

DeQueen-Mena Education Service Cooperative

**Regulatory Basis Financial Statements
and Other Reports**

June 30, 2016

LEGISLATIVE JOINT AUDITING COMMITTEE



DEQUEEN-MENA EDUCATION SERVICE COOPERATIVE
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Arkansas

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Senate Chair
Sen. Lance Eads
Senate Vice Chair



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

LEGISLATIVE JOINT AUDITING COMMITTEE ARKANSAS LEGISLATIVE AUDIT

INDEPENDENT AUDITOR'S REPORT

DeQueen-Mena Education Service Cooperative and Cooperative Board Members
Legislative Joint Auditing Committee

Report on the Financial Statements

We have audited the accompanying financial statements of each major governmental fund and the aggregate remaining fund information of the DeQueen-Mena Education Service Cooperative (the "Cooperative"), as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the Cooperative's regulatory basis financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with the financial reporting provisions of Ark. Code Ann. § 10-4-413(c) as provided in Act 2201 of 2005, as described in Note 1, to meet the requirements of the State of Arkansas. This includes determining that the regulatory basis of accounting is an acceptable basis for the preparation of the financial statements in the circumstances. Management is also responsible for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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 from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosure in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Cooperative's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Cooperative's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Basis for Adverse Opinion on U.S. Generally Accepted Accounting Principles

As described in Note 1 to the financial statements, to meet the financial reporting requirements of the State of Arkansas, the financial statements are prepared by the Cooperative on the basis of the financial reporting provisions of Ark. Code Ann. § 10-4-413(c) as provided in Act 2201 of 2005, which is a basis of accounting other than accounting principles generally accepted in the United States of America.

The effects on the financial statements of the variances between the regulatory basis of accounting described in Note 1 and accounting principles generally accepted in the United States of America, although not reasonably determinable, are presumed to be material.

Adverse Opinion on U.S. Generally Accepted Accounting Principles

In our opinion, because of the significance of the matter discussed in the Basis for Adverse Opinion on U.S. Generally Accepted Accounting Principles paragraphs, the financial statements referred to above do not present fairly, in accordance with accounting principles generally accepted in the United States of America, the financial position of the Cooperative as of June 30, 2016, or the changes in financial position for the year then ended.

Opinion on Regulatory Basis of Accounting

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective regulatory basis financial position of each major governmental fund and the aggregate remaining fund information of the Cooperative as of June 30, 2016, and the respective regulatory basis changes in financial position thereof and the respective regulatory basis budgetary comparison for the general and special revenue funds for the year then ended in accordance with the financial reporting provisions of Ark. Code Ann. § 10-4-413(c) as provided in Act 2201 of 2005 described in Note 1.

Other Matters

Supplementary and Other Information

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 Expenditures of Federal Awards, as required by Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, the Schedule of Capital Assets, and the Schedule of Selected Information for the Last Five Years - Regulatory Basis are presented for purposes of additional analysis and are not a required part of the regulatory basis financial statements.

The Schedule of Expenditures of Federal Awards is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the regulatory basis financial statements. Such information has been subjected to the auditing procedures applied in the audit of the regulatory basis financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the regulatory basis financial statements or to the regulatory basis financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the Schedule of Expenditures of Federal Awards is fairly stated, in all material respects, in relation to the regulatory basis financial statements as a whole.

The Schedule of Capital Assets and the Schedule of Selected Information for the Last Five Years - Regulatory Basis have not been subjected to the auditing procedures applied in the audit of the regulatory basis financial statements, and accordingly, we do not express an opinion or provide any assurance on them.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated January 30, 2017 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 internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Cooperative's internal control over financial reporting and compliance.

ARKANSAS LEGISLATIVE AUDIT



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

Little Rock, Arkansas
January 30, 2017
EDSC00916

Arkansas

Sen. Jimmy Hickey, Jr.
Senate Chair
Sen. Lance Eads
Senate Vice Chair



Rep. Richard Womack
House Chair
Rep. Mary Bentley
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LEGISLATIVE JOINT AUDITING COMMITTEE ARKANSAS 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*

INDEPENDENT AUDITOR'S REPORT

DeQueen-Mena Education Service Cooperative and Cooperative Board Members
Legislative Joint Auditing Committee

We have audited, in accordance with the 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, the financial statements of each major governmental fund and the aggregate remaining fund information of the DeQueen-Mena Education Service Cooperative (the "Cooperative"), as of and for the year ended June 30, 2016, and the related notes to financial statements, which collectively comprise the Cooperative's regulatory basis financial statements, and have issued our report thereon dated January 30, 2017. We issued an adverse opinion because the Cooperative prepared the financial statements on the basis of the financial reporting provisions of Arkansas Code, which is a basis of accounting other than accounting principles generally accepted in the United States of America. The effects on the financial statements of the variances between the regulatory basis of accounting 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 regulatory basis financial position of each major governmental fund and the aggregate remaining fund information of the Cooperative as of June 30, 2016, and the respective regulatory basis changes in financial position thereof and the respective regulatory basis budgetary comparison for the general and special revenue funds for the year then ended, on the basis of accounting described in Note 1.

Internal Control Over Financial Reporting

In planning and performing our audit of the regulatory basis financial statements, we considered the Cooperative's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances 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. Accordingly, we do not express an opinion on the effectiveness of the Cooperative's internal control.

A *deficiency in internal control* 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 and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the Cooperative's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. We did identify a certain deficiency in internal control, described in the accompanying Schedule of Findings and Questioned Costs as item 2016-001, that we consider to be a material weakness.

Compliance and Other Matters

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

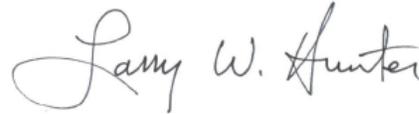
Cooperative's Response to Findings

The Cooperative's response to the finding identified in our audit is described in the accompanying Schedule of Findings and Questioned Costs. The Cooperative's response was not subjected to the auditing procedures applied in the audit of the regulatory basis financial statements and, accordingly, we express no opinion on it.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the result of that testing, and not to provide an opinion on the effectiveness of the Cooperative's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Cooperative's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

ARKANSAS LEGISLATIVE AUDIT

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

Larry W. Hunter, CPA, CFE
Deputy Legislative Auditor

Little Rock, Arkansas
January 30, 2017

Arkansas

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LEGISLATIVE JOINT AUDITING COMMITTEE ARKANSAS LEGISLATIVE AUDIT

REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM AND REPORT ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE

INDEPENDENT AUDITOR'S REPORT

DeQueen-Mena Education Service Cooperative and Cooperative Board Members
Legislative Joint Auditing Committee

Report on Compliance for Each Major Federal Program

We have audited the DeQueen-Mena Education Service Cooperative (the "Cooperative") compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of the Cooperative's major federal programs for the year ended June 30, 2016. The Cooperative's major federal programs are identified in the summary of auditor's results section of the accompanying Schedule of Findings and Questioned Costs.

Management's Responsibility

Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of the Cooperative's major federal programs based on our audit of the types of compliance requirements referred to above. 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 the audit requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance 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 the Cooperative'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 on compliance for each major federal program. However, our audit does not provide a legal determination of the Cooperative's compliance.

Opinion on Each Major Federal Program

In our opinion, the Cooperative complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2016.

Report on Internal Control Over Compliance

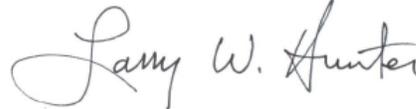
Management of the Cooperative is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the Cooperative's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, 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 the Cooperative's internal control over compliance.

A *deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

ARKANSAS LEGISLATIVE AUDIT



Larry W. Hunter, CPA, CFE
Deputy Legislative Auditor

Little Rock, Arkansas
January 30, 2017

DEQUEEN-MENA EDUCATION SERVICE COOPERATIVE
BALANCE SHEET - REGULATORY BASIS
JUNE 30, 2016

Exhibit A

	Governmental Funds			
	Major			Fiduciary Fund Types
	General	Special Revenue	Other Aggregate	
ASSETS				
Cash	\$ 2,375,992	\$ 123,251	\$ 200,000	\$ 7,848
Accounts receivable	66,151	47,239		
TOTAL ASSETS	<u>\$ 2,442,143</u>	<u>\$ 170,490</u>	<u>\$ 200,000</u>	<u>\$ 7,848</u>
LIABILITIES AND FUND BALANCES				
Liabilities:				
Accounts payable	\$ 19,920	\$ 1,857		
Due other groups				\$ 7,848
Total Liabilities	<u>19,920</u>	<u>1,857</u>		<u>7,848</u>
Fund Balances:				
Restricted	286,489	168,633		
Assigned	284,490		\$ 200,000	
Unassigned	1,851,244			
Total Fund Balances	<u>2,422,223</u>	<u>168,633</u>	<u>200,000</u>	
TOTAL LIABILITIES AND FUND BALANCES	<u>\$ 2,442,143</u>	<u>\$ 170,490</u>	<u>\$ 200,000</u>	<u>\$ 7,848</u>

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

DEQUEEN-MENA EDUCATION SERVICE COOPERATIVE
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES -
GOVERNMENTAL FUNDS - REGULATORY BASIS
FOR THE YEAR ENDED JUNE 30, 2016

Exhibit B

	Major		Other Aggregate
	General	Special Revenue	
REVENUES			
State assistance	\$ 3,499,807		
Federal assistance		\$ 4,064,968	
Investment income	38,814		
Other revenues	1,876,745	150,779	
TOTAL REVENUES	5,415,366	4,215,747	
EXPENDITURES			
Regular programs	66,890	36,707	
Special education	1,520,318	2,624,239	
Career education programs	559,575	112,773	
Student support services	372,727	675,585	
Instructional staff support services	1,488,291	1,076	
General administration support services	402,460		
Central services support services	167,011		
Operation and maintenance of plant services	107,766		
Student transportation services	19,979		
Food services operations	191,564	730,604	
Facilities acquisition and construction services	2,978		
Non-programmed costs	225,573	22,742	
TOTAL EXPENDITURES	5,125,132	4,203,726	
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	290,234	12,021	
FUND BALANCES - JULY 1	2,131,989	156,612	\$ 200,000
FUND BALANCES - JUNE 30	\$ 2,422,223	\$ 168,633	\$ 200,000

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

DEQUEEN-MENA 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, 2016

Exhibit C

	General			Special Revenue		
	Budget	Actual	Variance Favorable (Unfavorable)	Budget	Actual	Variance Favorable (Unfavorable)
REVENUES						
State assistance	\$ 5,765,782	\$ 3,499,807	\$ (2,265,975)			
Federal assistance				\$ 1,628,036	\$ 4,064,968	\$ 2,436,932
Activity revenues	2,500		(2,500)			
Investment income	30,000	38,814	8,814			
Other revenues	1,532,560	1,876,745	344,185	65,000	150,779	85,779
TOTAL REVENUES	7,330,842	5,415,366	(1,915,476)	1,693,036	4,215,747	2,522,711
EXPENDITURES						
Regular programs	104,561	66,890	37,671	34,919	36,707	(1,788)
Special education	4,076,484	1,520,318	2,556,166	123,617	2,624,239	(2,500,622)
Career education programs	571,850	559,575	12,275	115,860	112,773	3,087
Student support services	327,931	372,727	(44,796)	771,710	675,585	96,125
Instructional staff support services	1,685,239	1,488,291	196,948	2,000	1,076	924
General administration support services	435,875	402,460	33,415			
Central services support services	191,591	167,011	24,580			
Operation and maintenance of plant services	114,347	107,766	6,581			
Student transportation services		19,979	(19,979)			
Food services operations	126,528	191,564	(65,036)	710,000	730,604	(20,604)
Facilities acquisition and construction services	10,000	2,978	7,022	40,000		40,000
Non-programmed costs	250,190	225,573	24,617	34,997	22,742	12,255
Activity expenditures	9,533		9,533			
TOTAL EXPENDITURES	7,904,129	5,125,132	2,778,997	1,833,103	4,203,726	(2,370,623)
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	(573,287)	290,234	863,521	(140,067)	12,021	152,088
OTHER FINANCING SOURCES (USES)						
Transfers in	265,000		(265,000)			
EXCESS OF REVENUES AND OTHER SOURCES OVER (UNDER) EXPENDITURES AND OTHER USES	(308,287)	290,234	598,521	(140,067)	12,021	152,088
FUND BALANCES - JULY 1	2,112,670	2,131,989	19,319	156,690	156,612	(78)
FUND BALANCES - JUNE 30	<u>\$ 1,804,383</u>	<u>\$ 2,422,223</u>	<u>\$ 617,840</u>	<u>\$ 16,623</u>	<u>\$ 168,633</u>	<u>\$ 152,010</u>

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

DEQUEEN-MENA EDUCATION SERVICE COOPERATIVE
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016

1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Reporting Entity

The Board of Education, a 12 member group, is the level of government, which has responsibilities over all activities within the jurisdiction of the DeQueen-Mena 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 used to account for and report all financial resources not accounted for and reported in another fund.

Special Revenue Fund – The Special Revenue Fund is used to account for and report the proceeds of specific revenue sources that are restricted or committed to expenditure for specified purposes other than debt service or capital projects. The Special Revenue Fund includes federal revenues and related expenditures, restricted for specific educational programs or projects. If applicable, the Special Revenue Fund also includes required matching for those federal programs, program income required to be used to further the objectives of those programs, and transfers from the general fund to supplement such programs.

Other governmental funds, presented in the aggregate, consist of the following:

Capital Projects Fund – The Capital Projects Fund is used to account for and report financial resources that are restricted, committed, or assigned to expenditure for capital outlays including the acquisition or construction of capital facilities and other capital assets. The Capital Projects Fund excludes those types of capital-related outflows financed by proprietary funds or for assets that will be held in trust for individuals, private organizations, or other governments.

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).

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 Ark. Code Ann. § 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, inclusion of the net pension liability 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.

DEQUEEN-MENA EDUCATION SERVICE COOPERATIVE
 NOTES TO FINANCIAL STATEMENTS
 JUNE 30, 2016

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. Fund Balance Classifications

1. Restricted fund balance – represents amounts that are restricted to specific purposes when constraints placed on the use of resources are either (a) externally imposed by creditors (such as through bond covenants), grantors, contributors, or laws or regulations of other governments; or (b) imposed by law through constitutional provisions or enabling legislation.
2. Assigned fund balance – represents amounts that are constrained by the Cooperative’s *intent* to be used for specific purposes, but are neither restricted nor committed.
3. Unassigned fund balance – represents amounts that have not been assigned to other funds and that has not been restricted, committed, or assigned to specific purposes within the general fund. This classification can also include negative amounts in other governmental funds, if expenditures incurred for specific purposes exceeded the amounts restricted, committed, or assigned to those purposes.

G. 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.

DEQUEEN-MENA EDUCATION SERVICE COOPERATIVE
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016

1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

G. Budget and Budgetary Accounting (Continued)

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. Additionally, the Cooperative routinely budgets restricted federal programs as part of the special revenue fund. Significant variances may result in the budgetary comparison of the revenues and expenditures of the special revenue fund because of the reclassification of those federal programs primarily utilized for capital projects to the other aggregate funds for reporting purposes.

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.

H. Stabilization Arrangements

The Cooperative's Board of Education has not formally set aside amounts for use in emergency situations or when revenue shortages or budgetary imbalances arise.

I. Minimum Fund Balance Policies

The Cooperative's Board of Education has not formally adopted a minimum fund balance policy.

J. Fund Balance Classification Policies and Procedures

The Director, in conjunction with other management and accounting personnel, is authorized to assign amounts to a specific purpose. The Cooperative's Board of Education has not adopted a formal policy addressing this authorization.

The Cooperative's revenues, expenditures, and fund balances are tracked in the accounting system by numerous sources of funds. The fund balances of these sources of funds are combined to derive the Cooperative's total fund balances by fund. It is uncommon for an individual source of funds to contain restricted and unrestricted (committed, assigned, or unassigned) funds. The Cooperative does not have a policy addressing whether it considers restricted or unrestricted amounts to have been spent when expenditures are incurred for purposes for which both restricted and unrestricted amounts are available. Cooperative personnel decide which resources (source of funds) to use at the time expenditures are incurred. For classification of fund balance amounts, restricted resources are considered spent before unrestricted. The Cooperative does not have a policy addressing which resources to use within the unrestricted fund balance when committed, assigned, or unassigned fund balances are available. When expenditures are incurred for purposes for which amounts in any of the unrestricted fund balance classifications could be used, committed amounts are reduced first, followed by assigned amounts, and then unassigned amounts.

K. Encumbrances

The Cooperative does not utilize encumbrance accounting.

DEQUEEN-MENA EDUCATION SERVICE COOPERATIVE
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016

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)	\$ 250,000	\$ 250,000
Collateralized:		
Collateral held by the Cooperative's agent, pledging bank or pledging bank's trust department or agent in the Cooperative's name	2,457,091	2,632,745
Total Deposits	\$ 2,707,091	\$ 2,882,745

3: ACCOUNTS RECEIVABLE

Accounts receivable at June 30, 2016 were comprised of the following:

Description	Governmental Funds	
	Major	
	General	Special Revenue
State assistance	\$ 6,531	
Federal assistance		\$ 47,239
Other	59,620	
Totals	\$ 66,151	\$ 47,239

4: COMMITMENTS

The Cooperative was contractually obligated for the following at June 30, 2016:

Operating Lease (noncapital lease with initial noncancellable lease terms in excess of one year)

General description of lease and leasing arrangements:

12 copiers for \$2,020 a month for a period of 60 months beginning September 10, 2015.

1. Future minimum rental payments (aggregate) at June 30, 2016: \$105,040
2. Future minimum rental payments for the succeeding years:

Year Ended June 30,	Amount
2017	\$ 24,240
2018	24,240
2019	24,240
2020	24,240
2021	8,080
Total	\$ 105,040

Rental payments for the operating lease described above were approximately \$16,160 for the year ended June 30, 2016.

DEQUEEN-MENA EDUCATION SERVICE COOPERATIVE
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016

5: ACCOUNTS PAYABLE

Accounts payable at June 30, 2016 were comprised of the following:

Description	Governmental Funds	
	Major	
	General	Special Revenue
Vendor payables	\$ 19,920	\$ 1,857

6: 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 and education-related agencies, except certain non-teaching school employees. 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 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 year ended June 30, 2016 were \$660,884, equal to the required contributions. The Cooperative's contributions to ATRS for the year ended June 30, 2016 were \$28,974, equal to the required contributions.

Net Pension Liability

The Arkansas Department of Education has stipulated that, under the regulatory basis of accounting, the requirements of Governmental Accounting Standards Board Statement no. 68 would be limited to disclosure of the Cooperative's proportionate share of the collective net pension liability. The Cooperative's proportionate share of the collective net pension liability at June 30, 2015 (actuarial valuation date and measurement date) was \$5,494,441.

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 student accidents and board liability.

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.

DEQUEEN-MENA EDUCATION SERVICE COOPERATIVE
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016

7: RISK MANAGEMENT (Continued)

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 buildings, contents, and 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 \$300,000 with a \$2,500 deductible. Premiums for coverage are paid by the Chief Fiscal Officer of the State of Arkansas from funds withheld from the Public School Fund.

Settled claims have not exceeded 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.

8: ON-BEHALF PAYMENTS

The allocation of the health insurance premiums paid by the Arkansas Department of Education to the Employee Benefits Division, on-behalf of the Cooperative's employees, totaled \$139,705 for the year ended June 30, 2016.

9: DETAILS OF GOVERNMENTAL FUND BALANCE CLASSIFICATIONS DISPLAYED IN THE AGGREGATE

Description	Governmental Funds		
	Major		
	General	Special Revenue	Other Aggregate
Fund Balances:			
Restricted for:			
Early childhood programs	\$ 278,375		
Medical services		\$ 157,596	
Special education programs		1,075	
Other purposes	8,114	9,962	
Total Restricted	<u>286,489</u>	<u>168,633</u>	
Assigned to:			
Capital projects			\$ 200,000
Early childhood programs	57,930		
Professional development	130,825		
Other purposes	95,735		
Total Assigned	<u>284,490</u>		<u>200,000</u>
Unassigned	<u>1,851,244</u>		
Totals	<u>\$ 2,422,223</u>	<u>\$ 168,633</u>	<u>\$ 200,000</u>

DEQUEEN-MENA EDUCATION SERVICE COOPERATIVE
 SCHEDULE OF CAPITAL ASSETS
 FOR THE YEAR ENDED JUNE 30, 2016
 (Unaudited)

Schedule 1

	Balance June 30, 2016
<i>Depreciable capital assets:</i>	
Buildings	\$ 173,656
Equipment	1,036,396
Total depreciable capital assets	1,210,052
 Less accumulated depreciation for:	
Buildings	104,606
Equipment	853,724
Total accumulated depreciation	958,330
 Total depreciable capital assets, net	251,722
 Capital assets, net	\$ 251,722

DEQUEEN-MENA EDUCATION SERVICE COOPERATIVE
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2016

Schedule 2

Federal Grantor/Pass-Through Grantor/Program or Cluster Title	Federal CFDA Number	Pass-Through Entity Identifying Number	Passed Through to Subrecipients	Total Federal Expenditures
SPECIAL EDUCATION CLUSTER (IDEA)				
<u>U. S. Department of Education</u>				
Passed Through Arkansas Department of Education:				
Special Education - Grants to States	84.027	6720		\$ 219,139
Special Education - Preschool Grants	84.173	6720		<u>130,456</u>
TOTAL SPECIAL EDUCATION CLUSTER (IDEA)				<u>349,595</u>
OTHER PROGRAMS				
<u>U. S. Department of Education</u>				
Passed Through Arkansas Department of Career Education:				
Career and Technical Education - Basic Grants to States	84.048	6720		<u>119,946</u>
<u>U. S. Department of Health and Human Services</u>				
Passed Through Arkansas Department of Education:				
Temporary Assistance for Needy Families	93.558	0000200750		<u>2,500,000</u>
<u>Corporation for National and Community Service</u>				
Direct Program:				
Foster Grandparent Program	94.011			<u>381,278</u>
TOTAL OTHER PROGRAMS				<u>3,001,224</u>
TOTAL EXPENDITURES OF FEDERAL AWARDS			<u>\$ 0</u>	<u>\$ 3,350,819</u>

The accompanying notes are an integral part of this schedule.

NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

- Note 1: Basis of Presentation - The accompanying Schedule of Expenditures of Federal Awards (the "Schedule") includes the federal grant activity of DeQueen-Mena Education Service Cooperative (Cooperative) under programs of the federal government for the year ended June 30, 2016. The information in this Schedule is presented in accordance with the requirements of Title 2 U.S. Code of Federal Regulations (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the Schedule presents only a selected portion of the operations of the Cooperative, it is not intended to and does not present the financial position or changes in financial position of the Cooperative.
- Note 2: Summary of Significant Accounting Policies - Expenditures reported on the Schedule are reported on the regulatory basis of accounting. Such expenditures are recognized following the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement.
- Note 3: The Cooperative has elected not to use the 10-percent de minimis indirect cost rate allowed under the Uniform Guidance.
- Note 4: During the year ended June 30, 2016, the Cooperative received Medicaid funding of \$95,229 from the Arkansas Department of Human Services. Such payments are not considered Federal awards expended, and therefore, are not included in the above Schedule.

DEQUEEN-MENA EDUCATION SERVICE COOPERATIVE
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2016

Schedule 3

SECTION II - FINANCIAL STATEMENT FINDINGS

MATERIAL WEAKNESS

2016-001. Internal Control

Criteria or specific requirement: Internal control is a process consisting of five interrelated components - *control environment, risk assessment, information and communication, control activities, and monitoring*. Management is responsible for adopting sound accounting policies and for establishing and maintaining internal control that will, among other things, initiate, authorize, record, process, and report transactions (as well as events and conditions) consistent with management's assertions embodied in the financial statements.

Condition: Deficiencies 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 a reasonable possibility that a material misstatement of the District's financial statements would not be prevented, or detected and corrected on a timely basis. Financial accounting duties were not adequately segregated among employees. Specifically, certain key weaknesses include the following: bank reconciliations are prepared by the same employee responsible for maintenance of accounting records, preparation of payroll checks, and such employee has the ability to add new employees and make changes in the payroll computer files, without compensating controls. Non-payroll checks were prepared by the same employee responsible for processing vendor invoices and who has the ability to add vendors to the non-payroll system, without compensating controls. Signatures were automatically printed on payroll and non-payroll checks, without compensating controls.

Context: 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.

Effect: The Cooperative'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 Cooperative assets, was adversely affected by the identified weaknesses in the above internal control component.

Cause: Cooperative management, due to cost/benefit implications, which hindered the Cooperative's ability to adequately segregate financial accounting duties among employees, did not effectively address the deficiencies in internal control.

Recommendation: Cooperative 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 Cooperative assets.

Views of responsible officials and planned corrective actions: We concur with the recommendation and will implement corrective procedures to the extent possible.

SECTION III - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

No matters were reported.

DEQUEEN-MENA EDUCATION SERVICE COOPERATIVE
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE YEAR ENDED JUNE 30, 2016

Schedule 4

FINANCIAL STATEMENT FINDINGS

2015 - Finding 2015-001: Internal Control

Condition: Deficiencies 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 a reasonable possibility that a material misstatement of the District's financial statements would not be prevented, or detected and corrected on a timely basis. Financial accounting duties were not adequately segregated among employees. Specifically, certain key weaknesses include the following: bank reconciliations were prepared by the same employee responsible for maintenance of accounting records, preparation of payroll checks, and such employee had the ability to add new employees and make changes in the payroll computer files, without compensating controls. Also, non-payroll checks were prepared by the same employee responsible for processing vendor invoices and who has the ability to add vendors to the non-payroll system, without compensating controls.

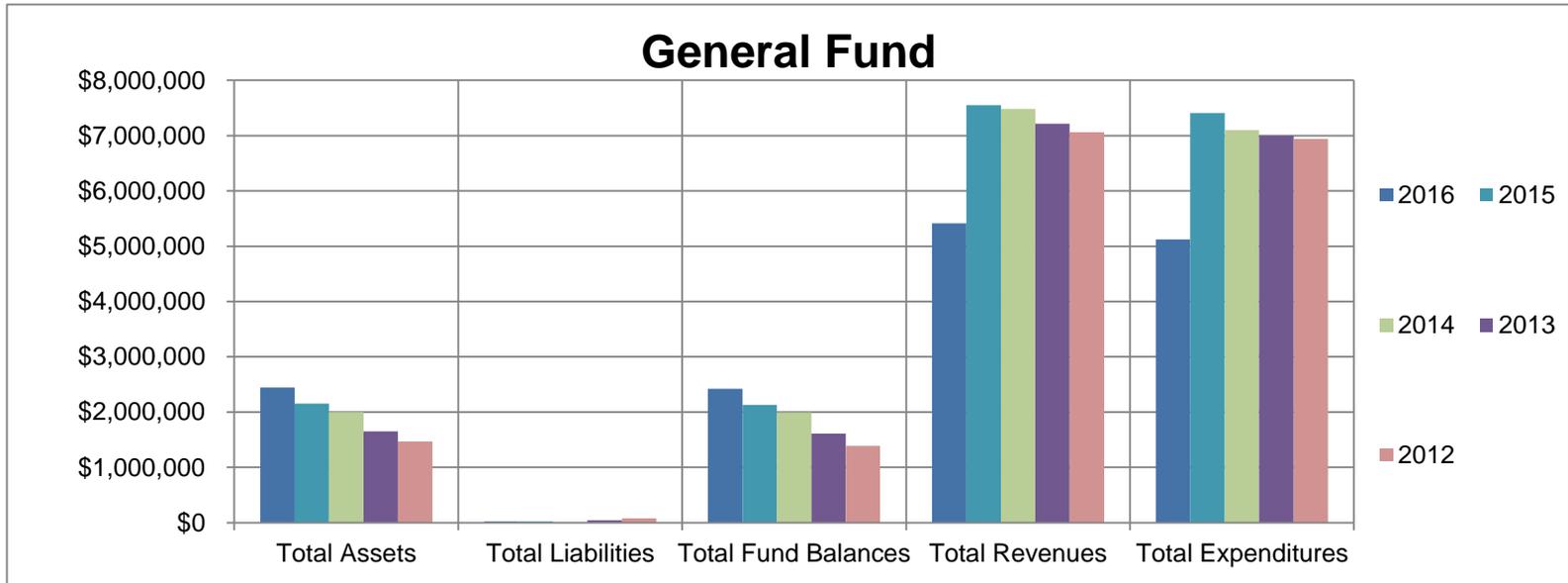
Current Status: Areas involving lack of segregation of financial accounting duties had not yet been addressed by the Cooperative. See Finding 2016-001 at Schedule 3.

FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

There were no findings in the prior audit.

DEQUEEN-MENA EDUCATION SERVICE COOPERATIVE
 SCHEDULE OF SELECTED INFORMATION FOR THE LAST FIVE YEARS - REGULATORY BASIS
 FOR THE YEAR ENDED JUNE 30, 2016
 (Unaudited)

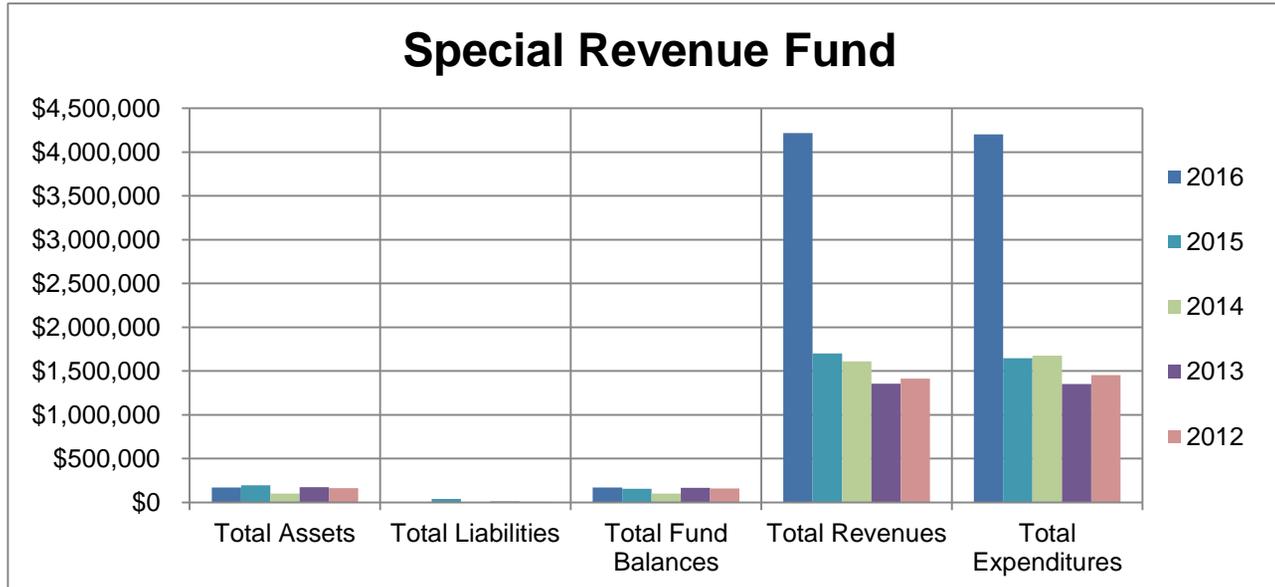
<u>General Fund</u>	Year Ended June 30,				
	2016	2015	2014	2013	2012
Total Assets	\$ 2,442,143	\$ 2,150,506	\$ 2,000,735	\$ 1,653,556	\$ 1,468,993
Total Liabilities	19,920	18,517	9,213	42,115	76,784
Total Fund Balances	2,422,223	2,131,989	1,991,522	1,611,441	1,392,209
Total Revenues	5,415,366	7,551,520	7,480,980	7,216,037	7,064,240
Total Expenditures	5,125,132	7,411,053	7,100,899	6,996,805	6,944,748
Total Other Financing Sources (Uses)					



DEQUEEN-MENA EDUCATION SERVICE COOPERATIVE
 SCHEDULE OF SELECTED INFORMATION FOR THE LAST FIVE YEARS - REGULATORY BASIS
 FOR THE YEAR ENDED JUNE 30, 2016
 (Unaudited)

Schedule 5

<u>Special Revenue Fund</u>	Year Ended June 30,				
	2016	2015	2014	2013	2012
Total Assets	\$ 170,490	\$ 194,305	\$ 101,277	\$ 173,937	\$ 164,782
Total Liabilities	1,857	37,693	1,414	8,567	5,757
Total Fund Balances	168,633	156,612	99,863	165,370	159,025
Total Revenues	4,215,747	1,702,862	1,609,493	1,357,399	1,413,889
Total Expenditures	4,203,726	1,646,113	1,675,000	1,351,054	1,454,731
Total Other Financing Sources (Uses)					



DEQUEEN-MENA EDUCATION SERVICE COOPERATIVE
 SCHEDULE OF SELECTED INFORMATION FOR THE LAST FIVE YEARS - REGULATORY BASIS
 FOR THE YEAR ENDED JUNE 30, 2016
 (Unaudited)

<u>Other Aggregate Funds</u>	Year Ended June 30,				
	2016	2015	2014	2013	2012
Total Assets	\$ 200,000	\$ 200,000	\$ 200,000	\$ 200,000	\$ 200,000
Total Liabilities					
Total Fund Balances	200,000	200,000	200,000	200,000	200,000
Total Revenues					
Total Expenditures					
Total Other Financing Sources (Uses)					

