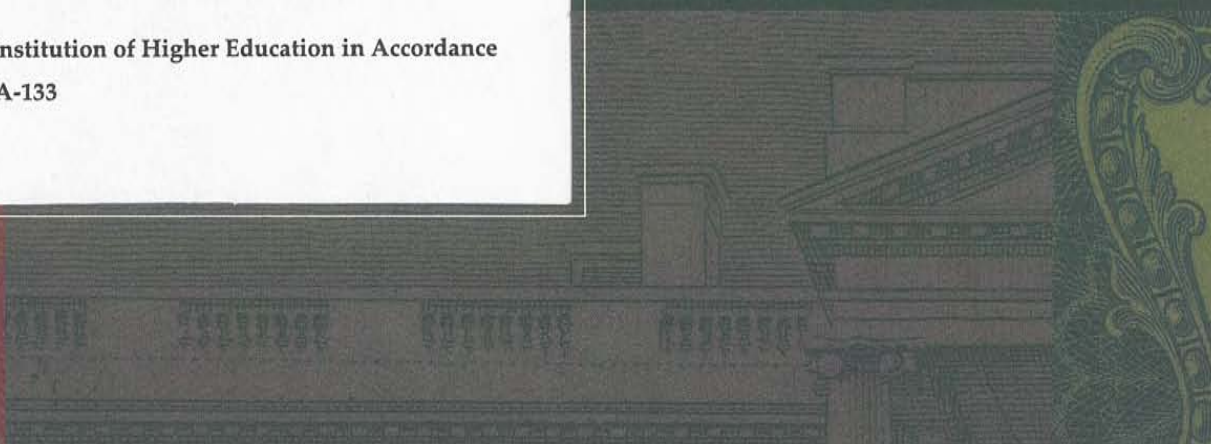


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**KENTUCKY COMMUNITY AND
TECHNICAL COLLEGE SYSTEM**

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

June 30, 2010



KENTUCKY COMMUNITY AND TECHNICAL COLLEGE SYSTEM

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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, 2010, 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, 2009, were audited by other auditors whose report dated October 1, 2009, 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, 2010, 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 15 and the Schedule of Funding Progress for the Retiree Medical Plan on page 66 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 October 1, 2010 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 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.

October 1, 2010
Lexington, Kentucky

A handwritten signature in black ink that reads "Dean Holston Ford, PSC". 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, 2010 and 2009. 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, 2010, with assets of \$989.6 million and liabilities of \$164.9 million. Net assets, which represent KCTCS' residual interest in assets after liabilities are deducted, were \$824.7 million or 83.3 percent of total assets. Net assets at June 30, 2009 were 87.5 percent of total assets. Financial operations were in accordance with the revenue expectations and the approved expenditure plan.
- Total assets increased \$111.7 million or 12.7 percent. The increase is primarily in capital assets, cash and investments.
- Total liabilities increased by \$55.1 million or 50.1 percent. The principal items of increase were employee withholdings, leases payable, and other long-term obligations.
- Total net assets increased \$56.6 million, or 7.4 percent. This resulted primarily from a \$1.9 million loss before other revenues, expenses, gains and losses, capital construction proceeds from the Commonwealth of Kentucky of \$57.1 million and increases to endowments of \$2.6 million.
- Operating revenues were \$202.4 million and operating expenses were \$653.0 million, resulting in a loss from operations of \$450.6 million. Nonoperating revenues of \$448.7 million (including \$200.6 million in state appropriations) resulted in \$1.9 million loss before other revenue. Other revenues were \$58.5 million in 2010.

Using the Financial Statements

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

Reporting Entity

The Kentucky Community and Technical College System is a component unit of the Commonwealth of Kentucky. KCTCS was created in May 1997 by The Higher Education Improvement Act (House Bill 1) of the Kentucky General Assembly. Since its creation, KCTCS has become the largest provider of postsecondary education and workforce training in the Commonwealth. KCTCS colleges provide both credit and noncredit instruction primarily to state residents. In fact, for most Kentuckians the journey to higher education begins at one of KCTCS' 16 colleges located on 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. KCTCS offers instructional programs in each of the Commonwealth's correctional institutions as well. All KCTCS colleges have Southern Association of Colleges and Schools (SACS) accreditation as consolidated comprehensive community and technical colleges.

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

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

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

KENTUCKY COMMUNITY AND TECHNICAL COLLEGE SYSTEM

Management's Discussion and Analysis

Statement of Net Assets

The Statement of Net Assets presents the financial position of KCTCS at the end of the fiscal year and includes all assets and liabilities. Net assets, the difference between total assets and total liabilities, are an important indicator of the current financial condition. Assets and liabilities are generally reported using current values. The major exception is capital assets, which are stated at historical cost, less accumulated depreciation. A summary of the assets, liabilities and net assets of KCTCS at June 30, 2010, 2009 and 2008, is as follows:

Condensed Statement of Net Assets (amounts in thousands)

	2010	2009	2008
ASSETS			
Current assets	\$ 274,969	\$ 248,689	\$ 226,233
Noncurrent assets	714,633	629,210	556,851
Total Assets	989,602	877,899	783,084
LIABILITIES			
Current liabilities	71,846	60,510	58,820
Noncurrent liabilities	93,086	49,355	32,628
Total Liabilities	164,932	109,865	91,448
NET ASSETS			
Invested in capital assets, net of related debt	542,756	514,824	443,713
Restricted			
Nonexpendable	26,688	17,258	17,127
Expendable	71,497	99,995	85,216
Unrestricted	183,729	135,957	145,580
Total Net Assets	\$ 824,670	\$ 768,034	\$ 691,636

Assets: As of June 30, 2010, total assets amounted to \$989.6 million. Of this amount, investment in capital assets (net of depreciation) of \$568.5 million, or 57.4 percent of total assets, represented the largest asset class. Cash and cash equivalents amounted to \$261.0 million or 26.4 percent, and loans and accounts receivable amounted to \$40.7 million or 4.1 percent of total assets. During the year, total assets increased by \$111.7 million, primarily in cash, investments, and capital assets.

Liabilities: As of June 30, 2010, total liabilities amounted to \$164.9 million. Capital leases and other long-term obligations amounted to \$96.2 million, or 58.3 percent of total liabilities. During the year, total liabilities increased by \$55.1 million, primarily because of employee withholdings, leases payable, and other long-term obligations.

KENTUCKY COMMUNITY AND TECHNICAL COLLEGE SYSTEM

Management's Discussion and Analysis

Net Assets: The equity of KCTCS of \$824.7 million as of June 30, 2010 is reported on the Statement of Net Assets in four net asset categories: invested in capital assets, net of related debt, \$542.8 million (65.8 percent); restricted-nonexpendable \$26.7 million (3.2 percent); restricted expendable, \$71.5 million (8.7 percent); and unrestricted, \$183.7 million (22.3 percent).

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

Total net assets increased by \$56.6 million during the year ended June 30, 2010. This increase was comprised primarily of an unrestricted assets increase of \$47.8 million.

2009 Versus 2008

- As of June 30, 2009, total assets amounted to \$877.9 million. Of this amount, investment in capital assets (net of depreciation) of \$529.1 million, or 60.3 percent of total assets, represented the largest asset class. Cash and cash equivalents amounted to \$206.0 million or 23.5 percent, and loans and accounts receivable amounted to \$70.2 million or 8.0 percent of total assets. During the year, total assets increased by \$94.8 million. The increase was primarily in cash and cash equivalents and capital assets.
- As of June 30, 2009, total liabilities amounted to \$109.9 million. Capital leases and other long-term obligations amounted to \$51.5 million, or 46.9 percent of total liabilities. During the year, total liabilities increased by \$18.4 million, primarily the result of other post employment obligation required by GASB No. 45.
- Total net assets increased by \$76.4 million during the year ended June 30, 2009. Invested in capital assets, net of related debt, increased by \$71.1 million. Restricted net assets increased by \$14.9 million as capital project assets increased. Unrestricted net assets decreased \$9.6 million, mainly due to overall expenditures in excess of revenues.

Statement of Revenues, Expenses and Changes in Net Assets

The Statement of Revenues, Expenses and Changes in Net Assets is prepared using the accrual basis of accounting. The change in net assets is an indicator of whether the overall financial position has improved or declined during the year. All items that increase or decrease net assets must appear on the Statement of Revenues, Expenses and Changes in Net Assets as revenues, expenses, gains or losses.

Financial activities are reported as either operating or nonoperating. GASB Statement No. 35 requires state appropriations, certain grants, gifts and investment and endowment income to be classified as nonoperating revenues. Accordingly, KCTCS reports an operating loss for the year prior to the addition of nonoperating revenues. The utilization of long-lived capital assets is reflected in the financial statements as depreciation, which amortizes the cost of an asset over its expected useful life. Tuition is reduced by scholarships. Institutional aid and grants-in-aid funded by federal and state grants are reported net of scholarship allowances. A summary of the Statement of Revenues, Expenses and Changes in Net Assets for the years ended June 30, 2010, 2009, and 2008 is presented on the following page.

KENTUCKY COMMUNITY AND TECHNICAL COLLEGE SYSTEM

Management's Discussion and Analysis

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

	<u>2010</u>	<u>2009</u>	<u>2008</u>
OPERATING REVENUES			
Student tuition and fees, net	\$ 107,009	\$ 96,147	\$ 92,336
Grants and contracts	84,647	78,518	76,338
Auxiliary enterprises	-	-	596
Other operating revenue	10,757	9,583	8,432
Total operating revenues	<u>202,413</u>	<u>184,248</u>	<u>177,702</u>
OPERATING EXPENSES			
Educational and general, excluding depreciation	627,878	523,648	506,373
Depreciation	25,122	22,859	19,634
Total operating expenses	<u>653,000</u>	<u>546,507</u>	<u>526,007</u>
OPERATING LOSS	(450,587)	(362,259)	(348,305)
NONOPERATING REVENUES (EXPENSES)			
State appropriations	200,555	214,931	221,844
Federal and state grants and contracts	211,794	140,387	122,358
Other nonoperating revenues	36,332	18,336	26,373
Total nonoperating revenues	<u>448,681</u>	<u>373,654</u>	<u>370,575</u>
Income before other revenues, expenses, gains or losses	(1,906)	11,395	22,270
Capital construction appropriations	57,131	70,126	49,074
Net realized loss on disposal of capital assets	(1,214)	(291)	(200)
Additions to endowments	2,625	(4,832)	(942)
Total other revenues (expenses)	<u>58,542</u>	<u>65,003</u>	<u>47,932</u>
Total increase in net assets	56,636	76,398	70,202
Net assets, beginning of year	<u>768,034</u>	<u>691,636</u>	<u>621,434</u>
Net assets, end of year	<u>\$ 824,670</u>	<u>\$ 768,034</u>	<u>\$ 691,636</u>

KENTUCKY COMMUNITY AND TECHNICAL COLLEGE SYSTEM

Management's Discussion and Analysis

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

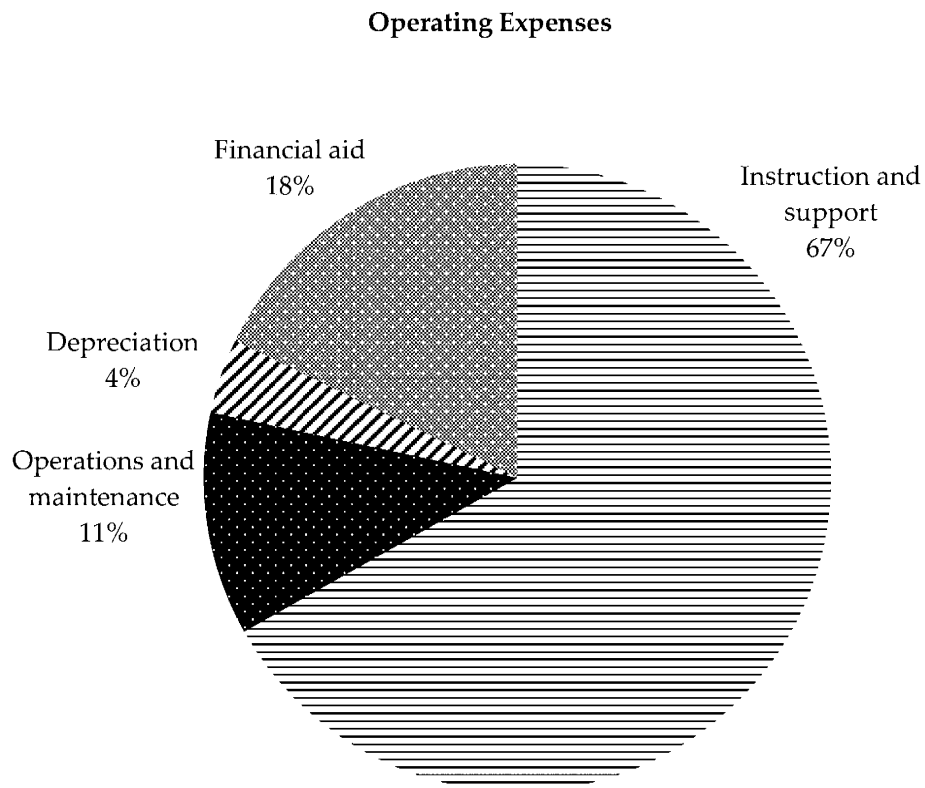
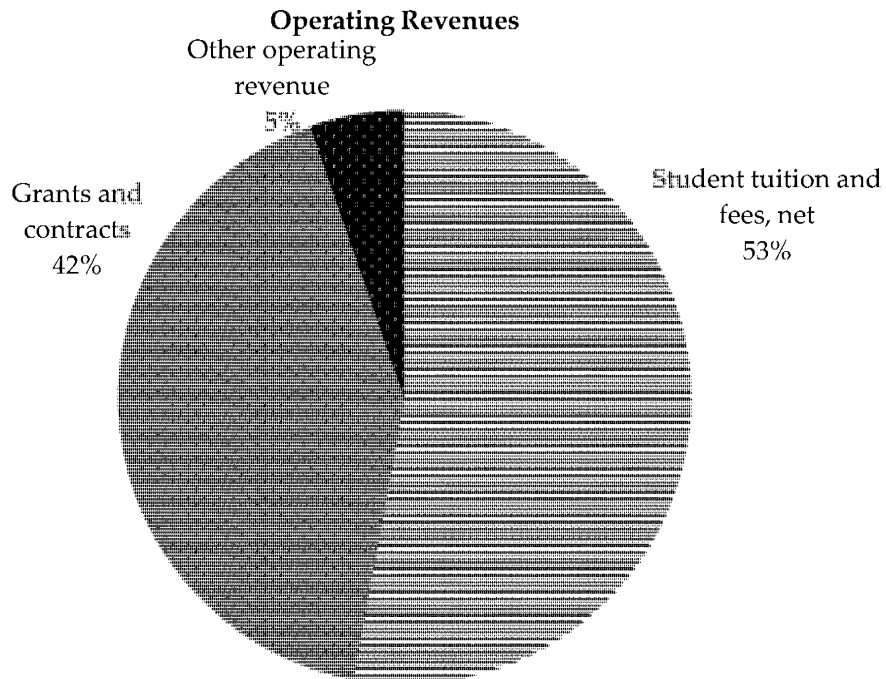
Operating expenses totaled \$653.0 million. Of this amount, \$627.9 million (96.2 percent of total operating expenses) was expended for educational and general programs, including instruction, academic support, libraries, public service, student services, institutional support, and operations and maintenance (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 and other revenues reflect a \$68.6 million increase due primarily to decreases in capital construction proceeds of \$13.0 million, federal and state grants and contracts increase of \$71.4 million, and decreases in state appropriations of \$14.4 million, other nonoperating revenues increases of \$18.0 million, and additions to endowments of \$7.5 million.

KENTUCKY COMMUNITY AND TECHNICAL COLLEGE SYSTEM

Management's Discussion and Analysis

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



KENTUCKY COMMUNITY AND TECHNICAL COLLEGE SYSTEM

Management's Discussion and Analysis

2009 Versus 2008

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

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

The loss from operations for the year amounted to \$362.3 million. Nonoperating and other revenues, net of related expenses, amounted to \$438.7 million, resulting in an increase in net assets of \$76.4 million for the year. Nonoperating revenues include state appropriations of \$214.9 million (49.0 percent of total nonoperating and other revenues).

Statement of Cash Flows

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

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

A comparative summary of KCTCS' statement of cash flows for the years ended June 30, 2010 and 2009 is as follows:

Condensed Statement of Cash Flows (amounts in thousands)

	<u>2010</u>	<u>2009</u>	<u>2008</u>
Cash provided (used) by:			
Operating activities	\$ (375,108)	\$ (326,006)	\$ (341,493)
State appropriation	200,555	214,931	221,844
Other noncapital financing activities	273,903	172,007	152,175
Capital and related financing activities	(9,119)	(64,413)	(29,004)
Investing activities	<u>(35,210)</u>	<u>(12,004)</u>	<u>(15,102)</u>
Net increase (decrease) in cash and cash equivalents	55,021	(15,485)	(11,580)
Cash and cash equivalents, beginning of year	<u>205,959</u>	<u>221,444</u>	<u>233,024</u>
Cash and cash equivalents, end of year	<u>\$ 260,980</u>	<u>\$ 205,959</u>	<u>\$ 221,444</u>

Major sources of cash received from operating activities 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).

KENTUCKY COMMUNITY AND TECHNICAL COLLEGE SYSTEM

Management's Discussion and Analysis

Capital and related financing activities include capital appropriations from the Commonwealth of Kentucky of \$45.8 million, proceeds from disposal of capital assets of \$0.1 million and proceeds from new capital debt and leases of \$14.1 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 of \$35.2 million include interest and dividends of \$5.6 million. Cash of 41.0 million was used to purchase additional investments.

2009 Versus 2008

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

Capital and related financing activities include capital appropriations from the Commonwealth of Kentucky of \$30.4 million. Cash of \$94.5 million was expended for construction and acquisition of capital assets and \$2.9 million was expended for principal and interest payments on debt.

Investing activities include \$22.4 million used to purchase additional investments and interest and dividends on investments of \$10.4 million.

Capital Assets and Debt Administration

Capital assets, net of accumulated depreciation, totaled \$568.5 million at June 30, 2010, an increase of \$39.4 million. Capital assets as of June 30, 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>2008</u>	Net Additions FY 2009	Balance June 30, <u>2009</u>	Net Additions FY 2010	Balance June 30, <u>2010</u>
Land and land improvements	\$ 31,822	\$ 1,193	\$ 33,015	\$ 1,426	\$ 34,441
Buildings and infrastructures	475,034	44,908	519,942	137,047	656,989
Equipment, autos and campus improvements	83,134	5,817	88,951	12,692	101,643
Library holdings	53,270	1,252	54,522	1,229	55,751
Construction in progress	100,474	33,219	133,693	(91,709)	41,984
Assets under capital lease obligations	<u>2,260</u>	<u>2,723</u>	<u>4,983</u>	<u>-</u>	<u>4,983</u>
Total assets	745,994	89,112	835,106	60,685	895,791
Accumulated depreciation	<u>(286,974)</u>	<u>(18,983)</u>	<u>(305,957)</u>	<u>(21,318)</u>	<u>(327,275)</u>
Capital assets, net	<u>\$ 459,020</u>	<u>\$ 70,129</u>	<u>\$ 529,149</u>	<u>\$ 39,367</u>	<u>\$ 568,516</u>

At June 30, 2010, KCTCS had capital construction projects in progress totaling \$42.0 million. These projects are principally financed by appropriations and bond proceeds from the Commonwealth of Kentucky.

Debt

At June 30, 2010, debts consisted of 120 capital leases totaling \$25.8 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:

- Following three recurring state appropriation reductions since December 2007 totaling \$17.9 million (8 percent of the original 2007-08 state appropriation to KCTCS), KCTCS ended 2008-09 with a revised state appropriation of \$214.9 million. During its 2009 special session, the Kentucky General Assembly approved a budget balancing plan for 2009-10 and appropriated to KCTCS \$214.9 million for 2009-10 from a combination of state appropriation and federal State Fiscal Stabilization Funds. KCTCS ended 2009-10 with a revised state appropriation of \$200,554,700 and federal State Fiscal Stabilization Funds of \$14,376,500.
- The KCTCS Board of Regents has approved a 2010-11 operating budget totaling \$827.1 million and a 2010-11 capital budget totaling \$150.8 million. The 2010-11 operating budget includes unrestricted budget reserve funds of which \$13.2 million is nonrecurring and \$4.4 million is recurring. Total unrestricted reserve funds for 2010-11 equal \$17.6 million. The reserve funds are for each college and for the system-wide operations and support programs.
- Tuition rates for 2010-11 have been increased from \$125 per credit hour to \$130 per credit hour for resident students. Nonresident students from counties contiguous to Kentucky will pay \$260 per credit hour. Other nonresident students will pay \$445 per credit hour. Online students will pay \$130 per credit hour.
- The 2010 General Assembly enacted House Bill 160 (HB160), the Transfer Bill. 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, is creating a common course numbering system among its 16 colleges. HB160 takes effect in the 2012-2013 academic year for first-time students.
- Official fall 2009 enrollment was 100,348 students. This was an 11.6 percent increase in fall 2009 compared to the 89,942 students who attended KCTCS in 2008. Student financial aid and enrollment applications have again increased in fall 2010 over fall 2009.
- KCTCS is implementing a system-wide multi-year major gifts campaign titled "Fulfilling the Promise." The campaign goal is \$100 million. As of June 30, 2010, total gifts and pledges received were approximately \$96.5 million.
- Changes in governmental accounting standards that took effect in 2007-08 required KCTCS to record on its financial statements an obligation for postemployment benefits for its 403(b) benefit plan employees. 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 choose to participate in a 403(b) retirement plan, postemployment health benefits will no longer be provided by KCTCS. The postemployment obligation for the year ending June 30, 2010 had a total estimated present value cost of \$284 million calculated at a four percent discount rate using a 30-year amortization schedule. The 2009-10 expense required to retire this future obligation was \$20.4 million; \$18.3 million of this total was invested with the Commonfund to offset future obligations.

KENTUCKY COMMUNITY AND TECHNICAL COLLEGE SYSTEM

Management's Discussion and Analysis

In June 2010 in order to further reduce this obligation 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 one-time catch-up accrued expense of approximately \$14.7 million. This charge was expensed and funds were invested with the Commonfund in an account established for accrued future obligations. Additional annual accrued expenses over the remaining 12 years (fiscal years 2011 through 2022) will be increased by approximately \$4.9 million due to the reduced amortization period of 15 versus 30 years. This change results in estimated accumulated savings of more than \$60 million to KCTCS by 2022.

- Despite the current economic situation, KCTCS continues to maintain its firm commitment to the vision and goals of the Postsecondary Education Improvement Act of 1997 (House Bill 1). During 2009-10 the KCTCS Board of Regents adopted the *KCTCS Strategic Plan 2010-2016*. The Plan's vision is for 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 associated degree) and a successful career path. The plan includes five goals with specific performance indicators and six-year targets creating a yardstick for measuring 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.
- In 2010-11 the KCTCS President's Leadership Initiative is entitled "TRANSFORMATION". The KCTCS President will transform KCTCS by revising the *KCTCS Business Plan* to achieve the goals, performance measures, and targets outlined in the new *KCTCS Strategic Plan 2010-2016*. The *KCTCS Business Plan* supports the three KCTCS mission areas of:
 - Workforce Education
 - Transfer Education
 - College and Workforce Readiness
- The *KCTCS Business Plan* will focus on high school students, incumbent workers, and unemployed adults by implementing access, retention, and success strategies that result in more KCTCS students being gainfully employed in high demand occupations in Kentucky and/or their pursuing a baccalaureate degree at a Kentucky four-year institution. The Business Plan will include:
 - Key strategies to achieve *KCTCS Strategic Goals, Measures, and Targets*.
 - Strategic Needs Analysis of resources required to fund key strategies.
 - Resource Development Plan to fund implementation of key strategies.

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

KENTUCKY COMMUNITY AND TECHNICAL COLLEGE SYSTEM

Statement of Net Assets

June 30, 2010 and 2009

(amounts in thousands)

	<u>2010</u>	<u>2009</u>
Assets		
Current assets:		
Cash and cash equivalents	\$ 239,152	\$ 184,207
Short-term investments	38	41
Loans, accounts and gift receivables, net of allowances	33,873	62,344
Other current assets	1,906	2,097
Total current assets	274,969	248,689
Noncurrent assets:		
Restricted cash and cash equivalents	21,828	21,752
Loans and other receivables	6,805	7,826
Endowment investments	29,007	24,877
Other long-term investments	88,477	45,606
Capital assets, net	568,516	529,149
Total noncurrent assets	714,633	629,210
Total assets	989,602	877,899
Liabilities		
Current liabilities:		
Accounts payable and accrued expenses	9,052	7,032
Employee withholdings and deposits	22,729	13,342
Compensated absences	11,095	11,510
Deferred revenue	25,904	26,445
Leases payable - current	3,066	2,181
Total current liabilities	71,846	60,510
Noncurrent liabilities:		
Leases payable - noncurrent	22,694	12,145
Other long-term obligations	70,392	37,210
Total noncurrent liabilities	93,086	49,355
Total liabilities	164,932	109,865
Net Assets		
Invested in capital assets, net of related debt	542,756	514,824
Restricted for:		
Nonexpendable		
Scholarships, instruction, and other	26,688	17,258
Expendable		
Scholarships, instruction, and other	19,520	22,868
Loans	16,791	16,411
Capital projects	35,186	60,716
Unrestricted	183,729	135,957
Total net assets	\$ 824,670	\$ 768,034

See accompanying notes.

KENTUCKY COMMUNITY AND TECHNICAL COLLEGE SYSTEM

Statement of Revenues, Expenses and Changes in Net Assets

June 30, 2010 and 2009

(amounts in thousands)

	<u>2010</u>	<u>2009</u>
Operating revenues		
Student tuition and fees	\$ 223,576	\$ 183,479
Less: Scholarship allowances	(116,567)	(87,332)
Net tuition and fees	107,009	96,147
Federal grants and contracts	44,117	40,190
State and local grants and contracts	40,563	38,316
Nongovernmental grants and contracts	(33)	12
Indirect cost recoveries	1,974	1,485
Sales and services	5,478	4,644
Other revenues	3,305	3,454
Total operating revenues	202,413	184,248
Operating expenses		
Educational and general:		
Instruction	237,567	214,360
Public service	36,662	34,372
Libraries	6,688	6,195
Academic support	29,509	27,305
Student services	51,738	45,421
Institutional support	74,317	70,309
Operation and maintenance of physical plant	75,108	55,297
Depreciation	25,122	22,859
Student financial aid	116,289	70,389
Total operating expenses	653,000	546,507
Operating loss	(450,587)	(362,259)
Nonoperating revenues (expenses)		
State appropriations	200,555	214,931
Federal and local appropriations	17,682	43
Federal and state grants and contracts	211,794	140,387
Gifts	3,084	4,372
Investment income	9,094	6,640
Interest expense - capital debt	(631)	(564)
Other nonoperating revenues	7,103	7,845
Net nonoperating revenues	448,681	373,654
(Loss) income before other revenues, expenses, gains or losses	(1,906)	11,395
Capital construction proceeds from state	57,131	70,126
Net realized loss on disposal of capital assets	(1,214)	(291)
Additions (reductions) to endowments	2,625	(4,832)
Total other revenues	58,542	65,003
Increase in net assets	56,636	76,398
Net assets, beginning of year	768,034	691,636
Net assets, end of year	\$ 824,670	\$ 768,034

See accompanying notes.

KENTUCKY COMMUNITY AND TECHNICAL COLLEGE SYSTEM

Statement of Cash Flow

June 30, 2010 and 2009

(amounts in thousands)

	<u>2010</u>	<u>2009</u>
Cash flows from operating activities:		
Tuition and fees	\$ 146,990	\$ 110,573
Grants and contracts	83,250	77,058
Indirect cost recoveries	1,974	1,485
Sales and services	5,478	4,644
Payments to vendors and contractors	(137,478)	(131,892)
Student financial aid	(114,847)	(63,879)
Salaries and wages	(364,372)	(328,317)
Other receipts	3,897	4,322
Net cash from operating activities	(375,108)	(326,006)
Cash flows from noncapital financing activities:		
State appropriations	200,555	214,931
Federal state and local grants, contracts, and appropriations	229,476	140,429
Gifts received for non-capital purposes	4,142	5,730
Other liabilities	33,182	18,003
Other nonoperating receipts	7,103	7,845
Net cash from noncapital financing activities	474,458	386,938
Cash flows from capital and related financing activities		
Capital appropriations	45,781	30,412
Proceeds from disposal of capital assets	63	1,243
Purchase of capital assets	(65,766)	(94,523)
Principal paid on leases	(2,639)	(2,304)
Proceeds from leases	14,073	1,323
Interest paid on leases	(631)	(564)
Net cash from capital and related financing activities	(9,119)	(64,413)
Cash flows from investing activities		
Proceeds from sales and maturities of investments	281	889
Interest on investments	5,553	10,361
Purchase of investments	(41,044)	(23,254)
Net cash from investing activities	(35,210)	(12,004)
Net change in cash	55,021	(15,485)
Cash, beginning of year	205,959	221,444
Cash, end of year	\$ 260,980	\$ 205,959
Reconciliation of net operating loss to net cash from operating activities:		
Operating loss	\$ (450,587)	\$ (362,259)
Adjustments to reconcile net operating loss to net cash provided by (used in) operating activities		
Depreciation expense	25,122	22,859
Increase (decrease) in cash due to change in:		
Notes, loans and accounts receivable, net	39,715	12,083
Other assets	191	(84)
Accounts payable and accrued liabilities	2,020	(1,388)
Employee withholdings and deposits	9,387	(12)
Compensated absences	(415)	1,045
Deferred revenue	(541)	1,750
Net cash from operating activities	\$ (375,108)	\$ (326,006)

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 (the Commonwealth) and is included in the basic financial statements of the Commonwealth.

KCTCS has adopted the provisions of Government Accounting Standards Board (GASB) Statement No. 39, *Determining Whether Certain Organizations Are Component Units*. This statement provided additional guidance to be used in determining whether certain organizations for which KCTCS is not financially accountable should be reported as component units based on the nature and significance of their relationship with KCTCS. KCTCS has considered whether several organizations have met the criteria for inclusion as component units. Currently, KCTCS believes none of these organizations are component units.

Basis of Presentation

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

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

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

Accrual Basis

The financial statements have been prepared on the accrual basis of accounting. Under the accrual basis of accounting, revenues are recognized when earned and expenses are recorded when an obligation has been incurred. KCTCS reports as a Business Type Activity (BTA) as defined by GASB No. 35. BTAs are those activities that are financed in whole or in part by fees charged to external parties for goods and services.

Cash and Cash Equivalents

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

KENTUCKY COMMUNITY AND TECHNICAL COLLEGE SYSTEM

Notes to Financial Statements

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

Cash and Cash Equivalents (continued)

Cash and cash equivalents consist of deposits in local banks of \$29.7 million, and with the Commonwealth of Kentucky of \$231.3 million. Deposits with local banks and investment in repurchase agreements are covered by federal depository insurance or collateralized by securities held in KCTCS' name by its agents. Deposits with the Commonwealth are covered by federal depository insurance or collateralized by securities held by the Commonwealth in the Commonwealth's name.

Pooled Endowment Funds

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

Uniform Prudent Management of Institutional Funds Act

The *Uniform Management of Institutional Funds Act* (UMIFA), as adopted by the Commonwealth of Kentucky, permits KCTCS to appropriate an amount of the realized and unrealized endowment appreciation to support current programs. Accordingly, spendable return of the endowment is determined using the total return philosophy. The philosophy recognizes a prudent amount of the increase in the fair value of investments (realized and unrealized gains) as spendable return in addition to interest and dividends earned. Distribution of investment earnings for expenditure by participating funds is supported first by interest and dividends and, if necessary and available, a transfer from the endowment of any prior years' accumulated earnings or net realized gain on sales. Due to the cumulative negative returns of financial markets for the past several fiscal years, KCTCS' endowment had no accumulated realized or unrealized gains available to support expenses. Therefore, it was necessary to transfer from unrestricted current operating funds to support current restricted obligations. This amount will be repaid in subsequent fiscal years with a transfer from the endowment to unrestricted current operating funds as future endowment investment returns become available. The amount transferred for Fiscal Year 2010 was \$700,000 and \$1,686,000 for Fiscal Year 2009. The financial market downturn also resulted in KCTCS' decision to significantly reduce the amount of endowment earnings for distribution, reducing the amount available in Fiscal 2010 to one-half of the Fiscal 2009 payout. Future reductions in the endowment payout amount will be considered as conditions warrant.

The National Conference of Commissioners on Uniform State Laws (NCCUSL) has approved the *Uniform Prudent Management of Institutional Funds Act* (UPMIFA) and recommended it for enactment by legislatures of the various states. UPMIFA, as an up-date and successor to UMIFA (approved in 1972), is designed to provide a more unified basis for fund management. The Commonwealth of Kentucky has adopted this Act, effective July 15, 2010. KCTCS has evaluated the effect of UPMIFA on its investment and spending policies and does not expect any changes in its spending practices.

KENTUCKY COMMUNITY AND TECHNICAL COLLEGE SYSTEM

Notes to Financial Statements

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

Investments

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

Accounts and Grants Receivable

Accounts receivable consist of tuition and fee charges to students. Accounts receivable also include amounts due from the Federal government, state and local governments or private sources in connection with reimbursement of allowable expenditures made pursuant to KCTCS' grants and contracts. Accounts receivable are recorded net of estimated uncollectible amounts. KCTCS determines its allowance by considering a number of factors, including the length of time accounts receivable are past due, previous loss history and the condition of the general economy as a whole. KCTCS writes off specific accounts receivable when they are assessed as uncollectible.

Capital Assets

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

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

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

Compensated Absences

The liability and expense incurred for employee vacation and sick pay are recorded as accrued compensated absences in the statement of net assets and as a component of compensation and benefit expense in the statement of revenues, expenses and changes in net assets.

KENTUCKY COMMUNITY AND TECHNICAL COLLEGE SYSTEM

Notes to Financial Statements

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

Deferred Revenue

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

Net assets

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

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

Student Tuition and Fees

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

Scholarship Allowances

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

KENTUCKY COMMUNITY AND TECHNICAL COLLEGE SYSTEM

Notes to Financial Statements

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

Federal Grants and Contracts

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

Operating Activities

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

Income Taxes

KCTCS is an agency and instrumentality of the Commonwealth of Kentucky, pursuant to Kentucky Revised Statutes sections 164.100 through 164.280. Accordingly, KCTCS is exempt from federal income taxes as an organization described in Section 170 (b) (1) (A) (ii) of the Internal Revenue Code of 1986.

Restricted Asset Spending Policy

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

Use of Estimates

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

Recent Accounting Pronouncements

In June 2010, the GASB issued Statement No. 59, *Financial Instruments Omnibus*. The objective of this statement is to update and improve existing standards regarding financial reporting and disclosure requirements of certain financial instruments and external investment pools. The requirements of this statement are effective for financial statements for periods beginning after June 15, 2010. KCTCS is currently evaluating the effects of this statement on its financial statements.

KENTUCKY COMMUNITY AND TECHNICAL COLLEGE SYSTEM

Notes to Financial Statements

2. Loans, Accounts, Grants and Gifts Receivable

Loans, accounts and gifts receivable (net of allowances) as of June 30, 2010 and 2009, are as follows (in thousands):

	2010	2009
Student (net of allowances of \$5,980 and \$4,959)	\$ 9,222	\$ 7,752
Capital appropriations receivable	11,350	39,714
Reimbursement receivable – grants and contracts	8,645	9,525
Pledges receivable	2,543	3,601
Accrued interest receivable	2,679	2,748
Bridge Loans	583	712
Loans receivable from fire districts	5,656	6,118
Total	40,678	70,170
Current portion	33,873	62,344
Non-current portion	\$ 6,805	\$ 7,826

KCTCS has a receivable from the Commonwealth of \$11,350,000 at June 30, 2010. The receivable is due to the Commonwealth authorizing expenditures on projects which will be reimbursed by the Commonwealth upon the issuance of Property and Building Commission Bonds. The amount of the receivable at June 30, 2010, represents the funds expended on projects through that date.

Contributions receivable totaling \$2,917,000 is expected to be collected primarily over the next ten years, as follows (in thousands):

2011	\$ 1,029
2012	324
2013	169
2014	64
2015	37
2016-2020	1,294
	2,917
Present value discount	374
Pledges Receivable, net	\$ 2,543

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

KENTUCKY COMMUNITY AND TECHNICAL COLLEGE SYSTEM

Notes to Financial Statements

3. Investments

All investments are stated at fair value. Investments acquired by gift are stated at fair value at the date of the gift if a fair value is available, and otherwise at an appraised or nominal value. As of June 30, 2010, KCTCS had the following investments (in thousands):

<u>Investment Type</u>	<u>Fair Value</u>	
	<u>2010</u>	<u>2009</u>
Bond Mutual Funds	\$ 89,923	\$ 53,598
Money Market Funds	6,512	140
Other	737	960
	<u>97,172</u>	<u>54,698</u>
Equities and Equity Funds	<u>20,350</u>	<u>15,826</u>
	<u>\$ 117,522</u>	<u>\$ 70,524</u>

KCTCS has an investment management agreement with the Common Fund (Fund). The Fund managed \$111,006,000 of the investments at June 30, 2010. The Common Fund was founded in 1971 to serve higher education and not for profit organizations. It currently serves 1,580 organizations and has \$25 billion in assets under management. The Common Fund is unrated.

Concentration of Credit Risk

Concentration of credit risk is the risk of loss attributed to the magnitude of a government's investment in a single issuer.

Custodial Credit Risk

For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, KCTCS will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. KCTCS does not have a formal policy for custodial credit risk. As of June 30, 2010, 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

5. Deferred Revenue

Deferred revenue as of June 30, 2010 and 2009 is as follows (in thousands):

	<u>2010</u>	<u>2009</u>
Unearned summer and fall tuition revenues	\$ 8,568	\$ 6,833
Grants and contracts	<u>17,336</u>	<u>19,612</u>
	<u>\$ 25,904</u>	<u>\$ 26,445</u>

Included in grants and contracts are monies deferred for a Kentucky workforce development program.

6. Noncurrent Liabilities

Noncurrent liabilities as of June 30, 2010 and 2009 are summarized as follows (in thousands):

	-----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>
	-----2009-----					
	<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	\$ 15,307	\$ 1,323	\$ 2,304	\$ 14,326	\$ 2,181	\$ 12,145
Total lease obligations	<u>15,307</u>	<u>1,323</u>	<u>2,304</u>	<u>14,326</u>	<u>2,181</u>	<u>12,145</u>
Other liabilities						
Compensated absences	10,465	13,778	12,733	11,510	11,510	-
Other noncurrent liabilities	460	-	-	460	460	-
Long-term disability and post retirement benefits	<u>19,307</u>	<u>18,016</u>	<u>-</u>	<u>37,323</u>	<u>113</u>	<u>37,210</u>
Total other liabilities	<u>30,232</u>	<u>31,794</u>	<u>12,733</u>	<u>49,293</u>	<u>12,083</u>	<u>37,210</u>
Total noncurrent obligations	<u>\$ 45,539</u>	<u>\$ 33,117</u>	<u>\$ 15,037</u>	<u>\$ 63,619</u>	<u>\$ 14,264</u>	<u>\$ 49,355</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, 2010 and 2009 (in thousands):

	<u>2010</u>	<u>2009</u>
Computer equipment capitalized leases, all with one to four year remaining terms with total annual payments ranging from \$6,250 to \$574,800 and interest rates from .0% to 8.14%.	\$ 2,682	\$ 2,883
Four energy savings capitalized leases with 9 to 14 year remaining terms with total annual payments from \$224,633 to \$664,402, and interest rates from 3.66% to 10.2%.	14,598	3,927
One building capitalized lease with monthly payments of \$53,085, interest rate of 4.04% and 14 years remaining.	6,529	7,052
Copier leases, with two to five year remaining terms with total annual payments ranging from \$1,598 to \$249,709 and interest rates from 3.12% to 4.0%.	1,887	387
Other equipment leases, with four year remaining terms with total annual payments ranging from \$3,240 to \$27,186 and interest rates from 4.0% to 5.27%.	<u>64</u>	<u>77</u>
	<u>\$ 25,760</u>	<u>\$ 14,326</u>

Principal maturities and interest on capital leases payable for the next five years and in subsequent five-year periods as of June 30, 2010 are as follows (in thousands):

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2011	\$ 3,066	\$ 870	\$ 3,936
2012	2,931	927	3,858
2013	2,375	851	3,226
2014	1,902	722	2,624
2015	1,639	645	2,284
2016-2020	8,269	2,156	10,425
2021-2025	<u>5,578</u>	<u>486</u>	<u>6,064</u>
	<u>\$ 25,760</u>	<u>\$ 6,657</u>	<u>\$ 32,417</u>

Operating Leases

The System is obligated under several operating leases for office equipment, classroom space, and office space with expirations through August 2016. Rent expense was \$3,994,000 and \$3,715,000 for 2010 and 2009, respectively.

KENTUCKY COMMUNITY AND TECHNICAL COLLEGE SYSTEM

Notes to Financial Statements

6. Noncurrent Liabilities (continued)

Operating Leases (continued)

Future minimum lease payments as of June 30, 2010 are as follows:

Years ending June 30	
2011	\$ 1,327
2012	895
2013	467
2014	151
2015	121
Thereafter	<u>2</u>
	<u>\$ 2,963</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.

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 2009 to 2010. Settlements have not exceeded insurance coverage during the past three years.

KENTUCKY COMMUNITY AND TECHNICAL COLLEGE SYSTEM

Notes to Financial Statements

7. Risk Management (continued)

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, 2010 totals \$2,633,000 of which \$2,520,000 is included in "Other long-term obligations" and \$113,000 is included in "Employee withholdings and deposits".

KCTCS has purchased commercial insurance policies covering risks of loss due to damage to property and automobiles, general and automobile liability claims, employee dishonesty, and student accidents.

8. Natural Classification

The operating expenses for KCTCS by natural classification were as follows for the years ended June 30, 2010 and 2009 (in thousands):

		<u>2010</u>	<u>2009</u>
Salaries and wages	\$	260,400	\$ 251,477
Employee benefits		112,943	80,827
Supplies		16,203	14,458
Depreciation		25,122	22,859
Student scholarships and financial aid		114,847	69,597
Utilities		13,156	13,463
Communications		3,706	3,662
Advertising		1,839	1,926
Professional services		13,452	11,228
Fire commission state aid		5,757	5,893
Fire commission incentive		11,589	11,620
Fire commission pension		3,369	3,087
Fire commission workers compensation		3,457	3,165
Travel		5,420	4,688
Repairs and maintenance		10,644	8,345
Bad debts		3,991	4,603
Rental/lease		3,994	3,715
Equipment not capitalized		29,267	20,422
Participant support costs		2,768	886
Other, various		<u>11,076</u>	<u>10,586</u>
	\$	<u>653,000</u>	\$ <u>546,507</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
- ING
- Teachers Insurance and Annuity Association/College Retirement Equities Fund (TIAA/CREF)

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

Regular full-time employees who have not opted for KCTCS personnel policies and benefits and who were employed before January 14, 1998 at a community college are subject to the personnel policies of the University of Kentucky personnel system and are participants in the University of Kentucky Retirement Plan.

Participation in the University of Kentucky Retirement Plan is mandatory for regular full-time employees who are age 30 and older. Participation is voluntary for regular full-time employees under the age of 30. Participants contribute 5 percent and KCTCS contributes 10 percent of the participant's eligible compensation to the retirement plan. The University of Kentucky has authorized two retirement plan carriers, as follows:

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

KENTUCKY COMMUNITY AND TECHNICAL COLLEGE SYSTEM

Notes to Financial Statements

9. Pension Plans (continued)

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.

KERS participants hired with an effective date prior to September 1, 2008 contribute 5 percent of their covered compensation; KCTCS contributes 11.61 percent. KERS participants hired with an effective date on or after September 1, 2008 contribute 6 percent of their covered compensation; KCTCS contributes 11.61 percent. KTRS participants hired with an effective date prior to July 1, 2008 contribute 6.16 percent; KCTCS contributes 13.84 percent. KTRS participants hired with an effective date on or after July 1, 2008 contribute 7.16 percent or 9.855 percent, depending on the participant's personnel classification; KCTCS contributes 14.84 percent or 13.105 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 2010 and 2009 were \$22,577,000 and \$21,953,000, respectively; the employees contributed \$16,190,000 and \$16,638,000 for 2010 and 2009, respectively. KCTCS total payroll costs were \$260,400,000 and \$251,477,000 for 2010 and 2009, respectively.

10. Postemployment Benefits

As discussed in Note 9, KCTCS offers a defined contribution 403(b) retirement 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 2010, KCTCS contributed approximately \$1,960,000 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. Additional annual accruals over the remaining 12 years (fiscal years 2011 through 2022) will be increased by approximately \$4.9 million.

KENTUCKY COMMUNITY AND TECHNICAL COLLEGE SYSTEM

Notes to Financial Statements

10. Postemployment Benefits (continued)

The following table shows the components of the System's annual OPEB cost for the year, the amount actually contributed to the Plan and the changes in the System's net OPEB obligation for the years ended June 30, 2010 and 2009 (in thousands):

	<u>2010</u>	<u>2009</u>
Annual required contribution	\$ 10,644	\$ 11,906
Interest	811	705
Amortization	<u>8,973</u>	<u>7,389</u>
Annual OPEB cost (expense)	20,428	20,000
Contributions made	<u>(1,960)</u>	<u>(1,730)</u>
Increase in net OPEB obligation	18,468	18,270
One time adjustment	14,713	-
Net OPEB obligation, beginning of year	<u>34,691</u>	<u>16,421</u>
Net OPEB obligation, end of year	<u>\$ 67,872</u>	<u>\$ 34,691</u>

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

KCTCS' annual OPEB cost, the percentage of annual OPEB cost contributed to the plan and the net OPEB obligation for 2010 and 2009 are as follows (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, 2010	\$ 20,428	9.6%	\$ 67,872
June 30, 2009	\$ 20,000	8.7%	\$ 34,691

As of July 1, 2009, the most recent actuarial valuation date, the plan was not funded. The actuarial accrued liability for benefits for the July 1, 2009 date was \$155,496,615 and the actuarial value of assets was \$0, resulting in an unfunded actuarial accrued liability (UAAL) of \$155,496,615. The covered payroll (annual payroll of active employees covered by the plan) was \$148,370,287, and the ratio of the UAAL to the covered payroll was 104.8 percent.

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

KENTUCKY COMMUNITY AND TECHNICAL COLLEGE SYSTEM

Notes to Financial Statements

10. Postemployment Benefits (continued)

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, 2009 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 7.8 percent initially, reduced by decrements to an ultimate rate of 4.5 percent after 18 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, 2010, was 12 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, 2009	\$ 0	\$ 155,497	\$ 155,497	0.0%	\$ 148,370	104.8%

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, 2010.

12. Reclassifications

Certain reclassifications to fiscal 2009 comparative amounts have been made to conform to the 2010 classifications.

SUPPLEMENTARY INFORMATION

KENTUCKY COMMUNITY AND TECHNICAL COLLEGE SYSTEM

Schedule of Expenditures of Federal Awards

Year ended June 30, 2010

Federal Grant/Program Title	Federal CFDA	Pass-Through Entity Identifying Number	Federal Expenditures
U. S. DEPARTMENT OF EDUCATION			
Direct Grants -			
Student Financial Aid Cluster			
Federal Supplemental Educational Opportunity Grant Program	84.007		\$ 2,543,739
Federal Work Study Program	84.033		2,252,515
ARRA Federal Work Study Program	84.033		541,054
Pell Grant Program	84.063		171,574,750
Academic Competitiveness Grant	84.375		547,102
Federal Family Education Loan Program	84.032		164,532,236
Total Student Financial Aid Cluster			341,991,396
TRIO Cluster			
Student Support Services	84.042		3,057,603
Educational Talent Search	84.044		658,964
Upward Bound	84.047		2,735,592
Total TRIO Cluster			6,452,159
Title III Strengthening Institutions	84.031		2,105,345
FIPSE- Equipment Grant Ashland	84.116		139,920
Congressionally-Directed Grant Gateway	84.116		212,488
Improving College Readiness Maysville	84.116		75,596
High School Equivalency Program	84.141		492,142
Child Care Access/Parents in School	84.335		25,418
			351,494,464
Pass-Through Grants -			
Commonwealth of Kentucky			
ARRA State Fiscal Stabilization Funds (SFSF)	84.394	84.394A (ARRA/SFSF)	14,376,500
Kentucky Adult Education			
ABE-Learning Center/Ashland - Boyd	84.002	KYAE-2009-009	5,419
ABE-Learning Center/Ashland - Boyd	84.002	KYAE-2010-009	111,543
ABE-Learning Center/Big Sandy - Floyd	84.002	KYAE-2009-031	4,451
ABE-Learning Center/Big Sandy - Floyd	84.002	KYAE-2010-031	130,891
ABE-Learning Center/Big Sandy - Johnson	84.002	KYAE-2009-049	2,629
ABE-Learning Center/Big Sandy - Johnson	84.002	KYAE-2010-049	78,153
ABE-Learning Center/Bluegrass - Fayette	84.002	KYAE-2009-029	5,857
ABE-Learning Center/Bluegrass - Fayette	84.002	KYAE-2010-029	399,276
ABE-Learning Center/Bowling Green - Warren	84.002	KYAE-2009-094	7,906
ABE-Learning Center/Bowling Green - Warren	84.002	KYAE-2010-094	179,837
ABE-Learning Center/Elizabethtown - Meade	84.002	KYAE-2009-065	1,100
ABE-Learning Center/Elizabethtown - Meade	84.002	KYAE-2010-065	48,359
ABE-Learning Center/Gateway - Grant	84.002	KYAE-2009-035	1,658
ABE-Learning Center/Gateway - Grant	84.002	KYAE-2010-035	54,159
ABE-Learning Center/Gateway - Kenton	84.002	KYAE-2009-050	13,070
ABE-Learning Center/Gateway - Kenton	84.002	KYAE-2010-050	243,883
ABE-Learning Center/Henderson	84.002	KYAE-2009-043	231
ABE-Learning Center/Henderson	84.002	KYAE-2010-043	90,724
ABE-Learning Center/Hopkinsville - Christian	84.002	KYAE-2009-021	4,956

KENTUCKY COMMUNITY AND TECHNICAL COLLEGE SYSTEM

Schedule of Expenditures of Federal Awards

Year ended June 30, 2010

Federal Grant/Program Title	Federal CFDA	Pass-Through Entity Identifying Number	Federal Expenditures
ABE-Learning Center/Hopkinsville - Christian	84.002	KYAE-2010-021	123,418
ABE-Learning Center/Jefferson - Carroll	84.002	KYAE-2009-019	1,197
ABE-Learning Center/Jefferson - Carroll	84.002	KYAE-2010-019	31,847
ABE-Learning Center/Jefferson - Gallatin	84.002	KYAE-2009-033	1,192
ABE-Learning Center/Jefferson - Gallatin	84.002	KYAE-2010-033	20,195
ABE-Learning Center/Jefferson - Shelby	84.002	KYAE-2009-087	2,053
ABE-Learning Center/Jefferson - Shelby	84.002	KYAE-2010-087	71,575
ABE-Learning Center/Jefferson - Trimble	84.002	KYAE-2009-093	716
ABE-Learning Center/Jefferson - Trimble	84.002	KYAE-2010-093	18,975
ABE-Learning Center/Madisonville - Hopkins	84.002	KYAE-2009-045	5,076
ABE-Learning Center/Madisonville - Hopkins	84.002	KYAE-2010-045	122,967
ABE-Learning Center/Madisonville - Muhlenberg	84.002	KYAE-2009-071	4,212
ABE-Learning Center/Madisonville - Muhlenberg	84.002	KYAE-2010-071	108,261
ABE-Learning Center/Maysville - Bracken	84.002	KYAE-2009-012	695
ABE-Learning Center/Maysville - Bracken	84.002	KYAE-2010-012	22,841
ABE-Learning Center/Maysville - Lewis	84.002	KYAE-2009-055	338
ABE-Learning Center/Maysville - Lewis	84.002	KYAE-2010-055	52,923
ABE-Learning Center/Maysville - Mason	84.002	KYAE-2009-061	3,406
ABE-Learning Center/Maysville - Mason	84.002	KYAE-2010-061	45,698
ABE-Learning Center/Maysville - Nicholas	84.002	KYAE-2009-073	946
ABE-Learning Center/Maysville - Nicholas	84.002	KYAE-2010-073	21,526
ABE-Learning Center/Maysville - Robertson	84.002	KYAE-2009-082	837
ABE-Learning Center/Maysville - Robertson	84.002	KYAE-2010-082	18,815
ABE-Learning Center/Owensboro - Daviess	84.002	KYAE-2009-026	9,478
ABE-Learning Center/Owensboro - Daviess	84.002	KYAE-2010-026	194,674
ABE-Learning Center/Owensboro - Ohio	84.002	KYAE-2009-082	2,761
ABE-Learning Center/Owensboro - Ohio	84.002	KYAE-2010-074	67,899
ABE-Learning Center/Somerset - Casey	84.002	KYAE-2009-020	2,490
ABE-Learning Center/Somerset - Casey	84.002	KYAE-2010-020	69,124
ABE-Learning Center/Somerset- McCreary	84.002	KYAE-2009-063	3,919
ABE-Learning Center/Somerset- McCreary	84.002	KYAE-2010-063	73,724
ABE-Learning Center/Southeast KY - Bell	84.002	KYAE-2009-006	3,775
ABE-Learning Center/Southeast KY - Bell	84.002	KYAE-2010-006	127,421
ABE-Learning Center/Southeast KY - Harlan	84.002	KYAE-2009-040	4,080
ABE-Learning Center/Southeast KY - Harlan	84.002	KYAE-2010-040	128,445
ABE-Learning Center/West KY - McCracken	84.002	KYAE-2009-062	4,202
ABE-Learning Center/West KY - McCracken	84.002	KYAE-2010-062	124,086
English as Second Language/Civics Ashland	84.002	KYAE-ELC-2009-301	411
English as Second Language/Civics Ashland	84.002	KYAE-ELC-2010-302	8,867
English as Second Language/Civics Bluegrass	84.002	KYAE-ELC-2009-303	1,356
English as Second Language/Civics Bluegrass	84.002	KYAE-ELC-2010-304	45,421
English as Second Language/Civics Bowling Green	84.002	KYAE-ELC-2009-310	570
English as Second Language/Civics Bowling Green	84.002	KYAE-ELC-2010-311	11,536
English as Second Language/Civics Owensboro	84.002	KYAE-ELC-2010-303	9,939
English as Second Language/Civics West Kentucky	84.002	KYAE-ELC-2009-307	326
English as Second Language/Civics West Kentucky	84.002	KYAE-ELC-2010-308	9,745
			2,968,060

KENTUCKY COMMUNITY AND TECHNICAL COLLEGE SYSTEM

Schedule of Expenditures of Federal Awards

Year ended June 30, 2010

Federal Grant/Program Title	Federal CFDA	Pass-Through Entity Identifying Number	Federal Expenditures
Kentucky Council on Postsecondary Education			
KY Migrant Education Program	84.011	M-0700009781 1	1,354
Gear Up KY II FY2008-09	84.334	P334S050032	112,401
Gear Up KY II FY2009-10	84.334	P334S050032	233,601
			347,356
Kentucky Department of Education			
Regional KY Migrant Ed Program	84.011	PO2 540 0800016152 1	45,353
English Language Learners Academy	84.011	PO2 540 0900023404 1	21,350
Regional KY Migrant Ed Program	84.011	PO2 540 0900024935 1	203,869
EVEN START Elizabethtown	84.213	PON2 540 0900013066 1	70,589
Hopkinsville CC Math Partnership	84.366	PO2 540 0800019168 1	56,498
Hopkinsville CC Math Partnership	84.366	PON2 540 0900012565 1	150,417
KY Cohesive Leadership	84.367	PO2 540 1000002292 1	1,569
			549,645
Kentucky Office of Career and Technical Education			
Tech Prep 2009 - Big Sandy	84.048	PO2 531 0800017218 1	-1,709
Tech Prep 2009 - Bluegrass	84.048	PO2 531 0800017125 1	1,000
Tech Prep 2009 - Gateway	84.048	PO2 531 0800017076 1	92
Tech Prep 2009 - Jefferson	84.048	PO2 531 0800016431 1	-840
Tech Prep 2009 - Owensboro	84.048	PO2 531 0800016440 1	9,403
Tech Prep 2009 - Somerset	84.048	PO2 531 0800017098 1	-147
Tech Prep 2009 - Southeast KY	84.048	PO2 531 0800017090 1	131
Tech Prep 2009 - West KY	84.048	PO2 531 0800016436 1	2,645
Carl D. Perkins 08-09	84.048	PO2 531 0800020322 1	201,707
Carl D. Perkins 08-09 Leadership	84.048	PO2 531 0800018443 1	-3,345
Carl D. Perkins 08-09 Mini Grant/Jefferson	84.048	PO2 531 0900022628 1	245
Carl D. Perkins 08-09 Summer Conference	84.048	PO2 531 0900023129 1	5,975
Carl D. Perkins 08-09 Quality Assurance	84.048	PO2 531 0900023314 1	1,079
Tech Prep Carry Forward Bluegrass	84.048	PO2 531 0800021142 1	-16,295
Tech Prep Carry Forward Gateway	84.048	PO2 531 0800021122 1	-92
Tech Prep Carry Forward Owensboro	84.048	PO2 531 0800002117 1	774
Web Design and Creating Video	84.048	PO2 531 0900022308 1	1,631
Technical Teacher Upgrade Training	84.048	PO2 531 0900022140 1	-115
Carl D. Perkins 09-10	84.048	PO2 531 0900024439 2	6,439,591
Carl D. Perkins 09-10 Corrections	84.048	PO2 531 0900025705 1	132,966
Carl D. Perkins 09-10 Curriculum	84.048	PO2 531 1000000638 1	149,232
Carl D. Perkins 09-10 Technical Assessment	84.048	PO2 531 1000000857 1	38,899
Carl D. Perkins 09-10 Reserve Fund	84.048	PO2 531 1000001146 1	477,712
Carl D. Perkins 09-10 Administration	84.048	PO2 531 1000002968 1	45,918
Carl D. Perkins 09-10 Carry Forward	84.048	PO2 531 1000004055 1	40,474
Carl D. Perkins 09-10 Educational Services	84.048	PO2 531 1000005912 1	9,302
Blackboard and Windows 7 Training	84.048	PO2 531 1000004180 1	3,665
Owensboro Technical Training	84.048	PO2 531 1000004165 1	1,080
			7,540,978
University of Kentucky Research Foundation			
Migrant Vocational Grant	84.128	UKRF 3048105201-09-233	1,364
Vocational Rehabilitation Grant	84.128	UKRF 3048105801-10-010	6,756
Early Childhood Undergrad T A	84.XXX	Letter of Agreement	1,358
			9,478
University of Minnesota			
Making the Connection	84.305	A000452201	50,655

KENTUCKY COMMUNITY AND TECHNICAL COLLEGE SYSTEM

Schedule of Expenditures of Federal Awards

Year ended June 30, 2010

Federal Grant/Program Title	Federal CFDA	Pass-Through Entity Identifying Number	Federal Expenditures
Kentucky Department of Corrections Incarcerated Individuals Program	84.331	PO2 527 0900025015 1	36,076
University of California Mountain Writing Project - KY	84.928	06-KY11	33,831
JBL Associates, Inc. Institutional Mentoring	84.XXX	ED-04-CO-0107 0005	10,112
Summer Bridge/First Year Experience	84.XXX	08-SHOW-0012	6,925
Peer Mentoring Project	84.XXX	ED-04-CO-0107 0005	450
			<u>17,487</u>
Workforce Strategy Center ABE Career Connections	84.XXX	OVAE 04-21	8,674
TOTAL U. S. DEPARTMENT OF EDUCATION			<u>377,433,204</u>
U. S. DEPARTMENT OF HEALTH AND HUMAN SERVICES			
Direct Grants -			
Emergency Medical Services for Children	93.127		126,062
HRSA Nurse Education, Practice	93.359		273,019
Health Care and Other Facilities	93.887		331,578
			<u>730,659</u>
Pass-Through Grants -			
University of Kentucky Research Foundation			
AHEC Model Gateway	93.107	UKRF 3048105055-09-218	9,301
AHEC Model Gateway	93.107	UKRF 3048106508-10-129	45,383
AHEC Model Southeast KY	93.107	UKRF 3048105055-09-220	11,683
AHEC Model Southeast KY	93.107	UKRF 3048106508-10-131	41,392
KY Cancer Program	93.283	UKRF 3048014936-09-278	2,841
Hispanic Health Services	93.283	UKRF 3048106807-10-302	13,083
Colorectal Cancer Study	93.393	UKRF 3046909700-06-471	9,104
Early Childhood Quality-STARS	93.575	UKRF 3048104682-09-088	6,153
Early Childhood Quality-STARS	93.575	UKRF 3048106065-10-080	59,464
Bridges to Success	93.859	UKRF 3048105140-09-197	9,232
			<u>207,636</u>
University of Cincinnati			
Worker Health/Safety Training	93.142	5U45ES006184-17	32,030
Worker Health/Safety Training	93.142	5U45ES006184-18	139,984
			<u>172,014</u>
Eastern Kentucky University			
EKU Family Support	93.658	451921-10-208	5,207
UTC Family Support Ed Program	93.778	451710-09-187	-15
UTC Family Support Ed Program	93.778	451921-10-210	4,693
			<u>9,885</u>
Kentucky Cabinet for Health and Family Services			
Ready to Work 2008-2009	93.558	PO2 736 0800017118 1	155,250
Ready to Work 2009-2010	93.558	PO2 736 0800017118 4	6,794,092
Nurse Aid Training SFY09-10	93.778	PO2 746 0800019039 1	5,594
			<u>6,954,936</u>
Kentucky Department of Education Latino Youth HIV/AIDS	93.938	PON2 540 0900012941 1	25,920

KENTUCKY COMMUNITY AND TECHNICAL COLLEGE SYSTEM

Schedule of Expenditures of Federal Awards

Year ended June 30, 2010

Federal Grant/Program Title	Federal CFDA	Pass-Through Entity Identifying Number	Federal Expenditures
Macro International, Inc. Healthy Vision Community	93.XXX	72082-105-1442	2,201
TOTAL U. S. DEPARTMENT OF HEALTH AND HUMAN SERVICES			8,103,251
U. S. DEPARTMENT OF AGRICULTURE			
Direct Grants -			
Discover Biotech in Agriculture	10.226		13,309
Knott County Construction	10.769		3,940
Rural Development Center	10.769		91,140
Entrepreneur Center	10.773		20,091
TOTAL U. S. DEPARTMENT OF AGRICULTURE			128,480
U. S. DEPARTMENT OF COMMERCE			
Pass-Through Grants -			
P.R.I.D.E.			
Knott County PRIDE Grant	11.469	EF09-28	2,600
East Kentucky PRIDE Grant	11.469	EF09-72	4,247
			6,847
Kentucky Department of Homeland Security KCTCS-PSIC07	11.555	PO2 094 0800021062 1	148,631
TOTAL U. S. DEPARTMENT OF COMMERCE			155,478
U. S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT			
Pass-Through Grants -			
Breathitt County Fiscal Court Intergenerational Building	14.XXX	B05SPKY0493	230,989
TOTAL U. S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT			230,989
U. S. DEPARTMENT OF INTERIOR - PARKS SERVICE			
Direct Grants -			
Preservation Trade Training	15.923		32,141
Save America's Treasures	15.929		42,927
TOTAL U. S. DEPARTMENT OF INTERIOR - PARKS SERVICE			75,068
U.S. DEPARTMENT OF LABOR			
Direct Grants -			
DOL Advanced Manuf. Learning Center	17.261		409,516
DOL Gateway to Energy Careers	17.268		68,335
DOL Biotech KY	17.269		201,871
DOI. BRAIN	17.269		306,280
DOL CBJT- Nursing Expansion	17.269		276,222
DOL CBJT-Advanced Manuf.	17.269		1,096,767
DOL Homeland Security Careers	17.269		210,614
DOL ITEM Hopkinsville	17.269		1,006,525
DOL Project NEWS	17.269		325,808
DOL Tech Based Learning Solutions	17.269		136,479
ARRA DOL I-TRAIN	17.275		29,717
DOL/OSHA Susan Harwood Grant	17.502		30,266
DOL/OSHA Susan Harwood Grant 2	17.502		3,100
			4,101,500

KENTUCKY COMMUNITY AND TECHNICAL COLLEGE SYSTEM

Schedule of Expenditures of Federal Awards

Year ended June 30, 2010

Federal Grant/Program Title	Federal CFDA	Pass-Through Entity Identifying Number	Federal Expenditures
Pass-Through Grants -			
Eastern Kentucky Concentrated Employment Program (EKCEP)			
ARRA GED2Job	17.258	Memorandum of Agreement	4,400
ARRA Distance Earning Initiative	17.258	Memorandum of Agreement	15,157
ARRA Nurse Aide Training	17.258	ACTC111909-1	6,476
ARRA Computer Fundamentals Training	17.258	BSCRC022010-1	2,550
ARRA Bank Teller Certificate - Mayo Campus	17.259	BSCTC022010-2	13,741
ARRA Mine MET - Pikeville Campus	17.258	BSCTC032010-6	12,354
ARRA Mine MET - Prestonsburg Campus	17.258	BSCTC032010-7	14,000
ARRA Bank Teller Certificate - Prestonsburg	17.258	BSCTC122009-1	12,186
ARRA Computer Fundamentals Training	17.258	HCTC022010-1	2,550
ARRA Bank Teller Certificate	17.258	HCTC022010-2	14,460
ARRA Infant/Toddler Child Development	17.258	HCTC022010-4	19,500
ARRA Mine Electrical Certification	17.258	HCTC052010-1	5,356
ARRA EMT - Hazard Campus	17.258	HCTC092009-1	11,855
ARRA EMT - Jackson Campus	17.258	HCTC092009-2	15,035
ARRA Mine Certification Program	17.258	HCTC092009-3	34,870
ARRA Industrial Maintenance Training	17.258	MCTC100909-1	119,800
ARRA EMT - Maysville	17.258	MCTC110909-01	16,700
ARRA Gas Metal Welding Training	17.258	MCTC110909-2	47,600
ARRA Nursing Assistant/KMA Training	17.258	MCTC110909-3	33,107
ARRA MET Project - Knox. Co.	17.258	SKCTC012710-01	17,416
ARRA WS Paramedic Training	17.258	SKCTC082009-1	100,979
ARRA WS Building Project	17.258	SKCTC100109-1	83,818
ARRA Industrial Maintenance Training	17.258	SKCTC102609-01	60,613
ARRA Weatherization Training	17.258	SKCTC112509-01	10,123
			674,646
Harlan County Community Action			
Career Advantage Program	17.255	Letter of Agreement	104,666
KentuckianaWorks			
Kentuckiana Works One Stop Project	17.258	Memorandum of Agreement	66,955
ARRA Kentuckiana Works One Stop Project	17.258	201-044-09	102,444
Kentuckiana Works One Stop Project	17.258	201-044-09	999,879
ARRA Kentuckiana Works One Stop Project	17.260	201-044-09	404,308
Kentuckiana Works One Stop Project	17.260	201-044-09	215,596
			1,789,182
Kentucky Department of Education			
ARRA KY Breaking Through Initiative	17.260	PO2 531 100000783 1	162,864
3-D Virtual Reality Simulation	17.259	PO2 531 1000002121	1,151,209
			1,314,073
WIB - Bluegrass ADD			
WIA - Nursing	17.258	10009	197,963
ARRA Job Training	17.258	WIA #1038	289,200
Nursing Career Pathways	17.260	9009	4,473
			491,636
WIB - Green River ADD			
ARRA Prescription for Successful Health	17.260	WIA-JG0-01	17,825
WIB -Lake Cumberland ADD			
ARRA ADD - HIGH Grant	17.260	H100148101	2,638
WIB -Lincoln Trail ADD			
Yes I Can 08-09	17.259	LTADD-WIA-08-09Y-01	4,584

KENTUCKY COMMUNITY AND TECHNICAL COLLEGE SYSTEM

Schedule of Expenditures of Federal Awards

Year ended June 30, 2010

Federal Grant/Program Title	Federal CFDA	Pass-Through Entity Identifying Number	Federal Expenditures
WIB - Northern Kentucky ADD			
ARRA Gateway Training NKADD	17.258	E10-996-43-WIA	27,519
JAG Grant	17.258	E10-875-41-WIA	112,843
JAG Grant	17.259	E08-875-41-WIA	4,291
BSL Gateway	17.267	E09-996-43-WIA	3,194
BSL Gateway	17.267	E10-996-43-WIA	77,757
			225,604
WIB - West Kentucky ADD			
ARRA PRN Program	17.258	A10422 - ARRA	419,043
ARRA Summer Works Training	17.258	A10440 - ARRA	231,263
Mine Fire Brigade Training	17.258	JT10040	40,387
Youth Workforce Connection	17.259	A09422	3,243
Workforce Connections Program	17.259	A09440	3,066
Project YES	17.259	A095231	4,736
ARRA Summer Works Training	17.259	A095231 - ARRA	124,784
Youth Workforce Connection	17.259	A10422	90,611
ARRA Summer Works Training	17.259	A10422 - SYS	34,650
Workforce Connections Program	17.259	A10440	101,663
Youth Program (Project YES)	17.259	A10523	121,466
Cadiz Career Center	17.260	A09464	7,862
Cadiz Career Center	17.260	A10464	177,701
			1,360,475
TOTAL U.S. DEPARTMENT OF LABOR			10,086,829
U. S. DEPARTMENT OF TRANSPORTATION			
Pass-Through Grants -			
Morehead State University			
High Risk Drinking	20.601	N/A	17
Kentucky Division of Emergency Management			
Hazmat (HMEP)	20.703	PO2 095 0900022125 1	49,823
Hazmat (HMEP)	20.703	PO2 095 1000004191 1	25,177
			75,000
TOTAL U. S. DEPARTMENT OF TRANSPORTATION			75,017
APPALACHIAN REGIONAL COMMISSION			
Direct Grants -			
East KY Science Center Energy Exhibit	23.002		400,000
Challenger Learning Center of KY	23.011		56,533
			456,533
Pass-Through Grants -			
Berea College			
ENSURE Project	23.011	N/A	1,346
			1,346

KENTUCKY COMMUNITY AND TECHNICAL COLLEGE SYSTEM

Schedule of Expenditures of Federal Awards

Year ended June 30, 2010

Federal Grant/Program Title	Federal CFDA	Pass-Through Entity Identifying Number	Federal Expenditures
Morehead State University			
KY AHED - Ashland	23.001	2006-07-160-1	3,690
KY AHED - Big Sandy	23.001	2006-07-160-2	5,000
KY AHED - Hazard	23.001	2006-07-160-3	829
KY AHED - Southeast	23.001	2007-08-169-001	4,620
			<u>14,139</u>
TOTAL APPALACHIAN REGIONAL COMMISSION			<u>472,018</u>
NATIONAL ENDOWMENT FOR ARTS			
Pass-Through Grants -			
Arts Midwest			
Affrilachian Poets 09 Bus Tour	45.025	3797-2010	990
Literary Arts Project	45.025	3800-2010	430
			<u>1,420</u>
TOTAL NATIONAL ENDOWMENT FOR ARTS			<u>1,420</u>
NATIONAL ENDOWMENT FOR HUMANITIES			
Pass-Through Grants -			
Kentucky Humanities Council			
Book Discussions Upheaval	45.129	2010-002	926
			<u>926</u>
TOTAL NATIONAL ENDOWMENT FOR HUMANITIES			<u>926</u>
NATIONAL MUSEUM AND LIBRARY SERVICES			
Pass-Through Grants -			
Northern Kentucky University Research Foundation			
Library Education	45.313	NKURF-2010-01-4000522-01	70,360
			<u>70,360</u>
TOTAL NATIONAL MUSEUM AND LIBRARY SERVICES			<u>70,360</u>
NATIONAL SCIENCE FOUNDATION			
Direct Grants -			
NSF - KIT Center Grant Yrs 5-7	47.076		55,044
NSF - KIT Center Supplemental	47.076		52
NSF - Advanced Industrial Tech	47.076		91,702
NSF - AMTEC	47.076		201,028
NSF - AMTEC National Center for Excellence	47.076		668,389
NSF - ATE Mechatronics Technician	47.076		154,611
NSF - Discover Mechatronics	47.076		238,966
NSF - Manuf. Tech Scholarships	47.076		125,124
NSF - Manufacturing Technology	47.076		93,656
NSF - Maysville STEM Scholars	47.076		33,227
NSF - Power Plant Tech Program	47.076		94,826
NSF - Science Excel (S-STEM)	47.076		105,681
NSF - Team STEM	47.076		14,087
NSF - Training Machine Tool Technicians	47.076		31,833
			<u>1,908,226</u>

KENTUCKY COMMUNITY AND TECHNICAL COLLEGE SYSTEM

Schedule of Expenditures of Federal Awards

Year ended June 30, 2010

<u>Federal Grant/Program Title</u>	<u>Federal CFDA</u>	<u>Pass-Through Entity Identifying Number</u>	<u>Federal Expenditures</u>
Pass-Through Grants -			
Puget Sound Center for Teaching			
National Girls College Project	47.076	HRD-0631789	42
Summer Camp for Girls	47.076	N/A	1,000
			<u>1,042</u>
SCATE			
SCATE EEITE	47.076	Sub of NSF DUE#0602710	1,759
			<u>1,759</u>
Texas Engineering Experiment Station			
National Geospatial Tech Center	47.076	Sub of NSF DUE#0801893	71,145
			<u>71,145</u>
University of Kentucky Research Foundation			
LSAMP-Alliance for Minority	47.076	UKRF 3048032200-07-252	18,999
Info Tech thru Com Bsd Natural	47.079	UKRF 3048104469-08-518	11,670
			<u>30,669</u>
TOTAL NATIONAL SCIENCE FOUNDATION			<u>2,012,841</u>
U.S. SMALL BUSINESS ADMINISTRATION			
Pass-Through Grants -			
University of Kentucky Research Foundation			
Small Business Development	59.037	9603001-Z-0018-28	26,141
Small Business Development	59.037	10603001-Z-0018-29	40,856
			<u>66,997</u>
TOTAL U.S. SMALL BUSINESS ADMINISTRATION			<u>66,997</u>
DEPARTMENT OF VETERANS AFFAIRS			
Direct Grants -			
Kentucky Approving Agency for Veteran's Education	64.124		393,798
			<u>393,798</u>
TOTAL DEPARTMENT OF VETERANS AFFAIRS			<u>393,798</u>
CORPORATION FOR NATIONAL AND COMMUNITY SERVICE			
Direct Grants -			
AmeriCorps *VISTA	94.013		679
			<u>679</u>
Pass-Through Grants -			
Northern Kentucky University Research Foundation			
Ready and Respond Grant	94.005	NK 2007-019-4000120	6,279
Project ADAPT	94.005	NK 2007-021-4000120	11,468
Ready and Respond Grant	94.005	NK 2007-016-4000120	11,110
Ready and Respond Grant	94.005	NK 2007-018-4000120	69,501
MLK Collegiate Challenge Grant	94.007	NK 2010-01-4000522-02	250
			<u>98,608</u>
American Association of Community Colleges			
Project REACH (BSCTC CAFE)	94.007	AACC-PR-2008-02	102
			<u>102</u>
TOTAL CORPORATION FOR NATIONAL AND COMMUNITY SERVICE			<u>99,389</u>

KENTUCKY COMMUNITY AND TECHNICAL COLLEGE SYSTEM

Schedule of Expenditures of Federal Awards

Year ended June 30, 2010

Federal Grant/Program Title	Federal CFDA	Pass-Through Entity Identifying Number	Federal Expenditures
DEPARTMENT OF HOMELAND SECURITY			
Direct Grants -			
State Fire Training Grant	97.043		16,783
SAFER GRANT	97.044		22,500
			<u>39,283</u>
Pass-Through Grants -			
Kentucky Department of Homeland Security			
KCTCS Training - NIMS	97.067	PO2 094 0800017037 1	8,348
KCTCS Training - NIMS	97.067	PO2 094 0800017061 1	3,694
KCTCS - State Fair I	97.067	PO2 094 0900023205 1	194
KCTCS - IECGP	97.067	PO2 094 0900022334 1	421,619
Train the Trainer - CERT Kits	97.067	PO2 094 1000004722 1	19,228
KCTCS-WMD/IDE/Flashover	97.067	PO2 094 1000005763 1	49,757
			<u>502,840</u>
Kentucky Division of Emergency Management			
KCTCS - Natural Hazards Mitigation	97.017	PO2 095 10000024771	6,586
CSEPP Training for CSEPP Counties	97.040	PO2 095 0800018636 1	23,590
			<u>30,176</u>
Murray State University			
MITOC - IMDSS	97.XXX	OSP 2010-005	8,777
Science Applications International Corp. (SAIC)			
SAIC - SAVER	97.XXX	23F-0107J	87,091
			<u>87,091</u>
TOTAL DEPARTMENT OF HOMELAND SECURITY			<u>668,167</u>
TOTAL FEDERAL FUNDS			<u>\$ 400,074,232</u>

KENTUCKY COMMUNITY AND TECHNICAL COLLEGE SYSTEM

Notes to 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 Family Federal Education Loan Program (including Stafford Loans, Supplemental Loans for Students, and Parents' Loans for 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>Amount</u>
U.S. Department of Labor		
DOL – CBJT Nursing Expansion	NKADD	\$ 49,176
Advanced Manufacturing Learning Project News	Toyota Motor Manufacturing Shawnee Community College	66,294 80,010
U.S. Department of Education		
Tech Prep -2009 - Big Sandy	Various Secondary School Districts	11,304
Tech Prep -2009 – Blue Grass	Various Secondary School Districts	15,081
Tech Prep -2009 – Gateway	Various Secondary School Districts	74,372
Tech Prep -2009 – Owensboro	Various Secondary School Districts	20,942
Tech Prep -2009 - Somerset	Various Secondary School Districts	2,000
Tech Prep -2009 - Southeast	Various Secondary School Districts	27,609
Tech Prep C – Forward Bluegrass	Various Secondary School Districts	10,050
Tech Prep C – Forward Gateway	Various Secondary School Districts	137
Corporation of National and Community Service		
Ready and Response Grant	Delgado Community College	19,569
U.S. Department of Homeland Security		
SAIC- SAVAR	Pulaski County Fire & Rescue	<u>23,040</u>
		<u>\$ 399,584</u>

DEAN || DORTON || FORD
PSC**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, 2010, and have issued our report thereon dated October 1, 2010. 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*.

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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.

October 1, 2010
Lexington, Kentucky

A handwritten signature in black ink that reads "Deane Donston Ford, PSC". The signature is written in a cursive style with a large, looped initial "D".

DEAN || DORTON || FORD
PSC**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, 2010. 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, 2010. However, the results of our auditing procedures disclosed an instance of noncompliance with those requirements, which is required to be reported in accordance with OMB Circular A-133 and which is described in the accompanying schedule of findings and questioned costs as item 10-01.

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 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 10-01 and 10-02. 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.

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 "Dean D. Foster, PSC". The signature is written in a cursive style.

October 1, 2010
Lexington, Kentucky

KENTUCKY COMMUNITY AND TECHNICAL COLLEGE SYSTEM

Schedule of Findings and Questioned Costs

Year Ended June 30, 2010

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**
 - Federal Family Education Loan Program, CFDA 84.032**
 - 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**
 - State Fiscal Stabilization Fund (SFSF) – Education State Grants, Recovery Act (Education Stabilization Fund), CFDA 84.394**
 - Community Based Job Training Grant, CFDA 17.269**
 - Career and Technical Education – Basic Grants to States (Perkins IV), CFDA 84.048**
- 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**

KENTUCKY COMMUNITY AND TECHNICAL COLLEGE SYSTEM

Schedule of Findings and Questioned Costs

Year Ended June 30, 2010

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: **10-01** and **10-02**

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 manner.

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 manner.

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 Findings and Questioned Costs

Year Ended June 30, 2010

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 manner.

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 Findings and Questioned Costs

Year Ended June 30, 2010

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 Findings and Questioned Costs

Year Ended June 30, 2010

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 manner.

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 manner.

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 Findings and Questioned Costs

Year Ended June 30, 2010

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 manner.

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 Findings and Questioned Costs

Year Ended June 30, 2010

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.

Management Response:

The KCTCS Office of Student Financial aid will establish and implement system wide policy and procedures to include remediation for the findings. The recommended model established by the National Association of Student Financial Aid Administrators (NASFAA) will be used as a guide with changes and additions as needed. The policy and procedures will address both System Office and colleges responsibilities in establishing, determining correct dates used in calculation of Return of Title IV and monitoring timely calculations and reporting. Additionally, technical changes are currently in process to enable the System and Colleges to use its ERP software (PeopleSoft) beginning in January 2011 to establish internal controls to conduct periodic checks of a sample of Return of Title IV Funds calculations to further ensure correct calculations are being completed.

KENTUCKY COMMUNITY AND TECHNICAL COLLEGE SYSTEM

Schedule of Findings and Questioned Costs

Year Ended June 30, 2010

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).

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.

Management Response:

The KCTCS Office of Student Financial aid will establish and implement system wide policy and procedures to include remediation for the findings. The recommended model established by the National Association of Student Financial Aid Administrators (NASFAA) will be used as a guide with changes and additions as needed. The policy and procedures will address both System Office and colleges responsibilities in establishing, determining correct dates used in calculation of Return of Title IV and monitoring timely calculations and reporting.

KENTUCKY COMMUNITY AND TECHNICAL COLLEGE SYSTEM

Schedule of Prior Year Audit Findings

Year Ended June 30, 2010

Finding 09-01:

Condition:

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

Recommendation:

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

Current Status:

We noted issues within the Return of Title IV area during the current year-see Finding 10-01.

KENTUCKY COMMUNITY AND TECHNICAL COLLEGE SYSTEM

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KENTUCKY COMMUNITY AND TECHNICAL COLLEGE SYSTEM

Schedule of Funding Progress for the Retiree Medical Plan

Year ended June 30, 2010

<u>Actuarial Valuation Date</u>	<u>Actuarial Value of Assets</u>	<u>Actuarial Accrued Liability (AAL)</u>	<u>Unfunded AAL (UAAL)</u>	<u>Funded Ratio</u>	<u>Covered Payroll</u>	<u>UAAL as a Percentage of Covered Payroll</u>
July 1, 2009	\$ 0	\$ 155,497	\$ 155,497	0.0%	\$ 148,370	104.8%

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