REPORT OF THE AUDIT OF THE KENTUCKY EDUCATIONAL DEVELOPMENT CORPORATION

For The Fiscal Year Ended
June 30, 2007

CRIT LUALLEN
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CRIT LUALLEN
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To the People of Kentucky
Honorable Steven L. Beshear, Governor
Jonathan Miller, Secretary, Finance and Administration Cabinet
Jon Draud, 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, 2007.

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,

Crit Luallen
Auditor of Public Accounts

Enclosure

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KENTUCKY EDUCATIONAL DEVELOPMENT CORPORATION

FINANCIAL STATEMENTS

June 30, 2007

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

Independent Auditors' Report

We have audited the accompanying statement of financial position of Kentucky Educational Development Corporation (KEDC), a nonprofit organization, as of June 30, 2007, 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, 2007, 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 November 30, 2007 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 read in conjunction with this report in considering the results of our audit.

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

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 general purpose financial statements taken as a whole.

Respectfully Submitted,

Tichenor & Associates, LLP

Tichenor & Associates, LLP

November 30, 2007

KENTUCKY EDUCATIONAL DEVELOPMENT CORPORATION

STATEMENT OF FINANCIAL POSITION

June 30, 2007

ASSETS

CURRENT ASSETS		
Cash and Cash Equivalents	$	61,048
Restricted Cash		248,802
Accounts Receivable		1,043,262
Grants Receivable		168,798
Total Current Assets		1,521,910
PROPERTY, PLANT AND EQUIPMENT		
Land		60,000
Building and Improvements		511,923
Furniture and Equipment		604,933
Big East Educational Cooperatvie Equipment		83,180
Adult and Family Literacy Equipment		98,623
Upper Cumberland Education Cooperative Equipment		21,138
Wilderness Trail Education Cooperative Equipment		11,425
Vehicles		451,021
		1,842,243
Less: Accumulated Depreciation		(960,945)
Property, Plant and Equipment, Net		881,298
TOTAL ASSETS	**$**	**2,403,208**

LIABILITIES AND NET ASSETS

CURRENT LIABILITIES		
Deferred Revenue	$	574,530
Accounts Payable		104,770
Accumulated Sick Leave		126,585
Total Current Liabilities		805,885
Total Liabilities		805,885
NET ASSETS		
Unrestricted		1,597,323
Temporarily Restricted		-
Total Net Assets		1,597,323
TOTAL LIABILITIES AND NET ASSETS	**$**	**2,403,208**

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

KENTUCKY EDUCATIONAL DEVELOPMENT CORPORATION

STATEMENT OF ACTIVITIES

For The Year Ended June 30, 2007

Changes in Unrestricted Net Assets:		
Revenues:		
Sales	$	3,059,178
Miscellaneous Receipt		568,990
Service to Kentucky School Districts		1,486,472
Board Memberships		276,518
Admin Fiscal Agent Fee		877,405
Local Miscellaneous Reimbursement		239,255
Interest Income		56,769
Total Unrestricted Revenues		6,564,587
Net Assets Released From Restrictions:		
Satisfaction of Program Restrictions:		
Federal and State Programs		4,015,014
Total Unrestricted Revenues and Other Support		10,579,601
Expenses:		
Program Services		4,414,717
Management and General		6,001,932
Total Expenses		10,416,649
Increase in Unrestricted Net Assets		162,952
Changes in Temporarily Restricted Net Assets		
Federal and State Programs		4,015,014
Net Assets Released From Restrictions		(4,015,014)
Change in Temporarily Restricted Net Assets		-
Increase in Net Assets		162,952
Net Assets - Beginning of Year		1,434,371
Net Assets - End of Year	$	1,597,323

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, 2007

CASH FLOWS FROM OPERATING ACTIVITIES		
Excess (Deficit) Expenditures over Revenues	$	162,952
Adjustments to Reconcile Net Income to Net Cash Provided by by Operating Activities		
Operating Activities		
Depreciation		172,754
(Decrease) in Accumulated Sick Leave		(7,547)
(Increase) in Accounts Receivable		(478,013)
(Increase) in Grants Receivable		(17,705)
(Decrease) in Accounts Payable		(7,808,655)
(Decrease) in Accrued Interest Payable		(935)
Increase in Deferred Revenue		195,606
NET CASH (USED) BY OPERATING ACTIVITIES		**(7,781,543)**
CASH FLOWS FROM INVESTING ACTIVITIES		
Cash payments for the purchase of property		(363,740)
NET CASH (USED) BY INVESTING ACTIVITIES		**(363,740)**
CASH FLOWS FROM FINANCING ACTIVITIES		
Principal payments on long-term debt		(95,000)
NET CASH (USED) BY FINANCING ACTIVITIES		**(95,000)**
NET (DECREASE) IN CASH AND CASH EQUIVALENTS		**(8,240,283)**
CASH AND CASH EQUIVALENTS, Beginning of the Year		**8,550,133**
CASH AND CASH EQUIVALENTS, End of the Year	**$**	**309,850**

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, 2007

	Program Services	Management & General	Total Expenses
Accounting	$ -	$ 10,229	$ 10,229
Advertising	4,214	100	4,314
Auto Expense		38,501	38,501
Books and Periodicals	14,572		14,572
Consultants	143,893	1,068	144,961
Federal Funded Benefits	107,704		107,704
Insurance	8,313	19,214	27,527
Interest		3,660	3,660
Legal		62,486	62,486
Loan Library	100		100
Meetings	23,364	34,324	57,688
Miscellaneous	486,694	204,012	690,706
Noncap Equipment	6,074	4,963	11,037
Payroll Taxes	57,763	59,545	117,308
Postage and Shipping	3,465	16,116	19,581
Printing	3,589		3,589
Professional Services	29,787		29,787
Registration	43,443		43,443
Rental Expense	31,804		31,804
Repairs and Maintenance	9,592	48,395	57,987
Retirement	200,284	94,627	294,911
Salaries	2,678,767	1,410,595	4,089,362
Sick Leave	6,901	32,926	39,827
Software		46,398	46,398
Stipends	44,816		44,816
Supplies	191,676	3,442,471	3,634,147
Telephone	30,097	20,434	50,531
Training	2,306	60,766	63,072
Travel	248,719	215,203	463,922
Utilities / Occupancy	12,257	27,668	39,925
Depreciation	24,523	148,231	172,754
	$ 4,414,717	$ 6,001,932	$ 10,416,649

The accompanying notes are an integral part of these 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, KEDC entered into an interlocal cooperation agreement under KRS 65.160 whereby it was deemed mutually advantageous for KEDC to provide certain services, programs, and/or facilities to all member school districts.

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

Basis of Accounting

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

Inventories

Supplies and materials are charged to expenditures when purchased.

Basis of Presentation

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

Use of Estimates

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

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

Cash and Cash Equivalents

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

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

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.

Allocation of Functional Expenses

It is KEDC'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

KEDC's operating funds are on deposit at a local financial institution. At June 30, 2007, the carrying amount of KEDC's cash was $309,850 and the bank balances were $1,318,610. The difference between the carrying amount and the bank balances results from deposits in transit and outstanding checks. As of June 30, 2007, 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, 2007 consists of the following:

Retainers Received from Districts for Supplies	$ 235,802
Professional Development Funds	13,000
	$ 248,802

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, 2007 are outlined below:

Balance Outstanding at June 30, 2006	$ 95,000
Bonds retired during the current year	(95,000)
Balance outstanding at June 30, 2007	$ -

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 KEDC an amount equal to 30% of the value of accumulated sick leave. At June 30, 2007, twenty-four employees were eligible for retirement and thus, a liability of $126,585 has been accrued for accumulated sick leave at June 30, 2007.

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

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 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

KEDC participates in numerous state and federal grant programs, which are governed by various rules and regulations of the grantor agencies. Costs charged to the respective programs are subject to audit and adjustment by the grantor agencies; therefore, to the extent that KEDC has not complied with the rules and regulations governing the grants, refunds of any money received may be required and the collectibility of any related receivable at June 30, 2007 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 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.

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, 2007:

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. During the year ended June 30, 2007, KEDC contributed $153,020 and employees contributed $260,403 to the plan.

NOTE K - RETIREMENT PLANS (Continued)

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, 2007, participating employees contributed 5.00% of creditable compensation to the System. The total payroll of KEDC was $3,803,723 of which $1,072,162 was eligible to participate in the system.

Employer contribution rates are intended to fund the System's normal cost on a current basis, plus an amount equal to the amortization of unfunded past service costs over thirty years, using the level percentage of payroll method. Such contribution rates are determined by the Board of Trustees of Kentucky Teachers' Retirement System each biennium. Participating employers contributed 13.19% of members' non-hazardous compensation for the year ended June 30, 2007. The contribution requirement for the year ended June 30, 2007 was $195,027, which consisted of $141,419 from KEDC and $53,608 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, 2006 (the most recent date for which audited information is available), for the System as a whole, was $8,199,712,037. The System's net assets available for benefits on June 30, 2006 (based on actuarial valuation of assets contained in the System's Comprehensive Annual Financial Report for 2006) were $6,677,969,153 leaving an unfunded pension benefit obligation of $1,521,742,884.

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, 2006.

NOTE L - FIXED ASSETS

A summary of changes in the fixed asset accounts for the year ended June 30, 2007 are as follows:

	BALANCE 6/30/2006	ADDITIONS	DELETIONS	BALANCE 6/30/2007
Land	$ 60,000	$ -	$ -	$ 60,000
Buildings and Improvements	411,342	100,581		511,923
Furniture and Equipment	815,068	115,127	325,262	604,933
Big East Educational Cooperative Equipment	77,956	5,224		83,180
Adult and Family Literacy Equipment	86,945	11,678		98,623
Upper Cumberland Educational Cooperative	19,143	1,995		21,138
Wilderness Trail Educational Cooperative	9,246	2,179		11,425
Vehicles	365,823	126,956	41,758	451,021
	1,845,523	363,740	367,020	1,842,243
Accumulated Depreciation				
Buildings and Improvements	114,151	17,715	-	131,866
Furniture and Equipment	609,914	82,825	325,262	367,477
Big East Educational Cooperative Equipment	58,786	7,500		66,286
Adult and Family Literacy Equipment	68,575	9,631		78,206
Upper Cumberland Educational Cooperative	5,815	4,915		10,730
Wilderness Trail Educational Cooperative	3,707	2,477		6,184
Vehicles	294,263	47,691	41,758	300,196
	1,155,211	172,754	367,020	960,945
Net Fixed Assets	$ 690,312	$ 190,986	$ -	$ 881,298

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KENTUCKY EDUCATIONAL DEVELOPMENT CORPORATION

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

For The Year Ended June 30, 2007

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	KYAE-2007-010	*	$ 329,381
Passed Through from Kentucky Department of Education:				
IDEA-Part B	84.027A	E42404	*	2,056,885
Smaller Learning Communities (OVAE)	84.215L	Direct		280,346
Total U.S. Department of Education				2,666,612
TOTAL EXPENDITURES OF FEDERAL AWARDS				$ 2,666,612

* Denotes Major Program

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, 2007

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

Report On Internal Control Over Financial Reporting And
On Compliance And Other Matters Based On An Audit Of Financial
Statements Performed In Accordance With Government Auditing Standards

We have audited the financial statements of the Kentucky Educational Development Corporation (a nonprofit organization) as of and for the year ended June 30, 2007, and have issued our report thereon dated November 30, 2007. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

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

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

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

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

Compliance And Other Matters

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

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

Respectfully Submitted,

Tichenor & Associates, LLP

Tichenor & Associates, LLP

November 30, 2007

TICHENOR & ASSOCIATES, LLP
CERTIFIED PUBLIC ACCOUNTANTS and MANAGEMENT CONSULTANTS

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

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

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, 2007. Kentucky Educational Development Corporation's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of Kentucky Educational Development Corporation's management. Our responsibility is to express an opinion on Kentucky Educational Development Corporation's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States; and OMB Circular A-133, Audits of States, Local Governments, And Non-Profit Organizations. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Kentucky Educational Development Corporation's compliance with those requirements and performing such other procedures, as we 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, 2007.

Internal Control Over Compliance

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

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

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

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

This report is intended solely for the information and use of the Members of the Board, management, Kentucky Department of Education, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Respectfully Submitted,

Tichenor & Associates, LLP

November 30, 2007

KENTUCKY EDUCATIONAL DEVELOPMENT CORPORATION

Schedule of Findings and Questioned Costs

For the Period Ended June 30, 2007

Section I - Summary of Auditor's Results

Financial Statements

Type of auditor's report issued: Unqualified

Internal control over financial reporting:

Material weakness identified?		yes	X	no
Significant deficiencies 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
Significant deficiencies 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 major programs:

CFDA Number(s)	Name of Federal Program or Cluster
84.002	Adult Education
84.027A	IDEA-Part B

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

Auditee qualified as low-risk auditee?	X	yes		no

Section II - Finacial Statement Audit Findings

No matters were reported.

Section III - Major Awards Program Audit

No matters were reported.

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: In January 2007, the Corporation remitted the excess interest to Department of Health and Human Services.

Questioned Costs: None