

**SOUTHEAST ARKANSAS EDUCATION SERVICE
COOPERATIVE**

**General Purpose Financial Statements
and Other Reports**

June 30, 2002

LEGISLATIVE JOINT AUDITING COMMITTEE



SOUTHEAST ARKANSAS EDUCATION SERVICE COOPERATIVE
TABLE OF CONTENTS
JUNE 30, 2002

Independent Auditor's Report
Combined Report(s) on Compliance, Internal Controls and Other Matters

GENERAL PURPOSE FINANCIAL STATEMENTS

	<u>Exhibit</u>
Combined Balance Sheet - Governmental and Fiduciary Fund Types and Account Groups	A
Combined Statement of Revenues, Expenditures and Changes in Fund Balances - Governmental Fund Types	B
Combined Statement of Revenues, Expenditures and Changes in Fund Balances - Budget and Actual - Governmental Fund Types	C
Notes to Financial Statements	

SUPPORTING SCHEDULES

	<u>Schedule</u>
Expenditures of Federal Awards	1
Federal Award Programs - Findings and Questioned Costs	2
Federal Award Programs - Summary of Prior Audit Findings	3

Sen. Henry "Hank" Wilkins, IV
Senate Co-Chair
Rep. Tommy G. Roebuck
House Co-Chair
Sen. Randy Laverly
Senate Co-Vice Chair
Rep. David Evans
House Co-Vice Chair

Arkansas



Charles L. Robinson, CPA, CFE
Legislative Auditor

LEGISLATIVE JOINT AUDITING COMMITTEE DIVISION OF LEGISLATIVE AUDIT

INDEPENDENT AUDITOR'S REPORT

Southeast Arkansas Education Service Cooperative and Executive Board Members
Legislative Joint Auditing Committee

We have audited the accompanying general purpose financial statements of the Southeast Arkansas Education Service Cooperative as of and for the year ended June 30, 2002, as listed in the table of contents. These financial statements are the responsibility of Southeast Arkansas Education Service Cooperative's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the general purpose financial statements referred to above present fairly, in all material respects, the financial position of the Southeast Arkansas Education Service Cooperative as of June 30, 2002, and the results of its operations for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated September 10, 2003 on our consideration of the Southeast Arkansas Education Service Cooperative's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Our audit was performed for the purpose of forming an opinion on the general purpose financial statements taken as a whole. The accompanying financial information listed as supporting schedules in the table of contents, including the schedule of Expenditures of Federal Awards as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, is presented for purposes of additional analysis and is not a required part of the general purpose financial statements of the Southeast Arkansas Education Service Cooperative. Such information has been subjected to the auditing procedures applied in the audit of the general purpose financial statements and in our opinion, is fairly stated, in all material respects, in relation to the general purpose financial statements taken as a whole.

DIVISION OF LEGISLATIVE AUDIT

A handwritten signature in blue ink, appearing to read "Charles L. Robinson".

Charles L. Robinson, CPA, CFE
Legislative Auditor

Little Rock, Arkansas
September 10, 2003
EDSC01502

Sen. Henry "Hank" Wilkins, IV
Senate Co-Chair
Rep. Tommy G. Roebuck
House Co-Chair
Sen. Randy Laverty
Senate Co-Vice Chair
Rep. David Evans
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Arkansas



Charles L. Robinson, CPA, CFE
Legislative Auditor

LEGISLATIVE JOINT AUDITING COMMITTEE DIVISION OF LEGISLATIVE AUDIT

COMBINED REPORT(S) ON COMPLIANCE, INTERNAL CONTROLS AND OTHER MATTERS

Southeast Arkansas Education Service Cooperative and Executive Board Members
Legislative Joint Auditing Committee

The underlying purpose of this letter is to convey certain observations and recommendations regarding state and federal compliance and internal control in conjunction with our audit of the Southeast Arkansas Education Service Cooperative. This letter reflects various requirements and pronouncements of the American Institute of Certified Public Accountants (AICPA), the United States General Accounting Office (GAO), the United States Office of Management and Budget (OMB), the Single Audit Act of 1984 and the Single Audit Act Amendments of 1996. Section I of this letter is designed to satisfy certain requirements for compliance and internal control over financial reporting, whereas, Section II is designed to satisfy certain requirements for compliance requirements applicable to each major federal award program and internal control over compliance in accordance with OMB Circular A-133.

SECTION I: REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER FINANCIAL REPORTING BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

We have audited the general purpose financial statements of the Southeast Arkansas Education Service Cooperative, as of and for the year ended June 30, 2002, and have issued our report thereon dated September 10, 2003. We conducted our audit in accordance with generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the Southeast Arkansas Education Service Cooperative's general purpose financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of the state constitution, state and federal laws and regulations, and federal contracts and grants, 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 that are required to be reported under *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Southeast Arkansas Education Service Cooperative internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the general purpose financial statements and not to provide assurance on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the Southeast Arkansas Education Service Cooperative's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are disclosed below in the Audit Findings section of this letter.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the general purpose financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, of the reportable conditions described above, we consider the finding below to be a material weakness. Other matters involving compliance and/or internal control were reported to Southeast Arkansas Education Service Cooperative's management in a separate letter.

AUDIT FINDING

Reportable Condition(s)

The Southeast Arkansas Education Service Cooperative had inadequate control over cash transactions because of insufficient segregation of duties due to a limited number of personnel.

SECTION II: REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR FEDERAL AWARD PROGRAM AND INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

Compliance

We have audited the compliance of the Southeast Arkansas Education Service Cooperative with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2002. The Southeast Arkansas Education Service Cooperative's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of Federal Award Programs - Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the Southeast Arkansas Education Service Cooperative's management. Our responsibility is to express an opinion on the Southeast Arkansas Education Service Cooperative's compliance based on our audit.

We conducted our audit of compliance in accordance with generally accepted auditing standards; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Southeast Arkansas Education Service 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. Our audit does not provide a legal determination on the Southeast Arkansas Education Service Cooperative's compliance with those requirements.

In our opinion, the Southeast Arkansas Education Service Cooperative complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2002.

Internal Control Over Compliance

The management of the Southeast Arkansas Education Service Cooperative is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the Southeast Arkansas Education Service Cooperative's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts and grants that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

These reports are intended for the information and use of the Legislative Joint Auditing Committee, state executive and oversight management, Southeast Arkansas Education Service Cooperative management, the federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specific parties. However, this report is a matter of public record and its distribution is not limited.

DIVISION OF LEGISLATIVE AUDIT



William R. Baum, CPA, CFE
Deputy Legislative Auditor

Little Rock, Arkansas
September 10, 2003

SOUTHEAST ARKANSAS EDUCATION SERVICE COOPERATIVE
 COMBINED BALANCE SHEET - GOVERNMENTAL AND FIDUCIARY FUND TYPES AND ACCOUNT GROUPS
 JUNE 30, 2002

Exhibit A

	Governmental Fund Types		Fiduciary	Account Groups		Totals
	General	Special Revenue	Trust and Agency	General Fixed Assets	General Long-Term Debt	(Memorandum Only)
ASSETS						
Cash	\$ 228,008	\$ 268,014	\$ 520			\$ 496,542
Investments	991,228					991,228
Deposit with paying agent	1,448					1,448
Accounts receivable		344,763				344,763
Due from other funds		4,825				4,825
Overpayment of payroll taxes	315					315
Land				\$ 7,000		7,000
Buildings				1,750,140		1,750,140
Equipment				966,695		966,695
Amount to be provided for retirement of general long-term debt					\$ 736,608	736,608
TOTAL ASSETS	\$ 1,220,999	\$ 617,602	\$ 520	\$ 2,723,835	\$ 736,608	\$ 5,299,564
LIABILITIES AND FUND EQUITY						
Liabilities:						
Accounts payable	\$ 2,445	\$ 3,500				\$ 5,945
Due employee groups			\$ 520			520
Due to other funds	4,825					4,825
Due to funding agency		72,139				72,139
Notes payable					\$ 78,175	78,175
Certificate of indebtedness					136,667	136,667
Bank loans payable					521,766	521,766
Total Liabilities	7,270	75,639	520		736,608	820,037

SOUTHEAST ARKANSAS EDUCATION SERVICE COOPERATIVE
 COMBINED BALANCE SHEET - GOVERNMENTAL AND FIDUCIARY FUND TYPES AND ACCOUNT GROUPS
 JUNE 30, 2002

Exhibit A

	Governmental Fund Types		Fiduciary Fund Types	Account Groups		Totals (Memorandum Only)
	General	Special Revenue	Trust and Agency	General Fixed Assets	General Long- Term Debt	
	<u>General</u>	<u>Special Revenue</u>	<u>Trust and Agency</u>	<u>General Fixed Assets</u>	<u>General Long- Term Debt</u>	
LIABILITIES AND FUND EQUITY (CONTINUED)						
Fund Equity:						
Investment in general fixed assets				\$ 2,723,835		\$ 2,723,835
Fund balances:						
Unreserved:						
Undesignated	\$ 1,213,729	\$ 541,963				1,755,692
Total Fund Equity	<u>1,213,729</u>	<u>541,963</u>		<u>2,723,835</u>		<u>4,479,527</u>
 TOTAL LIABILITIES AND FUND EQUITY	 <u>\$ 1,220,999</u>	 <u>\$ 617,602</u>	 <u>\$ 520</u>	 <u>\$ 2,723,835</u>	 <u>\$ 736,608</u>	 <u>\$ 5,299,564</u>

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

SOUTHEAST ARKANSAS EDUCATION SERVICE COOPERATIVE
 COMBINED STATEMENT OF REVENUES, EXPENDITURES AND
 CHANGES IN FUND BALANCES - GOVERNMENTAL FUND TYPES
 FOR THE YEAR ENDED JUNE 30, 2002

Exhibit B

	General	Special Revenue	Capital Projects	Totals (Memorandum Only)
REVENUES				
State assistance	\$ 2,841,727			\$ 2,841,727
Federal assistance		\$ 5,013,183		5,013,183
Interest on investments	92,975			92,975
Other revenues	1,900,597	147,610		2,048,207
 TOTAL REVENUES	4,835,299	5,160,793		9,996,092
 EXPENDITURES				
Regular programs	96,256			96,256
Special education	489,841	485,586		975,427
Workforce education	40,500	506,573		547,073
Adult education	319,782	1,351,997		1,671,779
Compensatory education	607,409	1,184,541		1,791,950
Other instructional programs	270,665			270,665
Support services	2,958,606	1,061,163		4,019,769
Community services	2,077	492,859		494,936
Capital outlay			\$ 818,985	818,985
Debt service:				
Principal retirement	45,354			45,354
Interest and fiscal charges	17,749			17,749
 TOTAL EXPENDITURES	4,848,239	5,082,719	818,985	10,749,943
 EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	(12,940)	78,074	(818,985)	(753,851)

SOUTHEAST ARKANSAS EDUCATION SERVICE COOPERATIVE
 COMBINED STATEMENT OF REVENUES, EXPENDITURES AND
 CHANGES IN FUND BALANCES - GOVERNMENTAL FUND TYPES
 FOR THE YEAR ENDED JUNE 30, 2002

Exhibit B

	General	Special Revenue	Capital Projects	Totals (Memorandum Only)
OTHER FINANCING SOURCES (USES)				
Transfers in			\$ 171,183	\$ 171,183
Transfers out	\$ (171,183)			(171,183)
Proceeds from bank loan			525,000	525,000
TOTAL OTHER FINANCING SOURCES (USES)	(171,183)		696,183	525,000
EXCESS OF REVENUES AND OTHER SOURCES OVER (UNDER) EXPENDITURES AND OTHER USES	(184,123)	\$ 78,074	(122,802)	(228,851)
FUND BALANCES - JULY 1	1,397,852	463,889	122,802	1,984,543
FUND BALANCES - JUNE 30	\$ 1,213,729	\$ 541,963	\$ 0	\$ 1,755,692

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

SOUTHEAST ARKANSAS EDUCATION SERVICE COOPERATIVE
 COMBINED STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN
 FUND BALANCES - BUDGET AND ACTUAL - GOVERNMENTAL FUND TYPES
 FOR THE YEAR ENDED JUNE 30, 2002

Exhibit C

	Budget	Actual	Variance Favorable (Unfavorable)
REVENUES			
State assistance	\$ 2,725,000	\$ 2,841,727	\$ 116,727
Federal assistance	5,000,500	5,013,183	12,683
Interest on investments	20,000	92,975	72,975
Other revenues	975,000	2,048,207	1,073,207
 TOTAL REVENUES	 8,720,500	 9,996,092	 1,275,592
EXPENDITURES			
Regular programs	1,015,500	96,256	919,244
Special education	920,000	975,427	(55,427)
Workforce education	655,000	547,073	107,927
Adult education	1,080,000	1,671,779	(591,779)
Compensatory education	1,785,000	1,791,950	(6,950)
Other instructional programs	150,000	270,665	(120,665)
Support services	3,950,000	4,019,769	(69,769)
Community services	170,000	494,936	(324,936)
Capital outlay		818,985	(818,985)
Debt service:			
Principal retirement	125,000	45,354	79,646
Interest and fiscal charges	45,000	17,749	27,251
 TOTAL EXPENDITURES	 9,895,500	 10,749,943	 (854,443)
 EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	 (1,175,000)	 (753,851)	 421,149
OTHER FINANCING SOURCES (USES)			
Transfers in		171,183	171,183
Transfers out		(171,183)	(171,183)
Proceeds from bank loan	850,000	525,000	(325,000)
 TOTAL OTHER FINANCING SOURCES (USES)	 850,000	 525,000	 (325,000)
 EXCESS OF REVENUES AND OTHER SOURCES OVER (UNDER) EXPENDITURES AND OTHER USES	 (325,000)	 (228,851)	 96,149
 FUND BALANCES - JULY 1	 1,965,000	 1,984,543	 19,543
 FUND BALANCES - JUNE 30	 \$ 1,640,000	 \$ 1,755,692	 \$ 115,692

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

SOUTHEAST ARKANSAS EDUCATION SERVICE COOPERATIVE
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2002

NOTE 1: Summary of Significant Accounting Policies

A. Reporting Entity

The Board of Directors, a twenty-one (21) member group, is the level of government which has responsibilities over all activities within the jurisdiction of the Southeast Arkansas Education Service Cooperative. The Cooperative serves Arkansas, Ashley, Bradley, Chicot, Cleveland, Desha, Drew and Lincoln Counties. The Cooperative's financial statements reflect all funds and accounts directly under the control of the Cooperative. There are no component units.

B. Basis of Presentation - Fund Accounting

The accounts are maintained in accordance with the principles of fund accounting. 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. Account groups are used to establish accounting control and accountability for general fixed assets and general long-term debt. The following types of funds and account groups are recognized in the accompanying financial statements, if applicable:

Governmental Funds

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

Special Revenue Funds - Special Revenue Funds are used to account for the proceeds of specific revenue sources (other than major capital projects) that are legally restricted to expenditures for specific purposes.

Capital Projects Funds - Capital Projects Funds are used to account for financial resources to be used for the acquisition or construction of major capital facilities.

Fiduciary Funds

Trust and Agency Funds - Trust and Agency Funds are used to account for assets held by the entity in a trustee capacity or as an agent for individuals, other governmental units, and other funds.

Account Groups

General Fixed Assets - to account for all fixed assets of the entity.

General Long-term Debt - to account for all long-term debt of the entity.

C. Basis of Accounting

All governmental funds are accounted for using the modified accrual basis of accounting. Revenues are recognized when measurable and available. Available means collectible within the current period or soon enough thereafter to pay current liabilities. Expenditures are generally recognized when the related fund liability is incurred. Exceptions include: (1) unmatured principal and interest on general long-term debt which is recognized when due; and (2) prepaid expenses, which are not recorded.

D. General Fixed Assets

General fixed assets purchased are recorded as expenditures in the applicable fund at the time of purchase. Such assets are reported at cost or estimated historical cost, if actual data is not available, in the general fixed assets account group. Donated fixed assets are reported at fair market value when received in the general fixed assets account group. Library holdings and textbooks are not capitalized. In accordance with generally accepted accounting principles applicable to governmental entities, no provision for depreciation is reported. Interest costs incurred during the period of construction were not capitalized.

SOUTHEAST ARKANSAS EDUCATION SERVICE COOPERATIVE
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2002

NOTE 1: Summary of Significant Accounting Policies (Continued)

E. Investments

Investments consist of certificates of deposit classified as nonparticipating contracts and are reported at cost.

F. Inventories

Inventories are considered expenditures when purchased.

G. Interfund Receivables and Payables

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

H. Liability for Compensated Absences

The accompanying financial statements do not include a liability for compensated absences as the amount is not material.

I. Fund Equity

Undesignated fund balance indicates that portion of fund equity not reserved or designated.

J. 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 State Department of Education's regulations allow for the cash basis or the modified accrual basis. However, the majority of cooperatives employ the cash basis method.

K. Encumbrances

Encumbrances are defined as commitments related to unperformed contracts for goods or services. The Cooperative does not record encumbrances in its accounting system and none are reported in the accompanying financial statements.

NOTE 2: Budget Versus Actual

On-behalf payments as described at Note 9 are nonbudgeted financial data for the year ended June 30, 2002. Such payments are recorded as actual revenues and expenditures in the Combined Statement of Revenues, Expenditures and Changes in Fund Balances – Budget and Actual – Governmental Fund Types (Exhibit C).

NOTE 3: Public Fund Deposits

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)	\$ 104,476	\$ 104,476
Uninsured, Collateralized	391,966	1,076,729
Total Deposits	\$ 496,442	\$ 1,181,205

SOUTHEAST ARKANSAS EDUCATION SERVICE COOPERATIVE
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2002

NOTE 3: Public Fund Deposits (Continued)

The above total deposits do not include cash on hand in the amount of \$100.

NOTE 4: Public Fund Investments

The Cooperative's investments are categorized to give an indication of the level of risk assured by the Cooperative at year-end. Category 1 includes investments that are insured or registered or for which the securities are held by the Cooperative or its agent in the Cooperative's name. Category 2 includes uninsured and unregistered investments for which the securities are held by the broker's or dealer's trust department or agent in the Cooperative's name. Category 3 includes uninsured and unregistered investments for which the securities are held by the broker or dealer, or by its trust department or agent but not in the Cooperative's name.

Type of Investment	Category			Carrying Amount	Market Value
	1	2	3		
Certificate of deposit	\$ 991,228	\$ 0	\$ 0	\$ 991,228	\$ 991,228

NOTE 5: Changes in General Fixed Assets

	Balance July 1, 2001	Additions	Deletions	Reclassi- fications	Balance June 30, 2002
Land	\$ 7,000				\$ 7,000
Buildings	889,957			\$ 860,183	1,750,140
Equipment	882,775	\$ 144,945	\$ 61,025		966,695
Construction in progress	41,198	818,985		(860,183)	
Totals	<u>\$ 1,820,930</u>	<u>\$ 963,930</u>	<u>\$ 61,025</u>	<u>\$ 0</u>	<u>\$ 2,723,835</u>

NOTE 6: 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, 2002	Maturities To June 30, 2002
5/1/1997	4/1/2007	3%	\$ 150,000	\$ 78,175	\$ 71,825
2/20/2001	11/1/2006	5.85%	164,000	136,667	27,333
4/29/2002	4/29/2005	7.25%	525,000	521,766	3,234
Totals			<u>\$ 839,000</u>	<u>\$ 736,608</u>	<u>\$ 102,392</u>

SOUTHEAST ARKANSAS EDUCATION SERVICE COOPERATIVE
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2002

NOTE 7: Changes in Long-term Debt

	Balance July 1, 2001	Issued	Retired	Balance June 30, 2002
Notes payable	\$ 92,962		\$ 14,787	\$ 78,175
Certificate of indebtedness	164,000		27,333	136,667
Bank loans payable		\$ 525,000	3,234	521,766
Totals	\$ 256,962	\$ 525,000	\$ 45,354	\$ 736,608

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

Year Ended June 30,	Principal	Interest	Total
2003	\$ 62,931	\$ 15,699	\$ 78,630
2004	64,866	44,462	109,328
2005	523,086	33,592	556,678
2006	44,008	3,111	47,119
2007	41,717	1,007	42,724
Totals	\$ 736,608	\$ 97,871	\$ 834,479

NOTE 8: 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. ATRS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Benefit and contribution 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 non-contributory plans. Contributory members are required by law to contribute 6% of their salary. Each participating employer is required by law to contribute at a rate established by the Arkansas General Assembly. The current employer rate is 12%. The employer contribution was paid by the 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 employer contribution for nonfederal funded members was the lesser of the result of multiplying the applicable percent of active member payroll for the fiscal year by the total covered salaries of the previous fiscal year, including any prior year reported salaries, or the amount appropriated by the Arkansas General Assembly. The Department of Education determines the amount funded. The Department of Education's contributions to ATRS for the Cooperative during the years ended June 30, 2002, 2001 and 2000 were \$264,224, \$264,732 and \$234,419, respectively. The Cooperative's contributions to ATRS for federally funded employees for the years ended June 30, 2002, 2001 and 2000 were \$78,565, \$75,088 and \$57,174, respectively, equal to the required contributions for each year.

SOUTHEAST ARKANSAS EDUCATION SERVICE COOPERATIVE
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2002

NOTE 9: On-Behalf Payments

The accompanying financial statements reflect on-behalf payments for health insurance premiums paid by the Arkansas Department of Education in the amount of \$87,970. Additionally, these financial statements include on-behalf payments for retirement matching paid to the Arkansas Teacher Retirement System by the Arkansas Department of Education totaling \$264,224.

SOUTHEAST ARKANSAS EDUCATION SERVICE COOPERATIVE
EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2002

Schedule 1

Federal Grantor/Pass-Through Grantor/Program or Cluster Title	Federal CFDA Number	Agency or Pass-Through Number	Federal Expenditures
SPECIAL EDUCATION CLUSTER			
<u>U. S. Department of Education</u>			
Passed Through State Department of Education:			
Special Education - Grants to States	84.027	22-20	\$ 281,416
Special Education - Preschool Grants	84.173	22-20	<u>502,136</u>
TOTAL SPECIAL EDUCATION CLUSTER			<u>783,552</u>
OTHER PROGRAMS			
<u>U. S. Department of Education</u>			
Passed Through State Department of Education:			
Title I Grants to Local Educational Agencies	84.010	22-20	1,106
Vocational Education - Basic Grants to States	84.048	22-20	506,573
Even Start - Statewide Family Literacy Program	84.314	22-20	146,881
Eisenhower Professional Development - Federal Activities	84.168	22-20	166,601
Technology Literacy Challenge Funds Grants	84.318	22-20	91,533
Goals 2000 - State and Local Educational Systemic Improvement Grants	84.276	22-20	2,995
Adult Education - State Grant Program	84.002	22-20	1,367,168
Bilingual Education Support Services	84.194	22-20	28,994
National Institute for Literacy	84.257	22-20	47,982
Total U. S. Department of Education			<u>2,359,833</u>
<u>U. S. Department of Health and Human Services</u>			
Passed Through State Department of Human Services:			
Centers for Disease Control and Prevention - Investigations and Technical Assistance	93.283	22-20	2,839
Child Care Mandatory and Matching Funds of the Child Care and Development Fund	93.596	22-20	<u>26,118</u>
Total U. S. Department of Education			<u>28,957</u>
<u>Corporation for National and Community Service</u>			
Foster Grandparent Program	94.011	Note 2	411,133
Passed Through State Department of Human Services:			
AmeriCorps	94.006	94ASCAR0040301	1,184,192
Total Corporation for National and Community Service			<u>1,595,325</u>
<u>U. S. Department of Agriculture</u>			
Distance Learning and Telemedicine Loans and Grants	10.855	Note 2	<u>182,543</u>
TOTAL OTHER PROGRAMS			<u>4,166,658</u>
TOTAL EXPENDITURES OF FEDERAL AWARDS			<u>\$ 4,950,210</u>

SOUTHEAST ARKANSAS EDUCATION SERVICE COOPERATIVE
EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2002

Schedule 1

NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

- Note 1: Basis of Presentation - The accompanying schedule of expenditures of federal awards includes the federal grant activity of the Southeast Arkansas Education Service Cooperative and is presented on the modified accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the presentation of, the basic financial statements.
- Note 2: The Federal CFDA Number or other identifying number was not available.

SOUTHEAST ARKANSAS EDUCATION SERVICE COOPERATIVE
 FEDERAL AWARD PROGRAMS -
 FINDINGS AND QUESTIONED COSTS
 FOR THE YEAR ENDED JUNE 30, 2002

Schedule 2

SECTION I - SUMMARY OF AUDITOR'S RESULTS

FINANCIAL STATEMENTS

Type of auditor's report issued: Unqualified

Internal control over financial reporting:

- Material weakness(es) identified? Yes No
- Reportable condition(s) identified that are not considered to be material weakness(es)? Yes None noted

Noncompliance material to financial statements noted? Yes No

FEDERAL AWARDS

Internal control over major programs:

- Material weakness(es) identified? Yes No
- Reportable condition(s) identified that are not considered to be material weakness(es)? Yes None noted

Type of auditor's report issued on compliance for major programs: Unqualified

Any audit findings disclosed that are required to be reported in accordance with Section 510(a) of Circular A-133? Yes No

Identification of major programs:

CFDA Numbers	Name of Federal Program or Cluster
84.027/84.173	Special Education Cluster
84.048	Vocational Education - Basic Grants to States
94.006	AmeriCorps
94.011	Foster Grandparent Program
84.002	Adult Education - State Grant Program

Dollar threshold used to distinguish between Type A and Type B programs \$ 300,000

Auditee qualified as low-risk auditee? Yes No

SOUTHEAST ARKANSAS EDUCATION SERVICE COOPERATIVE
FEDERAL AWARD PROGRAMS -
FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2002

Schedule 2

SECTION II - FINANCIAL STATEMENT FINDINGS

REPORTABLE CONDITIONS

2002-1. Segregation of Duties

Specific Requirement - Duties pertaining to cash transactions should be adequately segregated to reduce the opportunities for any individual in the normal course of his/her duties to both perpetuate and conceal errors or irregularities.

Condition - Duties pertaining to cash transactions were not adequately segregated. This condition could be applicable to the Cooperative's federal programs.

Effect - The Cooperative had inadequate control over cash transactions.

Cause - Duties pertaining to cash transactions were not adequately segregated due to a limited number of personnel.

Recommendation - Segregation of duties relating to cash transactions should be established to the extent possible.

Response - We concur with the recommendation.

SECTION III - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

No findings and questioned costs noted.

SOUTHEAST ARKANSAS EDUCATION SERVICE COOPERATIVE
FEDERAL AWARD PROGRAMS -
SUMMARY OF PRIOR AUDIT FINDINGS
FOR THE YEAR ENDED JUNE 30, 2002

Schedule 3

There were no findings in the prior audit.