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January 29, 2009

Mr. Marvin E. Bailey, President
Corporation for Educational Technology
1846 E. Durham Dr.
Martinsville, In 46151

Dear Mr. Bailey:

We have received the audit report prepared by Dunbar, Cook and Shepard, P.C., Independent Public Accountants, for the period July 1, 2007 to June 30, 2008. Per the auditors' opinion, the audit was conducted in accordance with auditing standards generally accepted in the United States of America and the financial statements included in the report present fairly the financial condition of the Corporation for Educational Technology as of June 30, 2008; and the results of its operations for the period then ended, on the basis of accounting described in the report.

The Independent Public Accountants' report is filed with this letter in our office as a public record.

STATE BOARD OF ACCOUNTS

**CORPORATION FOR
EDUCATION
TECHNOLOGY, INC.**

AUDITED FINANCIAL STATEMENTS

June 30, 2008 and 2007

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors
Corporation for Education Technology, Inc.
Martinsville, Indiana

We have audited the accompanying statements of financial position of **Corporation for Education Technology, Inc.**, (CET) a non-profit organization, as of June 30, 2008 and 2007, and the related statements of activities and changes in net assets, functional expenses and cash flows for the years then ended. These financial statements are the responsibility of CET'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. 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 Corporation for Education Technology, Inc., as of June 30, 2008 and 2007, and the changes in its net assets and cash flows for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

October 30, 2008

Dunbar, Cook & Shepard, P.C.

CORPORATION FOR EDUCATION TECHNOLOGY, INC.
STATEMENTS OF FINANCIAL POSITION
June 30, 2008 and 2007

	<u>2008</u>	<u>2007</u>
<u>ASSETS</u>		
Cash and cash equivalents	\$ 166,079	\$ 149,371
Accounts receivable	14,650	5,785
Prepaid expenses	-	37,251
Property and equipment	167,042	160,762
Less accumulated depreciation	<u>(139,314)</u>	<u>(108,941)</u>
Total Property and Equipment	<u>27,728</u>	<u>51,821</u>
TOTAL ASSETS	<u>\$ 208,457</u>	<u>\$ 244,228</u>
<u>LIABILITIES AND NET ASSETS</u>		
LIABILITIES		
Accounts payable	\$ 100	\$ 100
Accrued payroll and related taxes	583	470
Deferred program revenue	<u>3,500</u>	<u>-</u>
TOTAL LIABILITIES	4,183	570
NET ASSETS		
Unrestricted	193,408	195,264
Temporarily restricted	<u>10,866</u>	<u>48,394</u>
TOTAL NET ASSETS	<u>204,274</u>	<u>243,658</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 208,457</u>	<u>\$ 244,228</u>

CORPORATION FOR EDUCATION TECHNOLOGY, INC.
STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS
For the Year Ended June 30, 2008

	<u>UNRESTRICTED</u>	<u>TEMPORARILY RESTRICTED</u>	<u>TOTAL</u>
REVENUES			
Grants from governmental agencies	\$ 760,000	\$ 65,000	\$ 825,000
Interest income	5,277	-	5,277
Program fees	72,791	-	72,791
Net assets released from restrictions	<u>102,528</u>	<u>(102,528)</u>	<u>-</u>
TOTAL REVENUES	940,596	(37,528)	903,068
EXPENSES			
<u>Program services:</u>			
Buddy Program	723,822	-	723,822
MyTarget Program	10,628	-	10,628
Safari Video Program	37,251	-	37,251
ETC Program	<u>4,347</u>	<u>-</u>	<u>4,347</u>
Total Program Services	776,048	-	776,048
<u>Supporting services:</u>			
Management and general	161,816	-	161,816
Fundraising	<u>4,588</u>	<u>-</u>	<u>4,588</u>
Total Supporting Services	<u>166,404</u>	<u>-</u>	<u>166,404</u>
TOTAL EXPENSES	<u>942,452</u>	<u>-</u>	<u>942,452</u>
CHANGES IN NET ASSETS	(1,856)	(37,528)	(39,384)
NET ASSETS - BEGINNING OF YEAR	<u>195,264</u>	<u>48,394</u>	<u>243,658</u>
NET ASSETS - END OF YEAR	<u>\$ 193,408</u>	<u>\$ 10,866</u>	<u>\$ 204,274</u>

CORPORATION FOR EDUCATION TECHNOLOGY, INC.
STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS
For the Year Ended June 30, 2007

	<u>UNRESTRICTED</u>	<u>TEMPORARILY RESTRICTED</u>	<u>TOTAL</u>
REVENUES			
Grants from governmental agencies	\$ 763,500	\$ 61,500	\$ 825,000
Interest income	12,100	-	12,100
Program fees	26,795	-	26,795
Gain (loss) on sale of assets	(1,367)	-	(1,367)
Other income	10	-	10
Net assets released from restrictions	<u>219,740</u>	<u>(219,740)</u>	<u>-</u>
TOTAL REVENUES	1,020,778	(158,240)	862,538
EXPENSES			
<u>Program services:</u>			
Buddy Program	777,550	-	777,550
MyTarget Program	21,182	-	21,182
Safari Video Program	30,000	-	30,000
ETC Program	<u>109,740</u>	<u>-</u>	<u>109,740</u>
Total Program Services	938,472	-	938,472
<u>Supporting services:</u>			
Management and general	156,346	-	156,346
Fundraising	<u>5,251</u>	<u>-</u>	<u>5,251</u>
Total Supporting Services	<u>161,597</u>	<u>-</u>	<u>161,597</u>
TOTAL EXPENSES	<u>1,100,069</u>	<u>-</u>	<u>1,100,069</u>
CHANGES IN NET ASSETS	(79,291)	(158,240)	(237,531)
NET ASSETS - BEGINNING OF YEAR	<u>274,555</u>	<u>206,634</u>	<u>481,189</u>
NET ASSETS - END OF YEAR	<u>\$ 195,264</u>	<u>\$ 48,394</u>	<u>\$ 243,658</u>

CORPORATION FOR EDUCATION TECHNOLOGY, INC.
STATEMENT OF FUNCTIONAL EXPENSES
For the Year Ended June 30, 2008

	Program Services				Supporting Services			
	Buddy	MyTarget	Safari Video	ETC	Total	Management and General	Fund Raising	Total
Salaries and wages	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 130,144	\$ 2,656	\$ 132,800
Payroll taxes and employee benefits	-	-	-	-	-	8,297	-	8,297
TOTAL SALARIES AND RELATED EXPENSES	-	-	-	-	-	138,441	2,656	141,097
Programs and activities	-	-	-	4,277	4,277	276	-	4,553
Grants and awards	61,000	-	37,251	-	98,251	-	-	98,251
Office supplies and equipment	-	-	-	-	-	2,163	-	2,163
Occupancy	-	-	-	-	-	497	-	497
Telephone	-	-	-	-	-	2,446	-	2,446
Advertising and promotion	-	-	-	-	-	-	-	-
Insurance	-	-	-	-	-	1,415	-	1,415
Legal and accounting	-	-	-	-	-	10,035	-	10,035
Postage	-	-	-	-	-	461	-	461
Consulting	628,353	-	-	-	628,353	-	1,932	630,285
Depreciation	30,373	-	-	-	30,373	-	-	30,373
Contract services	3,496	-	-	-	3,496	-	-	3,496
Software	-	10,628	-	-	10,628	-	-	10,628
Bad debts	600	-	-	-	600	-	-	600
Miscellaneous	-	-	-	70	70	6,082	-	6,152
TOTAL OTHER EXPENSES	723,822	10,628	37,251	4,347	776,048	23,375	1,932	801,355
TOTAL EXPENSES	\$ 723,822	\$ 10,628	\$ 37,251	\$ 4,347	\$ 776,048	\$ 161,816	\$ 4,588	\$ 942,452

See accompanying notes and auditors' report.

CORPORATION FOR EDUCATION TECHNOLOGY, INC.
STATEMENT OF FUNCTIONAL EXPENSES
For the Year Ended June 30, 2007

	Program Services				Supporting Services		Total
	Buddy	MvTarget	Safari Video	ETC	Management and General	Fund Raising	
Salaries and wages	\$ -	\$ -	\$ -	\$ -	\$ 125,740	\$ 2,560	\$ 128,300
Payroll taxes and employee benefits	-	-	-	-	6,834	196	7,030
TOTAL SALARIES AND RELATED EXPENSES	-	-	-	-	132,574	2,756	135,330
Programs and activities	8,866	-	-	13,443	-	-	22,309
Grants and awards	80,000	-	30,000	-	-	-	110,000
Office supplies and equipment	-	-	-	10,581	2,507	-	13,088
Occupancy	-	-	-	-	423	-	423
Telephone	-	-	-	-	2,877	-	2,877
Insurance	-	-	-	-	1,403	-	1,403
Legal and accounting	-	-	-	-	13,200	-	13,200
Printing and publications	-	-	-	-	-	-	-
Postage	-	-	-	-	463	-	463
Consulting	637,410	-	-	85,646	-	2,495	725,551
Depreciation	46,071	-	-	-	-	-	46,071
Contract services	4,236	9,600	-	-	-	-	13,836
Software	-	11,582	-	-	191	-	11,773
Bad debts	-	-	-	-	-	-	-
Miscellaneous	-	-	-	70	2,708	-	2,778
TOTAL OTHER EXPENSES	777,550	21,182	30,000	109,740	23,772	2,495	964,739
TOTAL EXPENSES	\$ 777,550	\$ 21,182	\$ 30,000	\$ 109,740	\$ 156,346	\$ 5,251	\$ 1,100,069

See accompanying notes and auditors' report.

CORPORATION FOR EDUCATION TECHNOLOGY, INC.
STATEMENTS OF CASH FLOWS
For the Year Ended June 30, 2008

	<u>2008</u>	<u>2007</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash received from grants, contributions and fees	\$ 825,000	\$ 841,195
Interest received	5,277	12,100
Other operating receipts	63,926	26,805
Cash paid to vendors	(742,028)	(980,674)
Salaries and wages paid	<u>(132,687)</u>	<u>(128,799)</u>
 NET CASH FROM (USED IN) OPERATING ACTIVITIES	 22,988	 (229,373)
 CASH FLOWS USED IN INVESTING ACTIVITIES		
Purchases of property and equipment	<u>(6,280)</u>	<u>(16,524)</u>
 NET INCREASE (DECREASE) IN CASH	 16,708	 (245,897)
 CASH AND CASH EQUIVALENTS - BEGINNING OF YEAR	 <u>149,371</u>	 <u>395,268</u>
 CASH AND CASH EQUIVALENTS - END OF YEAR	 <u>\$ 166,079</u>	 <u>\$ 149,371</u>
 RECONCILIATION OF CHANGES IN NET ASSETS TO NET CASH FROM (USED IN) OPERATING ACTIVITIES		
Changes in net assets	\$ (39,384)	\$ (237,531)
Adjustments to reconcile changes in net assets to net cash used in operating activities:		
Depreciation	30,373	46,071
Bad debts	600	-
Loss on sale of assets	-	1,367
(Increase) decrease in accounts receivable	(9,465)	16,195
(Increase) decrease in prepaid expenses	37,251	30,000
Increase (decrease) in accounts payable	-	(84,976)
Increase (decrease) in accrued payroll and related taxes	113	(499)
Increase (decrease) in deferred revenue	<u>3,500</u>	<u>-</u>
 NET CASH GENERATED (USED) IN OPERATING ACTIVITIES	 <u>\$ 22,988</u>	 <u>\$ (229,373)</u>

CORPORATION FOR EDUCATION TECHNOLOGY, INC.
NOTES TO FINANCIAL STATEMENTS
June 30, 2008 and 2007

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

NATURE OF OPERATIONS - Corporation for Education Technology, Inc. (CET) was incorporated as a not-for-profit organization in June 1992 under the laws of the State of Indiana. CET provides project planning, implementation and grant administration for programs that enhance educational opportunities in Indiana through the use of technology.

BASIS OF ACCOUNTING - The financial statements of CET have been prepared on the accrual basis of accounting, recognizing income when earned and expenses when incurred.

CASH AND CASH EQUIVALENTS - For the purposes of the statement of cash flows, CET considers all highly liquid debt instruments purchased with a maturity of three months or less to be cash equivalents.

CONCENTRATION OF RISK - CET maintains balances in excess of \$100,000 in a financial institution, which are not insured directly by the FDIC. The organization had approximately \$65,000 and \$130,700 in excess of FDIC insured limits at June 30, 2008 and 2007.

RECEIVABLES AND CREDIT POLICIES - Accounts receivable are uncollateralized program fees due under normal terms requiring payment for programs attended. Accounts receivable are stated at the billed amount for program fees due and must be paid as a condition of attendance at future programs. Payments are allocated against specific fee amounts due as identified or, if unspecified, are applied to the earliest unpaid invoices.

Receivables are stated at the amount management expects to collect from outstanding balances. CET had previously never written off a program fee as uncollectible. Based upon management's review of receivables at June 30, 2008, they determined that \$600 was uncollectible. This amount was written off as a bad debt at June 30, 2008. Management believes that remaining receivables are collectible.

PROPERTY AND EQUIPMENT - Property and equipment are stated on the basis of cost. Depreciation is computed on a straight-line method over the estimated useful lives of the assets or ten years. CET has a policy of capitalizing property and equipment valued in excess of \$500. Depreciation expense for the years ended June 30, 2008 and 2007 was \$30,373 and \$46,071, respectively.

INCOME TAXES - The Organization is exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code and is not considered to be a private foundation. Accordingly, no provision is made for federal income taxes on CET's exempt activities.

EXPENSE CLASSIFICATIONS AND ALLOCATION - The expenses directly related to the programs are presented in corresponding classifications, combined with allocation of certain common costs of CET, such as administrative services, which are allocated based on time incurred. The primary functions of CET are the Buddy Program, MyTarget Program, Safari Program, ETC Council Program, management and general, and fundraising.

CORPORATION FOR EDUCATION TECHNOLOGY, INC.
NOTES TO FINANCIAL STATEMENTS
June 30, 2008 and 2007

NOTE A - CONTINUED

The Buddy Program – Buddy is the flagship suite of services provided by the Corporation for Education Technology. The mission of Buddy is to develop and facilitate leading edge learning projects in K-12 school communities to increase student achievement using technology in anytime, anywhere settings. Buddy initiatives aim to share best practices among educators, strengthen family involvement in education, and extend learning beyond the bounds of school time and place. Buddy values and supports equal access to learning technologies regardless of socioeconomic realities.

MyTarget - The MyTarget Program provides an on-line self assessment tool for educators related to classroom technology. The tool assesses the educator's familiarity with technology and provides recommendations for effective use in the classroom along with growth opportunities.

Safari - The Safari project provides selected schools with digital multimedia resources, specifically, Library Video Corporation's Safari Montage suite of services. The grant provides hardware, software licensing and professional development for selected schools participating in the Indiana Department of Education's InAccess program. This project was concluded during the year ended June 30, 2008.

Education Technology Council (ETC) - The President of CET has been appointed by the Governor of the State of Indiana and the Superintendent of Public Instruction to chair the state's Education Technology Council. CET was awarded a grant for the Council to develop a state Digital-Age Learning Plan, a master plan for technology, professional development, and 21st Century student skills.

FUNCTIONAL EXPENSES - Functional expenses have been allocated between Program Services and Supporting Services based on an analysis of personnel time utilized for the related activities.

RESTRICTED NET ASSETS - Net assets of the temporarily or permanently restricted classes are created only by donor-imposed restrictions on their use. When a donor restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions. Donor restrictions met in the same year are classified as unrestricted net assets. At June 30, 2008 and 2007, CET held no permanently restricted and one temporarily restricted net asset category. All other net assets, including board-designated or appropriated amounts, are legally unrestricted, and are reported as part of the unrestricted class. Unrestricted net assets are net assets that are not subject to donor restrictions.

USE OF ESTIMATES - The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

CORPORATION FOR EDUCATION TECHNOLOGY, INC.
NOTES TO FINANCIAL STATEMENTS
June 30, 2008 and 2007

NOTE B - ECONOMIC DEPENDENCY AND CONCENTRATION OF RISK

CET's primary source of funding is an annual appropriation from the State of Indiana which accounted for 91 percent and 96 percent of total revenue for the years ended June 30, 2008 and 2007, respectively.

CET uses one vendor in conducting a substantial part of its Buddy Program. This vendor accounted for 67 percent and 58 percent of total expenses for the year ended June 30, 2008 and 2007, respectively.

NOTE C - TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets are detailed as follows for June 30, 2008 and 2007:

	<u>2008</u>	<u>2007</u>
ETC Program	\$ 6,866	\$ 11,143
Buddy Program Grants	4,000	-
Safari Video Program	<u>-</u>	<u>37,251</u>
Total Temporarily Restricted Net Assets	<u>\$ 10,866</u>	<u>\$ 48,394</u>

NOTE D - NET ASSETS RELEASED FROM RESTRICTIONS

Net assets released from donor restrictions by incurring expenses satisfying the restricted purposes or by the occurrence of other events specified by donors were comprised of the following for the year ended June 30, 2008 and 2007:

	<u>2008</u>	<u>2007</u>
ETC Program	\$ 4,277	\$ 109,740
Buddy Program Grants	61,000	80,000
Safari Video Program	<u>37,251</u>	<u>30,000</u>
Total Releases of Restrictions	<u>\$ 102,528</u>	<u>\$ 219,740</u>