with respect to any individual engagement conducted by the firm or that none of the financial statements audited by the firm should be restated.

The Center's Peer Review Committee (PRC) establishes and maintains review standards. At regular meetings and through report evaluation task forces, the PRC considers each peer review, evaluates the reviewer's competence and performance, and examines every report, letter of comments, and accompanying response from the reviewed firm that states its corrective action plan before the peer review is finalized. The Center's staff plays a key role in overseeing the performance of peer reviews working closely with the peer review teams and the PRC.

Once the PRC accepts the peer review reports, letters of comments, and reviewed firms' responses, they are maintained in a file available to the public. In some situations, the public file also includes a signed undertaking by the firm agreeing to specific follow-up action requested by the PRC.

Firms that perform audits or play a substantial role in the audit of one or more SEC issuers, as defined by the Public Company Accounting Oversight Board (PCAOB), are required to be registered with and have their accounting and auditing practice applicable to SEC issuers inspected by the PCAOB. Therefore, we did not review the firm's accounting and auditing practice applicable to SEC issuers.

**Planning the Review for the Firm's Accounting and Auditing Practice Applicable to Non-SEC Issuers**

To plan the review of Crowe Chizek and Company LLC, we obtained an understanding of (1) the nature and extent of the firm's accounting and auditing practice, and (2) the design of the firm's system of quality control sufficient to assess the inherent and control risks implicit in its practice. Inherent risks were assessed by obtaining an understanding of the firm's practice, such as the industries of its clients and other factors of complexity in serving those clients, and the organization of the firm's personnel into practice units. Control risks were assessed by obtaining an understanding of the design of the firm's system of quality control, including its audit methodology, and monitoring procedures. Assessing control risk is the process of evaluating the effectiveness of the reviewed firm's system of quality control in preventing the performance of engagements that do not comply with professional standards.

**Performing the Review of the Firm's Accounting and Auditing Practice Applicable to Non-SEC Issuers**

Based on our assessment of the combined level of inherent and control risks, we identified practice units and selected engagements within those units to test for compliance with the firm's quality control system. The engagements selected for review included engagements performed under the Government Auditing Standards, audits performed under FDICIA, and audits of Employee Benefit Plans. The engagements selected for review represented a cross-section of the firm's accounting and auditing practice with emphasis on higher-risk engagements. The engagement reviews included examining working paper files and reports and interviewing engagement personnel.

The scope of the peer review also included examining selected administrative and personnel files to determine compliance with the firm's policies and procedures for elements of quality control pertaining to independence, integrity, and objectivity; personnel management; and acceptance and continuance of clients and engagements. Prior to concluding the review, we reassessed the adequacy of scope and conducted a meeting with firm management to discuss our findings and recommendations.



300 North Main Street  
Versailles, KY 40383  
Telephone: (859) 256-3100  
www.kctcs.edu

October 1, 2008

Crowe Horwath LLP  
9600 Brownsboro Road, Suite 400  
Louisville, Kentucky 40241

Ladies and Gentlemen:

We are providing this letter in connection with your audits of the financial statements of Kentucky Community and Technical System ("System") as of June 30, 2008 and 2007 and for the years then ended for the purpose of expressing an opinion as to whether the financial statements present fairly, in all material respects, the financial position, results of operations and cash flows in conformity with accounting principles generally accepted in the United States of America.

Some representations in this letter are specifically limited to matters that are material. Items are considered material if they involve an omission or misstatement of accounting information that, in light of surrounding circumstances, makes it probable that the judgment of a reasonable person relying on the information would be changed or influenced by the omission or misstatement.

We confirm, to the best of our knowledge and belief, as of the date of this letter, the following representations made to you during your audits:

1. We are responsible for the fair presentation in the financial statements of financial position, results of operations, and cash flows in conformity with accounting principles generally accepted in the United States, and we believe the financial statements are fairly presented.
2. We are responsible for maintaining internal control that will, among other things, help assure the preparation of the financial statements in conformity with accounting principles generally accepted in the United States. We acknowledge our responsibility for the design and implementation of programs and controls to prevent and detect fraud.
3. We have made available to you all --
  - a. Financial records and related data.



- b. Minutes of regents, and committees of regents, or summaries of actions of recent meetings for which minutes have not yet been prepared.
4. We have no plans or intentions that might materially affect the carrying value or classification of assets and liabilities.
5. We have identified all accounting estimates that materially affect recorded amounts and disclosures in the financial statements, and the key factors and significant assumptions underlying those estimates. We believe the estimates are reasonable in the circumstances.
6. Adequate consideration and provision has been made, when necessary, for any material losses likely to be sustained from:
  - a. Impairment of long-lived assets when the carrying amount may not be recoverable.
  - b. Collection of receivables.
7. Except as disclosed in the financial statements, or directly to you, there are or have been no material:
  - a. Related party transactions and related amounts receivable or payable, including sales, purchases, loans, transfers, leasing arrangements and guarantees
  - b. Arrangements, either written or oral, with financial institutions involving compensating balances or other arrangements involving restrictions on cash balances and line-of-credit or similar arrangements
  - c. Other financial instruments with significant "off-balance-sheet" risk of accounting loss to which the System is a party
  - d. Asserted or unasserted claims or assessments that our lawyer has advised us are probable of assertion and must be disclosed in accordance with Statement of Financial Accounting Standards No. 5
  - e. Concentrations that make the System vulnerable to the risk of a severe impact within one year from the balance sheet date (including, for example, individual or group concentrations of customers, suppliers, lenders, products, services, sources of labor or materials, licenses or other rights, operating areas or markets)
  - f. Significant accounting estimates that are susceptible to changing materially as a result of an event or change in conditions that is reasonably possible of occurrence within one year from the balance sheet date
  - g. Liens, encumbrances or other title impairments, such as pledges as collateral, on System assets at the balance sheet date

- h. Restrictions under borrowing agreements
  - i. Unrecorded transactions
  - j. Significant events that have occurred subsequent to the balance sheet date through the date of this letter that would require adjustment to, or disclosure in, the financial statements
  - k. Declines in market value of investments that are not temporary
  - l. Expenditures deferred to future periods that are not recoverable
8. Except as disclosed to you, we have no knowledge of any fraud or suspected fraud affecting the System involving:
- a. Management, whether material or not.
  - b. Employees who have significant roles in internal control, whether material or not.
  - c. Others where the fraud could have a material effect on the financial statements.
9. Except as disclosed to you, we have no knowledge of any allegations of fraud or suspected fraud affecting the System received in communications from employees, former employees, regulators, or others.
10. Except as disclosed to you, there have been no:
- a. Violations or possible violations of laws or regulations whose effects should be considered for disclosure in the financial statements or as a basis for recording a loss.
  - b. Other material liabilities or gain or loss contingencies that are required to be accrued or disclosed by Statement of Financial Accounting Standards No. 5.
  - c. Communications from regulatory agencies concerning noncompliance with, or deficiencies in, financial reporting practices that could have a material effect on the financial statements.
11. We have complied with all aspects of contractual agreements that would have a material effect on the financial statements in the event of noncompliance.
12. In fiscal year 2008, we adopted the provisions of GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, and Statement No. 50, *Pension Disclosures – an Amendment of GASB Standards No. 25 and No. 27*.

13. We understand that during the course of your audit, you have relied on work performed by the following specialists. We confirm that we have no relationships with those specialists that may bear on their independence and objectivity, such as the ability through employment, ownership, contractual right, family relationship or otherwise to directly or indirectly control or significantly influence the specialist.
  - Mercer Health and Benefit Specialists
14. During the course of your audit, we have provided to you physical or electronic copies of various original documents. We understand that you are relying on such copies as audit evidence in your audit and represent that copies provide an accurate and completed representation of the original documentation and that the copies have not been modified from their original version.
15. All suggested adjusting journal entries, as discussed and approved, will be recorded in the accounting records.
16. With respect to federal award programs:
  - a. We are responsible for compliance with the laws, regulations, and provisions of contracts and grant agreements applicable to the System.
  - b. We are responsible for establishing and maintaining effective internal control over financial reporting.
  - c. We have identified and disclosed to you all laws, regulations, and provisions of contracts and grant agreements that have a direct and material effect on the determination of financial statement amounts.
  - d. We have identified and disclosed to you violations (or possible violations) of laws, regulations, and provisions of contracts and grant agreements whose effects should be considered for disclosure in the financial statements or as a basis for recording a loss contingency.
17. With respect to the requirements of the Office of Management and Budget Circular A-133 related to federal awards:
  - a. We are responsible for complying, and have complied, with the requirements of Circular A-133.
  - b. We have prepared (or reviewed) the Schedule of Expenditures of Federal Awards in accordance with Circular A-133 and have included expenditures made during the period being audited for all awards provided by federal agencies in the form of grants, federal cost-reimbursement contracts, loans, loan guarantees, property (including donated surplus property), cooperative agreements, interest subsidies, insurance, food commodities, direct appropriations, and other assistance.

- c. We are responsible for complying with the requirements of laws, regulations, and the provisions of contracts and grant agreements related to each of its federal programs.
- d. We are responsible for establishing and maintaining effective internal control over compliance for federal programs that provides reasonable assurance that the System is managing federal awards in compliance with laws, regulations, and the provisions of contracts or grant agreements that could have a material effect on its federal programs.
- e. We have identified and disclosed to you the requirements of laws, regulations and the provisions of contracts and grant agreements that are considered to have a direct and material effect on each federal program.
- f. We have made available all contracts and grant agreements (including amendments, if any) and any other correspondences that have taken place with federal agencies or pass-through entities and are related to federal programs.
- g. We have complied, in all material respects, with the compliance requirements in connection with federal awards except as disclosed to you.
- h. We have identified and disclosed to you all amounts questioned and any known noncompliance with the requirements of federal awards, including the results of other audits or program reviews.
- i. Our interpretations of any compliance requirements that have varying interpretations have been provided to you.
- j. We have made available to you all documentation related to the compliance requirements, including information related to federal program financial reports and claims for advances and reimbursements.
- k. Federal program financial reports and claims for advances and reimbursements are supported by the books and records from which the basic financial statements have been prepared, and are prepared on a basis consistent with the presented in the Schedule of Expenditures of Federal Awards.
- l. The copies of federal program financial reports provided to you are true copies of the reports submitted, or electronically transmitted, to the federal agency or pass-through entity, as applicable.
- m. If applicable, we have monitored subrecipients to determine that they have expended pass-through assistance in accordance with applicable laws and regulations and have met the requirements of Circular A-133.
- n. If applicable, we have issued management decisions on a timely basis after their receipt of subrecipients' auditor's reports that identified non-compliance with laws, regulations, or the provisions of contracts or grant agreements, and have ensured


that subrecipients have taken the appropriate and timely corrective action on findings.

- o. If applicable, we have considered the results of subrecipient audits and have made any necessary adjustments to their own books and records.
- p. We are responsible for and have accurately prepared the summary schedule of prior audit findings to include all findings required to be included by Circular A-133.
- q. We have provided you with all information on the status of the follow-up on prior audit findings by federal awarding agencies and pass-through entities, including all management decisions.
- r. We have accurately completed the appropriate sections of the data collection form, or have reviewed those sections as prepared by you.
- s. If applicable, we have disclosed all contracts or other agreements with the service organizations.
- t. If applicable, we have disclosed to you all communications from the service organization relating to noncompliance at the service organization.
- u. We have disclosed any known noncompliance occurring subsequent to the period for which compliance is audited.
- v. We have disclosed whether any changes in internal control over compliance or other factors that might significantly affect internal control, including any corrective action taken by management with regard to reportable conditions (including material weaknesses), have occurred subsequent to the date as of which compliance is audited.
- w. We have identified the requirements regarding activities allowed or unallowed; allowable costs/cost principles, cash management, Davis-Bacon Act; eligibility; equipment and real property management; matching, level of effort, earmarking; period of availability of federal funds; procurement; program income; real property acquisition and relocation assistance; reporting; subrecipient monitoring; special tests and provisions that are applicable to major programs, which are identified in the Schedule of Expenditures of Federal Awards.
- x. We have complied with reporting requirements in connection with federal awards, and information presented in federal financial reports and claims for advances and reimbursements is supported by the accounting records from which the financial statements and the Schedule of Expenditures of Federal Awards were prepared.
- y. Amounts claimed or used for matching, if applicable, were determined in accordance with relevant guidelines in OMB Circular A-122, "Cost Principles for Nonprofit Organizations," and Subpart C, "Cost Sharing and Matching," of OMB

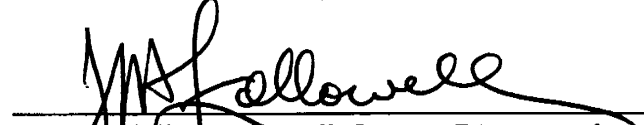
Circular A-110, "Grants and Agreements with Institutions of Higher Education, Hospitals, and Other Nonprofit Organizations."

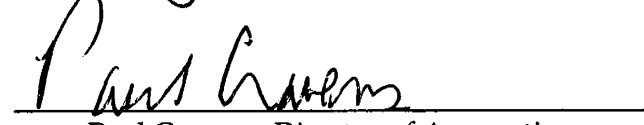
18. We believe the exclusion of the endowment pledges is accurate in accordance with GASB No. 33.
19. Net Asset components (invested in capital assets, net of related debt; restricted; and unrestricted) and are properly classified and, if applicable, approved.
20. There were no waived adjustments.


  
Michael B. McCall, President

  
J. Kenneth Walker, Vice President of Finance

  
Gloria S. McCall, Vice Chancellor

  
Wendell A. Followell, System Director of  
Business Services

  
Paul Cravens, Director of Accounting

  
Terri Scales, Director of Sponsored Projects  
Accounting

**COMPLIANCE WITH HOUSE BILL 622**



Crowe Horwath LLP  
Member Horwath International

REPORT OF INDEPENDENT AUDITORS ON  
COMPLIANCE WITH HOUSE BILL 622  
(KRS 164A.555 TO 164A.630) BASED ON  
THE AUDIT OF FINANCIAL STATEMENTS

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

We have audited the financial statements of Kentucky Community and Technical College System (the "System") as of June 30, 2008 and for the year then ended, and have issued our report thereon dated October 1, 2008.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller of the United States, and the "Minimum Audit Scope Compliance House Bill 622 (KRS 164A.555 to 164A.630)," dated August 1983, issued by the Commonwealth of Kentucky Finance and Administration Cabinet. Those standards and the "Minimum Audit Scope Compliance House Bill 622 (KRS 164A.555 to 164A.630)" require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

Compliance with the provisions of House Bill 622 applicable to the System is the responsibility of the management of the System. As part of obtaining reasonable assurance about whether the financial statements are free of material misstatement, we performed tests of the System's compliance with applicable provisions of House Bill 622. However, the objective of our audit was not to provide an opinion on overall compliance with such provisions. Accordingly, we do not express such an opinion.

The results of our tests disclosed no instances of noncompliance that are required to be reported therein under the "Minimum Audit Scope Compliance with House Bill 622 (KRS 164A.555 to 164A.630)".

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

Crowe Horwath LLP

Louisville, Kentucky  
October 1, 2008

**CLOSING PACKAGE LETTER**



Crowe Horwath LLP  
Member Horwath International

## REPORT OF INDEPENDENT AUDITORS

Board of Regents  
Kentucky Community and  
Technical College System  
and  
Honorable Crit Luallen  
Auditor of Public Accounts  
Commonwealth of Kentucky  
and  
Secretary of Finance and  
Administration Cabinet of  
the Commonwealth of Kentucky

We have audited the financial statements of the business-type activities of Kentucky Community and Technical College System (the "System"), a component unit of the Commonwealth of Kentucky, as of June 30, 2008, which comprise the System's basic financial statements. The basic financial statements have been audited, however, they are not presented as part of this "Closing Package". The basic financial statements should be read in conjunction with the following auditors' opinion. Our opinion read as follows:

We have audited the accompanying financial statements of the business-type activities of Kentucky Community and Technical College System (the "System"), as of and for the year ended June 30, 2008 and 2007, which comprise the System's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the System's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the basic 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 financial position of the business-type activities of Kentucky Community and Technical College System as of June 30, 2008 and 2007, and the

changes in net assets and cash flows, for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

As discussed in Notes 1 and 10 to the financial statements, the System has adopted the provisions of GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other than Pensions*, and Statement No. 50, *Pension Disclosures – and Amendment of GASB Standards No. 25 and No. 27*.

The Management's Discussion and Analysis on pages 3 through 13 is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 1, 2008, on our consideration of the System's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Our audit was made for the purpose of forming an opinion on the basic financial statements taken as a whole. The accompanying "Closing Package" information for Kentucky Community and Technical College System, prepared on the accompanying standard forms from the Commonwealth of Kentucky relative to the Commonwealth of Kentucky Basic Financial Statements as of June 30, 2008 and for the year then ended, is presented for purposes of additional analysis and is not a required part of the basic financial statements of Kentucky Community and Technical College System. Such information has been subjected to the auditing procedures applied in our audit of the basic financial statements, and in our opinion, is fairly stated in all material respects, in relation to the basic financial statements taken as a whole.

This report is intended solely for the information and use of the Board of Regents and management of the System, the Auditor of Public Accounts of the Commonwealth of Kentucky, and the officials of the Finance and Administration Cabinet of the Commonwealth of Kentucky, and is not intended to be and should not be used by anyone other than these specified parties.

*Crowe Horwath LLP*

Crowe Horwath LLP

Louisville, Kentucky  
October 1, 2008

## **REPRESENTATION LETTER**

# Crowe Horwath™

Crowe Horwath LLP  
Member Horwath International

The Honorable Crit Luallen  
Auditor of Public Accounts  
Commonwealth of Kentucky  
105 Sea Hero Road, Suite 2  
Frankfort, KY 40601

As auditors of Kentucky Community and Technical College System for the year ended June 30, 2008, we are independent of the System and the Commonwealth oversight entity in accordance with the objectivity and independence standards of ET Sections 55, 101, and 102 of the Code of Professional Conduct of the American Institute of Certified Public Accountants. Furthermore, we are in compliance with auditing standards generally accepted in the United States of America and *Government Auditing Standards* concerning continuing education requirements, independence, internal quality control system, and peer review requirements.

A handwritten signature in black ink that reads "Crowe Horwath LLP". The signature is written in a cursive, flowing style.

Crowe Horwath LLP

Louisville, Kentucky  
October 1, 2008

**LEASE LAW COMPLIANCE LETTER**

# Crowe Horwath™

Crowe Horwath LLP  
Member Horwath International

October 1, 2008

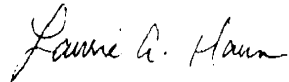
Mr. Sherron Jackson, Assistant Vice President  
EEO and Finance  
Commonwealth of Kentucky  
Council on Postsecondary Education  
1024 Capital Center Drive, Suite 320  
Frankfort KY 40601-8204

Dear Mr. Jackson:

We have reviewed the provisions of KRS 56.800 through 56.823, KRS 48.111 and KRS 48.190 as well as the Model Audit Program Checklist for Lease Law Compliance for Postsecondary Education Institutions. Based on our review of these documents and the leasing arrangements of the Kentucky Community and Technical College System, there are no leases which require an audit of lease law compliance for the year ended June 30, 2008.

Sincerely,

Crowe Horwath LLP



Laurie A. Haun