

DEAN || DORTON || FORD  
PSC

**KENTUCKY COMMUNITY AND  
TECHNICAL COLLEGE SYSTEM**

**2009-10 ANNUAL FINANCIAL REPORT**

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
<b>ASSETS</b>			
Current assets	\$ 274,969	\$ 248,689	\$ 226,233
Noncurrent assets	714,633	629,210	556,851
Total Assets	989,602	877,899	783,084
<b>LIABILITIES</b>			
Current liabilities	71,846	60,510	58,820
Noncurrent liabilities	93,086	49,355	32,628
Total Liabilities	164,932	109,865	91,448
<b>NET ASSETS</b>			
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>
<b>OPERATING REVENUES</b>			
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	<u>10,757</u>	<u>9,583</u>	<u>8,432</u>
Total operating revenues	202,413	184,248	177,702
<b>OPERATING EXPENSES</b>			
Educational and general, excluding depreciation	627,878	523,648	506,373
Depreciation	<u>25,122</u>	<u>22,859</u>	<u>19,634</u>
Total operating expenses	653,000	546,507	526,007
<b>OPERATING LOSS</b>	(450,587)	(362,259)	(348,305)
<b>NONOPERATING REVENUES (EXPENSES)</b>			
State appropriations	200,555	214,931	221,844
Federal and state grants and contracts	211,794	140,387	122,358
Other nonoperating revenues	<u>36,332</u>	<u>18,336</u>	<u>26,373</u>
Total nonoperating revenues	448,681	373,654	370,575
<b>Income before other revenues, expenses, gains or losses</b>	(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	<u>2,625</u>	<u>(4,832)</u>	<u>(942)</u>
Total other revenues (expenses)	58,542	65,003	47,932
<b>Total increase in net assets</b>	56,636	76,398	70,202
<b>Net assets, beginning of year</b>	<u>768,034</u>	<u>691,636</u>	<u>621,434</u>
<b>Net assets, end of year</b>	\$ <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).

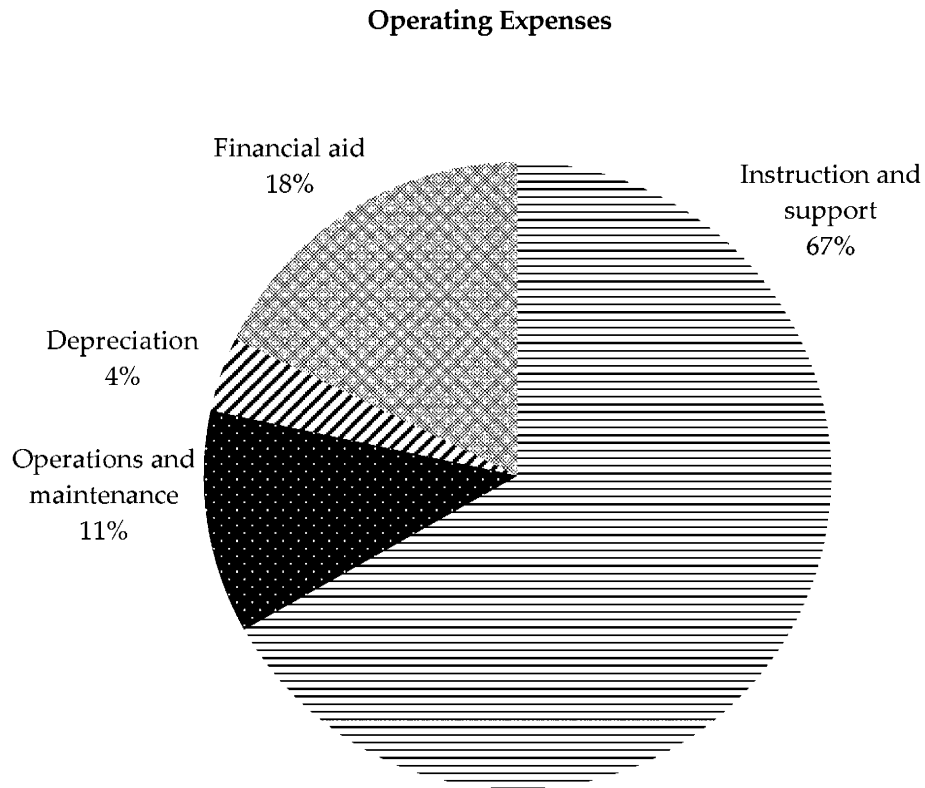
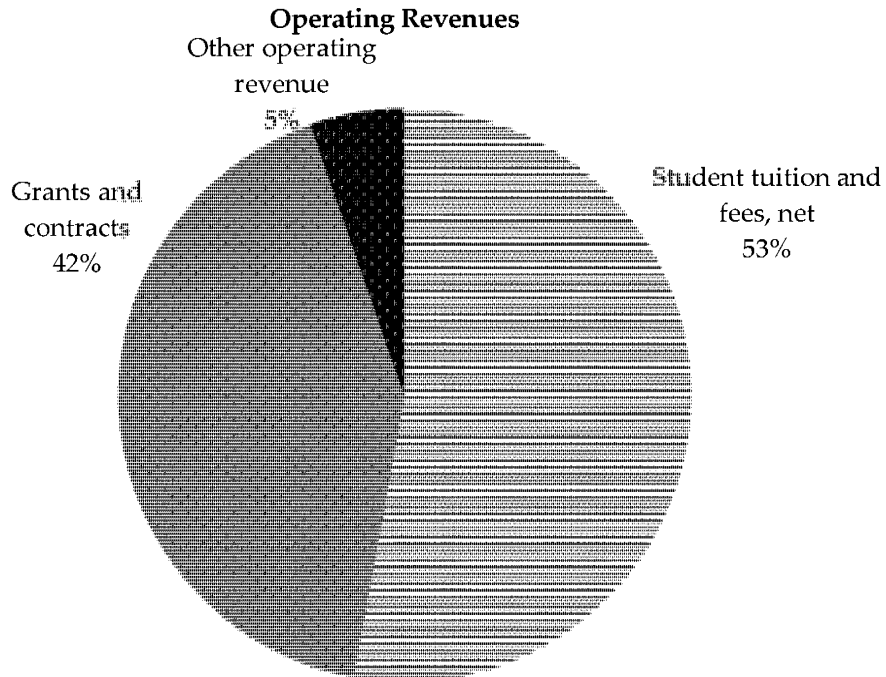
Operating expenses totaled \$653.0 million. Of this amount, \$627.9 million (96.2 percent of total operating expenses) was expended for educational and general programs, including instruction, academic support, libraries, public service, student services, institutional support, and operations and maintenance (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>
<b>Cash provided (used) by:</b>			
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)
<b>Cash and cash equivalents, beginning of year</b>	<u>205,959</u>	<u>221,444</u>	<u>233,024</u>
<b>Cash and cash equivalents, end of year</b>	<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>
<b>Assets</b>		
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
<b>Liabilities</b>		
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
<b>Net Assets</b>		
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>
<b>Operating revenues</b>		
Student tuition and fees	\$ 223,576	\$ 183,479
Less: Scholarship allowances	(116,567)	(87,332)
Net tuition and fees	<u>107,009</u>	<u>96,147</u>
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	<u>202,413</u>	<u>184,248</u>
<b>Operating expenses</b>		
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	<u>653,000</u>	<u>546,507</u>
Operating loss	<b>(450,587)</b>	<b>(362,259)</b>
<b>Nonoperating revenues (expenses)</b>		
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	<u>448,681</u>	<u>373,654</u>
(Loss) income before other revenues, expenses, gains or losses	<b>(1,906)</b>	<b>11,395</b>
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	<u>58,542</u>	<u>65,003</u>
Increase in net assets	<b>56,636</b>	<b>76,398</b>
Net assets, beginning of year	<u>768,034</u>	<u>691,636</u>
Net assets, end of year	<u><b>\$ 824,670</b></u>	<u><b>\$ 768,034</b></u>

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>
<b>Cash flows from operating activities:</b>		
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)
<b>Cash flows from noncapital financing activities:</b>		
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
<b>Cash flows from capital and related financing activities</b>		
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)
<b>Cash flows from investing activities</b>		
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
<b>Reconciliation of net operating loss to net cash from operating activities:</b>		
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):

	<u>2010</u>	<u>2009</u>
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	<u>5,656</u>	<u>6,118</u>
Total	40,678	70,170
Current portion	<u>33,873</u>	<u>62,344</u>
Non-current portion	<u>\$ 6,805</u>	<u>\$ 7,826</u>

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		<u>1,294</u>
		2,917
Present value discount		<u>374</u>
Pledges Receivable, net	\$	<u>2,543</u>

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

### 4. Capital Assets, Net

Capital assets as of June 30, 2010 and 2009 and the changes therein for the years then ended are summarized as follows (in thousands):

	-----2010-----			
	Beginning Balance	Additions	Reductions	Ending Balance
Cost				
Land	\$ 23,814	\$ 472	\$ -	\$ 24,286
Land improvements	9,201	954	-	10,155
Infrastructure	41,530	3,425	-	44,955
Buildings and structures	478,412	134,776	1,154	612,034
Construction in progress	133,693	(91,709)	-	41,984
Vehicles	6,806	1,080	261	7,625
Equipment, furniture, etc.	73,809	15,539	3,661	85,687
Leasehold improvements	7,080	-	-	7,080
Library materials	54,522	1,229	-	55,751
Energy saving assets	4,983	-	-	4,983
Equine	35	-	5	30
Computer Software	1,221	-	-	1,221
Total	<u>835,106</u>	<u>65,766</u>	<u>5,081</u>	<u>895,791</u>
Less accumulated depreciation				
Land improvements	4,602	495	-	5,097
Infrastructure	8,508	1,807	2,235	8,080
Buildings and structures	188,209	12,992	(2,069)	203,270
Vehicles	4,633	789	232	5,190
Equipment, furniture, etc.	43,740	6,927	3,406	47,261
Leasehold improvements	6,168	70	-	6,238
Energy saving assets	1,402	498	-	1,900
Library materials	48,262	1,342	-	49,604
Computer Software	433	202	-	635
Total accumulated depreciation	<u>305,957</u>	<u>25,122</u>	<u>3,804</u>	<u>327,275</u>
Capital assets, net	<u>\$ 529,149</u>	<u>\$ 40,644</u>	<u>\$ 1,277</u>	<u>\$ 568,516</u>
	-----2009-----			
	Beginning Balance	Additions	Reductions	Ending Balance
Cost				
Land	\$ 23,691	\$ 123	\$ -	\$ 23,814
Land improvements	8,131	1,070	-	9,201
Infrastructure	42,360	-	830	41,530
Buildings and structures	432,674	46,191	453	478,412
Construction in progress	100,474	33,219	-	133,693
Vehicles	6,074	938	206	6,806
Equipment, furniture, etc.	68,994	8,727	3,912	73,809
Leasehold improvements	7,080	-	-	7,080
Library materials	53,270	1,252	-	54,522
Energy saving assets	2,260	2,723	-	4,983
Equine	45	-	10	35
Computer Software	941	280	-	1,221
Total	<u>745,994</u>	<u>94,523</u>	<u>5,411</u>	<u>835,106</u>
Less accumulated depreciation				
Land improvements	4,432	170	-	4,602
Infrastructure	7,949	563	4	8,508
Buildings and structures	175,669	12,595	55	188,209
Vehicles	4,058	749	174	4,633
Equipment, furniture, etc.	40,890	6,493	3,643	43,740
Leasehold improvements	6,103	65	-	6,168
Energy saving assets	904	498	-	1,402
Library materials	46,780	1,482	-	48,262
Computer Software	189	244	-	433
Total accumulated depreciation	<u>286,974</u>	<u>22,859</u>	<u>3,876</u>	<u>305,957</u>
Capital assets, net	<u>\$ 459,020</u>	<u>\$ 71,664</u>	<u>\$ 1,535</u>	<u>\$ 529,149</u>

Of the total capital construction projects at June 30, 2010 of \$67,137,000, there is \$25,153,000 remaining to complete the projects.

KENTUCKY COMMUNITY AND TECHNICAL COLLEGE SYSTEM

Notes to Financial Statements

5. Deferred Revenue

Deferred revenue as of June 30, 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 Ended</u>	<u>Annual OPEB Cost</u>	<u>Percentage of Annual OPEB Cost Contributed</u>	<u>Net OPEB 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.

DEAN || DORTON || FORD<sup>PSC</sup>

**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*.

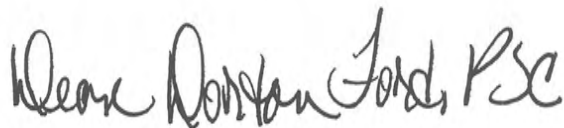
106 West Vine Street  
Suite 600  
Lexington, KY 40507  
859.255.2341 phone  
859.255.0125 fax

2501 Nelson Miller Parkway  
Suite 102  
Louisville, KY 40223  
502.244.7714 phone  
502.244.7765 fax

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 "Dean Donnan Ford, PSC". The signature is written in a cursive style with a large, stylized "D" at the beginning.

## KENTUCKY COMMUNITY AND TECHNICAL COLLEGE SYSTEM

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

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Larry D. Savage, Vice Chair  
Porter G. Peeples, Sr., Secretary

### **KCTCS Board of Regents**

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Marcia L. Roth  
Doris C. Thomas

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Jay K. Box, Ed.D.  
Timothy R. Burcham, CFRE  
Beth R. Hilliard  
Gwendolyn G. Joseph, Ph.D.  
J. Kenneth Walker

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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