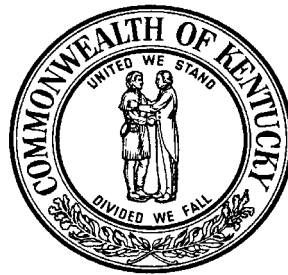


**REPORT OF THE AUDIT OF THE
KENTUCKY EDUCATIONAL DEVELOPMENT CORPORATION**

**For The Fiscal Year Ended
June 30, 2006**



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CRIT LUALLEN
AUDITOR OF PUBLIC ACCOUNTS

To the People of Kentucky

Honorable Ernie Fletcher, Governor
John Farris, Secretary, Finance and Administration Cabinet
Kevin Noland, Interim Commissioner, Department of Education
Robert S. Sherman, Director, Legislative Research Commission
Stan Riggs, Executive Director, Kentucky Educational Development Corporation
Board of Directors of the Kentucky Educational Development Corporation

The enclosed report prepared by Tichenor & Associates, LLP, Certified Public Accountants, presents the financial statements of the Kentucky Educational Development Corporation, Ashland, Kentucky, as of June 30, 2006.

We engaged Tichenor & Associates, LLP to perform the financial audit of this educational cooperative. We worked closely with the firm during our report review process; Tichenor & Associates, LLP 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, 2006

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Audit Partner – William R. Tichenor, CPA, CGFM

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TICHENOR & ASSOCIATES, LLP

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To the People of Kentucky

Honorable Ernie Fletcher, Governor

Kevin Noland, Interim Commissioner, Department of Education

Board of Directors, Kentucky Educational Development Corporation

Ashland, Kentucky

Independent Auditors' Report

We have audited the accompanying statement of financial position of Kentucky Educational Development Corporation (KEDC), a nonprofit organization, as of June 30, 2006, 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, 2006 and the results of its activities and cash flows for the year then ended.

In accordance with Government Auditing Standards, we have also issued our report dated October 20, 2006 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.

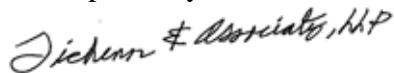
To the People of Kentucky
Honorable Ernie Fletcher, Governor
Kevin Noland, Interim Commissioner, Department of Education
Board of Directors, Kentucky Educational Development Corporation
Ashland, Kentucky

Based on the results of our audit, we have presented the accompanying schedule of findings and questioned costs, included herein, which discusses the following report comment:

- Kentucky Educational Development Corporation has not remitted interest earned on Federal cash advances that were in excess of the \$250 annual limit for administrative expenses.

The accompanying schedule of expenditures of federal awards listed in the table of contents as supplementary information is presented for purposes of additional analysis as required by the OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations, and is not a required part of the financial statements. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and, in our opinion, is fairly presented in all material respects in relation to the financial statements taken as a whole.

Respectfully Submitted,



Tichenor & Associates, LLP

Audit fieldwork completed –
October 20, 2006

KENTUCKY EDUCATIONAL DEVELOPMENT CORPORATION
STATEMENT OF FINANCIAL POSITION
June 30, 2006

ASSETS

CURRENT ASSETS

Cash and Cash Equivalents	\$	742,145
Restricted Cash		7,807,988
Accounts Receivable		565,249
Grants Receivable		151,093
		9,266,475
Total Current Assets		9,266,475

PROPERTY, PLANT AND EQUIPMENT

Land		60,000
Building and Improvements		411,342
Furniture and Equipment		815,068
Big East Educational Cooperative Equipment		77,956
Adult and Family Literacy Equipment		86,945
Upper Cumberland Education Cooperative Equipment		19,143
Wilderness Trail Education Cooperative Equipment		9,246
Vehicles		365,823
		1,845,523
Less: Accumulated Depreciation		(1,155,211)
Property, Plant and Equipment, Net		690,312

TOTAL ASSETS

\$ 9,956,787

LIABILITIES AND NET ASSETS

CURRENT LIABILITIES

Deferred Revenue	\$	378,924
Accounts Payable		148,868
Flexible Benefits Payable		7,764,557
Accumulated Sick Leave		134,132
Accrued Interest Payable		935
Current Portion, Long-Term Debt		20,000
Total Current Liabilities		8,447,416
Long-Term Debt, less current portion		75,000
Total Liabilities		8,522,416

NET ASSETS

Unrestricted		1,434,371
Temporarily Restricted		-
Total Net Assets		1,434,371

TOTAL LIABILITIES AND NET ASSETS

\$ 9,956,787

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

KENTUCKY EDUCATIONAL DEVELOPMENT CORPORATION

STATEMENT OF ACTIVITIES

For The Year Ended June 30, 2006

Changes in Unrestricted Net Assets:

Revenues:

Sales	\$ 2,352,842
Miscellaneous Receipt	394,495
Vendor Fair Receipt	24,108
Bid Book Receipt	3,363
Building Rental	1,200
Service to Kentucky School Districts	1,844,125
Board Memberships	276,448
Admin Fiscal Agent Fee	731,116
Local Miscellaneous Reimbursement	252,885
Interest Income	155,711
Total Unrestricted Revenues	<u>6,036,293</u>

Net Assets Released From Restrictions:

Satisfaction of Program Restrictions:

Federal and State Programs	<u>4,403,526</u>
----------------------------	------------------

Total Unrestricted Revenues and Other Support 10,439,819

Expenses:

Program Services	4,824,286
Management and General	<u>5,189,574</u>

Total Expenses 10,013,860

Increase in Unrestricted Net Assets 425,959

Changes in Temporarily Restricted Net Assets

Federal and State Programs	4,403,526
Net Assets Released From Restrictions	<u>(4,403,526)</u>

Change in Temporarily Restricted Net Assets -

Increase in Net Assets 425,959

Net Assets - Beginning of Year 1,008,412

Net Assets - End of Year \$ 1,434,371

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

KENTUCKY EDUCATIONAL DEVELOPMENT CORPORATION
STATEMENT OF CASH FLOWS
For The Year Ended June 30, 2006

CASH FLOWS FROM OPERATING ACTIVITIES	
Increase in Net Assets	\$ 425,959
Adjustments to Reconcile Increases in Net Assets to Net Cash Provided by Operating Activities	
Operating Activities	
Depreciation	132,120
Increase in Prior Period Accumulated Depreciation	9,287
Decrease in Accrued Interest Receivable	11,793
Increase in Accumulated Sick Leave	40,290
Decrease in Accounts Receivable	430,295
(Increase) in Grants Receivable	(47,312)
Increase in Accounts Payable	108,162
(Decrease) in Accrued Interest Payable	(11,794)
Increase in Deferred Revenue	51,096
	1,149,896
 NET CASH PROVIDED BY OPERATING ACTIVITIES	
 CASH FLOWS FROM INVESTING ACTIVITIES	
Loss on the disposal of property	5,363
Cash payments for the purchase of property	(277,641)
	(272,278)
 NET CASH (USED) BY INVESTING ACTIVITIES	
 CASH FLOWS FROM FINANCING ACTIVITIES	
Principal payments on long-term debt	(20,000)
	(20,000)
 NET CASH (USED) BY FINANCING ACTIVITIES	
 NET INCREASE IN CASH AND CASH EQUIVALENTS	
	857,618
CASH AND CASH EQUIVALENTS, Beginning of the Year	7,692,515
CASH AND CASH EQUIVALENTS, End of the Year	\$ 8,550,133

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

KENTUCKY EDUCATIONAL DEVELOPMENT CORPORATION
STATEMENT OF FUNCTIONAL EXPENSES
For The Year Ended June 30, 2006

	Program Services	Management & General	Total Expenses
Accounting	\$ -	\$ 10,317	\$ 10,317
Advertising	14,800	895	15,695
Auto Expense		32,449	32,449
Books and Periodicals	34,593		34,593
Capital Outlay	7,201	50,225	57,426
Consultants	242,829	7,430	250,259
Federal Funded Benefits	155,316		155,316
Insurance	6,160	48,875	55,035
Interest		4,925	4,925
Legal		51,488	51,488
Loan Library	991		991
Meetings	32,646	25,265	57,911
Miscellaneous	532,771	199,038	731,809
Noncap Equipment	19,718	7,178	26,896
Open House	22,204		22,204
Payroll Taxes	51,634	56,194	107,828
Postage and Shipping	2,877	14,577	17,454
Printing	4,629	994	5,623
Professional Services	107,139		107,139
Registration	38,433		38,433
Rental Expense	30,671		30,671
Repairs and Maintenance	14,094	29,570	43,664
Retirement	209,372	77,940	287,312
Salaries	2,546,145	1,305,434	3,851,579
Sick Leave	5,076	40,314	45,390
Software		12,955	12,955
Stipends	59,037		59,037
Supplies	323,493	2,812,681	3,136,174
Telephone	40,010	18,393	58,403
Tests		3,086	3,086
Training	6,209	38,630	44,839
Travel	270,872	194,825	465,697
Utilities / Occupancy	12,630	24,446	37,076
Depreciation	32,225	99,895	132,120
Loss on Disposal of Assets	511	4,852	5,363
Vendor Fair		16,703	16,703
	<u>\$ 4,824,286</u>	<u>\$ 5,189,574</u>	<u>\$ 10,013,860</u>

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

KENTUCKY EDUCATIONAL DEVELOPMENT CORPORATION
NOTES TO FINANCIAL STATEMENTS

June 30, 2006

NOTE A - NATURE OF ACTIVITIES AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Activities

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

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

Basis of Accounting

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

Inventories

Supplies and materials are charged to expenditures when purchased.

Basis of Presentation

Financial statements of the Corporation 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.

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

Deferred Revenue

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

Donor Restrictions

Contributions are considered to be available for unrestricted use unless specifically restricted by the donor. Support that is restricted by the donor is reported as an increase in unrestricted net assets if the restriction expires in the reporting period in which the support is recognized. All other donor-restricted support is reported as an increase in temporarily or permanently restricted net assets depending on the nature of the restriction. When a restriction expires, temporarily restricted assets are reclassified to unrestricted net assets. The Cooperative 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 the Corporation's programs and activities.

Cash and Cash Equivalents

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

Donated Materials and Services

Donated material 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 inasmuch as no objective basis is available to measure the value of such services.

Income Taxes

The Corporation 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.

Allocation of Functional Expenses

It is the Corporation's policy to allocate functional expenses according to various fixed percentages. The percentages are determined by management and are based on management's estimate of functional 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.

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

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.

NOTE B - CASH AND CASH EQUIVALENTS

The Corporation maintains funds through a fiduciary relationship with the member districts in which KEDC administers the districts' flexible benefit plans. These funds are invested in the Kentucky Governmental Organizations Liquidity Fund administered by Summit Capital. All investments are carried at cost which approximates market value and may be liquidated at any time. The investment pools have not been assigned a risk category since KEDC is not issued securities, but rather owns an undivided beneficial interest in the assets of the pools. These funds are entirely invested in obligations of the federal government.

The Corporation's operating funds are on deposit at a local financial institution. At June 30, 2006, the carrying amount of the Cooperative's cash was \$686,977 and the bank balances were \$1,570,240. The difference between the carrying amount and the bank balances results from deposits in transit and outstanding checks. As of June 30, 2006, the bank balances were either insured up to \$100,000 by the Federal Deposit Insurance Corporation (FDIC) or they were invested in obligations of the federal government leaving all funds fully insured.

NOTE C - RESTRICTED CASH

Restricted cash at June 30, 2006 consisted of the following:

Flex Plan Assets Held for Member Districts	\$7,749,075
Retainers Received from Districts for Supplies	52,048
Professional Development Funds	<u>6,865</u>
	<u>\$7,807,988</u>

NOTE D - BONDED DEBT AND LEASE OBLIGATION

In October 1994, KEDC entered into a lease/option contract with Kentucky Education Finance Corporation to make semi-annual payments to the principal and interest requirements of its 1994 issue of First Mortgage Revenue Bonds totaling \$275,000 and bearing interest rates of 5.6% to 6.0%. The purpose of this issue was to provide funds to retire a mortgage note held by KEDC with First and Peoples Bank and Trust Company of Russell, Kentucky, for the purchase of the land and building currently occupied by KEDC. Changes in bonds payable for the year ended June 30, 2006 are outlined below:

Balance outstanding at June 30, 2005	\$115,000
Bonds retired during the current year	<u>(20,000)</u>
Balance outstanding at June 30, 2006	<u>\$ 95,000</u>

The bonds have been prepared as two fully registered Term Bonds maturing October 1, 2005 and October 1, 2009. The minimum obligations of KEDC at June 30, 2006 for debt service (principal and interest) are as follows.

Year Ended <u>June 30:</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2007	\$ 20,000	\$ 5,100	\$ 25,100
2008	25,000	3,750	28,750
2009	25,000	2,250	27,250
2010	<u>25,000</u>	<u>750</u>	<u>25,750</u>
Total	<u>\$ 95,000</u>	<u>\$ 11,850</u>	<u>\$106,850</u>

NOTE E - TEMPORARILY RESTRICTED NET ASSETS

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

NOTE F - ACCUMULATED UNPAID SICK LEAVE BENEFITS

Upon retirement from KEDC, an employee receives from the Corporation an amount equal to 30% of the value of accumulated sick leave. At June 30, 2006, twenty-two employees were eligible for retirement and thus, \$134,132 of net assets are reserved for accumulated sick leave at June 30, 2006.

NOTE G - FAIR VALUES OF FINANCIAL INSTRUMENTS

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

NOTE H - CONCENTRATION OF CREDIT RISK AND ECONOMIC DEPENDENCE

The Corporation 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 Corporation's programs and activities.

NOTE I - 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 J - COMMITMENTS AND CONTINGENCIES

The Corporation 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 the Corporation 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, 2006 may be impaired. In the opinion of the Corporation, 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 K - 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.

NOTE K - 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, 2006:

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

Funding for the plan is provided by contributions from eligible employees and an employer contribution at a rate of 13.105% of salaries. During the year ended June 30, 2006, the Corporation contributed \$175,752 and employees contributed \$258,833 to the plan.

County Employees Retirement System

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

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

For the year ended June 30, 2006, participating employees contributed 5.00% of creditable compensation to the System. The total payroll of KEDC was \$3,725,037 of which \$1,044,760 was eligible to participate in the system.

Employer contribution rates are intended to fund the System’s normal cost on a current basis, plus an amount equal to the amortization of unfunded past service costs over thirty years, using the level percentage of payroll method. Such contribution rates are determined by the Board of Trustees of the Kentucky Teachers Retirement Systems each biennium. Participating employers contributed 10.98% of members’ non-hazardous compensation for the year ended June 30, 2006. The contribution requirement for the year ended June 30, 2006 was \$164,250 which consisted of \$112,012 from the Corporation and \$52,238 from the employees.

NOTE K - RETIREMENT PLANS (Continued)

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

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

The pension benefit obligation, determined as a part of actuarial valuation, at June 30, 2005 (the most recent date for which audited information is available), for the System as a whole, was \$7,180,923,840. The System's net assets available for benefits on June 30, 2005 (based on a five – year moving average of market value to book value) were \$6,511,561,710 leaving an unfunded pension benefit obligation of \$669,362,130.

Ten-year historical trend information designed to provide information about the System's progress in accumulating sufficient assets to pay benefits when due is presented in the Kentucky Retirement System's Annual Report for the fiscal year ended June 30, 2005.

NOTE L - FIXED ASSETS

A summary of changes in the fixed asset accounts for the year ended June 30, 2006 are as follows:

	BALANCE			BALANCE
	6/30/2005	ADDITIONS	DELETIONS	6/30/2006
Land	\$ 60,000	\$ -	\$ -	\$ 60,000
Building and Improvements	362,549	48,793		411,342
Furniture and Equipment	729,148	162,554	76,634	815,068
Big East Educational Cooperatvie Equipment	73,292	5,734	1,070	77,956
Adult and Family Literacy Equipment	101,662	8,868	23,585	86,945
Upper Cumberland Education Cooperative		19,143		19,143
Wilderness Trail Education Cooperative		9,246		9,246
Vehicles	342,520	23,303		365,823
	<u>1,669,171</u>	<u>277,641</u>	<u>101,289</u>	<u>1,845,523</u>
Accumulated Depreciation				
Buildings and Improvements	99,789	14,362		114,151
Furniture and Equipment	618,463	63,233	71,782	609,914
Big East Educational Cooperative Equipment	52,958	6,898	1,070	58,786
Adult and Family Literacy Equipment	75,844	15,805	23,074	68,575
Upper Cumberland Education Cooperative		5,815		5,815
Wilderness Trail Education Cooperative		3,707		3,707
Vehicles	271,963	22,300		294,263
	<u>1,119,017</u>	<u>132,120</u>	<u>95,926</u>	<u>1,155,211</u>
Net Fixed Assets	<u>\$ 550,154</u>	<u>\$ 145,521</u>	<u>\$ 5,363</u>	<u>\$ 690,312</u>

NOTE M – RESTATEMENT OF ACCUMULATED DEPRECIATION AND NET FIXED ASSETS

The accumulated depreciation and net fixed assets as previously reported have been restated as follows:

	REPORTED BALANCE 6/30/2005	ADJUSTMENT	RESTATED BALANCE 6/30/2005
Accumulated Depreciation			
Buildings and Improvements	\$ 87,992	\$ 11,797	\$ 99,789
Furniture and Equipment	660,766	(42,303)	618,463
Big East Educational Cooperative Equipment	52,958		52,958
Adult and Family Literacy Equipment	75,844		75,844
Vehicles	232,170	39,793	271,963
	<u>1,109,730</u>	<u>9,287</u>	<u>1,119,017</u>
Net Fixed Assets	<u>\$ 559,441</u>	<u>\$ (9,287)</u>	<u>\$ 550,154</u>

KENTUCKY EDUCATIONAL DEVELOPMENT CORPORATION
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For The Year Ended June 30, 2006

Federal Grantor/Pass Through Grant/Program Title	<u>Federal CFDA Number</u>	<u>Pass Through Grantor Number</u>	<u>Federal Expenditures</u>
<u>U.S. DEPARTMENT OF EDUCATION</u>			
Passed Through from Kentucky Cabinet for Workforce Development: Adult Education	84.002	DAEL-2006-010 *	\$ 368,830
Passed Through from Kentucky Department of Education: IDEA-B	84.027	E42404 *	1,892,621
Smaller Learning Communities (OVAE)	84.215L	Direct *	<u>636,226</u>
Total U.S. Department of Education			<u>2,897,677</u>
TOTAL EXPENDITURES OF FEDERAL AWARDS			<u>\$ 2,897,677</u>

* Denotes Major Program

See notes to schedule of federal expenditures of federal awards.

KENTUCKY EDUCATIONAL DEVELOPMENT CORPORATION

Notes to Schedule of Expenditures of Federal Awards

For the Year Ended June 30, 2006

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.

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Kevin Noland, Interim 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 The
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, 2006, and have issued our report thereon dated October 20, 2006. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

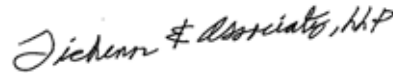
In planning and performing our audit, we considered the Kentucky Educational Development Corporation's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

Compliance And Other Matters

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

This report is intended solely for the information and use of management and the Kentucky Department of Education and is not intended to be and should not be used by anyone other than these specified parties.

Respectfully Submitted,



Tichenor & Associates, LLP

Audit fieldwork completed –
October 20, 2006

TICHENOR & ASSOCIATES, LLP

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Kevin Noland, Interim Commissioner, Department of Education
Board of Directors, Kentucky Educational Development Corporation

REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR PROGRAM AND INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

Compliance

We have audited the compliance of Kentucky Educational Development Corporation (KEDC) 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, 2006. 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 KEDC's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of Kentucky Educational Development Corporation's compliance with those requirements.

In our opinion Kentucky Educational Development Corporation complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2006.

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

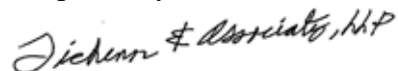
Internal Control Over Compliance

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 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.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts, and grants caused by error or fraud that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

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



Tichenor & Associates, LLP

Audit Fieldwork Completed -
October 20, 2006

KENTUCKY EDUCATIONAL DEVELOPMENT CORPORATION
Schedule of Findings and Questioned Costs
For the Period Ended June 30, 2006

Sections I - Summary of Auditor's Results

Financial Statements

Type of auditor's report issued: Unqualified

Internal control over financial reporting:

Material weakness(es) identified? _____ yes _____ X no

Reportable condition(s) identified that are not considered to be
material weaknesses? _____ yes _____ X none reported

Noncompliance material to financial
statements noted? _____ yes _____ X no

Federal Awards

Internal control over major programs:

Material weakness identified? _____ yes _____ X no

Reportable condition(s) identified that are not considered to be
material weaknesses? _____ yes _____ X none reported

Type of auditor's report issued on compliance for major programs: Unqualified

Any audit findings disclosed that are required to be reported in accordance
with section 510(a) of Circular A-133? _____ X yes _____ no

Identification of major programs:

CFDA Number(s)	Name of Federal Program or Cluster
84.002	Adult Education
84.027	IDEA, Part B
84.215L	Smaller Learning Communities

Dollar threshold used to distinguish between Type A and B Programs: \$ 300,000

Auditee qualified as low-risk auditee? _____ X yes _____ no

Sections II - Financial Statement Audit Findings

No matters were reported.

KENTUCKY EDUCATIONAL DEVELOPMENT CORPORATION
Schedule of Findings and Questioned Costs (continued)
For the Period Ended June 30, 2006

Section III – Major Federal Award Programs Audit

U.S. Department of Education

IDEA-B

CFDA Number: 84.027

Condition: During the fiscal year ended June 30, 2006, the Corporation did not remit to Department of Health and Human Services \$2,022 of interest earned on Federal advances in excess of the \$250 limit for administrative purposes. As of the conclusion of audit fieldwork, the Corporation had not returned this excess interest to Department of Health and Human Services.

Criteria: OMB Circular A-110, Appendix A (Contract Provisions), Subpart A .22 (l) states in part that "...interest earned on Federal advances deposited in interest bearing accounts shall be remitted annually to Department of Health and Human Services, Payment Management System, Rockville, MD 20852. Interest amounts up to \$250 per year may be retained by the recipient for administrative purposes."

Recommendation: We recommend that the Corporation remit this excess interest to Department of Health and Human Services and develop procedures to prevent this condition from occurring in the future.

Management Response: At the time of this finding, the Corporation disputed the applicability of this finding.

Questioned Costs: None

KENTUCKY EDUCATIONAL DEVELOPMENT CORPORATION
**Comment, Recommendation and Summary
of Prior Year Audit Findings**

For The Period Ended June 30, 2006

STATE LAWS AND REGULATIONS:

No matters were reported.

PRIOR YEAR:

No matters were reported.