

Arkansas River Education Service Cooperative

**Regulatory Basis Financial Statements
And Other Reports**

June 30, 2008

LEGISLATIVE JOINT AUDITING COMMITTEE



ARKANSAS RIVER EDUCATION SERVICE COOPERATIVE
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JUNE 30, 2008

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Sen. Bobby L. Glover
Senate Co-Chair
Rep. Johnny Hoyt
House Co-Chair
Sen. Bill Pritchard
Senate Co-Vice Chair
Rep. Beverly Pyle
House Co-Vice Chair

Arkansas



Roger A. Norman, JD, CPA, CFE
Legislative Auditor

LEGISLATIVE JOINT AUDITING COMMITTEE DIVISION OF LEGISLATIVE AUDIT

INDEPENDENT AUDITOR'S REPORT

Arkansas River Education Service Cooperative and Cooperative Board Members
Legislative Joint Auditing Committee

We have audited the accompanying financial statements of each major governmental fund and the aggregate remaining fund information of the Arkansas River Education Service Cooperative (the "Cooperative"), as of and for the year ended June 30, 2008, which collectively comprise the Cooperative's regulatory basis financial statements as listed in the table of contents. These financial statements are the responsibility of Cooperative management. Our responsibility is to express opinions 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 opinions.

As described more fully in Note 1, the Cooperative has prepared these financial statements using accounting practices prescribed or permitted by Arkansas Code, which practices differ from accounting principles generally accepted in the United States of America. The effect on the financial statements of the variances between these regulatory accounting practices and accounting principles generally accepted in the United States of America, although not reasonably determinable, are presumed to be material.

In our opinion, because of the effects of the matter discussed in the preceding paragraph, the financial statements referred to previously do not present fairly, in conformity with accounting principles generally accepted in the United States of America, the financial position of the Cooperative as of June 30, 2008, or the changes in financial position for the year then ended. Further, the Cooperative has not presented a management's discussion and analysis that accounting principles generally accepted in the United States has determined is necessary to supplement, although not required to be part of, the basic financial statements.

In our opinion, the financial statements referred to previously present fairly, in all material respects, the respective financial position of each major governmental fund and the aggregate remaining fund information of the Cooperative as of June 30, 2008, and the respective changes in financial position and budgetary results for the year then ended, on the basis of accounting described in Note 1.

In accordance with *Government Auditing Standards*, we have also issued our report dated August 24, 2009 on our consideration of the Cooperative's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Cooperative's regulatory basis financial statements. The Schedule of Capital Assets (Schedule 1) and the Schedule of Selected Information for the Last Five Years – Regulatory Basis (Schedule 2) are presented for purposes of additional analysis and is not a required part of the regulatory basis financial statements. The Schedule of Capital Assets (Schedule 1) and the Schedule of Selected Information for the Last Five Years – Regulatory Basis (Schedule 2) have not been subjected to the auditing procedures applied in the audit of the regulatory basis financial statements and, accordingly, we express no opinion on them.

DIVISION OF LEGISLATIVE AUDIT

A handwritten signature in cursive script that reads "Roger A. Norman".

Roger A. Norman, JD, CPA, CFE
Legislative Auditor

Little Rock, Arkansas
August 24, 2009
EDSC01108

Sen. Bobby L. Glover
Senate Co-Chair
Rep. Johnny Hoyt
House Co-Chair
Sen. Bill Pritchard
Senate Co-Vice Chair
Rep. Beverly Pyle
House Co-Vice Chair

Arkansas



Roger A. Norman, JD, CPA, CFE
Legislative Auditor

LEGISLATIVE JOINT AUDITING COMMITTEE DIVISION OF LEGISLATIVE AUDIT

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*

Arkansas River Education Service Cooperative and Cooperative Board Members
Legislative Joint Auditing Committee

We have audited the financial statements of each major governmental fund and the aggregate remaining fund information of the Arkansas River Education Service Cooperative (the "Cooperative"), as of and for the year ended June 30, 2008, which collectively comprise the Cooperative's regulatory basis financial statements, and have issued our report thereon dated August 24, 2009. We issued an adverse opinion because the Cooperative prepared the financial statements using accounting practices prescribed or permitted by the Arkansas Code, which differ from accounting principles generally accepted in the United States of America. The effect on the financial statements of the variances between these regulatory accounting practices and accounting principles generally accepted in the United States of America, although not reasonably determinable, are presumed to be material. However, the financial statements present fairly, in all material respects, the respective financial position of each major governmental fund and the aggregate remaining fund information of the Cooperative as of June 30, 2008, and the respective changes in financial position and budgetary results for the year then ended, on the basis of accounting described in Note 1. 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 Cooperative's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the regulatory basis financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Cooperative's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Cooperative's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

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 Cooperative's ability to initiate, authorize, record, process, or report financial data reliably in accordance with the regulatory basis of accounting as prescribed or permitted by Arkansas Code such that there is more than a remote likelihood that a misstatement of the Cooperative's financial statements that is more than inconsequential will not be prevented or detected by the Cooperative's internal control. We consider the deficiencies described below in the Audit Findings section of this report as items 1 and 2 to be significant deficiencies in internal control over financial reporting.

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 Cooperative's internal control.

Our consideration of the 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 the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, of the significant deficiencies described above, we consider items 1 and 2 to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Cooperative's regulatory basis financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of the state constitution, state laws and 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*.

We noted certain matters that we reported to management of the Cooperative in a separate letter dated August 24, 2009.

AUDIT FINDINGS

Material Weaknesses

1. Internal control is a process consisting of five interrelated components – *control environment, risk assessment, information and communication, control activities, and monitoring*. A deficiency in the internal control component of control activities adversely affected the Cooperative's ability to initiate, authorize, record, process, and report financial data in accordance with the regulatory basis of accounting such that there was more than a remote likelihood that a misstatement of the Cooperative's financial statements that would be more than inconsequential would not be prevented or detected. The Cooperative has not adequately segregated financial accounting duties related to cash, investments, revenues, payroll and non-payroll expenditures to provide reasonable assurance about the achievement of the entity's objectives with regard to reliability of financial reporting. An understanding of the five components of internal control sufficient to assess the risk of material misstatement of the financial statements whether due to error or fraud, and to design the nature, timing, and extent of further audit procedures was obtained. The District's ability to initiate, authorize, record, process, and report transactions consistent with management's assertions embodied in the financial statements, as well as the ability to safeguard District assets, was adversely affected by the identified weakness. District management should adopt sound accounting policies and establish and maintain internal control that will initiate, authorize, record, process, and report transactions consistent with management's assertions embodied in the financial statements and that will safeguard District assets.

Management Response: The Cooperative will segregate duties as financially feasible. It will establish internal controls consistent with management's assertions and safeguard the Cooperative's assets.

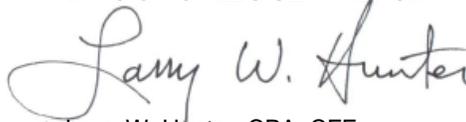
2. Financial accounting records should be accurate to ensure the preparation of reliable financial statements that are fairly presented in conformity with the regulatory basis of accounting. The Cooperative's internal control system did not prevent or detect material errors in the financial accounting records. Significant errors included \$200,000 of investments recorded as interest income in the general fund, general fund revenues and expenditures were overstated by \$181,555, and \$178,359 of other revenues were recorded as federal assistance in the special revenue fund. A similar finding was reported in the previous audit. The financial statements were subsequently corrected by adjusting entries during audit fieldwork.

Management Response: The Cooperative will work to eliminate financial errors for coding and the recordings there in the general ledger and/or APSCN. Program managers will monitor accounts weekly and make changes with the accounts payable clerk or the chief financial officer.

The Cooperative's response to the findings identified in our audit, excluding the management letter findings, is described above. We did not audit the Cooperative's response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of the Legislative Joint Auditing Committee, the local cooperative board and Cooperative management, state executive and oversight management, and other parties as required by Arkansas Code, and is not intended to be and should not be used by anyone other than these specified parties. However, pursuant to Arkansas Code Annotated § 10-4-417, all reports presented to the Legislative Joint Auditing Committee are matters of public record and distribution is not limited.

DIVISION OF LEGISLATIVE AUDIT

A handwritten signature in cursive script that reads "Larry W. Hunter".

Larry W. Hunter, CPA, CFE
Deputy Legislative Auditor

Little Rock, Arkansas
August 24, 2009

Sen. Bobby L. Glover
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Roger A. Norman, JD, CPA, CFE
Legislative Auditor

LEGISLATIVE JOINT AUDITING COMMITTEE DIVISION OF LEGISLATIVE AUDIT

MANAGEMENT LETTER

Arkansas River Education Service Cooperative and Cooperative Board Members
Legislative Joint Auditing Committee

We would like to communicate the following items that came to our attention during this audit. The purpose of such comments is to provide constructive feedback and guidance, in an effort to assist management to maintain a satisfactory level of compliance with the state constitution, laws and regulations and to improve internal control. These matters were discussed previously with Cooperative officials during the course of our audit fieldwork and at the exit conference.

1. During the course of our audit, we noted the Cooperative's bank account was not reconciled at June 30, 2008 by \$17,544. We also noted the Cooperative had unreconciled variances from July 2007 through June 2008 ranging from \$17,544 to \$125,434. A similar finding was reported in the previous audit.
2. During our examination of payroll, we noted the Cooperative improperly used more than one salary schedule for the purposes of calculating certified personnel salaries for the 2008 fiscal year which conflicts with Arkansas Code Annotated § 6-17-2403.
3. We examined receipts for one month and noted 29 of 42 receipts, totaling \$99,462, were not deposited in a timely manner. A similar finding was reported in the previous audit.

This letter is intended solely for the information and use of the Legislative Joint Auditing Committee, the local school board and Cooperative management, state executive and oversight management, and other parties as required by Arkansas Code, and is not intended to be and should not be used by anyone other than these specified parties. However, pursuant to Arkansas Code Annotated § 10-4-417, all reports presented to the Legislative Joint Auditing Committee are matters of public record and distribution is not limited.

DIVISION OF LEGISLATIVE AUDIT

A handwritten signature in cursive script that reads "Larry W. Hunter".

Larry W. Hunter, CPA, CFE
Deputy Legislative Auditor

Little Rock, Arkansas
August 24, 2009

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ARKANSAS RIVER EDUCATION SERVICE COOPERATIVE
BALANCE SHEET - REGULATORY BASIS
JUNE 30, 2008

Exhibit A

	Governmental Funds		
	Major		
	General	Special Revenue	Fiduciary Fund Types
ASSETS			
Cash	\$ 514,560	\$ 134,475	\$ 347
Investments	500,000		
Due from other funds		12,237	
TOTAL ASSETS	\$ 1,014,560	\$ 146,712	\$ 347
LIABILITIES AND FUND BALANCES			
Liabilities:			
Accounts payable and accrued liabilities	\$ 19,525	\$ 2,269	
Due student groups			\$ 69
Due to other funds	12,237		
Total Liabilities	31,762	2,269	69
Fund Balances:			
Reserved:			
Scholarships			278
Unreserved:			
Undesignated	982,798	144,443	
Total Fund Balances	982,798	144,443	278
TOTAL LIABILITIES AND FUND BALANCES	\$ 1,014,560	\$ 146,712	\$ 347

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

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ARKANSAS RIVER EDUCATION SERVICE COOPERATIVE
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES -
GOVERNMENTAL FUNDS - REGULATORY BASIS
FOR THE YEAR ENDED JUNE 30, 2008

Exhibit B

	Major	
	General	Special Revenue
REVENUES		
State assistance	\$ 3,336,386	\$ 5,070
Federal assistance		228,970
Investment income	61,001	
Other revenues	1,043,836	41,642
TOTAL REVENUES	4,441,223	275,682
EXPENDITURES		
Regular programs	288,721	
Special education	636,468	107,494
Workforce education	784,481	
Compensatory education	603,899	6,000
Other instructional programs	11,347	
Student support services	61,661	48,875
Instructional staff support services	323,320	57,187
General administration support services	425,437	
Central services support services	233,554	
Operation and maintenance of plant services	190,172	
Other support services	958	8,000
Community services operations	1,052,618	
Other non-instructional services	27,000	
Debt Service:		
Principal retirement	42,702	
Interest and fiscal charges	4,982	
TOTAL EXPENDITURES	4,687,320	227,556
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	(246,097)	48,126
FUND BALANCES - JULY 1	1,228,895	96,317
FUND BALANCES - JUNE 30	\$ 982,798	\$ 144,443

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

ARKANSAS RIVER EDUCATION SERVICE COOPERATIVE
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES -
BUDGET AND ACTUAL - GENERAL AND SPECIAL REVENUE FUNDS - REGULATORY BASIS
FOR THE YEAR ENDED JUNE 30, 2008

Exhibit C

	General			Special Revenue		
	Budget	Actual	Variance Favorable (Unfavorable)	Budget	Actual	Variance Favorable (Unfavorable)
REVENUES						
State assistance	\$ 2,954,707	\$ 3,336,386	\$ 381,679		\$ 5,070	\$ 5,070
Federal assistance				\$ 508,951	228,970	(279,981)
Meal sales						
Investment income	47,000	61,001	14,001			
Other revenues	1,149,329	1,043,836	(105,493)		41,642	41,642
TOTAL REVENUES	4,151,036	4,441,223	290,187	508,951	275,682	(233,269)
EXPENDITURES						
Regular programs	412,181	288,721	123,460			
Special education	579,546	636,468	(56,922)	344,130	107,494	236,636
Workforce education	700,203	784,481	(84,278)			
Compensatory education	422,500	603,899	(181,399)	3,500	6,000	(2,500)
Other instructional programs	20,000	11,347	8,653			
Student support services	154,211	61,661	92,550	104,000	48,875	55,125
Instructional staff support services	12,536	323,320	(310,784)	4,250	57,187	(52,937)
General administration support services	330,300	425,437	(95,137)			
Central services support services	260,295	233,554	26,741			
Operation and maintenance of plant services	129,225	190,172	(60,947)			
Other support services		958	(958)	8,000	8,000	
Community services operations	1,083,550	1,052,618	30,932			
Other non-instructional services		27,000	(27,000)			
Debt Service:						
Principal retirement	28,200	42,702	(14,502)			
Interest and fiscal charges	21,740	4,982	16,758			
TOTAL EXPENDITURES	4,154,487	4,687,320	(532,833)	463,880	227,556	236,324

ARKANSAS RIVER EDUCATION SERVICE COOPERATIVE
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES -
BUDGET AND ACTUAL - GENERAL AND SPECIAL REVENUE FUNDS - REGULATORY BASIS
FOR THE YEAR ENDED JUNE 30, 2008

Exhibit C

	General			Special Revenue		
	Budget	Actual	Variance Favorable (Unfavorable)	Budget	Actual	Variance Favorable (Unfavorable)
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	\$ (3,451)	\$ (246,097)	\$ (242,646)	\$ 45,071	\$ 48,126	\$ 3,055
OTHER FINANCING SOURCES (USES)						
Transfers in	1,017,292		(1,017,292)			
Transfers out	(1,017,292)		1,017,292			
TOTAL OTHER FINANCING SOURCES (USES)	0		0			
EXCESS OF REVENUES AND OTHER SOURCES OVER (UNDER) EXPENDITURES AND OTHER USES	(3,451)	(246,097)	(242,646)	45,071	48,126	3,055
FUND BALANCES - JULY 1	1,942,286	1,228,895	(713,391)	87,795	96,317	8,522
FUND BALANCES - JUNE 30	<u>\$ 1,938,835</u>	<u>\$ 982,798</u>	<u>\$ (956,037)</u>	<u>\$ 132,866</u>	<u>\$ 144,443</u>	<u>\$ 11,577</u>

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

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ARKANSAS RIVER EDUCATION SERVICE COOPERATIVE
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2008

1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Reporting Entity

The Board of Education, a nine member group, is the level of government, which has responsibilities over all activities within the jurisdiction of the Arkansas River Education Service Cooperative (Cooperative). There are no component units.

B. Description of Funds

Major governmental funds (per the regulatory basis of accounting) are defined as General and Special Revenue.

General Fund - The General Fund is the general operating fund and is used to account for all financial resources, except those required to be reported in another fund.

Special Revenue Fund – The Special Revenue Fund is used to account for the proceeds of specific revenue sources (other than trusts for individuals, private organizations, or other governments or for major capital projects) that are legally restricted to expenditures for specified purposes.

Fiduciary Fund types include the following:

Agency Funds - Agency Funds are used to report resources held by the reporting government in a purely custodial capacity (assets equal liabilities).

Private-purpose Trust Funds – Private-purpose trust funds are used to report all other trust arrangements under which principal and income benefit individuals, private organizations, or other governments.

C. Measurement Focus and Basis of Accounting

The financial statements are prepared in accordance with a regulatory basis of accounting (RBA). This basis of accounting is prescribed by Arkansas Code Annotated § 10-4-413(c), as provided in Act 2201 of 2005, and requires that financial statements be presented on a fund basis with, as a minimum, the general fund and special revenue fund presented separately and all other funds included in the audit presented in the aggregate. The law also stipulates that the financial statements consist of a balance sheet; a statement of revenues, expenditures, and changes in fund balances; a comparison of the final adopted budget to the actual expenditures for the general fund and special revenue funds of the entity; notes to financial statements; and a supplemental schedule of capital assets, including land, buildings, and equipment. The law further stipulates that the State Board of Education shall promulgate the rules necessary to administer the regulatory basis of presentation.

The RBA is not in accordance with generally accepted accounting principles (GAAP). GAAP require that basic financial statements present government-wide financial statements. Additionally, GAAP require the following major concepts: Management's Discussion and Analysis, accrual basis of accounting for government-wide financial statements, including depreciation expense, modified accrual basis of accounting for fund financial statements, separate financial statements for fiduciary fund types, separate identification of special and extraordinary items, inclusion of capital assets and debt in the financial statements, specific procedures for the identification of major governmental funds and applicable note disclosures. The RBA does not require government-wide financial statements or the previously identified concepts.

ARKANSAS RIVER EDUCATION SERVICE COOPERATIVE
 NOTES TO FINANCIAL STATEMENTS
 JUNE 30, 2008

1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

C. Measurement Focus and Basis of Accounting (Continued)

The accompanying financial statements are presented on a fund basis. A fund is defined as a fiscal and accounting entity with a self-balancing set of accounts, which are segregated for purposes of recording specific activities or attaining certain objectives. Revenues are reported by major sources and expenditures are reported by major function. Other transactions, which are not reported as revenues or expenditures, are reported as other financing sources and uses. Transactions related to the recording of installment contracts and capital leases are reported as other financing sources. Changes in private-purpose trust funds will be reflected in the notes to the financial statements.

D. Revenue Recognition Policies

Revenues are recognized when they become susceptible to accrual in accordance with the RBA.

E. Capital Assets

Information on capital assets and related depreciation is reported at Schedule 1. Capital assets are capitalized at historical cost or estimated historical cost, if actual data is not available. Capital assets purchased are recorded as expenditures in the applicable fund at the time of purchase. Donated capital assets are reported at fair value when received. The Cooperative maintains a threshold level of \$1,000 for capitalizing equipment. Library holdings are not capitalized.

No salvage value is taken into consideration for depreciation purposes. All capital assets, other than land and construction in progress, are depreciated using the straight-line method over the following useful lives:

Asset Class	Estimated Useful Life in Years
Buildings	50
Equipment	5-20

F. Interfund Receivables and Payables

Interfund receivables and payables result from services rendered from one fund to another or from interfund loans.

G. Fund Balance Designations

1. Reserved fund balance - represents that portion of the fund balance which is not appropriable for expenditure or is legally segregated for a specific future use.
2. Undesignated fund balance - indicates that portion of the fund balance not reserved or designated.

ARKANSAS RIVER EDUCATION SERVICE COOPERATIVE
 NOTES TO FINANCIAL STATEMENTS
 JUNE 30, 2008

1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

H. Budget and Budgetary Accounting

The Cooperative is required by state law to prepare an annual budget. The annual budget is prepared on a fiscal year basis. The Cooperative does not prepare and submit amended budgets during the fiscal year. The State Department of Education's regulations allow for the cash basis or the modified accrual basis. However, the majority of the cooperatives employ the cash basis method.

The Cooperative budgets intra-fund transfers. Significant variances may result in the comparison of transfers at the Statement of Revenues, Expenditures and Changes in Fund Balances – Budget and Actual – General and Special Revenue Funds – Regulatory Basis because only interfund transfers are reported at the Statement of Revenues, Expenditures and Changes in Fund Balances – Governmental Funds – Regulatory Basis.

Budgetary perspective differences are not considered to be significant, because the structure of the information utilized in preparing the budget and the applicable fund financial statements is essentially the same.

2: CASH DEPOSITS WITH FINANCIAL INSTITUTIONS

Cash deposits are carried at cost (carrying value). A comparison of the bank balance and carrying value is as follows:

	Carrying Amount	Bank Balance
Insured (FDIC)	\$ 629,554	\$ 700,000
Collateralized:		
Collateral held by the pledging bank or pledging bank's trust department in the Cooperative's name	519,628	566,834
Total Deposits	\$ 1,149,182	\$ 1,266,834

The above total deposits do not include cash on hand in the amount of \$200. The above total deposits include certificates of deposit of \$500,000 reported as investments and classified as nonparticipating contracts.

ARKANSAS RIVER EDUCATION SERVICE COOPERATIVE
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2008

3: COMMITMENTS

The Cooperative was contractually obligated for the following at June 30, 2008:

Long-term Debt Issued and Outstanding

The Cooperative is presently paying on the following long-term debt:

Date of Issue	Date of Final Maturity	Rate of Interest	Amount Authorized and Issued	Debt Outstanding June 30, 2008	Maturities To June 30, 2008
5/24/04	11/1/08	4.95%	\$ 123,000	\$ 24,600	\$ 98,400
4/17/06	11/1/10	4.95%	<u>90,509</u>	<u>54,305</u>	<u>36,204</u>
Totals			<u>\$ 213,509</u>	<u>\$ 78,905</u>	<u>\$ 134,604</u>

Changes in Long-term Debt

	Balance July 1, 2007	Issued	Retired	Balance June 30, 2008
Certificates of indebtedness	<u>\$ 121,607</u>	<u>\$ 0</u>	<u>\$ 42,702</u>	<u>\$ 78,905</u>

Total long-term debt principal and interest payments are as follows:

Year Ended June 30,	Principal	Interest	Total
2009	\$ 42,702	\$ 2,857	\$ 45,559
2010	18,102	1,348	19,450
2011	<u>18,101</u>	<u>452</u>	<u>18,553</u>
Totals	<u>\$ 78,905</u>	<u>\$ 4,657</u>	<u>\$ 83,562</u>

ARKANSAS RIVER EDUCATION SERVICE COOPERATIVE
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2008

4: ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

The accounts payable and accrued liabilities balance of \$21,794 at June 30, 2008 was comprised of the following:

Description	Governmental Funds		Total
	Major		
	General	Special Revenue	
Vendor payables	\$ 17,920	\$ 900	\$ 18,820
Payroll withholdings and matching	1,605		1,605
Other		1,369	1,369
Totals	\$ 19,525	\$ 2,269	\$ 21,794

5: RETIREMENT PLAN

Arkansas Teacher Retirement System

Plan Description. The Cooperative contributes to the Arkansas Teacher Retirement System (ATRS), a cost-sharing multiple-employer defined benefit pension plan that covers all Arkansas public school employees, except certain nonteachers hired before July 1, 1989. ATRS, administered by a Board of Trustees, provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Benefit provisions are established by State law and can be amended only by the Arkansas General Assembly. The Arkansas Teacher Retirement System issues a publicly available financial report that includes financial statements and required supplementary information for ATRS. That report may be obtained by writing to Arkansas Teacher Retirement System, 1400 West Third Street, Little Rock, Arkansas 72201 or by calling 1-800-666-2877.

Funding Policy. ATRS has contributory and noncontributory plans. Contributory members are required by State law to contribute 6% of their salaries. Each participating employer is required by State law to contribute at a rate determined by the Board of Trustees, based on the annual actuarial valuation. The current employer rate is 14% of covered salaries, the maximum allowed by State law. The employer contribution was paid by the Arkansas Department of Education from the Public School Fund, except for those employees paid from federal funding. Employer contributions for those employees were paid by the Cooperative. The Arkansas Department of Education's contributions to ATRS for the Cooperative during the years ended June 30, 2008, 2007 and 2006 were \$345,044, \$270,104 and \$359,181, respectively. The Cooperative's contributions to ATRS for the years ended June 30, 2008, 2007 and 2006 were \$9,515, \$8,535 and \$20,617, respectively, equal to the required contributions for each year.

ARKANSAS RIVER EDUCATION SERVICE COOPERATIVE
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2008

6: CHANGES IN PRIVATE-PURPOSE TRUST FUNDS

TOTAL ADDITIONS	\$	0
TOTAL DEDUCTIONS		0
CHANGE IN FUND BALANCE		0
FUND BALANCE - JULY 1		278
FUND BALANCE - JUNE 30	\$	278

7: RISK MANAGEMENT

The Cooperative is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters.

The Cooperative carries commercial insurance for board liability and student accidents. Settled claims have not exceeded this commercial coverage in any of the past three fiscal years. There were no significant reductions in insurance coverage from the prior year in the major categories of risk.

The Cooperative participates in the Arkansas School Boards Association – Workers’ Compensation Trust (the Trust), a self-insurance trust voluntarily established on July 1, 1994 pursuant to state law. The Trust is responsible for obtaining and administering workers’ compensation insurance coverage for its members, as well as obtaining reinsurance coverage for those claims that exceed the standard policy limits. In its administrative capacity, the Trust is responsible for monitoring, negotiating and settling claims that have been filed on behalf of and against member entities. The Cooperative contributes annually to this program.

Additionally, the Cooperative participates in the Arkansas School Boards Association – Risk Management Program (the Association), a self-insurance program voluntarily established on February 1, 1984 pursuant to state law. The Association is responsible for obtaining and administering insurance coverage for property and vehicles for its members, as well as obtaining reinsurance coverage for those claims that exceed the standard policy limits. In its administrative capacity, the Association is responsible for monitoring, negotiating and settling claims that have been filed against member entities. The Cooperative pays an annual premium for its coverage of vehicles.

The Cooperative participates in the Arkansas Fidelity Bond Trust Fund administered by the Governmental Bonding Board. This program provides coverage for actual losses sustained by its members through fraudulent or dishonest acts committed by officials or employees. Each loss is limited to \$250,000 with a \$1,000 deductible. Premiums for coverage are paid by the Chief Fiscal Officer of the State of Arkansas from funds withheld from the Public School Fund.

The Cooperative participates in the Public School Property and Vehicle Insurance Trust Fund Program administered by the Risk Management Division of the Arkansas Insurance Department. The program’s general objectives are to formulate, develop and administer, on behalf of member entities, a program of insurance to obtain lower costs for property and vehicles coverage, and to develop a comprehensive loss control program. The fund uses a reinsurance policy to reduce exposure to large losses on insured events. The Cooperative pays an annual premium for its coverage of buildings and contents.

ARKANSAS RIVER EDUCATION SERVICE COOPERATIVE
 SCHEDULE OF CAPITAL ASSETS
 FOR THE YEAR ENDED JUNE 30, 2008
 (Unaudited)

Schedule 1

	Balance June 30, 2008
<i>Nondepreciable capital assets:</i>	
Land	\$ 297,888
<i>Depreciable capital assets:</i>	
Buildings	1,329,544
Equipment	913,604
Total depreciable capital assets	2,243,148
Less accumulated depreciation for:	
Buildings	334,785
Equipment	574,439
Total accumulated depreciation	909,224
Total depreciable capital assets, net	1,333,924
Capital assets, net	\$ 1,631,812

ARKANSAS RIVER EDUCATION SERVICE COOPERATIVE
SCHEDULE OF SELECTED INFORMATION FOR THE LAST FIVE YEARS - REGULATORY BASIS
FOR THE YEAR ENDED JUNE 30, 2008
(Unaudited)

Schedule 2

	Year Ended June 30,				
	2008	2007	2006	2005	2004
<u>General Fund</u>					
Total Assets	\$ 1,014,560	\$ 1,240,961	\$ 1,043,099	\$ 1,027,916	\$ 688,984
Total Liabilities	31,762	12,066	18,134	36,880	4,576
Total Fund Balances	982,798	1,228,895	1,024,965	991,036	684,408
Total Revenues	4,441,223	4,624,727	4,262,638	4,067,807	3,382,385
Total Expenditures	4,687,320	4,420,797	4,319,218	3,761,179	3,489,760
Total Other Financing Sources (Uses)			90,509		123,000
<u>Special Revenue Fund</u>					
Total Assets	146,712	96,317	158,178	56,783	54,754
Total Liabilities	2,269		1,650	582	
Total Fund Balances	144,443	96,317	156,528	56,201	54,754
Total Revenues	275,682	379,189	1,442,005	1,448,581	1,878,190
Total Expenditures	227,556	439,400	1,341,678	1,447,134	2,025,039