

# **Southeast Arkansas Education Service Cooperative**

## **Regulatory Basis Financial Statements and Other Reports**

**June 30, 2005**

LEGISLATIVE JOINT AUDITING COMMITTEE

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Sen. Henry "Hank" Wilkins, IV  
Senate Co-Chair  
Rep. Tommy G. Roebuck  
House Co-Chair  
Sen. Randy Laverty  
Senate Co-Vice Chair  
Rep. Sandra Prater  
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  
Legislative Joint Auditing Committee

We have audited the accompanying financial statements of each major governmental fund and the aggregate remaining fund information of the Southeast Arkansas Education Service Cooperative (the "Cooperative"), as of and for the year ended June 30, 2005, 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 the financial statements using accounting practices prescribed or permitted by Arkansas Code, which differ from accounting principles generally accepted in the United States of America. The effects 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 determined, 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 above 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, 2005, or the changes in financial position for the year then ended.

In our opinion, the financial statements referred to above 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, 2005, 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 July 20, 2006 on our consideration of the Cooperative's internal control over financial reporting and 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), Expenditures of Federal Awards (Schedule 2), as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, Federal Award Programs – Findings and Questioned Costs (Schedule 3) and Federal Award Programs – Summary of Prior Audit Findings (Schedule 4) are presented for purposes of additional analysis and are not a required part of the regulatory basis financial statements. The Expenditures of Federal Awards (Schedule 2), Federal Award Programs – Findings and Questioned Costs (Schedule 3) and Federal Award Programs – Summary of Prior Audit Findings (Schedule 4) have been subjected to the auditing procedures applied in the audit of the regulatory basis financial statements and, in our opinion, are fairly stated in all material respects in relation to the regulatory basis financial statements taken as a whole. The Schedule of Capital Assets (Schedule 1) has not been subjected to the auditing procedures applied in the audit of the regulatory basis financial statements and, accordingly, we express no opinion on it.

DIVISION OF LEGISLATIVE AUDIT

Handwritten signature of Charles L. Robinson in black ink.

Charles L. Robinson, CPA, CFE  
Legislative Auditor

Little Rock, Arkansas  
July 20, 2006  
EDSC01505

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

# Arkansas



Charles L. Robinson, 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*

Southeast Arkansas Education Service Cooperative  
Legislative Joint Auditing Committee

We have audited the financial statements of each major governmental fund and the aggregate remaining fund information of the Southeast Arkansas Education Service Cooperative (the "Cooperative"), as of and for the year ended June 30, 2005, which collectively comprise the Cooperative's regulatory basis financial statements, and have issued our report thereon dated July 20, 2006. 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. 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 effects 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 determined, 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, 2005, and the respective changes in financial position and budgetary results 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, we considered the Cooperative's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the regulatory basis financial statements and not to provide an opinion 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 Cooperative's ability to initiate, record, process, and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are disclosed in the accompanying schedule of Federal Award Programs - Findings and Questioned Costs as item 2005-1.

A material weakness is a reportable 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 caused by error or fraud in amounts that would be material in relation to the regulatory basis 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 finding number 2005-1 in the accompanying schedule of Federal Award Programs - Findings and Questioned Costs 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 of material misstatement, we performed tests of its compliance with certain provisions of the state constitution, state and federal laws and regulations, and 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*.

These reports are intended solely for the information and use of the Legislative Joint Auditing Committee, the Cooperative board and management, state executive and oversight management, federal regulatory and oversight bodies, the federal awarding agencies and pass-through entities, and other parties as required by Arkansas Code, and are 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



William R. Baum, CPA, CFE  
Deputy Legislative Auditor

Little Rock, Arkansas  
July 20, 2006

Sen. Henry "Hank" Wilkins, IV  
Senate Co-Chair  
Rep. Tommy G. Roebuck  
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# Arkansas



Charles L. Robinson, CPA, CFE  
Legislative Auditor

## LEGISLATIVE JOINT AUDITING COMMITTEE DIVISION OF LEGISLATIVE AUDIT

### REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

Southeast Arkansas Education Service Cooperative  
Legislative Joint Auditing Committee

#### Compliance

We have audited the compliance of the Southeast Arkansas Education Service Cooperative (the "Cooperative") with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2005. The 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 grant agreements applicable to each of its major federal programs is the responsibility of the Cooperative's management. Our responsibility is to express an opinion on the Cooperative's compliance based on our audit.

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 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 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 Cooperative's compliance with those requirements.

In our opinion, the 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, 2005.

#### Internal Control Over Compliance

The management of the Cooperative is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the 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 reportable 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 caused by error or fraud 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 solely for the information and use of the Legislative Joint Auditing Committee, the Cooperative board and management, state executive and oversight management, federal regulatory and oversight bodies, the federal awarding agencies and pass-through entities, and other parties as required by Arkansas Code, and are 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

*William R. Baum*

William R. Baum, CPA, CFE  
Deputy Legislative Auditor

Little Rock, Arkansas  
July 20, 2006

SOUTHEAST ARKANSAS EDUCATION SERVICE COOPERATIVE  
BALANCE SHEET - REGULATORY BASIS  
JUNE 30, 2005

Exhibit A

	Governmental Funds		
	Major		Fiduciary Fund Types
	General	Special Revenue	
<b>ASSETS</b>			
Cash	\$ 1,936,952	\$ 148,043	\$ 1,812
Accounts receivable		186,113	
Deposit with paying agent	1,448		
Prepaid assets		156	
<b>TOTAL ASSETS</b>	<b>\$ 1,938,400</b>	<b>\$ 334,312</b>	<b>\$ 1,812</b>
<b>LIABILITIES AND FUND BALANCES</b>			
Liabilities:			
Accounts payable	\$ 10,469	\$ 14,362	
Due to employee groups			\$ 1,812
<b>Total Liabilities</b>	<b>10,469</b>	<b>14,362</b>	<b>1,812</b>
Fund Balances:			
Unreserved:			
Undesignated	1,927,931	319,950	
<b>Total Fund Balances</b>	<b>1,927,931</b>	<b>319,950</b>	
<b>TOTAL LIABILITIES AND FUND BALANCES</b>	<b>\$ 1,938,400</b>	<b>\$ 334,312</b>	<b>\$ 1,812</b>

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



SOUTHEAST ARKANSAS EDUCATION SERVICE COOPERATIVE  
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES -  
GOVERNMENTAL FUNDS - REGULATORY BASIS  
FOR THE YEAR ENDED JUNE 30, 2005

Exhibit B

	Major	
	General	Special Revenue
REVENUES		
State assistance	\$ 4,596,682	
Federal assistance		\$ 4,076,612
Investment income	78,307	
Other revenues	1,846,997	280,101
 TOTAL REVENUES	6,521,986	4,356,713
EXPENDITURES		
Regular programs	76,339	
Special education	757,711	505,740
Workforce education	56,824	433,708
Adult/continuing education program	393,403	947,342
Compensatory education	1,022,278	8,982
Other instructional programs	270,277	513,683
Student support services	653,512	166,194
Instructional staff support services	1,829,615	987,185
General administration support services	179,408	
Business support services	174,162	
Operation and maintenance of plant services	101,684	
Student transportation services	14,503	39,407
Central support services	125,389	15,832
Other support services	3,255	18,109
Community services	47,135	574,724
Capital outlay	62,177	74,207
Debt service:		
Principal retirement	162,584	
Interest and fiscal charges	8,525	
 TOTAL EXPENDITURES	5,938,781	4,285,113
 EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	583,205	71,600
OTHER FINANCING SOURCES (USES)		
Transfers in		973
Transfers out	(973)	
Refund to grantor		(13,656)
 TOTAL OTHER FINANCING SOURCES (USES)	(973)	(12,683)
 EXCESS OF REVENUES AND OTHER SOURCES OVER (UNDER) EXPENDITURES AND OTHER USES	582,232	58,917
 FUND BALANCES - JULY 1	1,345,699	261,033
 FUND BALANCES - JUNE 30	\$ 1,927,931	\$ 319,950

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

SOUTHEAST ARKANSAS 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, 2005

Exhibit C

	General			Special Revenue		
	Budget	Actual	Variance Favorable (Unfavorable)	Budget	Actual	Variance Favorable (Unfavorable)
REVENUES						
State assistance	\$ 2,827,020	\$ 4,596,682	\$ 1,769,662			
Federal assistance				\$ 3,612,827	\$ 4,076,612	\$ 463,785
Activity revenues	4,000		(4,000)			
Investment income	41,500	78,307	36,807			
Other revenues	1,887,582	1,846,997	(40,585)	182,855	280,101	97,246
<b>TOTAL REVENUES</b>	<b>4,760,102</b>	<b>6,521,986</b>	<b>1,761,884</b>	<b>3,795,682</b>	<b>4,356,713</b>	<b>561,031</b>
EXPENDITURES						
Regular programs	70,683	76,339	(5,656)			
Special education	595,114	757,711	(162,597)	513,256	505,740	7,516
Workforce education	47,500	56,824	(9,324)	151,412	433,708	(282,296)
Adult/continuing education program	406,613	393,403	13,210	239,413	947,342	(707,929)
Compensatory education	1,011,750	1,022,278	(10,528)	18,000	8,982	9,018
Other instructional programs	340,954	270,277	70,677	990,590	513,683	476,907
Student support services	463,453	653,512	(190,059)	183,436	166,194	17,242
Instructional staff support services	1,129,673	1,829,615	(699,942)	684,726	987,185	(302,459)
General administration support services	157,472	179,408	(21,936)			
Business support services	183,717	174,162	9,555			
Operation and maintenance of plant services	98,047	101,684	(3,637)	40,770		40,770
Student transportation services	7,654	14,503	(6,849)		39,407	(39,407)
Central support services	103,550	125,389	(21,839)	6,000	15,832	(9,832)
Other support services		3,255	(3,255)	19,208	18,109	1,099
Community services	28,125	47,135	(19,010)	546,250	574,724	(28,474)
Non-programmed costs	153,104					
Capital outlay	77,465	62,177	15,288	314,600	74,207	240,393
Debt service:						
Principal retirement		162,584	(162,584)			
Interest and fiscal charges		8,525	(8,525)			
<b>TOTAL EXPENDITURES</b>	<b>4,874,874</b>	<b>5,938,781</b>	<b>(1,063,907)</b>	<b>3,707,661</b>	<b>4,285,113</b>	<b>(577,452)</b>

SOUTHEAST ARKANSAS 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, 2005

Exhibit C

	General			Special Revenue		
	Budget	Actual	Variance Favorable (Unfavorable)	Budget	Actual	Variance Favorable (Unfavorable)
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	\$ (114,772)	\$ 583,205	\$ 697,977	\$ 88,021	\$ 71,600	\$ (16,421)
OTHER FINANCING SOURCES (USES)						
Transfers in					973	973
Transfers out		(973)	(973)			
Refund to grantor					(13,656)	(13,656)
TOTAL OTHER FINANCING SOURCES (USES)		(973)	(973)		(12,683)	(12,683)
EXCESS OF REVENUES AND OTHER SOURCES OVER (UNDER) EXPENDITURES AND OTHER USES	(114,772)	582,232	697,004	88,021	58,917	(29,104)
FUND BALANCES - JULY 1	1,345,496	1,345,699	203	58,422	261,033	202,611
FUND BALANCES - JUNE 30	\$ 1,230,724	\$ 1,927,931	\$ 697,207	\$ 146,443	\$ 319,950	\$ 173,507

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

SOUTHEAST ARKANSAS EDUCATION SERVICE COOPERATIVE  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2005

**1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

A. Reporting Entity

The Board of Directors, a thirteen (13) 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. 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).

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.

SOUTHEAST ARKANSAS EDUCATION SERVICE COOPERATIVE  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2005

**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
Improvements/infrastructure	20
Buildings	50
Equipment	5-20

F. Fund Balance Designations

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

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.

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.

SOUTHEAST ARKANSAS EDUCATION SERVICE COOPERATIVE  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2005

**1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

G. Budget and Budgetary Accounting (Continued)

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.

On-behalf payments as described at Note 8 are nonbudgeted financial data for the year ended June 30, 2005. Such payments are recorded as actual revenues and expenditures in the Statement of Revenues, Expenditures and Changes in Fund Balances – Budget and Actual – General and Special Revenue Funds – Regulatory Basis (Exhibit C).

**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)	\$ 104,680	\$ 104,680
Collateralized:		
Collateral held by the pledging bank or pledging bank's trust department in the Cooperative's name	1,982,027	3,098,543
Total Deposits	\$ 2,086,707	\$ 3,203,223

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

**3: RECEIVABLES**

The receivables of \$186,113 at June 30, 2005 are as follows:

Class of Receivable	Special Revenue Fund
Grants:	
Federal	\$ 166,851
Accounts	19,262
Total	\$ 186,113

SOUTHEAST ARKANSAS EDUCATION SERVICE COOPERATIVE  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2005

**4: COMMITMENTS**

The Cooperative was contractually obligated for the following at June 30, 2005:

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, 2005	Maturities To June 30, 2005
5/1/1997	4/1/2007	3.00%	\$ 150,000	\$ 31,032	\$ 118,968
2/20/2001	11/1/2006	5.85%	164,000	54,668	109,332
4/1/2004	4/1/2007	9.18%	18,622	10,986	7,636
4/1/2004	4/1/2007	5.99%	27,127	17,281	9,846
Totals			<u>\$ 359,749</u>	<u>\$ 113,967</u>	<u>\$ 245,782</u>

Changes in Long-term Debt

	Balance July 1, 2004	Retired	Balance June 30, 2005
Notes payable	\$ 47,214	\$ 16,181	\$ 31,033
Certificates of indebtedness	82,001	27,333	54,668
Capital leases	44,360 *	16,094	28,266
Bank loan payables	102,976	102,976	
Totals	<u>\$ 276,551</u>	<u>\$ 162,584</u>	<u>\$ 113,967</u>

\* The capital leases beginning balance was restated by \$44,360 due to an error in the prior year.

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

Year Ended June 30,	Principal	Interest	Total
2006	\$ 59,692	\$ 4,684	\$ 64,376
2007	54,275	1,416	55,691
Totals	<u>\$ 113,967</u>	<u>\$ 6,100</u>	<u>\$ 120,067</u>

SOUTHEAST ARKANSAS EDUCATION SERVICE COOPERATIVE  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2005

**4: COMMITMENTS (Continued)**

Capital Leases

The Cooperative has executed the following capital leases:

Class of Property	Asset Balance June 30, 2005
Telephone System	\$ 18,622
Telephone System	27,127
Total	\$ 45,749
<u>June 30, 2005</u>	
Total Minimum Lease Payments	\$ 30,248
Less: Amount Representing Interest	1,982
Total Present Value of Net Minimum Lease Payments	\$ 28,266

**5: ACCOUNTS PAYABLE**

The payables of \$24,831 at June 30, 2005 are as follows:

	General Fund	Special Revenue Fund	Total
Accounts	\$ 10,469	\$ 14,362	\$ 24,831

**6: INTERFUND TRANSFERS**

The Statement of Revenues, Expenditures, and Changes in Fund Balances – Governmental Funds – Regulatory Basis (Exhibit B) reflects a transfer of \$973 from Operating Fund to Special Revenue Fund to reimburse the Twenty-First Century Community Learning Centers Program for prior year expenditures.

**7: RETIREMENT PLANS**

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 prior to July 1, 1989. 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.



SOUTHEAST ARKANSAS EDUCATION SERVICE COOPERATIVE  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2005

**7: RETIREMENT PLANS (Continued)**

Arkansas Teacher Retirement System (Continued)

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 14%. 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, 2005, 2004 and 2003 were \$395,047, \$315,784 and \$277,028, respectively. The Cooperative's contributions to ATRS for federally funded employees for the years ended June 30, 2005, 2004 and 2003 were \$126,192, \$138,062 and \$117,751, respectively, equal to the required contributions for each year.

**8: 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 \$116,096. 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 \$395,047.

SOUTHEAST ARKANSAS EDUCATION SERVICE COOPERATIVE  
SCHEDULE OF CAPITAL ASSETS  
FOR THE YEAR ENDED JUNE 30, 2005

Schedule 1

	Balance July 1, 2004	Additions	Deletions	Prior Year Adjustments	Balance June 30, 2005
<i>Nondepreciable capital assets:</i>					
Land	\$ 7,000				\$ 7,000
<i>Depreciable capital assets:</i>					
Buildings	1,750,140				1,750,140
Equipment	1,163,235	\$ 141,506	\$ 75,031	\$ (8,636)	1,221,074
Total depreciable capital assets	<u>2,913,375</u>	<u>141,506</u>	<u>75,031</u>	<u>(8,636)</u>	<u>2,971,214</u>
Less accumulated depreciation for:					
Buildings	236,473	35,523			271,996
Equipment	691,336	118,815	63,414	3,097	749,834
Total accumulated depreciation	<u>927,809</u>	<u>154,338</u>	<u>63,414</u>	<u>3,097</u>	<u>1,021,830</u>
Total depreciable capital assets, net	<u>1,985,566</u>	<u>(12,832)</u>	<u>11,617</u>	<u>(11,733)</u>	<u>1,949,384</u>
Capital assets, net	<u>\$ 1,992,566</u>	<u>\$ (12,832)</u>	<u>\$ 11,617</u>	<u>\$ (11,733)</u>	<u>\$ 1,956,384</u>

Note: Prior year adjustments include \$8,636 of prior year deletions that were not correctly deleted and \$3,097 of prior year additions not properly depreciated.

SOUTHEAST ARKANSAS EDUCATION SERVICE COOPERATIVE  
EXPENDITURES OF FEDERAL AWARDS  
FOR THE YEAR ENDED JUNE 30, 2005

Schedule 2

Federal Grantor/Pass-Through Grantor/Program or Cluster Title	Federal CFDA Number	Agency or Pass-Through Number	Federal Expenditures
<b>SPECIAL EDUCATION CLUSTER</b>			
<u>U.S. Department of Education</u>			
Passed Through State Department of Education:			
Special Education - Grants to States	84.027	22-20	\$ 413,350
Special Education - Preschool Grants	84.173	22-20	<u>380,290</u>
TOTAL SPECIAL EDUCATION CLUSTER			<u>793,640</u>
<b>OTHER PROGRAMS</b>			
<u>U. S. Department of Education</u>			
Passed Through State Department of Education:			
Adult Education - State Grant Program	84.002	22-20	1,500,674
Vocational Education - Basic Grants to States	84.048	22-20	435,483
Migrant Education - Coordination Program	84.144	22-20	16,560
Twenty-First Century Community Learning Centers	84.287	22-20	28,091
Even Start - Statewide Family Literacy Program	84.314	22-20	4,364
Reading First State Grants	84.357	22-20	186,057
English Language Acquisition Grants	84.365	22-20	165,361
Passed Through State of Washington			
Links Grant	84.UNKNOWN	Note 2	<u>62,909</u>
Total U. S. Department of Education			<u>2,399,499</u>
<u>U.S. Department of Health and Human Services</u>			
Passed Through State Department of Human Services:			
Child Care Mandatory and Matching Funds of the Child Care and Development Fund	93.596	22-20	<u>55,160</u>
<u>Corporation for National and Community Service</u>			
Foster Grandparent Program	94.011		443,144
Passed Through State Department of Human Services:			
AmeriCorps	94.006	94ASCAR0040301	<u>513,683</u>
Total Corporation for National and Community Service			<u>956,827</u>
TOTAL OTHER PROGRAMS			<u>3,411,486</u>
TOTAL EXPENDITURES OF FEDERAL AWARDS			<u>\$ 4,205,126</u>

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 Southeast Arkansas Education Service Cooperative and is presented on the regulatory 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, 2005

Schedule 3

**SECTION II - FINANCIAL STATEMENT FINDINGS**

REPORTABLE CONDITIONS

2005-1. Segregation of Duties

Criteria: Financial accounting duties should be distributed among appropriate employees to ensure the proper safeguarding of assets.

Condition: The Cooperative does not have adequate staff to segregate financial accounting duties among appropriate employees.

Context: Completion of internal control questionnaire

Effect: Financial accounting duties are not distributed among the Cooperative's employees to sufficiently reduce the risks of fraud or error and to properly safeguard the Cooperative's assets.

Cause: Limited financial resources hinder the Cooperative's ability to adequately segregate financial accounting duties among employees.

Recommendation: To ensure the proper safeguarding of the Cooperative's assets, financial accounting duties should be distributed among appropriate employees.

Views of responsible officials and planned corrective actions: 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, 2005

Schedule 4

There were no findings in the prior audit.