REPORT OF THE AUDIT OF THE KENTUCKY EDUCATIONAL DEVELOPMENT CORPORATION

For The Fiscal Year Ended June 30, 2005

CRIT LUALLEN
AUDITOR OF PUBLIC ACCOUNTS
www.auditor.ky.gov

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

CRIT LUALLEN
AUDITOR OF PUBLIC ACCOUNTS

To the People of Kentucky
Honorable Ernie Fletcher, Governor
Robbie Rudolph, Secretary, Finance and Administration Cabinet
Gene Wilhoit, 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 Berger & Company, CPA, PSC, Certified Public Accountants, presents the financial statements of the Kentucky Educational Development Corporation, Ashland, Kentucky, as of June 30, 2005.

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

Respectfully submitted,

Crit Luallen
Auditor of Public Accounts

Enclosure

105 SEA HERO ROAD, SUITE 2
FRANKFORT, KY 40601-5404

TELEPHONE 502.573.0050
FACSIMILE 502.573.0067
WWW.AUDITOR.KY.GOV

KENTUCKY EDUCATIONAL DEVELOPMENT CORPORATION

FINANCIAL STATEMENTS

June 30, 2005

Berger & Company, CPA, PSC
2300 Hurstbourne Village Drive, Ste. 300
Louisville, KY 40299
(502) 493-9600
Fax: (502) 493-7231
E-mail: tberger@bergerandcompany.com
Audit Partner – Todd Berger, CPA

TABLE OF CONTENTS

Independent Auditors' Report

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

We have audited the accompanying statement of financial position of the Kentucky Educational Development Corporation (KEDC), a nonprofit organization, as of June 30, 2005, and the related statements of revenues, expenses and changes in net assets, statement of functional expenses and statement of cash flows for the year then ended. These financial statements are the responsibility of the Organization'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 assets, liabilities and net assets of the Kentucky Educational Development Corporation as of June 30, 2005 and the results of its revenues, expenses and change in net assets for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 11, 2005 on our consideration of KEDC's internal control over financial reporting and on tests of its compliance with certain provisions of laws, regulations, contracts, and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

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

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

required part of the general purpose 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 general purpose financial statements taken as a whole.

Respectfully Submitted,

Berger & Company CPA PSC

Berger & Company CPA, PSC

Audit fieldwork completed –
November 11, 2005

KENTUCKY EDUCATIONAL DEVELOPMENT CORPORATION

STATEMENT OF FINANCIAL POSITION

June 30, 2005

ASSETS

CURRENT ASSETS	
Cash and Cash Equivalents	$ 168,512
Restricted Cash	7,524,003
Accounts Receivable	995,544
Grants Receivable	103,781
Accrued Interest Receivable	10,858
Total Current Assets	8,802,698
PROPERTY, PLANT & EQUIPMENT	
Land	60,000
Building and Improvements	362,549
Furniture and Equipment	729,148
Big East Educational Cooperatvie Equipment	73,292
Adult and Family Literacy Equipment	101,662
Vehicles	342,520
	1,669,171
Less: Accumulated Depreciation	(1,109,730)
Property, Plant & Equipment, Net	559,441
TOTAL ASSETS	$ 9,362,139

LIABILITIES AND NET ASSETS

CURRENT LIABILITIES	
Deferred Revenue	$ 327,828
Accounts Payable	432,615
Flexible Benefits Payable	7,372,648
Accrued Flexible Account Interest Payable	11,794
Accumulated Sick Leave	93,842
Current Portion, Long-Term Debt	20,000
Total Current Liabilities	8,258,727
Long-Term Debt, less current portion	95,000
Total Liabilities	8,353,727
NET ASSETS	
Unrestricted	1,008,412
Total Net Assets	1,008,412
TOTAL LIABILITIES AND NET ASSETS	$ 9,362,139

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

KENTUCKY EDUCATIONAL DEVELOPMENT CORPORATION
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
For The Year Ended June 30, 2005

Changes in Unrestricted Net Assets:	
Revenues:	
Sales	$ 2,670,342
Miscellaneous Receipt	179,797
Vendor Fair Receipt	17,200
Bid Book Receipt	3,045
Building Rental	1,035
Service to Kentucky School Districts	1,614,725
Board Memberships	274,718
Admin Fiscal Agent Fee	577,589
Local Miscellaneous Reimbursement	198,502
Interest Income	40,036
Total Unrestricted Revenues	5,576,989
Net Assets Released From Restrictions:	
Satisfaction of Program Restrictions:	
Federal and State Programs	2,651,272
Total Unrestricted Revenues and Other Support	8,228,261
Expenses:	
Program Services	2,797,560
Management and General	5,196,248
Total Expenses	7,993,808
Increase in Unrestricted Net Assets	234,453
Changes in Temporarily Restricted	
Federal and State Programs	2,651,272
Net Assets Released From Restrictions	(2,651,272)
Decrease in Temporarily Restricted Net Assets	-
Increase in Net Assets	234,453
Net Assets - Beginning of Year	773,959
Net Assets - End of Year	$ 1,008,412

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, 2005

CASH FLOWS FROM OPERATING ACTIVITIES	
Excess Expenditures over Revenues	$ 234,453
Adjustments to Reconcile Net Income to Net Cash Provided by by Operating Activities	
Depreciation	194,915
Increase in Accumulated Sick Leave	8,794
Increase in Accounts Receivable	(400,967)
Decrease in Grants Receivable	65,792
Decrease in Deposits and Overpayments	610
Increase in Accounts Payable	271,942
Increase Deferred Revenue	70,891
NET CASH PROVIDED BY OPERATING ACTIVITIES	446,430
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
Cash payments for the purchase of property	(233,333)
Principal paid on long-term debt	(20,000)
NET CASH USED BY CAPITAL AND RELATED FINANCING ACTIVITIES	(253,333)
NET INCREASE IN CASH AND CASH EQUIVALENTS	193,097
CASH AND CASH EQUIVALENTS, Beginning of the Year	7,499,418
CASH AND CASH EQUIVALENTS, End of the Year	$ 7,692,515

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, 2005

	Program Services	Management & General	Total Expenses
Accounting	$ -	$ 10,197	$ 10,197
Advertising		873	873
Auto Expense		24,305	24,305
Books and Periodicals	19,105		19,105
Capital Outlay	86,557		86,557
Consultants	259,735		259,735
Federal Funded Benefits	47,863		47,863
Food	52		52
Insurance	3,850	45,003	48,853
Interest		6,085	6,085
Legal		60,163	60,163
Meetings	19,945	14,263	34,208
Miscellanous	181,053	183,676	364,729
Noncap Equipment	6,140	6,547	12,687
Open House	11,828		11,828
Payroll Taxes	34,099	52,033	86,132
Postage and Shipping	2,833	12,624	15,457
Printing	1,005	4,886	5,891
Professional Services	25,826		25,826
Registration	32,351		32,351
Rental Expense	19,006		19,006
Repairs and Maintenance	6,899	33,297	40,196
Retirement	82,043	56,413	138,456
Salaries	1,268,623	1,233,839	2,502,462
Sick Leave	3,834	6,060	9,894
Software		59,495	59,495
Stipends	49,351		49,351
Supplies	402,443	2,981,744	3,384,187
Telephone	19,404	18,760	38,164
Tests		3,202	3,202
Training		31,160	31,160
Travel	166,003	162,145	328,148
Utilities / Occupancy	7,876	22,786	30,662
Depreciation	39,836	155,079	194,915
Vendor Fair		11,613	11,613
	$ 2,797,560	$ 5,196,248	$ 7,993,808

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

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-three school districts and three universities and the Board of Directors is comprised of Superintendents of the various districts.

Basis of Accounting

The records of the Cooperative'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 Cooperative 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)

<u>Deferred Revenue</u>

Deferred revenue consist 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.

<u>Donor Restrictions</u>

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 Cooperative's programs and activities.

<u>Cash and Cash Equivalents</u>

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

<u>Donated Materials and Services</u>

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.

<u>Income Taxes</u>

The Cooperative 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.

<u>Allocation of Functional Expenses</u>

It is the Cooperative'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.

<u>Federal Grant Revenue</u>

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 Class Portfolio administered by AMBAC securities. All investments are carried at cost which approximates market 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, 2005, the carrying amount of the Cooperative's cash was $278,167 and the bank balances were $600,640. The difference between the carrying amount and the bank balances results from deposits in transit and outstanding checks. As of June 30, 2005, 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, 2005 consists of the following:

Flex Plan Assets Held for Member Districts	$ 7,384,442
Retainers Received from Districts for Supplies	56,666
Professional Development Funds	44,711
State and Federal Grant Funds	38,184
	$ 7,524,003

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, 2005 are outlined below:

Balance outstanding at June 30, 2004	$135,000
Bonds retired during the current year	(20,000)
Balance outstanding at June 30, 2005	$115,000

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, 2005 for debt service (principal and interest) are as follows.

YEAR ENDED JUNE 30:	PRINCIPAL	INTEREST	TOTAL
2006	20,000	6,300	26,300
2007	20,000	5,100	25,100
2008	25,000	3,750	28,750
2009	25,000	2,250	27,250
2010	25,000	750	25,750
TOTAL	$ 115,000	$ 18,150	$ 133,150

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 will receive from the Corporation an amount equal to 30% of the value of accumulated sick leave. At June 30, 2005, twenty-four employees were eligible for retirement and thus, $93,852 of net assets are reserved for accumulated sick leave at June 30, 2005.

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, restricted capital fund, deferred revenue and note payable.

NOTE H - CONCENTRATION OF CREDIT RISK AND ECONOMIC DEPENDENCE

The Cooperative 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 Cooperative'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, 2005 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

<u>Kentucky Teachers' Retirement System</u>

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 and have a four-year college or university degree 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 Teachers' Retirement System, 479 Versailles Road, Frankfort Kentucky 40601-3868; or by calling 800-618-1687.

Service retirement – A member is fully vested after five years of creditable service and is 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, 2005:

Employee Contribution	State of Kentucky
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. Except for employees of federal programs, the state of Kentucky pays the employer contribution. During the year ended June 30, 2005, the Corporation contributed $61,322 for employees of federal programs and employees contributed $159,203 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, 2005, participating employees contributed 5.00% of creditable compensation to the System. The total payroll of KEDC was $2,688,904 of which $923,786 was eligible to participate in the system.

Employer contribution rates are intended to fund the System's normal cost on a current basis, plus an amount equal to the amortization of unfunded past service costs over thirty years, using the level percentage of payroll method. Such contribution rates are determined by the Board of Trustees of Kentucky Teachers Retirement Systems each biennium. Participating employers contributed 7.34% of members' non-hazardous compensation for the year ended June 30, 2005. The contribution requirement for the year ended June 30, 2005 was $124,528 which consisted of $78,338 from the Corporation and $46,190 from the Employees.

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

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

The pension benefit obligation, determined as a part of actuarial valuation, at June 30, 2004 (the most recent date for which audited information is available), for the System as a whole, was $6,577,289,608. The System's net assets available for benefits on June 30, 2004 (based on a five – year moving average of market value to book value) were $6,645,463,572 leaving a funded pension benefit obligation of $68,173,964.

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 ending June 30, 2004.

NOTE L - FIXED ASSETS

A summary of changes in the fixed asset accounts for the year ended June 30, 2005 are as follows:

	BALANCE 6/30/2004	ADDITIONS	DELETIONS	BALANCE 6/30/2005
Land	$ 60,000	$ -	$ -	$ 60,000
Building and Improvements	307,871	54,678		362,549
Furniture and Equipment	672,406	56,742		729,148
Big East Educational Cooperatvie Equipment	50,106	23,186		73,292
Adult and Family Literacy Equipment	91,132	10,530		101,662
Vehicles	270,362	88,197	16,039	342,520
	$ 1,451,877	$ 233,333	$ 16,039	$ 1,669,171
Accumulated Depreciation				
Buildings and Improvements	79,689	8,303		87,992
Furniture and Equipment	550,017	110,749		660,766
Big East Educational Cooperative Equipment	44,610	8,348		52,958
Adult and Family Literacy Equipment	44,356	31,488		75,844
Vehicles	212,180	36,029	16,039	232,170
	930,852	194,917	16,039	1,109,730
Net Fixed Assets	$ 521,025	$ 38,416	$ -	$ 559,441

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KENTUCKY EDUCATIONAL DEVELOPMENT CORPORATION

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

For The Year Ended June 30, 2005

Federal Grantor/Pass Through Grant/Program Title	Federal CFDA Number	Pass Through Grantor Number		Federal Expenditures
U.S. DEPARTMENT OF EDUCATION				
Passed Through from Kentucky Cabinet for Workforce Development:				
Adult Education	84.002	DAEL-2005-010	*	$ 314,878
Passed Through from Kentucky Department of Education:				
IDEA-B	84.027	0581-02-05	*	549,342
Smaller Learning Communities (OVAE)	84.215L	Direct	*	878,859
Total U.S. Department of Education				1,743,079
TOTAL EXPENDITURES OF FEDERAL AWARDS				$ 1,743,079

* Denotes Major Program

See notes to schedule of federal expenditures of federal awards.

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KENTUCKY EDUCATIONAL DEVELOPMENT CORPORATION

Notes to Schedule of Expenditures of Federal Awards

For the Year Ended June 30, 2005

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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BERGER & COMPANY CPA, PSC

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

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, 2005, and have issued our report thereon dated November 11, 2005. 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 assurance on the internal control over financial reporting. Our consideration of internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a 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.

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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 opinions on compliance with those provisions was not an objective of our audit, and, accordingly, we do not express such opinions. The results of our tests disclosed no instances of material noncompliance or other matter that is required to be reported under Government Auditing Standards.

This report is intended solely for the information and use of management and is not intended to be and should not be used by anyone other than the specified party.

Respectfully Submitted,

Berger & Company CPA PSC

Berger & Company CPA, PSC

Audit fieldwork completed –
November 11, 2005

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BERGER & COMPANY
CPA, PSC

To the People of Kentucky
Honorable Ernie Fletcher, Governor
Gene Wilhoit, 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, 2005. 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, 2005.

Honorable Ernie Fletcher, Governor
Gene Wilhoit, 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(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 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,

Berger & Company CPA PSC

Berger & Company, CPA, PSC

Audit Fieldwork Completed -
November 11, 2005

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KENTUCKY EDUCATIONAL DEVELOPMENT CORPORATION

Schedule of Findings and Questioned Costs

For the Period Ended June 30, 2005

Sections I - Summary of Auditor's Report

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?	____ yes	X no

Identification of programs tested as major programs:

CFDA Number(s)	Name of Federal Program or Cluster
84.215L	Smaller Learing Communities

Dollar threshold used to distinquish 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.

Sections III - Major Federal Award Program Audit Findings and Questioned Costs

No matters were reported.

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KENTUCKY EDUCATIONAL DEVELOPMENT CORPORATION
COMMENT, RECOMMENDATION AND SUMMARY OF PRIOR YEAR AUDIT FINDINGS

For The Year Ended June 30, 2005

STATE LAWS AND REGULATIONS:

No matters were reported.

PRIOR YEAR:

The Cooperative Should Require The Depository Institution To Pledge Or Provide Sufficient Collateral And Enter Into A Written Agreement To Protect Deposits

Status:
The condition is corrected.