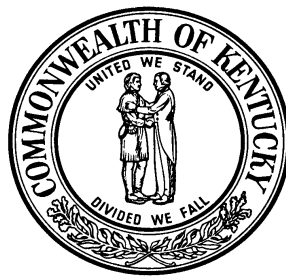


**REPORT OF THE AUDIT OF THE  
KENTUCKY EDUCATIONAL DEVELOPMENT  
CORPORATION**

**For The Fiscal Year Ended  
June 30, 2011**



**CRIT LUALLEN  
AUDITOR OF PUBLIC ACCOUNTS**  
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**CRIT LUALLEN**  
**AUDITOR OF PUBLIC ACCOUNTS**

To the People of Kentucky  
Honorable Steven L. Beshear, Governor  
Lori Flanery, Secretary, Finance and Administration Cabinet  
Terry Holliday, Ph.D, Commissioner, Department of Education  
Robert S. Sherman, Director, Legislative Research Commission  
Board of Directors, Kentucky Educational Development Corporation Ashland,  
Kentucky

The enclosed report prepared by Morgan-Franklin, LLC, Certified Public Accountants, presents the financial statements of the Kentucky Educational Development Corporation, as of June 30, 2011.

We engaged Morgan-Franklin, LLC to perform the financial audit of this educational cooperative. We worked closely with the firm during our report review process; Morgan-Franklin, LLC evaluated the Kentucky Educational Development Corporation's internal controls and compliance with applicable laws and regulations.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Crit Luallen".

Crit Luallen  
Auditor of Public Accounts

Enclosure





**KENTUCKY EDUCATIONAL DEVELOPMENT CORPORATION**

**FINANCIAL STATEMENTS**

**JUNE 30, 2011**

**MORGAN-FRANKLIN, LLC  
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*Morgan-Franklin, LLC*

*Certified Public Accountants*

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To the People of Kentucky  
Honorable Steven L. Beshear, Governor  
Terry Holliday, 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, a nonprofit organization, as of June 30, 2011, 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 Educational Development Corporation as of June 30, 2011, 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 Steven L. Beshear, Governor  
Terry Holliday, 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 October 28, 2011 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 should be considered in assessing the results of our audit.

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by 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 financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statement as a whole.

Respectfully Submitted,

*Morgan - Franklin, LLC*

Morgan-Franklin, LLC  
West Liberty, Kentucky

October 28, 2011

**KENTUCKY EDUCATIONAL DEVELOPMENT CORPORATION**  
**STATEMENT OF FINANCIAL POSITION**  
**June 30, 2011**

**CURRENT ASSETS**

Cash and Cash Equivalents	\$	833,574
Restricted Cash		4,480
Accounts Receivable		918,484
Grants Receivable		323,885
Total Current Assets		2,080,423

**PROPERTY, PLANT, AND EQUIPMENT**

Land		60,000
Building and Improvements		890,665
Furniture and Equipment		703,410
Big East Educational Cooperative Equipment		60,237
Adult and Family Literacy Equipment		80,562
Upper Cumberland Educational Cooperative Equipment		8,446
Wilderness Trail Education Cooperative Equipment		56,523
Vehicles		639,631
Total		2,499,474

Less: Accumulated Depreciation		(1,514,345)
--------------------------------	--	-------------

Property, Plant and Equipment, Net		985,129
------------------------------------	--	---------

<b>TOTAL ASSETS</b>		<b>3,065,552</b>
---------------------	--	------------------

**LIABILITIES AND NET ASSETS**

**CURRENT LIABILITES**

Deferred Revenue		220,742
Accounts Payable		329,566
Accumulated Sick Leave		218,350
Total Current Liabilities		768,658

Total Liabilities		768,658
-------------------	--	---------

**NET ASSETS**

Unrestricted		2,296,894
Total Net Assets		2,296,894

<b>TOTAL LIABILITIES AND NET ASSETS</b>	\$	<b>3,065,552</b>
---	----	------------------

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

**KENTUCKY EDUCATIONAL DEVELOPMENT CORPORATION**  
**STATEMENT OF ACTIVITIES**  
**June 30, 2011**

Changes in Unrestricted Net Assets:

Revenues	
Sales	\$ 940,973
Miscellaneous Receipts	969,220
Service to Kentucky School Districts	1,915,447
Board Memberships	296,916
Admin Fiscal Agent Fee	1,830,420
Local Miscellaneous Reimbursement	354,255
Interest Income	1,746
Total Unrestricted Revenues	<u>6,308,977</u>

Net Assets Released From Restrictions:

Satisfaction of Program Restrictions:	
Federal and State Programs	4,037,371
Total Unrestricted Revenues and Other Support	<u>10,346,348</u>

Operating Expenses:

Program Services	4,463,075
Management and General	5,445,427
Total Operating Expenses	<u>9,908,502</u>

Non-Operating Expenses:

Loss On Disposal of Fixed Assets	1,669
Total Non-Operating Expenses	<u>1,669</u>

Change in Unrestricted Net Assets 436,177

Changes in Temporarily Restricted Net Assets

Federal and State Programs	4,037,371
Net Assets Released From Restrictions	<u>(4,037,371)</u>
Change in Temporarily Restricted Net Assets	0

Change in Net Assets	436,177
Net Assets - Beginning of Year	1,860,717
Net Assets - End of Year	<u>\$ 2,296,894</u>

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

**KENTUCKY EDUCATIONAL DEVELOPMENT CORPORATION**  
**STATEMENT OF CASH FLOWS**  
**June 30, 2011**

**CASH FLOWS FROM OPERATING ACTIVITIES**

Increase (Decrease) in Unrestricted Net Assets	\$ 436,177
Adjustments to Reconcile Net Income to Net Cash Provided by Operating Activities	
Operating Activities	
Net Book Value of Disposed Assets	1,669
Depreciation	217,283
Increase/(Decrease) in Accumulated Sick Leave	19,963
Decrease/(Increase) in Accounts Receivable	(59,408)
Decrease/(Increase) in Grants Receivable	34,043
Increase/(Decrease) in Accounts Payable	(129,391)
Increase/(Decrease) in Deferred Revenue	<u>82,794</u>

**NET CASH (USED) BY OPERATING ACTIVITIES** 603,130

**CASH FLOWS FROM INVESTING ACTIVITIES**

Cash payments for the purchase of equipment and property improvements	<u>(249,729)</u>
---	------------------

**NET CASH (USED) BY INVESTING ACTIVITIES** (249,729)

**NET (DECREASE) IN CASH AND CASH EQUIVALENTS** 353,401

**CASH AND CASH EQUIVALENTS, Beginning of the Year** 484,653

**CASH AND CASH EQUIVALENTS, End of the Year** \$ 838,054

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

**KENTUCKY EDUCATIONAL DEVELOPMENT CORPORATION**  
**STATEMENT OF FUNCTIONAL EXPENSES**  
**June 30, 2011**

	Program Services	Management & General	Total Expenses
Auditing	\$ 2,500	\$ 9,341	\$ 11,841
Advertising		1,214	1,214
Auto Expense		66,561	66,561
Books and Periodicals	7,596		7,596
Consultants	54,516	52,453	106,969
Federal Funded Benefits	167,374		167,374
Insurance		24,940	24,940
Legal		40,421	40,421
Meetings	51,976	36,414	88,390
Miscellaneous	141,763	641,758	783,521
Noncap Equipment	19,531	32,709	52,240
Payroll Taxes	43,866	80,458	124,324
Postage and Shipping	1,005	6,492	7,497
Printing	1,691		1,691
Professional Services	337,708		337,708
Registration	8,796		8,796
Rental Expense	45,084		45,084
Repairs and Maintenance	3,794	37,884	41,678
Retirement	242,348	151,702	394,050
Salaries	2,689,945	2,096,266	4,786,211
Sick Leave	8,404	39,276	47,680
Software		59,274	59,274
Supplies	203,497	1,146,769	1,350,266
Telephone	45,040	37,720	82,760
Training	5,357	50,106	55,463
Travel	176,236	448,816	625,052
Utilities/Occupancy	14,877	35,954	50,831
Indirect Costs	166,662	155,124	321,786
Depreciation	23,509	193,775	217,284
Total Expenses	<u>\$ 4,463,075</u>	<u>\$ 5,445,427</u>	<u>\$ 9,908,502</u>

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

**KENTUCKY EDUCATIONAL DEVELOPMENT CORPORATION**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2011**

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

Nature of Activities

Kentucky Educational Development Corporation (KEDC) was established in 1965 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-eight school districts and four universities and the Board of Directors is comprised of Superintendents of the various districts.

Adult Basic Education: The Adult Education is a regional program serving adult learners (16 years of age or older) in a seven county area consisting of Carter, Elliott, Greenup, Lincoln, Martin, Menifee and Mercer counties. The program provides services in the areas of GED instruction, Family Literacy, Employment Preparation, Literacy, Basic Skills Review, and English as a Second Language (ESL). The program is funded by the Kentucky Department of Adult Education and Literacy based on a formula of the number of eligible adults in the seven county region.

Special Education Cooperative: Three Special Education Cooperatives serve some of KEDC's member districts. They are Big East Educational Cooperative, Upper Cumberland Special Education Cooperative and Wilderness Trail Special Education Cooperative.

The KEDC Special Education Cooperatives provide member districts with technical assistance, professional development, assistance with the Kentucky Continuous Monitoring Process (KCMP), networking and distribution of information, coordination of services and resources, implementation of statewide, regional and local initiatives, and consultation on special education issues in the regions.

The KEDC Special Education Cooperatives receive IDEA funding from the Department of Education based on a three-prong formula. Beyond the base amount the formula takes into account the number of member districts and the number of eligible students in the designated area.

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.

**KENTUCKY EDUCATIONAL DEVELOPMENT CORPORATION**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2011**

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

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.

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 membership fees received in the current year for the following year and prepayments by member districts for supplies.



**KENTUCKY EDUCATIONAL DEVELOPMENT CORPORATION**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2011**

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

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.

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. This includes all monies under the titles "Cash and Cash Equivalents" and "Restricted Cash" on the Statement of Financial Position.

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.

**KENTUCKY EDUCATIONAL DEVELOPMENT CORPORATION**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2011**

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

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.

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, 2011. 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, 2011 to be fully collectible; accordingly, no allowance for doubtful accounts is required.

**NOTE B – DEPOSITS AND INVESTMENTS**

KEDC's operating funds are on deposit at a local financial institution. At June 30, 2011, the carrying amount of KEDC's cash was \$838,054 and the bank balances were \$1,234,050. The difference between the carrying amount and the bank balances results from deposits in transit and outstanding checks. As of June 30, 2011, the bank balances were either insured up to \$250,000 by the Federal Deposit Corporation (FDIC) or they were invested in obligations of the federal government leaving all funds fully insured.

Bank Deposits	\$ 311
US Treasury Obligations	<u>1,233,759</u>
Total Deposits and Investments	<u>\$ 1,234,070</u>

**KENTUCKY EDUCATIONAL DEVELOPMENT CORPORATION**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2011**

**NOTE C – RESTRICTED CASH**

Restricted cash at June 30, 2011 consists of the following:

Retainers Received from Districts for Supplies	<u>\$ 4,480</u>
--	-----------------

**NOTE D – NET ASSETS**

UNRESTRICTED NET ASSETS

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

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 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, 2011, twenty-nine employees were eligible for retirement and thus, a liability of \$218,350 has been accrued for accumulated sick leave June 30, 2011.

**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.

**KENTUCKY EDUCATIONAL DEVELOPMENT CORPORATION**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2011**

**NOTE G – 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.

**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 participates 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, 2011 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.

**KENTUCKY EDUCATIONAL DEVELOPMENT CORPORATION  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2011**

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

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.

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, 2011:

	<u>Employee Contribution</u>	<u>State of Kentucky</u>
Members before July 1, 2008	10.105%	10.105 % plus 3.25 %
Members after July 1, 2008	10.855%	10.855 % plus 3.25 %

Funding for the plan is provided by contributions from eligible employees and an employers matching contribution. During the year ended June 30, 2011, KEDC contributed \$201,749 and employees contributed \$320,653 to the plan.

County Employees Retirement System

The County Employees Retirement System of Kentucky is a cost-sharing multi-employer defined benefit pension 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 and provides for retirement, disability and death benefits to plan members. Benefit contributions and provisions are established by statute.

**KENTUCKY EDUCATIONAL DEVELOPMENT CORPORATION**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2011**

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

Nonhazardous employees are required to contribute 5 percent of their salary to the plan. Nonhazardous employees who begin participation on or after September 1, 2008 are required to contribute 6 percent of their salary to be allocated as follows: 5% will go to the member's account and 1% will go to the KRS insurance fund. KEDC's contribution rate for the year ended June 30, 2011 was 16.93 percent.

KEDC's contribution for FY 2009 was \$142,216, FY 2010 was \$189,354 and FY 2011 was \$192,301.

Benefits fully vest on reaching five years of service for nonhazardous employees. Aspects of benefits for nonhazardous employees include retirement after 27 years of service or age 65. Nonhazardous employees who begin participation on or after September 1, 2008 must meet the rule of 87 (members age plus years of service credit must equal 87, and the member must be a minimum of 57 years of age) or the member is age 65, with a minimum of 60 months credit.

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.

**NOTE K – SUBSEQUENT REVIEW**

Subsequent events have been evaluated through October 28, 2011, which is the date the financial statements were available to be issued.

**NOTE L – 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, 2011, the balance was \$0.

**KENTUCKY EDUCATIONAL DEVELOPMENT CORPORATION**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2011**

**NOTE M – FIXED ASSETS**

A summary of changes in the fixed asset accounts for the year ended June 30, 2011 is as follows:

	<u>BALANCE</u> 6/30/2010	<u>ADDITIONS</u>	<u>DELETIONS</u>	<u>BALANCE</u> 6/30/2011
Land	\$ 60,000	\$ 0	\$ 0	\$ 60,000
Buildings and Improvements	777,955	112,710		890,665
Furniture and Equipment	669,997	64,872	31,459	703,410
Big East Educational Cooperative Equipment	54,277	8,204	2,244	60,237
Adult and Family Literacy Equipment	84,571	2,074	6,083	80,562
Upper Cumberland Educational Cooperative	8,446			8,446
Wilderness Trail Educational Cooperative	44,650	11,873		56,523
Vehicles	<u>591,020</u>	<u>49,996</u>	<u>1,385</u>	<u>639,631</u>
	2,290,916	249,729	41,171	2,499,474
 Accumulated Depreciation				
Buildings and Improvements	202,758	29,363		232,121
Furniture and Equipment	530,944	88,751	30,084	589,611
Big East Educational Cooperative Equipment	47,365	4,589	1,346	50,608
Adult and Family Literacy Equipment	69,158	7,554	6,083	70,629
Upper Cumberland Educational Cooperative	7,596	1,088	1,989	6,695
Wilderness Trail Educational Cooperative	29,003	10,278		39,281
Vehicles	<u>449,740</u>	<u>75,660</u>		<u>525,400</u>
	<u>1,336,564</u>	<u>217,283</u>	<u>39,502</u>	<u>1,514,345</u>
 Net Fixed Assets	 <u>\$ 954,352</u>	 <u>\$ 32,446</u>	 <u>\$ 1,669</u>	 <u>\$ 985,129</u>

**KENTUCKY EDUCATIONAL DEVELOPMENT CORPORATION**  
**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**  
**June 30, 2011**

Federal Grantor/Pass Through Grant/Program Title	<u>Federal CFDA Number</u>	<u>Pass Through Grantor Number</u>	<u>Federal Expenditures</u>
 <b><u>U.S. DEPARTMENT OF EDUCATION</u></b>			
Passed Through from Kentucky Cabinet for Workforce Development:			
Adult Education	84.002	Unknown	\$ 428,682
Passed Through from Kentucky Department of Education:			
IDEA - Part B	84.027A	Unknown	2,399,948
America's Many Trails of Freedom	84.215X	N/A	<u>484,436</u>
<b>Total U.S. Department of Education</b>			<u>3,313,066</u>
 <b>TOTAL EXPENDITURES OF FEDERAL AWARDS</b>			 <u><u>\$ 3,313,066</u></u>

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, 2011

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, LLP*

*Certified Public Accountants*

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Terry Holliday, 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, 2011, and have issued our report thereon dated October 28, 2011. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered 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 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 *material weakness* is a deficiency, or a 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.

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, 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  
West Liberty, Kentucky

October 28, 2011

*Morgan-Franklin, LLP*

*Certified Public Accountants*

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Terry Holliday, Commissioner, Department of Education  
Board of Directors, Kentucky Educational Development Corporation

Independent Auditors' Report On Compliance With Requirements That Could Have A  
Direct And Material Effect On 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, 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, 2011. 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.

Independent Auditors' Report On Compliance With Requirements That Could Have A Direct And Material Effect On Each Major Program And On 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 could have a direct and material effect on each of its major federal programs for the year ended June 30, 2011.

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 and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Kentucky Educational Development Corporation's internal control over compliance.

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

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be deficiencies, 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.

Independent Auditors' Report On Compliance With Requirements That Could Have A Direct And Material Effect On Each Major Program And On 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  
West Liberty, Kentucky

October 28, 2011

**KENTUCKY EDUCATIONAL DEVELOPMENT CORPORATION  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
FOR THE YEAR ENDED JUNE 30, 2011**

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 TAH & FLAG	CFDA # 84.215X
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, 2011**

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**



