REPORT OF THE AUDIT OF KENTUCKY EDUCATIONAL DEVELOPMENT CORPORATION

FOR THE FISCAL YEAR ENDED JUNE 30, 2021

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TABLE OF CONTENTS

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To the People of Kentucky
Honorable Andrew G. Beshear, Governor
Holly M. Johnson, Secretary, Finance and Administration Cabinet
Dr. Jason E. Glass, Commissioner, Department of Education
Jay D. Hartz, Director, Legislative Research Commission
Board of Directors, Kentucky Educational Development Corporation
Ashland, Kentucky

Independent Auditor's Report

Report on the Financial Statements

We have audited the accompanying financial statements of Kentucky Educational Development Corporation (a nonprofit organization), which comprise the statement of financial position as of June 30, 2021, and the related statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express opinions 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 from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

To the People of Kentucky
Honorable Andrew G. Beshear, Governor
Holly M. Johnson, Secretary, Finance and Administration Cabinet
Dr. Jason E. Glass, Commissioner, Department of Education
Jay D. Hartz, Director, Legislative Research Commission
Board of Directors, Kentucky Educational Development Corporation
Ashland, Kentucky

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Kentucky Educational Development Corporation as of June 30, 2021, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Other Information

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, as required by Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards,* is presented for purposes of additional analysis 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 statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards,* we have also issued our report dated December 10, 2021 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 solely 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 effectiveness of Kentucky Educational Development Corporation's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Kentucky Educational Development Corporation's internal control over financial reporting and compliance.

Morgan and Associates, LLC

Morgan and Associates, LLC
West Liberty, Kentucky
December 10, 2021

KENTUCKY EDUCATIONAL DEVELOPMENT CORPORATION
STATEMENT OF FINANCIAL POSITION
June 30, 2021

ASSETS	
CURRENT ASSETS	
Cash and Cash Equivalents	$ 3,691,252
Accounts Receivable	317,961
Grants Receivable	489,138
Total Current Assets	4,498,351
NON-CURRENT ASSETS	
Land	60,000
Building and Improvements	1,773,275
Furniture and Equipment	447,417
Special Education Cooperative Equipment	43,538
Adult and Family Literacy Equipment	83,566
Vehicles	612,875
Less: Accumulated Depreciation	(1,727,945)
Property, Plant and Equipment, Net	1,292,726
Restricted Cash	279,750
Total Non-Current Assets	1,572,476
TOTAL ASSETS	$ 6,070,827
LIABILITIES AND NET ASSETS	
CURRENT LIABILITIES	
Deferred Revenue	$ 722,863
Prepaid Memberships	54,984
Bond Payable	30,000
Accounts Payable	173,593
Total Current Liabilities	981,440
LONG-TERM LIABILITIES	
Accumulated Sick Leave	391,803
Bond Payable	295,000
Bond Issuance Costs (Net of Amortization of $3,000)	(4,500)
Total Long-term Liabilities	682,303
Total Liabilities	1,663,743
NET ASSETS	
Net Assets Without Donor Restrictions	4,407,084
Total Net Assets	4,407,084
TOTAL LIABILITIES AND NET ASSETS	$ 6,070,827

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

KENTUCKY EDUCATIONAL DEVELOPMENT CORPORATION
STATEMENT OF ACTIVITIES
For the Year Ended June 30, 2021

Changes in Net Assets:	
Revenues	
Sales	$ 814,798
Miscellaneous Receipts	2,458,879
Service to Kentucky School Districts	952,869
Board Memberships	217,641
Admin Fiscal Agent Fee	2,576,108
Local Miscellaneous Reimbursement	57,516
Interest Income	6,021
Total Revenues	7,083,832
Net Assets Released From Restrictions:	
Satisfaction of Program Restrictions:	
Federal and State Programs	4,215,993
Total Revenues and Other Support	11,299,825
Operating Expenses:	
Program Services	3,942,858
Management and General	6,198,339
Total Operating Expenses	10,141,197
Non Operating Expenses	
Loss on Disposal of Fixed Assets	(1,029)
Change in Net Assets Without Donor Restrictions	1,157,599
Changes in Net Assets With Donor Restrictions	
Federal and State Programs	4,215,993
Net Assets Released From Restrictions	(4,215,993)
Change in Net Assets With Donor Restrictions	0
Change in Net Assets	1,157,599
Net Assets - Beginning of Year	3,249,485
Net Assets - End of Year	$ 4,407,084

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

KENTUCKY EDUCATIONAL DEVELOPMENT CORPORATION
STATEMENT OF CASH FLOWS
For the Year Ended June 30, 2021

CASH FLOWS FROM OPERATING ACTIVITIES		
Increase (Decrease) in Unrestricted Net Assets	$	1,157,599
Adjustments to Reconcile Net Income to Net Cash Provided by Operating Activities		
Operating Actitivities		
Depreciation		159,264
Bond Discount Amortization		500
Increase/(Decrease) in Accumulated Sick Leave		92,785
Decrease/(Increase) in Accounts Receivable		21,122
Decrease/(Increase) in Grants Receivable		36,862
Increase/(Decrease) in Accounts Payable		(503,196)
Increase/(Decrease) in Prepaid Memberships		13,075
Increase/(Decrease) in Deferred Revenue		(115,382)
Loss on disposal of assets		1,029
NET CASH PROVIDED/(USED) BY OPERATING ACTIVITIES		863,658
CASH FLOWS FROM INVESTING ACTIVITIES		
Cash payments for the purchase of equipment and property improvements		(81,338)
NET CASH PROVIDED/(USED) BY INVESTING ACTIVITIES		(81,338)
CASH FLOWS FROM FINANCING ACTIVITIES		
PPP Loan Forgiveness		(862,600)
Principal Payments		(30,000)
NET CASH PROVIDED/(USED) BY FINANCING ACTIVITIES		(892,600)
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS		(110,280)
CASH AND CASH EQUIVALENTS, Beginning of the Year		4,081,282
CASH AND CASH EQUIVALENTS, End of the Year	$	3,971,002

Supplemental Disclosure:

Cash Paid for Interest	$ 14,550

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

KENTUCKY EDUCATIONAL DEVELOPMENT CORPORATION
STATEMENT OF FUNCTIONAL EXPENSES
For the Year Ended June 30, 2021

	Program Services	Management & General	Total Expenses
Auditing	$ 5,920	$ 1,100	$ 7,020
Advertising	34,624	4,835	39,459
Auto Expense	19,733		19,733
Books and Periodicals		12,298	12,298
Consultants	491,907	36,233	528,140
Federal Funded Benefits		204,630	204,630
Insurance	84,190	1,100	85,290
Legal	13,962	156,799	170,761
Meetings	14,314	1,722	16,036
Interest & Fees	15,050		15,050
Items for Resale	841,536		841,536
Coop Payments	482,279		482,279
Miscellaneous	5,586	22,935	28,521
Noncap Equipment	3,281	26,323	29,604
Payroll Taxes	40,404	81,454	121,858
Postage and Shipping	4,095	500	4,595
Professional Services		413,423	413,423
Registration		21,113	21,113
Rental Expense	64,668	23,331	87,999
Repairs and Maintenance	62,076	3,489	65,565
Retirement	121,585	426,330	547,915
Salaries	1,170,088	3,904,387	5,074,475
Sick Leave	12,338	124,944	137,282
Software	57,801		57,801
Stipends		77,401	77,401
Supplies	60,486	255,494	315,980
Telephone	17,213	17,395	34,608
Training	12,878	1,158	14,036
Travel	138,169	42,994	181,163
Utilities/Occupancy	25,083	37,773	62,856
Indirect Costs		283,008	283,008
Depreciation	143,592	16,170	159,762
Total Expenses	$ 3,942,858	$ 6,198,339	$ 10,141,197

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

KENTUCKY EDUCATIONAL DEVELOPMENT CORPORATION
NOTES TO FINANCIAL STATEMENTS
For the Year Ended June 30, 2021

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-seven 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 (18 years of age or older and that meet eligibility requirements) in a eleven county area consisting of Boyd, Boyle, Carter, Elliott, Garrard, Greenup, Lawrence, Lincoln, Martin, Menifee, and Mercer counties. The program provides instructional services that increase a student's ability to a) attain a high school diploma or its equivalent; b) transition to postsecondary education; and c) obtain employment. The program is funded by Kentucky Adult Education (KYAE) and is based on a formula of the population of eligible adults without a high school diploma or GED credential in the seven county region with data taken from the American Community Survey.

Special Education Cooperative: The KEDC Special Education Cooperative provides member districts with technical assistance, professional development, assistance with the Regional Systemic Improvement Plan (RSIP), 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 Cooperative receives 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.

Inventories

Supplies and materials are charged to expenditures when purchased.

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.

Cost principles used by the Cooperative generally fall under the Uniform Guidance and/or OMB 2 CFR Part 230 *Cost Principles For Non-Profit Organizations*, but additional regulations may be used as required by the individual program and its grant or contract requirements.

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

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.

Deferred Revenue

Deferred revenue consists of membership fees received in the current year for the following year and prepayments by member districts for supplies and unexpended special revenue funds (MOAs and grants).

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: KEDC Special Education Cooperative Equipment; Adult and Family Literacy Equipment.

Cash, Cash Equivalents and Liquidity

KEDC considers all restricted and unrestricted monies in banks and highly liquid investments with a maturity of three months or less to be cash equivalents. These amounts are available for general expenditures within one year. KEDC normally maintains sufficient cash and cash equivalents to meets its working capital needs. Deposits are carried at cost, which approximates market value.

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.

KENTUCKY EDUCATIONAL DEVELOPMENT CORPORATION
NOTES TO FINANCIAL STATEMENTS
For the Year Ended June 30, 2021

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.

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.

The Organization has analyzed its tax positions taken for filings with the Internal Revenue. It believes that its tax filing positions will be sustained upon examination and does not anticipate any adjustments that would result in a material adverse affect on its financial condition, results of operations, or cash flows. The Organization's federal income tax returns are subject to examination by federal, state and local taxing authorities, generally for three years after they are filed.

Advertising

KEDC expenses advertising costs as incurred.

Functional Expenses

Expenses have been classified by specific functions based on actual direct expenditures and cost allocations based on estimates made by management. 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.

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, 2021. 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, 2021 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, 2021, the carrying amount of KEDC's cash was $3,971,002 and the bank balances were $4,165,372. The difference between the carrying amount and the bank balances results from deposits in transit and outstanding checks. As of June 30, 2021, KEDC's deposits were covered by FDIC and a Security Repurchase Agreement.

Restricted Cash

Restricted cash consists of funds held by U.S. Bank and designated by the board for future debt service payments in the amount of $233,725 and project funds in the amount of $46,025.

NOTE C – LEASE COMMITMENT

KEDC entered into an operating lease agreement for office space in Lexington, KY on April 12, 2013. The lease expires April 30, 2023, and calls for monthly payments of $6,287 beginning May 1, 2013, increasing to $7,185 after five years. Rental payments for the year ended June 30, 2021 under this lease was $86,224. The lease is renewable in five-year increments. Future minimum rental payments under the terms of the lease are as follows:

For the year ended June 30, 2022	$ 86,224
2023	86,224
	$ 172,448

NOTE D – NET ASSETS

Net Assets Without Donor Restrictions

Net Assets without donor restrictions are available for the various programs and administration of the Fund

Net Assets With Donor Restrictions

There are net assets with donor restrictions. 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.

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, 2021, fourteen employees were eligible for retirement and thus, a liability of $391,803 has been accrued for accumulated sick leave June 30, 2021.

NOTE F – FAIR VALUES OF FINANCIAL INSTRUMENTS

GASB Statement No. 72, Fair Value Measurement and Application, became effective in fiscal year 2016 which requires the measurement of certain assets and liabilities at fair value using a consistent and more detailed definition of fair value and accepted valuation techniques.

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 – 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.

KENTUCKY EDUCATIONAL DEVELOPMENT CORPORATION
NOTES TO FINANCIAL STATEMENTS
For the Year Ended June 30, 2021

NOTE I – FIXED ASSETS

A summary of changes in the fixed asset accounts for the year ended June 30, 2021 is as follows:

	Balance 6/30/2020	Additons	Deletions	Balance 6/30/2021
Land	$ 60,000			$ 60,000
Buildings and Improvements	1,750,216	23,059		1,773,275
Furniture and Equipment	418,821	42,789	14,193	447,417
Special Education Cooperative Equipment	36,414	7,124		43,538
Adult and Family Literacy Equipment	75,200	8,366		83,566
Vehicles	635,191		22,316	612,875
	2,975,842	81,338	36,509	3,020,671
Accumulated Depreciation				
Buildings and Improvements	610,995	58,782		669,777
Furniture and Equipment	358,059	39,442	13,164	384,337
Special Education Cooperative Equipment	21,479	6,207		27,686
Adult and Family Literacy Equipment	49,411	9,963		59,374
Vehicles	564,218	44,869	22,316	586,771
	1,604,162	159,263	35,480	1,727,945
Net Fixed Assets	$ 1,371,680	$ (77,925)	$ (1,029)	$ 1,292,726

NOTE J – SHORT TERM DEBT

On April 15, 2020, KEDC received a Paycheck Protection Program (PPP) loan from the US Small Business Administration in the amount of $862,600. If not forgiven the loan would require monthly payments beginning in November 2020 with final payment due April 29, 2022 with an interest rate of 1%. The PPP loan was forgiven as of April 8, 2021.

NOTE K – LONG TERM DEBT

1. On March 10, 2015, KEDC entered into a lease agreement with the Kentucky Public Agency Development Lease Program in the amount of $500,000 for building improvements. The agreement requires semi-annual interest payments and annual principal payments for 15 years to be paid in full March 1, 2030 with interest rates ranging 1.6 to 4.5 percent. The principal balance of the agreement was $325,000 as of June 30, 2021.

NOTE K – LONG TERM DEBT (Continued)

Upon the occurrence of an Event of Default, Lessor shall have the right to exercise all rights and remedies provided by law or in equity to which Lessor is entitled, including, without limiting the generality of the foregoing, the right to declare the Lease and all sums due or to become due under the Mortgage, the Lease or the other Collateral Documents to be accelerated and to be due and payable in full.

Upon the occurrence of any one or more Events of Default, Lessor may, in addition to any rights or remedies available to it, under the Indenture, Lease, Mortgage or under the other Collateral Documents and to the extent permitted by applicable law, take such action personally or by its agents or attorneys, with or without entry, and without notice, demand, presentment or protest (each and all of which are hereby waived), as it deems necessary or advisable to protect and enforce its rights and remedies against Lessee and in and to the Facility, including the actions listed in the Bond document, each of which may be pursued concurrently or otherwise, in its sole discretion, without impairing or otherwise affecting its other rights or remedies.

Fiscal Year Ended June 30	Scheduled Interest	Scheduled Principal
2022	$ 13,575	$ 30,000
2023	12,525	30,000
2024	11,325	35,000
2025	9,925	35,000
2026	8,525	35,000
2027-2030	18,560	160,000
Totals	$ 74,435	$ 325,000

2. Long-term debt activity for the year ended June 30, 2021, was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Lease/Bond	$ 355,000		$ 30,000	$ 325,000	$ 30,000
	$ 355,000	$ 0	$ 30,000	$ 325,000	$ 30,000

NOTE L – RETIREMENT PLANS

Kentucky Teachers' Retirement System

The Teachers' Retirement System of the State of Kentucky (KTRS) is a cost-sharing multiple-employer defined benefit plan with a special funding situation established to provide retirement annuity plan coverage for local school districts and other public educational agencies in the state. The plan provides benefit pension plan coverage for local school districts and other public educational agencies within the state. All 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. KTRS issues a publicly available Comprehensive Annual Financial Report (CAFR) that includes audited financial statements, notes and required supplementary information for the pension plan. That report is available online at the following link: https://trs.ky.gov/financial-reports-information/. The separately issued actuarial valuation is also available at the same link or the reports may be obtained by writing to KTRS at: Kentucky Teachers' Retirement System, 477 Versailles Road, Frankfort, Kentucky 40601.

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 Organization 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 Statues. The following are the KTRS contribution rates for the year ended June 30, 2020:

	Employee Contribution	State of Kentucky
Members before July 1, 2008	12.855%	12.855 % plus 3.25 %
Members after July 1, 2008	12.855%	12.855 % plus 3.25 %

NOTE L – RETIREMENT PLANS (Continued)

Kentucky Teachers' Retirement System (Continued)

Funding for the plan is provided by contributions from eligible employees and an employers matching contribution. During the year ended June 30, 2021, KEDC contributed $343,181 and employees contributed $519,991 to the plan.

On-behalf payments made by the State for the year ended June 30, 2020, which is the latest information available, were $550,437.

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. Retirement benefits may be extended to beneficiaries of the plan members under certain circumstances. Benefit contributions and provisions are established by statute. The risks of participating in these multi-employer plans are different from single-employer plans in the following aspects:

1. Assets contributed to the multi-employer plans by one employer may be used to provide benefits to employees of other participating employers.

2. If a participating employer stops contributing to the plan, the unfunded obligations of the plan may be borne by the remaining participating employers.

3. If the Organization chooses to stop participating in its multi-employer plan, it may be required to pay those plans an amount based on the unfunded status of the plan, referred to as a withdrawal liability. At this time, the Organization has not established any liabilities because withdrawal from this plan is not probable.

The Plan's Employer Identification Number is 61-1431278.

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, 2021 was 24.06 percent.

In accordance with Senate Bill 2, signed by the Governor on April 4, 2013, plan members who began participating on, or after, January 1, 2014, were required to contribute to the Cash Balance Plan. The Cash Balance Plan is known as a hybrid plan because it has characteristics of both a defined benefit plan and a defined contribution plan. Members in the plan contribute a set percentage of their salary each month to their own account. Members contribute 5% (nonhazardous) of their annual creditable compensation and 1% to the health insurance fund which is not credited to the member's account and is not refundable. The

NOTE L – RETIREMENT PLANS (Continued)

County Employees Retirement System (Continued)

employer contribution rate is set annually by the Board based on an actuarial valuation. The employer contributes a set percentage of the member's salary. Each month, when employer contributions are received, an employer pay credit is deposited to the member's account. A member's account is credited with a 4% (nonhazardous) employer pay credit. The employer pay credit represents a portion of the employer contribution.

KEDC's contribution for FY 2021 was $204,735 and FY 2020 was $152,718. There are no funding improvement, or rehabilitation plans, surcharges or collective bargaining agreements. There have been no significant changes that affect the comparability of the 2021 and 2020 contributions.

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, 1981, 6% thereafter through June 30, 1986 and 4% thereafter. All required contributions were paid at year end or within thirty (30) days thereafter. The percentage of KEDC's contribution to total employers' contribution in the CERS for the year ended June 30, 2020 is 0.024281% and KEDC's portion of the net pension liability is $1,862,333.

The amount shown below as "actuarial accrued liability" is a standardized disclosure measure of the present value of pension benefits, adjusted for the effects of projected salary increases estimated to be payable in the future as a result of employee service to date. The measure is the actuarial present value of credited projected benefits and is intended to help users assess the System's funding status on a going-concern basis, assess progress made in accumulating sufficient assets to pay benefits when due, and make comparisons among public employee retirement systems (PERS). The measure is independent of the actuarial funding method used to determine contributions to the System.

The CERS total actuarial liability (nonhazardous) was $14,697,244,000 as of June 30, 2020, which is the latest information available. The total Fiduciary Net Position of the plan as of June 30, 2020, is $7,027,327,000; therefore, the plan was 47.81% funded as of June 30, 2020.

The complete actuarial valuation report including all actuarial assumptions and methods is publicly available on the website at www.kyret.ky.gov or can be obtained as described in the paragraph above.

The Organization is providing less than 5% of the total contributions to the plan.

Form 5500 is not required for this plan.

NOTE L – RETIREMENT PLANS (Continued)

Other Post-Employment Benefits (OPEB)

A. Health Insurance Coverage – Tier 1

CERS provides post-retirement health care coverage as follows:

For members participating prior to July 1, 2003, years of service and respective percentages of the maximum contribution are as follows:

Years of Service	% Paid by Insurance Fund	% Paid by Member through Payroll Deduction
20 or more	100%	0%
15-19	75%	25%
10-14	50%	50%
4-9	25%	75%
Less than 4	0%	100%

As a result of House Bill 290 (2004 General Assembly), medical insurance benefits are calculated differently for members who began participation on or after July 1, 2003. Once members reach a minimum vesting period of ten years, non-hazardous employees whose participation began on or after July 1, 2003, earn ten dollars per month for insurance benefits at retirement for every year of earned service without regard to a maximum dollar amount. This dollar amount is subject to adjustment annually based on the retiree cost of living adjustment, which is updated annually due to changes in the Consumer Price Index.

Benefits are covered under KRS 161.714 with exception of COLA and retiree health benefits after July 2003.

B. Health Insurance Coverage - Tier 2 and Tier 3 - Nonhazardous

Once members reach a minimum vesting period of 15 years, earn ten dollars per month for insurance benefits at retirement for every year of earned service without regard to a maximum dollar amount. This dollar amount is subject to adjustment annually by 1.5%. This was established for Tier 2 members during the 2008 Special Legislative Session by House Bill 1. During the 2013 Legislative Session, Senate Bill 2 was enacted, creating Tier 3 benefits for members.

The monthly insurance benefit has been increased annually as a 1.5% cost of living adjustment (COLA) since July 2003 when the law changed. The annual increase is cumulative and continues to accrue after the member's retirement.

Tier 2 member benefits are covered by KRS 161.714 with exception of COLA and retiree health benefits after July 2003. Tier 3 members are not covered by the same provisions.

NOTE L – RETIREMENT PLANS (Continued)

Other Post-Employment Benefits (OPEB) (Continued)

C. Cost of Living Adjustments - Tier 1

The 1996 General Assembly enacted an automatic cost of living adjustment (COLA) provision for all recipients of KRS benefits. During the 2008 Special Session, the General Assembly determined that each July beginning in 2009, retirees who have been receiving a retirement allowance for at least 12 months will receive an automatic COLA of 1.5%. The COLA is not a guaranteed benefit. If a retiree has been receiving a benefit for less than 12 months, and a COLA is provided, it will be prorated based on the number of months the recipient has been receiving a benefit.

D. Cost of Living Adjustments - Tier 2 and Tier 3

No COLA is given unless authorized by the legislature with specific criteria. To this point, no COLA has been authorized by the legislature for Tier 2 or Tier 3 members.

E. Death Benefit

If a retired member is receiving a monthly benefit based on at least 48 months of service credit, KRS will pay a $5,000 death benefit payment to the beneficiary designated by the member specifically for this benefit. Members with multiple accounts are entitled to only one death benefit.

F. Net OPEB Liability

The percentage of KEDC's contribution to total employers' OPEB contribution in the CERS for the year ended June 30, 2020 is 0.024274% and KEDC's portion of the net OPEB liability is $586,143. The CERS total actuarial OPEB liability (nonhazardous) was $4,996,309,000 as of June 30, 2020, which is the latest information available. The total OPEB Fiduciary Net Position of the plan as of June 30, 2020, is $2,581,613,000; therefore, the plan was 51.67% funded as of June 30, 2020.

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
For the Year Ended June 30, 2021

NOTE M – 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 collectability of any related receivable at June 30, 2021 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 N – SUBSEQUENT REVIEW

Subsequent events have been evaluated through December 10, 2021 which is the date the financial statements were available to be issued.

KENTUCKY EDUCATIONAL DEVELOPMENT CORPORATION
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
June 30, 2021

Federal Grantor/Pass Through Grant/Program Title	Federal CFDA Number	Pass Through Grantor Number	Passed Through to Sub-Recipient	Federal Expenditures
U.S. DEPARTMENT OF EDUCATION				
Passed Through from Kentucky Cabinet for Workforce Development:				
Adult Education	84.002	Unknown		$ 448,793
OVR - Pre-employment Transition Services	84.126A	Unknown		149,641
Passed Through from Kentucky Department of Education:				
IDEA - Part B	84.027	Unknown		1,054,963
Recovery Leader	84.010	Unknown		564,061
Remote Learning Lab	84.425D	Unknown		15,000
School Climate Transformation Evaluation	84.184F	3850001-19		64,044
U.S. DEPARTMENT OF EDUCATION - 422 Cluster				
ASPIRE	84.422A	N/A		401,986
CHARGE	84.422B	N/A		440,672
422 Cluster Total				842,658
Passed Through from University of Louisville				
Ky Autism Training Center	84.027A	Unknown		100,470
Total U.S. Department of Education				3,239,630
U.S. DEPARTMENT OF HEALTH & HUMAN SERVICES				
Passed Through from Big Sandy ADD				
Ky Works Program	93.558	N/A		75,006
Passed Through from Kentucky Department of Education:				
Improving Student Health & Academic Achievement with Nutrition	93.981	Unknown		35,958
Total U.S. Department of Health & Human Services				110,964
TOTAL EXPENDITURES OF FEDERAL AWARDS				$ 3,350,594

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, 2021

NOTE A – BASIS OF PRESENTATION

The accompanying schedule of expenditures of federal awards (the Schedule) includes the federal award activity of Kentucky Educational Development Corporation under programs of the federal government for the year ended June 30, 2021. The information in this Schedule is presented in accordance with the requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the Schedule presents only a selected portion of the operations of Kentucky Educational Development Corporation, it is not intended to and does not present the financial position, changes in net assets, or cash flows of Kentucky Educational Development Corporation.

NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Expenditures reported on the Schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in the Uniform Guidance and/or OMB 2 CFR Part 230, *Cost Principles for Non-profit Organizations*, wherein certain types of expenditures are not allowable or are limited as to reimbursement.

NOTE C – INDIRECT COST RATE

Kentucky Educational Development Corporation does not use the 10-percent de minimis indirect cost rate.

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To the People of Kentucky
Honorable Andrew G. Beshear, Governor
Holly M. Johnson, Secretary, Finance and Administration Cabinet
Dr. Jason E. Glass, Commissioner, Department of Education
Jay D. Hartz, Director, Legislative Research Commission
Board of Directors, Kentucky Educational Development Corporation
Ashland, Kentucky

And Other Matters Based On An Audit Of Financial Statements Performed In Accordance With *Government Auditing Standards*

We have audited, in accordance with the 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, the financial statements of Kentucky Educational Development Corporation (a nonprofit organization), which comprise the statement of financial position as of June 30, 2021, and the related statements of activities and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated December 10, 2021.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Kentucky Educational Development Corporation's internal control over financial reporting (internal control) as a basis for designing the audit procedures that are appropriate in the circumstances 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. Accordingly, we do not express an opinion on the effectiveness of Kentucky Educational Development Corporation's internal control.

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. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Independent Auditor's 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)

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Kentucky Educational Development Corporation's financial statements are free from 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.*

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the organization's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the organization's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Morgan and Associates, LLC

Morgan and Associates, LLC
West Liberty, Kentucky

December 10, 2021

Morgan and Associates, LLC

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To the People of Kentucky
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Board of Directors, Kentucky Educational Development Corporation
Ashland, Kentucky

Independent Auditor's Report On Compliance For Each Major Program And On Internal Control Over Compliance Required By The Uniform Guidance

Report on Compliance for Each Major Federal Program

We have audited Kentucky Educational Development Corporation's compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of Kentucky Educational Development Corporation's major federal programs for the year ended June 30, 2021. 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.

Management's Responsibility

Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of Kentucky Educational Development Corporation's major federal programs based on our audit of the types of compliance requirements referred to above. 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 the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance).Those standards and the Uniform Guidance 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 considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of Kentucky Educational Development Corporation's compliance.

Independent Auditor's Report On Compliance For Each Major Program And On Internal Control Over Compliance Required By The Uniform Guidance (Continued)

Opinion on Each Major Federal Program

In our opinion, Kentucky Educational Development Corporation complied, in all material respects, with the types of compliance 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, 2021.

Report on Internal Control Over Compliance

Management of Kentucky Educational Development Corporation is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered Kentucky Educational Development Corporation's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, 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 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 compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

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 material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

Morgan and Associates, LLC

Morgan and Associates, LLC
West Liberty, Kentucky
December 10, 2021

KENTUCKY EDUCATIONAL DEVELOPMENT CORPORATION
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2021

SUMMARY OF AUDITOR'S RESULTS

1. The Auditor's report expresses an unmodified opinion on whether the financial statements of Kentucky Educational Development Corporation were prepared in accordance with GAAP.

2. No significant deficiencies or material weaknesses 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 or material weaknesses in internal control over major federal award programs disclosed during the audit and reported in the *Independent Auditor's Report On Compliance For Each Major Program And On Internal Control Over Compliance Required By The Uniform Guidance.*

5. The Auditor's report on compliance for the major federal award programs for Kentucky Educational Development Corporation expresses an unmodified opinion on all major federal programs.

6. There are no audit findings that are required to be reported in accordance with 2 CFR section 200.516 (a).

7. The programs tested as major programs included:

   U.S. Department of Education

IDEA B	CFDA #84.027
Cluster	
Project ASPIRE	CFDA #84.422A
Project CHARGE	CFDA #84.422B

8. The threshold used for distinguishing between Types A and B programs was $750,000.

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, 2021

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