



CRIT LUALLEN
AUDITOR OF PUBLIC ACCOUNTS

August 11, 2005

Rayburn Doss, Chairman
Southeast Education Foundation, Inc.
700 College Road
Cumberland, Kentucky 40823

RE: Completion of Examination

Dear Chairman Doss:

We have completed our examination of coal severance funds received by the Southeast Education Foundation, Inc. (Foundation) during the fiscal years 1998 through 2004. This examination was initiated to determine if expenditures from each coal severance grant received by the Foundation were compliant with the terms and purpose of each grant agreement.

The Foundation is a non-profit entity established to provide additional funding for the Southeast Kentucky Community and Technical College (College). The additional funding generated or received by the Foundation is used to assist the College with scholarships and other necessary expenses.

The Foundation manages the operations of the Benham School House Inn (Inn), the Kentucky Coal Mining Museum (Museum), the Sleepy Hollow Golf Course (Golf Course), and the Portal 31 Rehabilitation Project (Portal 31). The Foundation entered into an agreement with Harlan County in October 1998, to manage the projects identified above. In November 1999, a three-party agreement between the Foundation, Harlan County, and the College was signed. This three-party agreement introduced the College as an entity to assist the Foundation with management responsibilities of the Inn, Museum, Golf Course, and Portal 31.

According to the Budgets of the Commonwealth and records obtained from the Foundation, \$5 million dollars was distributed to the Foundation in coal severance funds during fiscal years 1998 through 2004 as detailed in the following chart:



FISCAL YEAR(S)	PURPOSE OF GRANT	COAL SEVERANCE	GRANTOR	AMOUNT
1999	Purchase the Sleepy Hollow Golf Course	YES	Dept. for Local Government	600,000.00
1999	Purchase the Benham School House Inn	YES	Dept. for Local Government	1,600,000.00
1999	Sleepy Hollow Golf Course Project	YES	Dept. for Local Government	850,000.00
2000	Portal 31 Rehabilitation Project	YES	Dept. for Local Government	700,000.00
2003	Underground Mine Tour Project	YES	Dept. for Local Government	500,000.00
1999-2000	Operating Costs: Inn and Museum	YES	Dept. for Local Government	500,000.00
2003	Loan Payment	YES	Dept. for Local Government	250,000.00
				5,000,000.00

As of June 2005, all of the coal severance funds received by the Foundation have been expended with the exception of \$288,383.15 remaining on the \$500,000 Underground Mine Tour Project grant. This project is on-going and is expected to be completed by the Spring of 2006.

We examined supporting documentation of expenditures for each coal severance grant received, gained an understanding of and examined the contract procurement process, and toured the Inn, Museum, Golf Course, and Portal 31 to determine whether expenditures for each project appeared appropriate for work completed at each site. We also interviewed Foundation staff, the President of the College, the Harlan County Judge-Executive, and personnel in the Governor's Office for Local Development to gain an understanding of specific financial processes and to resolve any questions during the course of our examination.

We did not identify any noncompliance with the terms of each coal severance grant Memorandum of Understanding (MOU) entered into by the Foundation. Further, we did not identify any deficiencies in the Foundation's financial or procurement processes.

As of June 23, 2005, the Foundation has outstanding obligations totaling \$630,963.00 as detailed in the following chart:

	<u>Amount</u>
Benham School House Inn	167,002.41
Sleepy Hollow Golf Course	32,683.16
Kentucky Coal Mining Museum	119,794.52
Note Payable--BB&T Bank	<u>311,482.91</u>

Total Outstanding Debt as of June 23, 2005 **630,963.00**

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The total debt amount will continue to increase due to interest accruing on the note payable and operating expenses of the Inn, Museum, and Golf Course. The debt is anticipated to be repaid through additional coal severance line-item grants to the Foundation as indicated in the 2004-2006 Budget of the Commonwealth. Specifically, \$550,000 is to be distributed to the Foundation in 2004-05 and \$150,000 in 2005-06. Once the outstanding debt is extinguished, the Commonwealth is expected to assume operational control of the Inn, Museum, and Portal 31.

The Foundation also received a \$300,000 grant from the Kentucky Department of Parks (Parks) in two equal payments of \$150,000 in 1998 and 1999. This grant was not distributed from coal severance funds; however, Foundation staff provided us with supporting documentation for this grant and we included this grant in the scope of our examination. The MOU between Parks, Harlan County, and the Foundation specifies that the funds be used for "personnel and operating costs for the Sleepy Hollow Golf Course and the Coal Mine Museum." Further, Section 3 of the MOU, "Obligations of the Recipient," states that the "...recipient shall use...the appropriated funds **solely** for the operation of the Sleepy Hollow Golf Course and the Coal Mine Museum." (Emphasis added) However, \$25,000 of this grant was used to pay general operating bills of the Inn. Using monies from this specific grant to pay expenses of the Inn is not compliant with the terms of the MOU. We recommend that the Foundation comply with the MOU terms and purpose of each grant received.

We appreciate the assistance of the Foundation's staff during our examination. Should you have any questions or comments, please contact me at (502) 573-0050.

Sincerely,

A handwritten signature in cursive script that reads "Brian Lykins".

Brian Lykins, Director
Division of Examination and Information Technology

BL:JH:kct