

Southeast Arkansas Education Service Cooperative

**Regulatory Basis Financial Statements
and Other Reports**

June 30, 2008

LEGISLATIVE JOINT AUDITING COMMITTEE



SOUTHEAST ARKANSAS EDUCATION SERVICE COOPERATIVE
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JUNE 30, 2008

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Sen. Bobby L. Glover
Senate Co-Chair
Rep. Johnny Hoyt
House Co-Chair
Sen. Bill Pritchard
Senate Co-Vice Chair
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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, 2008, 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 previously 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, 2008, 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 previously 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, 2008, 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 21, 2009 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), Schedule of 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*, Schedule of Findings and Questioned Costs (Schedule 3), Federal Award Programs – Summary Schedule of Prior Audit Findings (Schedule 4) and Schedule of Selected Information for the Last Five Years – Regulatory Basis (Schedule 5) are presented for purposes of additional analysis and are not a required part of the regulatory basis financial statements. The Schedule of Expenditures of Federal Awards (Schedule 2), Schedule of Findings and Questioned Costs (Schedule 3) and Federal Award Programs – Summary Schedule 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) and the Schedule of Selected Information for the Last Five Years – Regulatory Basis (Schedule 5) have not been subjected to the auditing procedures applied in the audit of the regulatory basis financial statements and, accordingly, we express no opinion on them.

DIVISION OF LEGISLATIVE AUDIT

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

Little Rock, Arkansas
September 21, 2009
EDSC01508

Sen. Bobby L. Glover
Senate Co-Chair
Rep. Johnny Hoyt
House Co-Chair
Sen. Bill Pritchard
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 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, 2008, which collectively comprise the Cooperative's regulatory basis financial statements, and have issued our report thereon dated September 21, 2009. 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, 2008, 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 opinions on the regulatory basis financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Cooperative's internal control 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 Findings and Questioned Costs as item 2008-1 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 2008-1 in the accompanying Schedule of Findings and Questioned Costs to be a material weakness.

Compliance and Other Matters

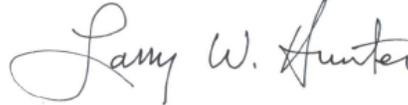
As part of obtaining reasonable assurance about whether the Cooperative's regulatory basis financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of the state constitution, state and federal laws and regulations, contracts, and grant agreements, 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 21, 2009.

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

This report is intended solely for the information and use of the Legislative Joint Auditing Committee, the local cooperative 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 21, 2009

Sen. Bobby L. Glover
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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, 2008. The Cooperative's major federal programs are identified in the summary of auditor's results section of the accompanying Schedule of Findings and Questioned Costs. 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, 2008. However, the results of our auditing procedures disclosed instances of noncompliance with those requirements, which are required to be reported in accordance with OMB Circular A-133 and which are described in the accompanying Schedule of Findings and Questioned Costs as item 2008-2.

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.

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

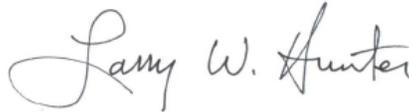
A *control deficiency* in an entity's internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect noncompliance with a type of compliance requirement of a federal 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. We consider the deficiency in internal control over compliance described in the accompanying Schedule of Findings and Questioned Costs as item 2008-2 to be a significant deficiency.

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. We did not consider the deficiency described in the accompanying Schedule of Findings and Questioned Costs to be a material weakness.

The Cooperative's response to the finding identified in our audit is described in the accompanying Schedule of Findings and Questioned Costs. We did not audit the Cooperative's response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of the Legislative Joint Auditing Committee, the local cooperative 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 21, 2009

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LEGISLATIVE JOINT AUDITING COMMITTEE DIVISION OF LEGISLATIVE AUDIT

MANAGEMENT LETTER

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

We would like to communicate the following item that came to our attention during this audit. The purpose of such comment 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 to improve internal control. This matter was discussed previously with Cooperative officials during the course of our audit fieldwork and at the exit conference.

During our examination of capital assets, we noted the Cooperative did not capitalize a building addition and improvements totaling \$678,443 and \$59,944, respectively.

This letter is intended solely for the information and use of the Legislative Joint Auditing Committee, the local cooperative 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 21, 2009

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SOUTHEAST ARKANSAS EDUCATION SERVICE COOPERATIVE
BALANCE SHEET - REGULATORY BASIS
JUNE 30, 2008

Exhibit A

	Governmental Funds			
	Major			Fiduciary Fund Types
	General	Special Revenue	Other Aggregate	
ASSETS				
Cash	\$ 2,192,130	\$ 1,089,987	\$ 34,494	\$ 1,102
Accounts receivable	101,959	457,716		
Due from other funds	555,000			
	\$ 2,849,089	\$ 1,547,703	\$ 34,494	\$ 1,102
TOTAL ASSETS				
LIABILITIES AND FUND BALANCES				
Liabilities:				
Accounts payable	\$ 132,585	\$ 140,164		
Due employee groups				\$ 1,102
Due to other funds		555,000		
Total Liabilities	132,585	695,164		1,102
Fund Balances:				
Reserved:				
Capital projects			\$ 34,494	
Unreserved:				
Undesignated	2,716,504	852,539		
Total Fund Balances	2,716,504	852,539	34,494	
TOTAL LIABILITIES AND FUND BALANCES				
	\$ 2,849,089	\$ 1,547,703	\$ 34,494	\$ 1,102

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, 2008

Exhibit B

	Major		Other Aggregate
	General	Special Revenue	
REVENUES			
State assistance	\$ 5,475,619		
Federal assistance		\$ 3,984,761	
Investment income	153,190		
Other revenues	2,875,295	563,860	
TOTAL REVENUES	8,504,104	4,548,621	
EXPENDITURES			
Regular programs	503,131		
Special education	833,813	458,772	
Career education	50,000	410,194	
Adult/continuing education	574,145	411,518	
Compensatory education	1,208,085		
Other instructional programs	773,299	805,031	
Student support services	506,996	681,965	
Instructional staff support services	2,361,416	888,086	
General administration support services	339,296		
Central services support services	244,938	188,996	
Operation and maintenance of plant services	228,287	58,632	
Student transportation services	1,452		
Other support services		3,563	
Community services operations	25,834	497,860	
Facilities acquisition and construction services	57,871		\$ 530,646
Debt Service:			
Principal retirement	44,772	8,016	
Interest and fiscal charges	25,648	685	
TOTAL EXPENDITURES	7,778,983	4,413,318	530,646
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	725,121	135,303	(530,646)
OTHER FINANCING SOURCES (USES)			
Transfers in			565,140
Transfers out	(565,140)		
TOTAL OTHER FINANCING SOURCES (USES)	(565,140)		565,140
EXCESS OF REVENUES AND OTHER SOURCES OVER (UNDER) EXPENDITURES AND OTHER USES	159,981	135,303	34,494
FUND BALANCES - JULY 1	2,556,523	717,236	
FUND BALANCES - JUNE 30	\$ 2,716,504	\$ 852,539	\$ 34,494

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, 2008

Exhibit C

	General			Special Revenue		
	Budget	Actual	Variance Favorable (Unfavorable)	Budget	Actual	Variance Favorable (Unfavorable)
REVENUES						
State assistance	\$ 3,998,313	\$ 5,475,619	\$ 1,477,306			
Federal assistance				\$ 5,004,459	\$ 3,984,761	\$ (1,019,698)
Activity revenues	2,392		(2,392)			
Investment income	90,000	153,190	63,190			
Other revenues	2,842,649	2,875,295	32,646	279,088	563,860	284,772
TOTAL REVENUES	6,933,354	8,504,104	1,570,750	5,283,547	4,548,621	(734,926)
EXPENDITURES						
Regular programs	83,299	503,131	(419,832)			
Special education	951,198	833,813	117,385	517,633	458,772	58,861
Workforce education	50,000	50,000		387,073	410,194	(23,121)
Adult/continuing education	334,457	574,145	(239,688)	313,182	411,518	(98,336)
Compensatory education	1,338,216	1,208,085	130,131			
Other instructional programs	1,004,127	773,299	230,828	1,680,142	805,031	875,111
Student support services	635,573	506,996	128,577	1,034,077	681,965	352,112
Instructional staff support services	2,637,792	2,361,416	276,376	870,474	888,086	(17,612)
General administration support services	354,442	339,296	15,146			
Central services support services	264,202	244,938	19,264	52,995	188,996	(136,001)
Operation and maintenance of plant services	173,258	228,287	(55,029)	48,995	58,632	(9,637)
Student transportation services	2,150	1,452	698			
Other support services					3,563	(3,563)
Community services operations	24,470	25,834	(1,364)	495,180	497,860	(2,680)
Facilities acquisition and construction services		57,871	(57,871)			
Activity expenditures	1,500		1,500			
Debt Service:						
Principal retirement		44,772	(44,772)		8,016	(8,016)
Interest and fiscal charges		25,648	(25,648)		685	(685)
TOTAL EXPENDITURES	7,854,684	7,778,983	75,701	5,399,751	4,413,318	986,433

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, 2008

Exhibit C

	General			Special Revenue		
	Budget	Actual	Variance Favorable (Unfavorable)	Budget	Actual	Variance Favorable (Unfavorable)
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	\$ (921,330)	\$ 725,121	\$ 1,646,451	\$ (116,204)	\$ 135,303	\$ 251,507
OTHER FINANCING SOURCES (USES)						
Transfers out		(565,140)	(565,140)			
EXCESS OF REVENUES AND OTHER SOURCES OVER (UNDER) EXPENDITURES AND OTHER USES	(921,330)	159,981	1,081,311	(116,204)	135,303	251,507
FUND BALANCES - JULY 1	2,013,516	2,556,523	543,007	440,966	717,236	276,270
FUND BALANCES - JUNE 30	<u>\$ 1,092,186</u>	<u>\$ 2,716,504</u>	<u>\$ 1,624,318</u>	<u>\$ 324,762</u>	<u>\$ 852,539</u>	<u>\$ 527,777</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, 2008

1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Reporting Entity

The Board of Education, a thirteen member group, is the level of government, which has responsibilities over all activities within the jurisdiction of the Southeast Arkansas Education Service Cooperative (Cooperative). There are no component units.

B. Description of Funds

Major governmental funds (per the regulatory basis of accounting) are defined as General and Special Revenue.

General Fund - The General Fund is 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, 2008

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.

SOUTHEAST ARKANSAS EDUCATION SERVICE COOPERATIVE
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2008

1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

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.

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)	\$ 104,855	\$ 104,855
Collateralized:		
Collateral held by the pledging bank or pledging bank's trust department in the Cooperative's name	3,212,758	3,765,952
Uninsured, Uncollateralized		456,016
Total Deposits	\$ 3,317,613	\$ 4,326,823

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

Custodial Credit Risk – Deposits

Custodial credit risk is the risk that in the event of a bank failure, the Cooperative's deposits may not be returned to it. The Cooperative does not have a formal deposit policy for custodial credit risk. As of June 30, 2008, \$456,016 of the Cooperative's bank balance of \$4,326,823 was exposed to custodial credit risk as follows:

Uninsured and uncollateralized \$456,016

SOUTHEAST ARKANSAS EDUCATION SERVICE COOPERATIVE
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2008

3: ACCOUNTS RECEIVABLE

The accounts receivable balance of \$559,675 at June 30, 2008 was comprised of the following:

Description	Governmental Funds		Total
	Major		
	General	Special Revenue	
State assistance	\$ 23,633		\$ 23,633
Federal assistance		\$ 444,218	444,218
Other	78,326	13,498	91,824
Totals	<u>\$ 101,959</u>	<u>\$ 457,716</u>	<u>\$ 559,675</u>

4: COMMITMENTS

The Cooperative was contractually obligated for the following at June 30, 2008:

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, 2008	Maturities To June 30, 2008
12/7/05	12/7/08	7.944%	\$ 23,166	\$ 4,252	\$ 18,914
9/15/06	9/15/16	4.854%	550,000	483,651	66,349
Totals			<u>\$ 573,166</u>	<u>\$ 487,903</u>	<u>\$ 85,263</u>

Changes in Long-term Debt

	Balance July 1, 2007	Issued	Retired	Balance June 30, 2008
Capital leases	<u>\$ 540,691</u>	<u>\$ 0</u>	<u>\$ 52,788</u>	<u>\$ 487,903</u>

SOUTHEAST ARKANSAS EDUCATION SERVICE COOPERATIVE
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2008

4: COMMITMENTS (Continued)

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
2009	\$ 51,271	\$ 23,500	\$ 74,771
2010	49,379	21,041	70,420
2011	51,857	18,563	70,420
2012	54,460	15,960	70,420
2013	57,193	13,227	70,420
2014-2017	223,743	22,727	246,470
Totals	<u>\$ 487,903</u>	<u>\$ 115,018</u>	<u>\$ 602,921</u>

Capital Leases

The Cooperative has executed the following capital leases:

Class of Property	Asset Balance June 30, 2008
Copiers	\$ 23,166
Land and building	550,000
Total	<u>\$ 573,166</u>
	June 30, 2008
Total Minimum Lease Payments	\$ 602,921
Less: Amount Representing Interest	115,018
Total Present Value of Net Minimum Lease Payments	<u>\$ 487,903</u>

5: ACCOUNTS PAYABLE

The accounts payable balance of \$272,749 at June 30, 2008 was comprised of the following:

Description	Governmental Funds		Total
	Major	Special Revenue	
	General		
Vendor payables	\$ 132,585	\$ 140,164	<u>\$ 272,749</u>

SOUTHEAST ARKANSAS EDUCATION SERVICE COOPERATIVE
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2008

6: INTERFUND TRANSFERS

The Cooperative transferred \$565,140 from the general fund to the other aggregate funds for construction projects. The transfer consisted of the prior year deposit with trustee of \$562,241 plus additional accrued interest of \$2,899. The prior year deposit with trustee was comprised of the proceeds of a capital lease of \$550,000 plus accrued interest of \$12,241 through June 30, 2007.

7: 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 before July 1, 1989. ATRS, administered by a Board of Trustees, provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Benefit provisions are established by State law and can be amended only by the Arkansas General Assembly. The Arkansas Teacher Retirement System issues a publicly available financial report that includes financial statements and required supplementary information for ATRS. That report may be obtained by writing to Arkansas Teacher Retirement System, 1400 West Third Street, Little Rock, Arkansas 72201 or by calling 1-800-666-2877.

Funding Policy. ATRS has contributory and noncontributory plans. Contributory members are required by State law to contribute 6% of their salaries. Each participating employer is required by State law to contribute at a rate determined by the Board of Trustees, based on the annual actuarial valuation. The current employer rate is 14% of covered salaries, the maximum allowed by State law. 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, 2008, 2007 and 2006 were \$578,990, \$480,639 and \$456,408, respectively. The Cooperative's contributions to ATRS for the years ended June 30, 2008, 2007 and 2006 were \$144,223, \$149,129 and \$118,046, respectively, equal to the required contributions for each year.

8: 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 exceeds 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.

SOUTHEAST ARKANSAS EDUCATION SERVICE COOPERATIVE
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2008

8: RISK MANAGEMENT (Continued)

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

The Cooperative participates in the Arkansas Fidelity Bond Trust Fund administered by the Governmental Bonding Board. This program provides coverage for actual losses sustained by its members through fraudulent or dishonest acts committed by officials or employees. Each loss is limited to \$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.

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SOUTHEAST ARKANSAS EDUCATION SERVICE COOPERATIVE
 SCHEDULE OF CAPITAL ASSETS
 FOR THE YEAR ENDED JUNE 30, 2008
 (Unaudited)

Schedule 1

	Balance June 30, 2008
<i>Nondepreciable capital assets:</i>	
Land	\$ 7,000
<i>Depreciable capital assets:</i>	
Buildings	1,750,140
Improvements/infrastructure	111,388
Equipment	1,527,155
Total depreciable capital assets	3,388,683
Less accumulated depreciation for:	
Buildings	378,564
Improvements/infrastructure	7,928
Equipment	882,797
Total accumulated depreciation	1,269,289
Total depreciable capital assets, net	2,119,394
Capital assets, net	\$ 2,126,394

SOUTHEAST ARKANSAS EDUCATION SERVICE COOPERATIVE
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2008

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	\$ 501,474
Special Education - Preschool Grants	84.173	22-20	374,400
			<u>875,874</u>
TOTAL SPECIAL EDUCATION CLUSTER			
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	706,873
Career and Technical Education - Basic Grants to States	84.048	22-20	409,539
Passed Through State Department of Education:			
Title I Grants - Local Educational Agencies	84.010	22-20	5,343
Charter Schools	84.282	22-20	9,064
Twenty-First Century Community Learning Centers	84.287	22-20	432
Education Technology State Grants	84.318	22-20	188,995
Reading First State Grants	84.357	22-20	276,522
English Language Acquisition Grants	84.365	22-20	139,918
Mathematics and Science Partnerships	84.366	22-20	93,756
Total U. S. Department of Education			<u>1,830,442</u>
<u>Corporation for National and Community Service</u>			
Foster Grandparent Program	94.011		446,822
Passed Through State Department of Human Services:			
AmeriCorps	94.006	06ACHAR0010003	805,031
Total Corporation for National and Community Service			<u>1,251,853</u>
TOTAL OTHER PROGRAMS			
			<u>3,082,295</u>
TOTAL EXPENDITURES OF FEDERAL AWARDS			
			<u>\$ 3,958,169</u>

The accompanying notes are an integral part of this schedule.

NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Note 1: Basis of Presentation - The accompanying Schedule of Expenditures of Federal Awards 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. 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, 2008, the Cooperative received Medicaid funding of \$19,586 from the State Department of Human Services. Such payments are not considered Federal awards expended and therefore are not included in the above schedule.

SOUTHEAST ARKANSAS EDUCATION SERVICE COOPERATIVE
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2008

Schedule 3

SECTION II - FINANCIAL STATEMENT FINDINGS

MATERIAL WEAKNESS

2008-1. Internal Control

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

Condition: A deficiency in the internal control component of control activities adversely affected the Cooperative's ability to initiate, authorize, record, process, and report financial data in accordance with the regulatory basis of accounting such that there was more than a remote likelihood that a misstatement of the Cooperative's financial statements that would be more than inconsequential would not be prevented or detected. The Cooperative has not adequately segregated financial accounting duties related to cash, accounts receivable, payroll and non-payroll expenditures to provide reasonable assurance about the achievement of the entity's objectives with regard to reliability of financial reporting.

Context: An understanding of the five components of internal control sufficient to assess the risk of material misstatement of the financial statements whether due to error or fraud, and to design the nature, timing and extent of further audit procedures was obtained.

Effect: The Cooperative's ability to initiate, authorize, record, process, and report transactions consistent with management's assertions embodied in the financial statements, as well as the ability to safeguard Cooperative assets, was adversely affected by the identified weakness in the above internal control component.

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

Recommendation: Cooperative management should adopt sound accounting policies and establish and maintain internal control that will initiate, authorize, record, process, and report transactions consistent with management's assertions embodied in the financial statements and that will safeguard Cooperative assets.

Views of responsible officials and planned corrective actions: The Cooperative will segregate duties as much as possible with the existing personnel. We do not have the funds to hire sufficient personnel for 100 percent segregation of duties.

SOUTHEAST ARKANSAS EDUCATION SERVICE COOPERATIVE
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2008

Schedule 3

SECTION III - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

SIGNIFICANT DEFICIENCY

U. S. DEPARTMENT OF EDUCATION
PASSED THROUGH STATE DEPARTMENT OF EDUCATION
SPECIAL EDUCATION CLUSTER - CFDA NUMBERS 84.027 AND 84.173
PASS-THROUGH NUMBER 22-20
AUDIT PERIOD - YEAR ENDED JUNE 30, 2008

2008-2. Allowable Costs/Cost Principles

Criteria or specific requirement: Office of Management and Budget (OMB) Circular A-87 requires salaries charged to federal programs be supported by periodic time certifications when an employee works solely on a single federal program.

Condition: Periodic time certifications were not prepared for two employees who worked solely with the special education programs.

Context: An examination of special education expenditures and examination of documentation substantiating time worked by employees.

Effect: The Cooperative was unable to provide required documentation substantiating the time charged to the special education programs.

Cause: Lack of internal controls and management oversight resulted in the lack of supporting documentation pertaining to time charged to federal programs.

Recommendation: The Cooperative should prepare the periodic time certifications for all applicable employees.

Views of responsible officials and planned corrective actions: Periodic time certification is now completed on all federal employees, which includes special education employees.

SOUTHEAST ARKANSAS EDUCATION SERVICE COOPERATIVE
FEDERAL AWARD PROGRAMS -
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE YEAR ENDED JUNE 30, 2008

Schedule 4

There were no findings in the prior audit.

SOUTHEAST ARKANSAS EDUCATION SERVICE COOPERATIVE
SCHEDULE OF SELECTED INFORMATION FOR THE LAST FIVE YEARS - REGULATORY BASIS
FOR THE YEAR ENDED JUNE 30, 2008
(Unaudited)

Schedule 5

	Year Ended June 30,				
	2008	2007	2006	2005	2004
<u>General Fund</u>					
Total Assets	\$ 2,849,089	\$ 2,694,187	\$ 2,188,476	\$ 1,938,400	\$ 1,529,290
Total Liabilities	132,585	137,664	156,406	10,469	183,591
Total Fund Balances	2,716,504	2,556,523	2,032,070	1,927,931	1,345,699
Total Revenues	8,504,104	7,068,902	6,666,352	6,521,986	5,049,530
Total Expenditures	7,778,983	6,864,791	6,574,273	5,938,781	4,972,667
Total Other Financing Sources (Uses)	(565,140)	319,136	12,060	(973)	
<u>Special Revenue Fund</u>					
Total Assets	1,547,703	720,130	607,652	334,312	273,882
Total Liabilities	695,164	2,894	205,693	14,362	12,849
Total Fund Balances	852,539	717,236	401,959	319,950	261,033
Total Revenues	4,548,621	4,587,881	4,043,429	4,356,713	4,485,352
Total Expenditures	4,413,318	4,244,703	3,961,420	4,285,113	4,542,338
Total Other Financing Sources (Uses)		(27,901)		(12,683)	
<u>Other Aggregate Funds</u>					
Total Assets	34,494	2,806			
Total Liabilities		2,806			
Total Fund Balances	34,494				
Total Revenues					
Total Expenditures	530,646	208,176			
Total Other Financing Sources (Uses)	565,140	208,176			