

**REPORT OF THE AUDIT OF THE  
KENTUCKY EDUCATIONAL DEVELOPMENT CORPORATION**

**For The Fiscal Year Ended  
June 30, 2008**

**CRIT LUALLEN  
AUDITOR OF PUBLIC ACCOUNTS  
[www.auditor.ky.gov](http://www.auditor.ky.gov)**

**105 SEA HERO ROAD, SUITE 2  
FRANKFORT, KY 40601-5404  
TELEPHONE (502) 573-0050  
FACSIMILE (502) 573-0067**

**KENTUCKY EDUCATIONAL DEVELOPMENT CORPORATION**

**FINANCIAL STATEMENTS**

**JUNE 30, 2008**

**MORGAN-FRANKLIN, LLC  
CERTIFIED PUBLIC ACCOUNTANTS  
P.O. BOX 428  
749 BROADWAY STREET  
WEST LIBERTY, KY 41472  
Phone: (606) 743-1884  
Fax: (606) 743-1895  
E-mail: [office@morganfranklincpa.com](mailto:office@morganfranklincpa.com)**

## TABLE OF CONTENTS

	<b><u>PAGE</u></b>
Independent Auditors' Report	1
Statement of Financial Position	3
Statement of Activities	4
Statement of Cash Flows	5
Statement of Functional Expenses	6
Notes to the Financial Statements	7
Supplementary Information	
Schedule of Expenditures of Federal Awards	16
Notes to Schedule of Expenditures of Federal Awards	17
Report On Internal Over Financial Reporting And On Compliance And Other Matters Based On An Audit Of The Financial Statements Performed In Accordance With <u>Government Auditing Standards</u>	18
Report On Compliance With Requirements Applicable To Each Major Program And On Internal Control Over Compliance With OMB Circular A-133	20
Schedule of Findings and Questioned Costs	23

*Morgan-Franklin, LLC*

*Certified Public Accountants*

**P.O. Box 428  
749 Broadway Street  
West Liberty, KY 41472**

**Brenda K. Morgan  
Jody B. Franklin**

**Phone: (606) 743-1884  
Fax: (606) 743-1895**  
*www.morganfranklincpa.com*

To the People of Kentucky  
Honorable Steve Beshear, Governor  
Jon Draud, Commissioner, Department of Education  
Board of Directors, Kentucky Educational Development Corporation  
Ashland, Kentucky

### **Independent Auditors' Report**

We have audited the accompanying statement of financial position of Kentucky Educational Development Corporation (KEDC), a nonprofit organization, as of June 30, 2008, and the related statements of activities, functional expenses, and cash flows for the year then ended. These financial statements are the responsibility of Kentucky Educational Development Corporation's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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. 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 financial position of the Kentucky Education Development Corporation as of June 30, 2008, and the 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.

To the People of Kentucky  
Honorable Steve Beshear, Governor  
Jon Draud, Commissioner, Department of Education  
Board of Directors, Kentucky Educational Development Corporation  
Ashland, Kentucky

In accordance with Government Auditing Standards, we have also issued our report dated November 21, 2008 on our consideration of Kentucky Educational Development Corporation'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, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and important for assessing the results of our audit.

Our audit was conducted for the purpose of forming an opinion on the basic financial statements of KEDC taken as a whole. The accompanying schedule of expenditures of federal awards listed in the table of contents as supplementary information is presented for purposes 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 in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

Respectfully Submitted,

*Morgan - Franklin, LLC*

Morgan-Franklin, LLC

November 21, 2008

**KENTUCKY EDUCATIONAL DEVELOPMENT CORPORATION**  
**STATEMENT OF FINANCIAL POSITION**  
**June 30, 2008**

**CURRENT ASSETS**

Cash and Cash Equivalents	\$ 571,804
Restricted Cash	98,855
Accounts Receivable	694,074
Grants Receivable	427,505
Total Current Assets	<u>1,792,238</u>

**PROPERTY, PLANT, AND EQUIPMENT**

Land	60,000
Building and Improvements	600,733
Furniture and Equipment	571,648
Big East Educational Cooperative Equipment	71,978
Adult and Family Literacy Equipment	94,685
Upper Cumberland Educational Cooperative Equipment	21,138
Wilderness Trail Education Cooperative Equipment	47,141
Vehicles	494,904
Total	<u>1,962,227</u>

Less: Accumulated Depreciation	<u>(1,053,698)</u>
--------------------------------	--------------------

Property, Plant and Equipment, Net	<u>908,529</u>
------------------------------------	----------------

<b>TOTAL ASSETS</b>	<u><u>2,700,767</u></u>
---------------------	-------------------------

**LIABILITIES AND NET ASSETS**

**CURRENT LIABILITES**

Deferred Revenue	202,872
Accounts Payable	128,954
Accumulated Sick Leave	173,092
Total Current Liabilities	<u>504,919</u>

Total Liabilities	504,919
-------------------	---------

**NET ASSETS**

Unrestricted	<u>2,195,848</u>
Total Net Assets	<u>2,195,848</u>

<b>TOTAL LIABILITIES AND NET ASSETS</b>	<u><u>\$ 2,700,767</u></u>
---	----------------------------

The accompanying notes are an integral part of the financial statements.

**KENTUCKY EDUCATIONAL DEVELOPMENT CORPORATION**  
**STATEMENT OF ACTIVITIES**  
**June 30, 2008**

Changes in Unrestricted Net Assets:

Revenues	
Sales	\$ 1,568,253
Miscellaneous Receipts	803,344
Service to Kentucky School Districts	1,757,702
Board Memberships	278,101
Admin Fiscal Agent Fee	1,376,514
Local Miscellaneous Reimbursement	266,786
Interest Income	30,086
	<hr/>
Total Unrestricted Revenues	6,080,787

Net Assets Released From Restrictions:

Satisfaction of Program Restrictions:	
Federal and State Programs	4,290,231
	<hr/>

Total Unrestricted Revenues and Other Support	10,371,018
---	------------

Operating Expenses:

Program Services	4,810,476
Management and General	4,956,154
	<hr/>
Total Operating Expenses	9,766,630

Non-Operating Expenses:

Loss On Disposal of Fixed Assets	5,863
	<hr/>
Total Non-Operating Expenses	5,863

Increase in Unrestricted Net Assets	598,525
-------------------------------------	---------

Changes in Temporarily Restricted Net Assets

Federal and State Programs	4,290,231
Net Assets Released From Restrictions	(4,290,231)
	<hr/>

Change in Temporarily Restricted Net Assets	0
---	---

Increase in Net Assets	598,525
Net Assets - Beginning of Year	1,597,323
	<hr/>
Net Assets - End of Year	<u>\$ 2,195,848</u>

The accompanying notes are an integral part of the financial statements.

**KENTUCKY EDUCATIONAL DEVELOPMENT CORPORATION**  
**STATEMENT OF CASH FLOWS**  
**June 30, 2008**

**CASH FLOWS FROM OPERATING ACTIVITIES**

Increase (Decrease) in Unrestricted Net Assets	\$ 598,525
Adjustments to Reconcile Net Income to Net Cash Provided by Operating Activities	
Operating Activities	
Net Book Value of Disposed Assets	70,393
Depreciation	158,569
Increase/(Decrease) in Accumulated Sick Leave	46,507
Decrease/(Increase) in Accounts Receivable	349,188
Decrease/(Increase) in Grants Receivable	(258,707)
Increase/(Decrease) in Accounts Payable	24,185
Increase/(Decrease) in Deferred Revenue	<u>(371,658)</u>

**NET CASH (USED) BY OPERATING ACTIVITIES** 617,002

**CASH FLOWS FROM INVESTING ACTIVITIES**

Cash payments for the purchase of equipment and property improvements	<u>(256,193)</u>
---	------------------

**NET CASH (USED) BY INVESTING ACTIVITIES** (256,193)

**NET (DECREASE) IN CASH AND CASH EQUIVALENTS** 360,809

**CASH AND CASH EQUIVALENTS, Beginning of the Year** 309,850

**CASH AND CASH EQUIVALENTS, End of the Year** \$ 670,659

The accompanying notes are an integral part of the financial statements.



**KENTUCKY EDUCATIONAL DEVELOPMENT CORPORATION**  
**STATEMENT OF FUNCTIONAL EXPENSES**  
**June 30, 2008**

	Program Services	Management & General	Total Expenses
Auditing	\$ 1,300	\$ 10,645	\$ 11,945
Advertising	189	1,051	1,240
Auto Expense		48,049	48,049
Books and Periodicals	10,321		10,321
Consultants	151,428	9,946	161,374
Federal Funded Benefits	128,669		128,669
Insurance	9,345	18,627	27,972
Legal		56,743	56,743
Loan Library	1,045		1,045
Meetings	35,756	47,647	83,403
Miscellaneous	361,598	169,344	530,942
Noncap Equipment	25,445	10,063	35,508
Payroll Taxes	62,414	64,772	127,186
Postage and Shipping	2,537	13,116	15,653
Printing	2,055		2,055
Professional Services	24,165		24,165
Registration	31,370		31,370
Rental Expense	27,068		27,068
Repairs and Maintenance	9,220	35,656	44,876
Retirement	239,425	114,763	354,188
Salaries	3,032,048	1,615,739	4,647,787
Sick Leave	13,668	14,668	28,336
Software		28,732	28,732
Stipends	25,511		25,511
Supplies	170,656	2,090,221	2,260,877
Telephone	37,593	22,603	60,196
Training	4,489	61,482	65,971
Travel	202,984	255,421	458,405
Utilities/Occupancy	14,783	28,788	43,571
Indirect Costs	153,512	111,391	264,903
Depreciation	31,882	126,687	158,569
Total Expenses	<u>\$ 4,810,476</u>	<u>\$ 4,956,154</u>	<u>\$ 9,766,630</u>

The accompanying notes are an integral part of the financial statements.

**KENTUCKY EDUCATIONAL DEVELOPMENT CORPORATION**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2008**

**NOTE A – NATURE OF ACTIVITIES AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

Nature of Activities

Kentucky Educational Development Corporation (KEDC) was established in 1969 as a nonprofit corporation exempt under Section 501 (c)(3) of the Internal Revenue Code of 1954. In July 1978, KEDC entered into an interlocal cooperation agreement under KRS 65.160 whereby it was deemed mutually advantageous for KEDC to provide certain services, programs, and/or facilities to all member school districts.

Currently, KEDC has a membership of sixty-four school districts and four universities and the Board of Directors is comprised of Superintendents of the various districts.

Basis of Accounting

The records of the KEDC's financial statements are maintained on the accrual basis of accounting to conform with accounting principles generally accepted in the United States of America.

Inventories

Supplies and materials are charged to expenditures when purchased.

Basis of Presentation

Financial statements of KEDC are prepared in accordance with the American Institute of Certified Public Accountants industry audit and accounting guide, Not-For-Profit Organizations.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions. This will affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from these estimates.

**KENTUCKY EDUCATIONAL DEVELOPMENT CORPORATION**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2008**

**NOTE A – NATURE OF ACTIVITIES AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

Property, Plant, and Equipment

Acquisitions of property, plant, and equipment in excess of \$1,000 are capitalized. Property, plant, and equipment are carried at cost or fair value at the date of donation in the case of gifts. All capitalized assets are depreciated over their useful lives using the straight-line method. Furniture and equipment are being depreciated over their estimated useful lives of five years. Buildings are being depreciated over their estimated useful life of 30 years. Mechanical updates to buildings are being depreciated over their estimated useful life of 10 years.

The disposition of assets purchased with federal and state funds is at the discretion of the awarding agency. Such assets are included in the following categories of Property, Plant and Equipment: Big East Educational Cooperative Equipment; Adult and Family Literacy Equipment; Upper Cumberland Educational Cooperative Equipment; and Wilderness Trail Education Cooperative Equipment.

Deferred Revenue

Deferred revenue consists of professional development funds held on behalf of the member districts, membership fees received in the current year for the following year and prepayments by member districts for supplies.

Donor Restrictions

Contributions are considered to be available for unrestricted use unless specifically restricted by the donor. Support that is restricted by the donor is reported as an increase in unrestricted net assets if the restriction expires in the reporting period in which the support is recognized. All other donor-restricted support is reported as an increase in temporarily or permanently restricted net assets depending on the nature of the restriction. When a restriction expires, temporarily restricted assets are reclassified to unrestricted net assets. KEDC receives a substantial amount of its support from the Kentucky Department of Education and local school districts. A significant reduction in the level of this support could have an effect on KEDC's programs and activities.

**KENTUCKY EDUCATIONAL DEVELOPMENT CORPORATION**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2008**

**NOTE A – NATURE OF ACTIVITIES AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

Cash and Cash Equivalents

KEDC considers all monies in banks and highly liquid investments with a maturity of three months or less to be cash equivalents.

Donated Materials and Services

Donated materials and equipment are reflected as contributions in the accompanying statements at their estimated value at date of receipt. No amounts have been reflected in the statements for donated services.

Income Taxes

KEDC is a not-for-profit organization as described in Section 501(c) (3) of the Internal Revenue Code and is exempt from federal and state income taxes. Accordingly, the accompanying financial statements include no provision for such taxes.

Functional Expenses

Expenses have been classified by specific functions where ascertainable. Those expenses, which cannot be specifically identified by function type, have been allocated to functions based upon management's best estimate of usage.

Federal Grant Revenue

Grant revenue is recognized when program expenditures are incurred in accordance with program guidelines. Such revenue is subject to review by the funding agency and may result in retroactive adjustment in subsequent periods.

Member District Dues

All member districts are required to pay dues to KEDC. Dues are determined annually and are recognized as revenues when assessed because they are measurable and collectible within the current period.

**KENTUCKY EDUCATIONAL DEVELOPMENT CORPORATION**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2008**

**NOTE A – NATURE OF ACTIVITIES AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

Other Revenues

Sales and charges for services are recorded as earned since they are measurable and available. Miscellaneous charges are recorded as revenue when received because they are generally not measurable until actually received.

Accounts and Grants Receivables

Accounts receivable consist of Service to Kentucky School Districts and Administration Fiscal Agent Fees earned as of June 30, 2008. Grants receivable consist of federal, state and local grant program funds received on a reimbursement basis. The amount receivable at year-end are those amounts expended but not yet reimbursed.

KEDC considers all current accounts and grants receivable at June 30, 2008 to be fully collectible; accordingly, no allowance for doubtful accounts is required.

**NOTE B – CASH AND CASH EQUIVALENTS**

KEDC's operating funds are on deposit at a local financial institution. At June 30, 2008, the carrying amount of KEDC's cash was \$ 670,659 and the bank balances were \$1,371,495. The difference between the carrying amount and the bank balances results from deposits in transit and outstanding checks. As of June 30, 2008, the bank balances were either insured up to \$100,000 by the Federal Deposit Corporation (FDIC) or they were invested in obligations of the federal government leaving all funds fully insured.

**NOTE C – RESTRICTED CASH**

Restricted cash at June 30, 2008 consists of the following:

Retainers Received from Districts for Supplies	<u>\$ 98,855</u>
--	------------------

**NOTE D – NET ASSETS**

UNRESTRICTED NET ASSETS

Unrestricted, undesignated net assets are available for the various programs and administration of the Fund.

**KENTUCKY EDUCATIONAL DEVELOPMENT CORPORATION**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2008**

**NOTE D – NET ASSETS (Continued)**

TEMPORARILY RESTRICTED NET ASSETS

There are no temporarily restricted net assets. Consistent with KEDC's accounting policies as discussed in Note A, grant revenue is considered receivable when the expenditures are incurred and grant and professional development funds received before expended are considered deferred revenue. Thus, assets and liabilities for special revenue accounts on the Statement of Financial Position are equal and none of the net asset balance is generated from these accounts.

PERMANENTLY RESTRICTED NET ASSETS

There are no permanently restricted net assets. Permanently restricted net assets are donor-restricted contributions, which are required to be held in perpetuity, and income from the assets held is available for either general operations or specific purposes, in accordance with donor stipulations.

**NOTE E – ACCUMULATED UNPAID SICK LEAVE BENEFITS**

Upon retirement from KEDC, an employee will receive from KEDC an amount equal to 30% of the value of accumulated sick leave. At June 30, 2008, twenty-four employees were eligible for retirement and thus, a liability of \$173,092 has been accrued for accumulated sick leave June 30, 2008.

**NOTE F – FAIR VALUES OF FINANCIAL INSTRUMENTS**

The carrying amount of the following financial instruments approximate fair value because of the short maturity of the instruments: cash equivalents and deferred revenue.

**NOTE G – CONCENTRATION OF CREDIT RISK AND ECONOMIC DEPENDENCE**

KEDC receives a substantial amount of its support from the Kentucky Department of Education, the federal government, and local school districts. A significant reduction in the level of this support would have an effect on the KEDC's programs and activities.

**KENTUCKY EDUCATIONAL DEVELOPMENT CORPORATION**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2008**

**NOTE H – RISK MANAGEMENT**

KEDC is exposed to various risks of loss related to the theft of, damage to and destruction of assets, errors and omissions, fiduciary responsibilities and natural disasters for which it carries commercial insurance. There have been no significant reductions in coverage from the prior year and there have been no significant settlements in the past two years.

**NOTE I – COMMITMENTS AND CONTINGENCIES**

KEDC participants in numerous state and federal grant programs, which are governed by various rules and regulations of the grantor agencies. Costs charged to the respective programs are subject to audit and adjustment by the grantor agencies; therefore, to the extent that KEDC has not complied with the rules and regulations governing the grants, refunds of any money received may be required and the collectibility of any related receivable at June 30, 2008 may be impaired. In the opinion of KEDC, there are no significant contingent liabilities relating to compliance with the rules and regulations governing the respective grants; therefore, no provision has been recorded in the accompanying financial statements for such contingencies.

**NOTE J – RETIREMENT PLANS**

Kentucky Teachers' Retirement System

Plan description – The Kentucky Teachers' Retirement System (KTRS) is an “actuarial reserve, joint contributing” defined benefit public employee retirement system. The plan provides benefit pension plan coverage for local school districts and other public educational agencies within the state. All full-time employees occupying a position requiring certification by the Kentucky Department of Education are covered under the defined benefit plan administered by KTRS. Full-time employees whose job description requires a degree from a four-year college or university are also covered.

The plan provides for retirement, disability, death, survivor and health benefits of its members. The KTRS annual financial report and other required disclosure information are available by writing the Kentucky Teacher Retirement System, 479 Versailles Road, Frankfort, Kentucky 40601-3868; or by calling 800-618-1687.

Service Retirement – A member is fully vested after five years of creditable service and entitled to any benefit for which eligibility requirements have been met. Special provisions may apply to members who accept a covered position after retirement.

**KENTUCKY EDUCATIONAL DEVELOPMENT CORPORATION**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2008**

**NOTE J – RETIREMENT PLANS (Continued)**

Normal

27 years of covered service, or  
Any combination of age plus years of service, which equals 72

Reduced benefits

Age 55 with 5 years of covered service, or  
A minimum of 20 years covered service

Funding Status and Progress – The Commonwealth of Kentucky contributes to the retirement system an amount equal to the current authorized rate times the aggregate annual compensation of eligible KTRS members. Therefore, all risks and employer matching costs are not shared by the District but are a liability of the Commonwealth. The authority for employer contributions is defined in Chapter 161, Section 540(1) and Chapter 161, Section 555 of the Kentucky Revised Statutes. The following are the KTRS contribution rates for the year ended June 30, 2007:

<u>Employee Contribution</u>	<u>State of Kentucky</u>
9.855%	9.855 % plus 3.25 %

Funding for the plan is provided by contributions from eligible employees and an employer contribution at a rate of 13.105% of salaries. During the year ended June 30, 2008, KEDC contributed \$178,557 and employees contributed \$296,397 to the plan.

County Employees Retirement System

The County Employees Retirement System of Kentucky (“System”) is a multi-employer public retirement plan created by and operating under Kentucky Law.

The County Employees Retirement System is a defined benefit plan which covers substantially all regular non-certified, full-time employees of each county and school board, and any additional eligible local agencies electing to participate in the System. The Plan provides for retirement, disability, and death benefits.



**KENTUCKY EDUCATIONAL DEVELOPMENT CORPORATION**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2008**

**NOTE J – RETIREMENT PLANS (Continued)**

For the year ended June 30, 2008, participating employees contributed 5.00% of creditable compensation to the System. The total payroll of KEDC was \$4,647,787 of which \$1,056,409 was eligible to participate in the system.

Employer contribution rates are intended to fund the System's normal cost on a current basis, plus an amount equal to the amortization of unfunded past service costs over thirty years, using the level percentage of payroll method. Such contribution rates are determined by the Board of Trustees of Kentucky Teachers' Retirement System each biennium. Participating employers contributed 16.17 % of members' non-hazardous compensation for the year ended June 30, 2008. The contribution requirement for the year ended June 30, 2008 was \$223,642, which consists of \$170,821 from KEDC and \$52,821 from the employees.

Vesting in a retirement benefit begins immediately upon entry into the System. The participant has a fully-vested interest after the completion of sixty months of service, twelve of which are current service. At a minimum, terminated employees are refunded their contributions with credited interest at 3 % compounded annually through June 30, 1980, 6 % thereafter through June 30, 1986, and 4 % thereafter.

The pension benefit obligation, which is the actuarial present value of credited projected benefits, is a standardized disclosure measure of the present value of pension benefit, adjusted for the effects of projected salary increases, estimated to be payable in the future as a result of employee service to date. The System does not make separate measurements of assets and benefit obligations for individual employers.

Historical trend information showing the CERS' progress in accumulating sufficient assets to pay benefits when due is presented in the Kentucky Retirement Systems' annual financial report. This report may be obtained by writing the Kentucky Retirements systems, 1260 Louisville Road, Frankfort KY 40601-6124, or by telephone at (502) 564-4646.

**KENTUCKY EDUCATIONAL DEVELOPMENT CORPORATION**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2008**

**Note K - Line of Credit**

KEDC has a line of credit in the amount of \$500,000 with First and Peoples Bank to be used for operating purposes. As of June 30, 2008, the balance was \$0.

**Note L - Fixed Assets**

A summary of changes in the fixed asset accounts for the year ended June 30, 2008 is as follows:

	BALANCE 6/30/2007	ADDITIONS	DELETIONS	BALANCE 6/30/2008
Land	\$ 60,000	\$ -	\$ -	\$ 60,000
Buildings and Improvements	511,923	88,809	90,960	509,772
Furniture and Equipment	604,933	57,676	18,933	643,676
Big East Educational Cooperative Equipment	83,180	7,731	26,316	64,595
Adult and Family Literacy Equipment	98,623	22,378	-	121,001
Upper Cumberland Educational Cooperative	21,138	-	-	21,138
Wilderness Trail Educational Cooperative	11,425	35,715	-	47,140
Vehicles	451,021	43,884	-	494,905
	<u>1,842,243</u>	<u>256,193</u>	<u>136,209</u>	<u>1,962,227</u>
Accumulated Depreciation				
Buildings and Improvements	131,866	20,675	-	152,541
Furniture and Equipment	367,477	49,544	17,983	399,038
Big East Educational Cooperative Equipment	66,286	8,065	27,379	46,972
Adult and Family Literacy Equipment	78,206	9,877	20,454	67,629
Upper Cumberland Educational Cooperative	10,730	4,915	-	15,645
Wilderness Trail Educational Cooperative	6,184	9,025	-	15,209
Vehicles	300,196	56,468	-	356,664
	<u>960,945</u>	<u>158,569</u>	<u>65,816</u>	<u>1,053,698</u>
Net Fixed Assets	<u>\$ 881,298</u>	<u>\$ 97,624</u>	<u>\$ 70,393</u>	<u>\$ 908,529</u>

**KENTUCKY EDUCATIONAL DEVELOPMENT CORPORATION**  
**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**  
**June 30, 2008**

Federal Grantor/Pass Through Grant/Program Title	Federal CFDA Number	Pass Through Grantor Number	Federal Expenditures
<b><u>U.S. DEPARTMENT OF EDUCATION</u></b>			
Passed Through from Kentucky Cabinet for Workforce Development:			
Adult Education	84.002	Unknown	\$ 420,372
Passed Through from Kentucky Department of Education:			
IDEA - Part B	84.027A	Unknown	2,413,967
Smaller Learning Communities (OVAE)	84.215L	Direct	<u>50,895</u>
<b>Total U.S. Department of Education</b>			<b>2,885,234</b>
<b><u>U.S Department of Health and Human Services</u></b>			
Passed Through from Kentucky Department of Education:			
Job Readiness	93.558	Unknown	<u>70,472</u>
<b>Total U.S. Department of Health and Human Services</b>			<b><u>70,472</u></b>
<b>TOTAL EXPENDITURES OF FEDERAL AWARDS</b>			<b><u>\$ 2,955,706</u></b>

See notes to schedule of expenditures of federal awards.

**KENTUCKY EDUCATIONAL DEVELOPMENT CORPORATION**

Notes to Schedule of Expenditures of Federal Awards  
For the Year Ended June 30, 2008

Note A: Basis of Presentation

The accompanying schedule of expenditures of federal awards includes the federal grant activity of the Kentucky Educational Development Corporation 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 preparation of, the financial statements.

*Morgan-Franklin, LLC*

*Certified Public Accountants*

**P.O. Box 428  
749 Broadway Street  
West Liberty, KY 41472**

**Brenda K. Morgan  
Jody B. Franklin**

**Phone: (606) 743-1884  
Fax: (606) 743-1895**  
*www.morganfranklincpa.com*

Jon Draud, Commissioner, Department of Education  
Board of Directors, Kentucky Educational Development Corporation

**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**

We have audited the financial statements of the Kentucky Educational Development Corporation (a nonprofit organization) as of and for the year ended June 30, 2008, and have issued our report thereon dated November 21, 2008. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

**Internal Control Over Financial Reporting**

In planning and performing our audit, we considered Kentucky Educational Development Corporation's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Kentucky Educational Development Corporation's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of Kentucky Educational Development Corporation's internal control over financial reporting.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that result in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

Report On Internal Control Over Financial Reporting  
As On Compliance And Other Matters Based On An Audit of Financial  
Statements Performed In Accordance With Government Auditing Standards  
(Continued)

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance And Other Matters

As part of obtaining reasonable assurance about whether Kentucky Educational Development Corporation's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under Government Auditing Standards.

This report is intended solely for the information and use of management and the Board of Directors, Kentucky Department of Education, and 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.

Respectfully Submitted,

*Morgan - Franklin, LLC*

Morgan-Franklin, LLC

November 21, 2008

*Morgan-Franklin, LLC*

*Certified Public Accountants*

**P.O. Box 428  
749 Broadway Street  
West Liberty, KY 41472**

**Brenda K. Morgan  
Jody B. Franklin**

**Phone: (606) 743-1884**

**Fax: (606) 743-1895**

*www.morganfranklincpa.com*

Jon Draud, Commissioner, Department of Education  
Board of Directors, Kentucky Educational Development Corporation

**Report On Compliance With Requirements  
Applicable To Each Major Program And On Internal Control  
Over Compliance In Accordance With OMB Circular A-133**

**Compliance**

We have audited the compliance of Kentucky Educational Development Corporation (KEDC), a nonprofit organization, with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that are applicable to each of its major federal programs for the year ended June 30, 2008. Kentucky Educational Development Corporation's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of Kentucky Educational Development Corporation's management. Our responsibility is to express an opinion on Kentucky Educational Development Corporation's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States; and OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Kentucky Educational Development Corporation's compliance with those requirements and performing such other procedures as we consider 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 Kentucky Educational Development Corporation's compliance with those requirements.

Report On Compliance With Requirements  
Applicable to Each Major Program And Internal Control  
Over Compliance In Accordance With OMB Circular A-133  
(Continued)

In our opinion, Kentucky Educational Development Corporation complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2008.

Internal Control Over Compliance

The management of Kentucky Educational Development Corporation is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered Kentucky Educational Development Corporation's internal control over compliance with the requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Kentucky Educational Development Corporation's internal control over compliance.

A control deficiency in an entity's internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect noncompliance with a type of compliance requirement of a federal program on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the entity's internal control.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.



Report On Compliance With Requirements  
Applicable to Each Major Program And Internal Control  
Over Compliance In Accordance With OMB Circular A-133  
(Continued)

This report is intended solely for the information and use of the Board of Directors, management, Kentucky Department of Education, and 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.

Respectfully Submitted,

*Morgan - Franklin, LLC*

Morgan-Franklin, LLC

November 21, 2008

**KENTUCKY EDUCATIONAL DEVELOPMENT CORPORATION  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
FOR THE YEAR ENDED JUNE 30, 2008**

SUMMARY OF AUDITORS' RESULTS

1. The auditors' report expresses an unqualified opinion on the financial statements of Kentucky Educational Development Corporation.
2. No significant deficiencies were disclosed during the audit of the financial statements.
3. No instances of noncompliance material to the financial statements of Kentucky Educational Development Corporation were disclosed during the audit.
4. There were no significant deficiencies in internal control over major federal award programs disclosed during the audit.
5. The auditors' report on compliance for the major federal award programs for Kentucky Educational Development Corporation expresses an unqualified opinion on all major federal programs.
6. There are no audit findings that are required to be reported in accordance with Section 510(a) of OMB Circular A-133.
7. The programs tested as major programs included:

U.S. Department of Education	
IDEA-Part B	CFDA # 84.027A
8. The threshold for distinguishing Types A and B programs was \$300,000.
9. Kentucky Educational Development Corporation was determined to be a low-risk auditee.

**KENTUCKY EDUCATIONAL DEVELOPMENT CORPORATION  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
FOR THE YEAR ENDED JUNE 30, 2008**

**FINDINGS—FINANCIAL STATEMENTS AUDIT**

**NONE**

**FINDINGS AND QUESTIONED COSTS—MAJOR FEDERAL AWARD PROGRAMS  
AUDIT**

**NONE**

**SUMMARY OF PRIOR AUDIT FINDING**

**NONE**

**CORRECTIVE ACTION PLAN**

**THIS SCHEDULE IS NOT NECESSARY**