

Southeast Arkansas Education Service Cooperative

Regulatory Basis Financial Statements and Other Reports

June 30, 2006

LEGISLATIVE JOINT AUDITING COMMITTEE



SOUTHEAST ARKANSAS EDUCATION SERVICE COOPERATIVE
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Sen. Randy Laverty
Senate Co-Chair
Rep. J R Rogers
House Co-Chair
Sen. Bobby L. Glover
Senate Co-Vice Chair
Rep. Johnny Hoyt
House Co-Vice Chair

Arkansas



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

LEGISLATIVE JOINT AUDITING COMMITTEE DIVISION OF LEGISLATIVE AUDIT

INDEPENDENT AUDITOR'S REPORT

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, 2006, as listed in the table of contents. These financial statements are the responsibility of Cooperative management. Our responsibility is to express opinions on these financial statements based on our audit.

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

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

In our opinion, because of the effects of the matter discussed in the preceding paragraph, the financial statements referred to 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, 2006, or the changes in financial position thereof for the year then ended. Further, the Cooperative has not presented a management's discussion and analysis that accounting principles generally accepted in the United States has determined is necessary to supplement, although not required to be part of, the basic financial statements.

In our opinion, the financial statements referred to 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, 2006, 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 September 5, 2007 on our consideration of the Cooperative's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Cooperative's regulatory basis financial statements. The Schedule of Capital Assets (Schedule 1), 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



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

Little Rock, Arkansas
September 5, 2007
EDSC01506

Sen. Randy Laverty
Senate Co-Chair
Rep. J R Rogers
House Co-Chair
Sen. Bobby L. Glover
Senate Co-Vice Chair
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House Co-Vice Chair

Arkansas



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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, 2006, which collectively comprise the Cooperative's regulatory basis financial statements, and have issued our report thereon dated September 5, 2007. 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. 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. The effect on the financial statements of the variances between these regulatory accounting practices and accounting principles generally accepted in the United States of America, although not reasonably determinable, are presumed to be material. However, the financial statements present fairly, in all material respects, the respective financial position of each major governmental fund and the aggregate remaining fund information of the Cooperative as of June 30, 2006, 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 opinion 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 2006-1.

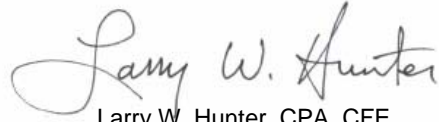
A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the regulatory basis financial 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 item 2006-1 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, 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

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

Larry W. Hunter, CPA, CFE
Deputy Legislative Auditor

Little Rock, Arkansas
September 5, 2007

Sen. Randy Laverty
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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, 2006. 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 of 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, 2006.

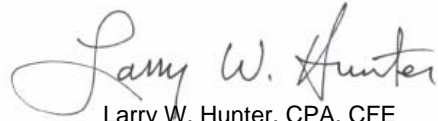
Internal Control Over Compliance

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 the 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

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

Larry W. Hunter, CPA, CFE
Deputy Legislative Auditor

Little Rock, Arkansas
September 5, 2007

SOUTHEAST ARKANSAS EDUCATION SERVICE COOPERATIVE
BALANCE SHEET - REGULATORY BASIS
JUNE 30, 2006

Exhibit A

	Governmental Funds		Fiduciary Fund Types
	Major		
	General	Special Revenue	
ASSETS			
Cash	\$ 1,869,307	\$ 376,081	\$ 2,682
Accounts receivable	319,169	147,577	
Due from other funds		83,994	
	\$ 2,188,476	\$ 607,652	\$ 2,682
 TOTAL ASSETS			
LIABILITIES AND FUND BALANCES			
Liabilities:			
Accounts payable	\$ 72,412	\$ 205,693	
Due employee groups			\$ 2,682
Due to other funds	83,994		
Total Liabilities	156,406	205,693	2,682
Fund Balances:			
Unreserved:			
Undesignated	2,032,070	401,959	
 TOTAL LIABILITIES AND FUND BALANCES	\$ 2,188,476	\$ 607,652	\$ 2,682

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

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SOUTHEAST ARKANSAS EDUCATION SERVICE COOPERATIVE
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES -
GOVERNMENTAL FUNDS - REGULATORY BASIS
FOR THE YEAR ENDED JUNE 30, 2006

Exhibit B

	Major	
	General	Special Revenue
REVENUES		
State assistance	\$ 4,524,636	
Federal assistance		\$ 3,856,537
Investment income	124,768	
Other revenues	2,016,948	186,892
TOTAL REVENUES	6,666,352	4,043,429
EXPENDITURES		
Regular programs	143,276	
Special education	853,920	590,959
Workforce education	65,535	413,834
Adult/continuing education program	419,852	523,432
Compensatory education	1,194,433	
Other instructional programs	102,343	58,874
Student support services	660,787	1,041,798
Instructional staff support services	2,346,013	649,420
General administration support services	180,805	
Business support services	182,646	
Operation and maintenance of plant services	192,374	
Student transportation services	9,972	42,090
Central support services	91,141	20,629
Other support services	223	30,471
Community services	64,845	585,563
Debt service:		
Principal retirement	62,194	3,490
Interest and fiscal charges	3,914	860
TOTAL EXPENDITURES	6,574,273	3,961,420
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	92,079	82,009
OTHER FINANCING SOURCES (USES)		
Value of capital lease	53,790	
Early retirement of debt	(41,730)	
TOTAL OTHER FINANCING SOURCES (USES)	12,060	
EXCESS OF REVENUES AND OTHER SOURCES OVER (UNDER) EXPENDITURES AND OTHER USES	104,139	82,009
FUND BALANCES - JULY 1	1,927,931	319,950
FUND BALANCES - JUNE 30	\$ 2,032,070	\$ 401,959

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, 2006

Exhibit C

	General			Special Revenue		
	Budget	Actual	Variance Favorable (Unfavorable)	Budget	Actual	Variance Favorable (Unfavorable)
REVENUES						
State assistance	\$ 3,219,244	\$ 4,524,636	\$ 1,305,392			
Federal assistance				\$ 3,886,950	\$ 3,856,537	\$ (30,413)
Activity revenues	1,500		(1,500)			
Investment income	41,500	124,768	83,268			
Other revenues	2,801,010	2,016,948	(784,062)	148,856	186,892	38,036
TOTAL REVENUES	6,063,254	6,666,352	603,098	4,035,806	4,043,429	7,623
EXPENDITURES						
Regular programs	78,636	143,276	(64,640)			
Special education	667,016	853,920	(186,904)	826,799	590,959	235,840
Workforce education	50,000	65,535	(15,535)	414,860	413,834	1,026
Adult/continuing education program	371,395	419,852	(48,457)	527,728	523,432	4,296
Compensatory education	1,223,221	1,194,433	28,788			
Other instructional programs	64,219	102,343	(38,124)	504,548	58,874	445,674
Student support services	1,451,205	660,787	790,418	225,315	1,041,798	(816,483)
Instructional staff support services	1,669,451	2,346,013	(676,562)	682,516	649,420	33,096
General administration support services	200,691	180,805	19,886			
Business support services	198,156	182,646	15,510			
Operation and maintenance of plant services	114,765	192,374	(77,609)	47,304		47,304
Student transportation services	8,563	9,972	(1,409)		42,090	(42,090)
Central support services	111,042	91,141	19,901		20,629	(20,629)
Other support services		223	(223)	27,391	30,471	(3,080)
Community services	28,125	64,845	(36,720)	596,858	585,563	11,295
Activity expenditures	700		700			
Debt service:						
Principal retirement	85,142	62,194	22,948		3,490	(3,490)
Interest and fiscal charges	3,164	3,914	(750)		860	(860)
TOTAL EXPENDITURES	6,325,491	6,574,273	(248,782)	3,853,319	3,961,420	(108,101)

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, 2006

Exhibit C

	General			Special Revenue		
	Budget	Actual	Variance Favorable (Unfavorable)	Budget	Actual	Variance Favorable (Unfavorable)
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	\$ (262,237)	\$ 92,079	\$ 354,316	\$ 182,487	\$ 82,009	\$ (100,478)
OTHER FINANCING SOURCES (USES)						
Value of capital lease		53,790	53,790			
Early retirement of debt		(41,730)	(41,730)			
TOTAL OTHER FINANCING SOURCES (USES)		12,060	12,060			
EXCESS OF REVENUES AND OTHER SOURCES OVER (UNDER) EXPENDITURES AND OTHER USES	(262,237)	104,139	366,376	182,487	82,009	(100,478)
FUND BALANCES - JULY 1	1,937,713	1,927,931	(9,782)	147,486	319,950	172,464
FUND BALANCES - JUNE 30	\$ 1,675,476	\$ 2,032,070	\$ 356,594	\$ 329,973	\$ 401,959	\$ 71,986

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

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SOUTHEAST ARKANSAS EDUCATION SERVICE COOPERATIVE
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2006

1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Reporting Entity

The Board of Directors, a 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, 2006

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:

<u>Asset Class</u>	<u>Estimated Useful Life in Years</u>
Improvements/infrastructure	20
Buildings	50
Equipment	5-20

F. Interfund Receivables and Payables

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

G. Fund Balance Designations

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

H. Budget and Budgetary Accounting

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

SOUTHEAST ARKANSAS EDUCATION SERVICE COOPERATIVE
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2006

1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

H. 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.

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 7 are nonbudgeted financial data for the year ended June 30, 2006. Such payments are reported 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)	\$ 105,630	\$ 105,630
Collateralized:		
Collateral held by the pledging bank or pledging bank's trust department in the Cooperative's name	2,142,340	2,760,325
Total Deposits	\$ 2,247,970	\$ 2,865,955

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

3: RECEIVABLES

The receivables of \$466,746 at June 30, 2006, are as follows:

Class of Receivable	General Fund	Special Revenue Fund	Total
Grants:			
Federal		\$ 137,343	\$ 137,343
State	\$ 205,676		205,676
Accounts	113,493	10,234	123,727
Totals	\$ 319,169	\$ 147,577	\$ 466,746

SOUTHEAST ARKANSAS EDUCATION SERVICE COOPERATIVE
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2006

4: COMMITMENTS

The Cooperative was contractually obligated for the following at June 30, 2006:

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, 2006	Maturities To June 30, 2006
4/1/04	4/1/07	9.18%	\$ 18,622	\$ 4,222	\$ 14,400
4/1/04	4/1/07	5.99%	27,127	8,361	18,766
9/22/05	9/22/10	8.05%	30,624	28,084	2,540
12/7/05	12/7/08	7.94%	23,166	19,676	3,490
Totals			<u>\$ 99,539</u>	<u>\$ 60,343</u>	<u>\$ 39,196</u>

Changes in Long-term Debt

	Balance July 1, 2005	Issued	Retired	Balance June 30, 2006
Notes payable	\$ 31,033		\$ 31,033	
Certificates of indebtedness	54,668		54,668	
Capital leases	28,266	\$ 53,790	21,713	\$ 60,343
Totals	<u>\$ 113,967</u>	<u>\$ 53,790</u>	<u>\$ 107,414</u> *	<u>\$ 60,343</u>

*Includes \$41,730 early retirement of debt - See Note 5.

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

Year Ended June 30,	Principal	Interest	Total
2007	\$ 25,386	\$ 3,767	\$ 29,153
2008	13,863	2,299	16,162
2009	10,586	1,224	11,810
2010	6,864	596	7,460
2011	3,644	86	3,730
Totals	<u>\$ 60,343</u>	<u>\$ 7,972</u>	<u>\$ 68,315</u>

SOUTHEAST ARKANSAS EDUCATION SERVICE COOPERATIVE
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2006

4: COMMITMENTS (Continued)

Capital Leases

The Cooperative has executed the following capital leases:

Class of Property	Asset Balance June 30, 2006
Telephone system	\$ 18,622
Telephone system	27,127
Copiers	30,624
Copiers	23,166
Total	\$ 99,539
	June 30, 2006
Total Minimum Lease Payments	\$ 68,315
Less: Amount Representing Interest	7,972
Total Present Value of Net Minimum Lease Payments	\$ 60,343

5: EARLY RETIREMENT OF DEBT

The District retired the principal balances of notes payable and certificates of indebtedness of \$14,395 and \$27,335, respectively, prior to the maturity dates.

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, 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, 2006

6: RETIREMENT PLAN (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, 2006, 2005 and 2004 were \$456,408, \$395,047 and \$315,784, respectively. The Cooperative's contributions to ATRS for federally funded employees for the years ended June 30, 2006, 2005 and 2004 were \$118,046, \$126,192 and \$138,062, respectively, equal to the required contributions for each year.

7: 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 \$110,564. 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 \$456,408.

8: SUBSEQUENT EVENT

On March 15, 2007, the Cooperative entered into a lease-purchase agreement in the amount of \$550,000 for the construction of a building.

SOUTHEAST ARKANSAS EDUCATION SERVICE COOPERATIVE
 SCHEDULE OF CAPITAL ASSETS
 FOR THE YEAR ENDED JUNE 30, 2006
 (Unaudited)

Schedule 1

	Balance June 30, 2006
<i>Nondepreciable capital assets:</i>	
Land	\$ 7,000
<i>Depreciable capital assets:</i>	
Buildings	1,750,140
Improvements/infrastructure	53,517
Equipment	1,199,046
Total depreciable capital assets	3,002,703
Less accumulated depreciation for:	
Buildings	307,518
Equipment	584,904
Total accumulated depreciation	892,422
Total depreciable capital assets, net	2,110,281
Capital assets, net	\$ 2,117,281

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SOUTHEAST ARKANSAS EDUCATION SERVICE COOPERATIVE
EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2006

Schedule 2

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	\$ 415,600
Special Education - Preschool Grants	84.173	22-20	448,793
TOTAL SPECIAL EDUCATION CLUSTER			864,393
 OTHER PROGRAMS			
<u>U. S. Department of Labor</u>			
Passed Through Southeast Arkansas Economic Development District Inc.:			
WIA Youth Activities	17.259	Unavailable	87,913
 <u>U. S. Department of Education</u>			
Passed Through State Department of Education:			
Adult Education - State Grant Program	84.002	22-20	1,750,350
Title I Grants - Local Educational Agencies	84.010	22-20	10,313
Vocational Education - Basic Grants to States	84.048	22-20	413,834
Migrant Education - Coordination Program	84.144	22-20	32,169
Charter Schools	84.282	22-20	19,364
Twenty-First Century Community Learning Centers	84.287	22-20	7,670
Even Start - Statewide Family Literacy Program	84.314	22-20	2,174
Reading First State Grants	84.357	22-20	170,126
Total U. S. Department of Education			2,406,000
 <u>U. S. Department of Health and Human Services</u>			
Passed Through State Department of Health and Human Services:			
Child Care Mandatory and Matching Funds of the Child Care and Development Fund	93.596	22-20	414
 <u>Corporation for National and Community Service</u>			
Foster Grandparent Program	94.011		446,751
Passed Through State Department of Health and Human Services:			
AmeriCorps	94.006	94ASCAR0040301	58,874
Total Corporation for National and Community Service			505,625
TOTAL OTHER PROGRAMS			2,999,952
TOTAL EXPENDITURES OF FEDERAL AWARDS			\$ 3,864,345

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 preparation of, the regulatory basis financial statements.

SOUTHEAST ARKANSAS EDUCATION SERVICE COOPERATIVE
 FEDERAL AWARD PROGRAMS -
 FINDINGS AND QUESTIONED COSTS
 FOR THE YEAR ENDED JUNE 30, 2006

Schedule 3

SECTION I - SUMMARY OF AUDITOR'S RESULTS

FINANCIAL STATEMENTS

Type of auditor's report issued: GAAP basis of reporting - adverse
 Regulatory basis opinion units - 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 reported

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 reported

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 OMB Circular A-133? yes no

Identification of major programs:

CFDA Numbers	Name of Federal Programs or Cluster
84.027 and 84.173	Special Education Cluster
84.002	Adult Education - State Grant Program
84.048	Vocational Education - Basic Grants to States
94.011	Foster Grandparent 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, 2006

Schedule 3

SECTION II - FINANCIAL STATEMENT FINDINGS

REPORTABLE CONDITION

2006-1. 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, 2006

Schedule 4

There were no findings in the prior audit.