

Southeast Arkansas Education Service Cooperative

Regulatory Basis Financial Statements and Other Reports

June 30, 2007

LEGISLATIVE JOINT AUDITING COMMITTEE



SOUTHEAST ARKANSAS EDUCATION SERVICE COOPERATIVE
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Sen. Randy Laverly
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 and Cooperative Board Members
Legislative Joint Auditing Committee

We have audited the accompanying financial statements of each major governmental fund and the aggregate remaining fund information of the Southeast Arkansas Education Service Cooperative (the "Cooperative"), as of and for the year ended June 30, 2007, which collectively comprise the Cooperative's regulatory basis financial statements as listed in the table of contents. These financial statements are the responsibility of Cooperative management. Our responsibility is to express opinions on these financial statements based on our audit.

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

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

In our opinion, because of the effects of the matter discussed in the preceding paragraph, the financial statements referred to 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, 2007, or the changes in financial position for the year then ended. Further, the Cooperative has not presented a management's discussion and analysis that accounting principles generally accepted in the United States has determined is necessary to supplement, although not required to be part of, the basic financial statements.

In our opinion, the financial statements referred to 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, 2007, 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 25, 2008 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

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

Little Rock, Arkansas
September 25, 2008
EDSC01507

Sen. Randy Laverty
Senate Co-Chair
Rep. J R Rogers
House Co-Chair
Sen. Bobby L. Glover
Senate Co-Vice Chair
Rep. Johnny Hoyt
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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 and Cooperative Board Members
Legislative Joint Auditing Committee

We have audited the financial statements of each major governmental fund and the aggregate remaining fund information of the Southeast Arkansas Education Service Cooperative (the "Cooperative"), as of and for the year ended June 30, 2007, which collectively comprise the Cooperative's regulatory basis financial statements, and have issued our report thereon dated September 25, 2008. We issued an adverse opinion because the Cooperative prepared the financial statements using accounting practices prescribed or permitted by the Arkansas Code, which differ from accounting principles generally accepted in the United States of America. The effect on the financial statements of the variances between these regulatory accounting practices and accounting principles generally accepted in the United States of America, although not reasonably determinable, are presumed to be material. However, the financial statements present fairly, in all material respects, the respective financial position of each major governmental fund and the aggregate remaining fund information of the Cooperative as of June 30, 2007, and the respective changes in financial position and budgetary results for the year then ended, on the basis of accounting described in Note 1. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Cooperative's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the regulatory basis financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Cooperative's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Cooperative's internal control over financial reporting.

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

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the Cooperative's ability to initiate, authorize, record, process, or report financial data reliably in accordance with the regulatory basis of accounting as prescribed or permitted by Arkansas Code such that there is more than a remote likelihood that a misstatement of the Cooperative's financial statements that is more than inconsequential will not be prevented or detected by the Cooperative's internal control. We consider the deficiency described in the accompanying schedule of Federal Award Programs - Findings and Questioned Costs as item 2007-1 to be a significant deficiency in internal control over financial reporting.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the Cooperative's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, of the significant deficiency described above, we consider item 2007-1 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*.

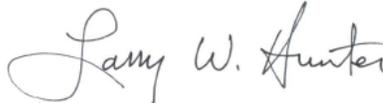
We noted certain matters that we reported to management of the Cooperative in a separate letter dated September 25, 2008.

The Cooperative's response to the findings identified in our audit, excluding the management letter finding, is described in the accompanying schedule of Federal Award Programs – Findings and Questioned Costs. We did not audit the Cooperative's response and, accordingly, we express no opinion on it.

Our review of other selected transactions related to the Cooperative is contained in a Special Report titled *Southeast Arkansas Education Service Cooperative, Arkansas Early College High School Program*. This report, dated October 10, 2008, can be obtained from our website: www.arklegaudit.gov.

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

DIVISION OF LEGISLATIVE AUDIT



Larry W. Hunter, CPA, CFE
Deputy Legislative Auditor

Little Rock, Arkansas
September 25, 2008

Sen. Randy Laverty
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Arkansas



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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 and Cooperative Board Members
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, 2007. 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 grants 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, 2007.

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 the 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, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Cooperative's internal control over compliance.

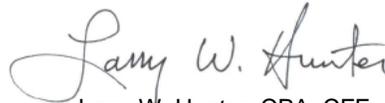
A *control deficiency* in an entity's internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect noncompliance with a type of compliance requirement of a federal program on a timely basis. A *significant deficiency* is a control deficiency, or combination of control deficiencies, that adversely affects the Cooperative's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the Cooperative's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the Cooperative's internal control.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

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

DIVISION OF LEGISLATIVE AUDIT

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Larry W. Hunter, CPA, CFE
Deputy Legislative Auditor

Little Rock, Arkansas
September 25, 2008

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Legislative Auditor

LEGISLATIVE JOINT AUDITING COMMITTEE DIVISION OF LEGISLATIVE AUDIT

MANAGEMENT LETTER

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

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

During our examination of payroll for the year-end June 30, 2007 and subsequently, we noted the following conflict with Arkansas Code Annotated § 6-17-2403:

- (a) The Cooperative improperly used more than one salary schedule for the purpose of calculating certified personnel salaries for fiscal years 2006-2007 and 2007-2008.
- (b) The 2007-2008 salary schedule for certified personnel teaching in the Early College High School program limited the past years of experience and did not recognize the proper level of training for the purpose of calculating salaries.
- (c) All indexes for teacher salaries were not included on the 2006-2007 salary schedule.

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

DIVISION OF LEGISLATIVE AUDIT

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Larry W. Hunter, CPA, CFE
Deputy Legislative Auditor

Little Rock, Arkansas
September 25, 2008

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SOUTHEAST ARKANSAS EDUCATION SERVICE COOPERATIVE
BALANCE SHEET - REGULATORY BASIS
JUNE 30, 2007

Exhibit A

	Governmental Funds			
	Major			Fiduciary Fund Types
	General	Special Revenue	Other Aggregate	
ASSETS				
Cash	\$ 2,000,765	\$ 440,983		\$ 1,595
Accounts receivable	131,181	279,147		
Due from other funds			\$ 2,806	
Deposit with trustee	562,241			
TOTAL ASSETS	\$ 2,694,187	\$ 720,130	\$ 2,806	\$ 1,595
LIABILITIES AND FUND BALANCES				
Liabilities:				
Accounts payable	\$ 134,858	\$ 2,894	\$ 2,806	
Due employee groups				\$ 1,595
Due to other funds	2,806			
Total Liabilities	137,664	2,894	2,806	1,595
Fund Balances:				
Reserved:				
Capital projects	562,241			
Unreserved:				
Undesignated	1,994,282	717,236		
Total Fund Balances	2,556,523	717,236		
TOTAL LIABILITIES AND FUND BALANCES	\$ 2,694,187	\$ 720,130	\$ 2,806	\$ 1,595

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, 2007

Exhibit B

	Major		Other Aggregate
	General	Special Revenue	
REVENUES			
State assistance	\$ 4,173,840		
Federal assistance		\$ 4,033,416	
Investment income	174,449		
Other revenues	2,720,613	554,465	
TOTAL REVENUES	7,068,902	4,587,881	
EXPENDITURES			
Regular programs	85,584		
Special education	951,774	568,329	
Workforce education	53,056	410,032	
Adult/continuing education	374,239	331,267	
Compensatory education	1,232,003		
Other instructional programs	358,341	756,328	
Student support services	610,856	591,974	
Instructional staff support services	2,274,192	855,085	
General administration support services	368,913		
Business support services	214,861		
Operation and maintenance of plant services	176,867	220,708	
Student transportation services	7,407		
Other support services	347		
Community services	42,699	502,278	
Facilities acquisition and construction services	58,437		\$ 208,176
Debt Service:			
Principal retirement	39,556	7,408	
Interest and fiscal charges	15,659	1,294	
TOTAL EXPENDITURES	6,864,791	4,244,703	208,176
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	204,111	343,178	(208,176)
OTHER FINANCING SOURCES (USES)			
Transfers in			208,176
Transfers out	(208,176)		
Proceeds from capital lease	550,000		
Refund to grantor		(27,901)	
Early retirement of debt	(22,688)		
TOTAL OTHER FINANCING SOURCES (USES)	319,136	(27,901)	208,176
EXCESS OF REVENUES AND OTHER SOURCES OVER (UNDER) EXPENDITURES AND OTHER USES	523,247	315,277	
FUND BALANCES - JULY 1 (RESTATED)	2,033,276	401,959	
FUND BALANCES - JUNE 30	<u>\$ 2,556,523</u>	<u>\$ 717,236</u>	<u>\$ 0</u>

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, 2007

Exhibit C

	General			Special Revenue		
	Budget	Actual	Variance Favorable (Unfavorable)	Budget	Actual	Variance Favorable (Unfavorable)
REVENUES						
State assistance	\$ 2,903,379	\$ 4,173,840	\$ 1,270,461			
Federal assistance				\$ 4,110,738	\$ 4,033,416	\$ (77,322)
Investment income	80,000	174,449	94,449			
Other revenues	2,346,058	2,720,613	374,555	341,337	554,465	213,128
TOTAL REVENUES	5,329,437	7,068,902	1,739,465	4,452,075	4,587,881	135,806
EXPENDITURES						
Regular programs	56,374	85,584	(29,210)			
Special education	694,095	951,774	(257,679)	772,939	568,329	204,610
Workforce education	50,000	53,056	(3,056)	396,152	410,032	(13,880)
Adult/continuing education	317,731	374,239	(56,508)	231,438	331,267	(99,829)
Compensatory education	1,257,337	1,232,003	25,334			
Other instructional programs	274,397	358,341	(83,944)	831,089	756,328	74,761
Student support services	474,749	610,856	(136,107)	531,708	591,974	(60,266)
Instructional staff support services	2,173,945	2,274,192	(100,247)	862,761	855,085	7,676
General administration support services	327,257	368,913	(41,656)			
Business support services	208,855	214,861	(6,006)	230,079		230,079
Operation and maintenance of plant services	174,490	176,867	(2,377)	47,053	220,708	(173,655)
Student transportation services	5,610	7,407	(1,797)			
Other support services	500	347	153			
Community services	29,250	42,699	(13,449)	507,596	502,278	5,318
Other non-instructional services				7,261		7,261
Facilities acquisition and construction services		58,437	(58,437)			
Debt Service:						
Principal retirement	92,996	39,556	53,440		7,408	(7,408)
Interest and fiscal charges		15,659	(15,659)		1,294	(1,294)
TOTAL EXPENDITURES	6,137,586	6,864,791	(727,205)	4,418,076	4,244,703	173,373
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	(808,149)	204,111	1,012,260	33,999	343,178	309,179

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, 2007

Exhibit C

	General			Special Revenue		
	Budget	Actual	Variance Favorable (Unfavorable)	Budget	Actual	Variance Favorable (Unfavorable)
OTHER FINANCING SOURCES (USES)						
Transfers out		\$ (208,176)	\$ (208,176)			
Proceeds from capital lease		550,000	550,000			
Refund to grantor					\$ (27,901)	\$ (27,901)
Early retirement of debt		(22,688)	(22,688)			
TOTAL OTHER FINANCING SOURCES (USES)		319,136	319,136		(27,901)	(27,901)
EXCESS OF REVENUES AND OTHER SOURCES OVER (UNDER) EXPENDITURES AND OTHER USES	\$ (808,149)	523,247	1,331,396	\$ 33,999	315,277	281,278
FUND BALANCES - JULY 1	1,876,269	2,033,276	157,007	376,064	401,959	25,895
FUND BALANCES - JUNE 30	<u>\$ 1,068,120</u>	<u>\$ 2,556,523</u>	<u>\$ 1,488,403</u>	<u>\$ 410,063</u>	<u>\$ 717,236</u>	<u>\$ 307,173</u>

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, 2007

1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Reporting Entity

The Board of Education, 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 (Cooperative). 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.

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

Capital Projects Fund - The Capital Projects Fund is used to account for financial resources to be used for the acquisition or construction of major capital facilities (other than those financed by proprietary funds or in trust funds for individuals, private organizations, or other governments).

Fiduciary Fund types include the following:

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

C. Measurement Focus and Basis of Accounting

The financial statements are prepared in accordance with a regulatory basis of accounting (RBA). This basis of accounting is prescribed by 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, 2007

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. Interfund Receivables and Payables

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

G. Fund Balance Designations

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

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, 2007

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 11 are nonbudgeted data for the year ended June 30, 2007. 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)	\$ 105,690	\$ 105,690
Collateralized:		
Collateral held by the pledging bank or pledging bank's trust department in the Cooperative's name	2,337,553	3,134,608
Total Deposits	\$ 2,443,243	\$ 3,240,298

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

3: DEPOSIT WITH TRUSTEE

As a result of the capital lease agreement as described in Note 12, BOSC, Incorporated, deposited \$550,000 into an escrow account at Summit Bank on December 20, 2006. The deposit with trustee balance of \$562,241 at June 30, 2007 included \$12,241 of accrued interest. All funds were disbursed in September 2007 upon completion of the building addition.

SOUTHEAST ARKANSAS EDUCATION SERVICE COOPERATIVE
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2007

4: ACCOUNTS RECEIVABLE

The accounts receivable balance of \$410,328 at June 30, 2007 was comprised of the following:

Description	Governmental Funds		Total
	Major		
	General	Special Revenue	
State assistance	\$ 14,158		\$ 14,158
Federal assistance		\$ 268,792	268,792
Other	117,023	10,355	127,378
Totals	\$ 131,181	\$ 279,147	\$ 410,328

5: COMMITMENTS

The Cooperative was contractually obligated for the following at June 30, 2007:

A. Construction Contracts

Project Name	Estimated Completion Date	Contract Balance
Building addition	August 10, 2007	<u>\$ 372,020</u>

B. 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, 2007	Maturities To June 30, 2007
12/7/05	12/7/08	7.94%	\$ 23,166	\$ 12,268	\$ 10,898
9/15/06	9/15/16	4.85%	<u>550,000</u>	<u>528,423</u>	<u>21,577</u>
Totals			\$ 573,166	\$ 540,691	\$ 32,475

Changes in Long-term Debt

	Balance July 1, 2006	Issued	Retired	Balance June 30, 2007
Capital leases	<u>\$ 60,343</u>	<u>\$ 550,000</u>	<u>\$ 69,652</u>	<u>* \$ 540,691</u>

*Includes \$22,688 early retirement of debt - See Note 6.

SOUTHEAST ARKANSAS EDUCATION SERVICE COOPERATIVE
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2007

5: COMMITMENTS (Continued)

B. Long-term Debt Issued and Outstanding (Continued)

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

Year Ended June 30,	Principal	Interest	Total
2008	\$ 52,788	\$ 26,333	\$ 79,121
2009	51,271	23,489	74,760
2010	49,379	21,041	70,420
2011	51,857	18,563	70,420
2012	54,460	15,960	70,420
2013-2017	<u>280,936</u>	<u>35,954</u>	<u>316,890</u>
Totals	<u>\$ 540,691</u>	<u>\$ 141,340</u>	<u>\$ 682,031</u>

Capital Leases

The Cooperative has executed the following capital leases:

Class of Property	Asset Balance June 30, 2007
Copiers	\$ 23,166
Building	<u>550,000</u>
Total	<u>\$ 573,166</u>
	<u>June 30, 2007</u>
Total Minimum Lease Payments	\$ 682,031
Less: Amount Representing Interest	<u>141,340</u>
Total Present Value of Net Minimum Lease Payments	<u>\$ 540,691</u>

6: EARLY RETIREMENT OF DEBT

The Cooperative retired the principal balance of one capital lease of \$22,688 prior to the scheduled maturity date.

SOUTHEAST ARKANSAS EDUCATION SERVICE COOPERATIVE
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2007

7: ACCOUNTS PAYABLE

The accounts payable balance of \$140,558 at June 30, 2007 was comprised of the following:

Description	Governmental Funds			Total
	Major			
	General	Special Revenue	Other Aggregate	
Vendor payables	\$ 134,858	\$ 2,894	\$ 2,806	\$ 140,558

8: INTERFUND TRANSFERS

The Cooperative transferred \$208,176 from the general fund to the other aggregate funds for construction costs.

9: 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.

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 Arkansas Department of Education from the Public School Fund, except for those employees paid from federal funding. Employer contributions for those employees were paid by the Cooperative. The Arkansas Department of Education's contributions to ATRS for the Cooperative during the years ended June 30, 2007, 2006 and 2005 were \$480,639, \$456,408 and \$395,047, respectively. The Cooperative's contributions to ATRS for the years ended June 30, 2007, 2006 and 2005 were \$149,129, \$118,046 and \$126,192, respectively, equal to the required contributions for each year.

10: PRIOR YEAR RESTATEMENT

The general fund balance at July 1, 2006 was increased by \$1,206 due to the reclassification of certain fiduciary fund types.

11: ON-BEHALF PAYMENTS

The accompanying financial statements reflect on-behalf payments of \$165,043 for health insurance premiums paid by the Arkansas Department of Education. Additionally, these financial statements include on-behalf payments of \$480,639 for retirement matching paid to the Arkansas Teacher Retirement System by the Arkansas Department of Education.

SOUTHEAST ARKANSAS EDUCATION SERVICE COOPERATIVE
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2007

12: FACILITIES EXPANSION

Financing the construction of a building addition for multipurpose classrooms and administrative offices required two lease agreements with BOSC, Incorporated, (BOSC). On September 15, 2006, the Cooperative leased land to BOSC for the construction of the aforementioned facilities. Concurrently, the Cooperative executed a capital lease with BOSC for the purchase of these facilities.

13: RISK MANAGEMENT

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

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

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

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

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

SOUTHEAST ARKANSAS EDUCATION SERVICE COOPERATIVE
 SCHEDULE OF CAPITAL ASSETS
 FOR THE YEAR ENDED JUNE 30, 2007
 (Unaudited)

Schedule 1

	Balance June 30, 2007
<i>Nondepreciable capital assets:</i>	
Land	\$ 7,000
Construction in progress	208,176
Total nondepreciable capital assets	215,176
 <i>Depreciable capital assets:</i>	
Buildings	1,750,140
Improvements/infrastructure	53,517
Equipment	1,339,562
Total depreciable capital assets	3,143,219
 Less accumulated depreciation for:	
Buildings	343,041
Improvements/infrastructure	3,806
Equipment	726,327
Total accumulated depreciation	1,073,174
Total depreciable capital assets, net	2,070,045
Capital assets, net	\$ 2,285,221

SOUTHEAST ARKANSAS EDUCATION SERVICE COOPERATIVE
EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2007

Schedule 2

Federal Grantor/Pass-Through Grantor/Program or Cluster Title	Federal CFDA Number	Pass-Through Entity Identifying 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	\$ 617,109
Special Education - Preschool Grants	84.173	22-20	<u>505,175</u>
TOTAL SPECIAL EDUCATION CLUSTER			<u><u>1,122,284</u></u>
OTHER PROGRAMS			
<u>U. S. Department of Education</u>			
Passed Through State Department of Workforce Education:			
Adult Education - Basic Grants to States	84.002	22-20	699,742
Career and Technical Education - Basic Grants to States	84.048	22-20	410,032
Passed Through State Department of Education:			
Title I Grants - Local Educational Agencies	84.010	22-20	18,615
Charter Schools	84.282	22-20	21,119
Twenty-First Century Community Learning Centers	84.287	22-20	12,439
Education Technology State Grants	84.318	22-20	178,218
Reading First State Grants	84.357	22-20	172,640
English Language Acquisition Grants	84.365	22-20	119,368
Mathematics and Science Partnerships	84.366	22-20	90,993
Total U. S. Department of Education			<u>1,723,166</u>
<u>Corporation for National and Community Service</u>			
Foster Grandparent Program	94.011		443,784
Passed Through State Department of Health and Human Services:			
AmeriCorps	94.006	06ACHAR0010003	756,328
Total Corporation for National and Community Service			<u>1,200,112</u>
TOTAL OTHER PROGRAMS			<u>2,923,278</u>
TOTAL EXPENDITURES OF FEDERAL AWARDS			<u><u>\$ 4,045,562</u></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 preparation of, the regulatory basis financial statements.
- Note 2: During the year ended June 30, 2007, the Cooperative received Medicaid funding of \$42,552 from the State Department of Health and Human Services. Such payments are not considered Federal awards expended and therefore are not included in the above schedule.

SOUTHEAST ARKANSAS EDUCATION SERVICE COOPERATIVE
FEDERAL AWARD PROGRAMS -
FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2007

Schedule 3

SECTION II - FINANCIAL STATEMENT FINDINGS

SIGNIFICANT DEFICIENCY

2007-1. Segregation of Duties

Criteria: Financial accounting duties should be distributed among appropriate employees to enhance the design of the internal control process to ensure the preparation of reliable financial statements that are fairly presented in conformity with the regulatory basis of accounting.

Condition: The Cooperative has not segregated financial accounting duties among appropriate employees to provide reasonable assurance about the achievement of the entity's objectives with regard to reliability of financial reporting.

Context: Completion of internal control questionnaire.

Effect: Financial accounting duties are not distributed among the Cooperative's employees to sufficiently reduce the risk that a material misstatement of the financial statements due to fraud or error will not be prevented or detected.

Cause: Cost/benefit implications hinder the Cooperative's ability to adequately segregate financial accounting duties among employees.

Recommendation: To achieve effective internal control over financial reporting, 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, 2007

Schedule 4

There were no findings in the prior audit.