

**Southeast Arkansas Education Service Cooperative**

**Regulatory Basis Financial Statements  
and Other Reports**

**June 30, 2009**

LEGISLATIVE JOINT AUDITING COMMITTEE



SOUTHEAST ARKANSAS EDUCATION SERVICE COOPERATIVE  
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JUNE 30, 2009

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**Sen. Bobby L. Glover**  
Senate Co-Chair  
**Rep. Johnny Hoyt**  
House Co-Chair  
**Sen. Bill Pritchard**  
Senate Co-Vice Chair  
**Rep. Beverly Pyle**  
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, 2009, 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.

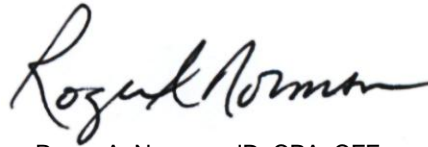
In our opinion, because of the effects of the matter discussed in the preceding paragraph, the financial statements referred to previously do not present fairly, in conformity with accounting principles generally accepted in the United States of America, the financial position of the Cooperative as of June 30, 2009, 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, 2009, 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 February 23, 2010 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

A handwritten signature in black ink, appearing to read "Roger A. Norman". The signature is fluid and cursive, with a large initial "R" and "N".

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

Little Rock, Arkansas  
February 23, 2010  
EDSC01509

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

### 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, 2009, which collectively comprise the Cooperative's regulatory basis financial statements, and have issued our report thereon dated February 23, 2010. 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, 2009, 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 2009-1 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, we consider the significant deficiency referred to above and described in the accompanying Schedule of Findings and Questioned Costs as item 2009-1 to be a material weakness.

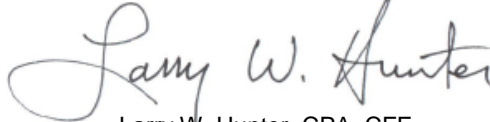
Compliance and Other Matters

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*.

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

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

Larry W. Hunter, CPA, CFE  
Deputy Legislative Auditor

Little Rock, Arkansas  
February 23, 2010

**Sen. Bobby L. Glover**  
Senate Co-Chair  
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# Arkansas



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

## LEGISLATIVE JOINT AUDITING COMMITTEE DIVISION OF LEGISLATIVE AUDIT

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

Southeast Arkansas Education Service Cooperative 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, 2009. 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, 2009.

#### 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.

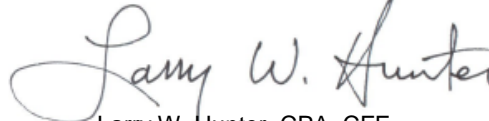
A *control deficiency* in an entity's internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect noncompliance with a type of compliance requirement of a federal 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 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  
February 23, 2010



SOUTHEAST ARKANSAS EDUCATION SERVICE COOPERATIVE  
BALANCE SHEET - REGULATORY BASIS  
JUNE 30, 2009

Exhibit A

	Governmental Funds			
	Major			Fiduciary Fund Types
	General	Special Revenue	Other Aggregate	
<b>ASSETS</b>				
Cash	\$ 3,593,674	\$ 912,436	\$ 34,494	\$ 336
Accounts receivable	305,011	344,247		
Due from other funds		10,291		
<b>TOTAL ASSETS</b>	<b>\$ 3,898,685</b>	<b>\$ 1,266,974</b>	<b>\$ 34,494</b>	<b>\$ 336</b>
<b>LIABILITIES AND FUND BALANCES</b>				
Liabilities:				
Accounts payable	\$ 224,737	\$ 66,812		
Due employee groups				\$ 336
Due to other funds	10,291			
<b>Total Liabilities</b>	<b>235,028</b>	<b>66,812</b>		<b>336</b>
Fund Balances:				
Reserved:				
Capital projects			\$ 34,494	
Unreserved:				
Undesignated	3,663,657	1,200,162		
<b>Total Fund Balances</b>	<b>3,663,657</b>	<b>1,200,162</b>	<b>34,494</b>	
<b>TOTAL LIABILITIES AND FUND BALANCES</b>	<b>\$ 3,898,685</b>	<b>\$ 1,266,974</b>	<b>\$ 34,494</b>	<b>\$ 336</b>

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

SOUTHEAST ARKANSAS EDUCATION SERVICE COOPERATIVE  
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES -  
GOVERNMENTAL FUNDS - REGULATORY BASIS  
FOR THE YEAR ENDED JUNE 30, 2009

Exhibit B

	Major		Other Aggregate
	General	Special Revenue	
REVENUES			
State assistance	\$ 5,462,482		
Federal assistance		\$ 3,564,855	
Investment income	55,097		
Other revenues	3,291,949	739,741	
<b>TOTAL REVENUES</b>	<b>8,809,528</b>	<b>4,304,596</b>	
EXPENDITURES			
Regular programs	529,207		
Special education	1,102,460	269,874	
Workforce education	683	241,231	
Adult/continuing education	406,345	321,780	
Compensatory education	850,018		
Other instructional programs		429	
Student support services	593,847	790,427	
Instructional staff support services	3,443,164	1,491,496	
General administration support services	245,512	64,141	
School administration support services	61,209		
Central services support services	371,555	225,617	
Operation and maintenance of plant services	143,827	53,952	
Student transportation services	11,289		
Community services operations	32,839	493,510	
Non-programmed costs		140	
Debt Service:			
Principal retirement	47,019	4,252	
Interest and fiscal charges	23,401	124	
<b>TOTAL EXPENDITURES</b>	<b>7,862,375</b>	<b>3,956,973</b>	
<b>EXCESS OF REVENUES OVER (UNDER) EXPENDITURES</b>	<b>947,153</b>	<b>347,623</b>	
FUND BALANCES - JULY 1	2,716,504	852,539	\$ 34,494
FUND BALANCES - JUNE 30	\$ 3,663,657	\$ 1,200,162	\$ 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, 2009

Exhibit C

	General			Special Revenue		
	Budget	Actual	Variance Favorable (Unfavorable)	Budget	Actual	Variance Favorable (Unfavorable)
REVENUES						
State assistance	\$ 4,330,919	\$ 5,462,482	\$ 1,131,563			
Federal assistance				\$ 5,272,788	\$ 3,564,855	\$ (1,707,933)
Activity revenues	4,000		(4,000)			
Investment income	103,727	55,097	(48,630)			
Other revenues	4,722,217	3,291,949	(1,430,268)	135,900	739,741	603,841
<b>TOTAL REVENUES</b>	<b>9,160,863</b>	<b>8,809,528</b>	<b>(351,335)</b>	<b>5,408,688</b>	<b>4,304,596</b>	<b>(1,104,092)</b>
EXPENDITURES						
Regular programs	86,493	529,207	(442,714)			
Special education	1,094,692	1,102,460	(7,768)	511,186	269,874	241,312
Workforce education	50,000	683	49,317	446,351	241,231	205,120
Adult/continuing education	441,506	406,345	35,161	306,322	321,780	(15,458)
Compensatory education	1,277,533	850,018	427,515			
Other instructional programs	1,773,608		1,773,608	1,668,663	429	1,668,234
Student support services	543,603	593,847	(50,244)	887,355	790,427	96,928
Instructional staff support services	3,203,963	3,443,164	(239,201)	958,381	1,491,496	(533,115)
General administration support services	289,356	245,512	43,844		64,141	(64,141)
School administration support services		61,209	(61,209)			
Central services support services	347,476	371,555	(24,079)	89,477	225,617	(136,140)
Operation and maintenance of plant services	216,733	143,827	72,906	50,228	53,952	(3,724)
Student transportation services	2,370	11,289	(8,919)			
Community services operations	26,100	32,839	(6,739)	490,725	493,510	(2,785)
Non-programmed costs					140	(140)
Activity expenditures	4,000		4,000			
Debt Service:						
Principal retirement	47,019	47,019			4,252	(4,252)
Interest and fiscal charges	23,401	23,401			124	(124)
<b>TOTAL EXPENDITURES</b>	<b>9,427,853</b>	<b>7,862,375</b>	<b>1,565,478</b>	<b>5,408,688</b>	<b>3,956,973</b>	<b>1,451,715</b>
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	(266,990)	947,153	1,214,143		347,623	347,623
FUND BALANCES - JULY 1	2,193,132	2,716,504	523,372	1,089,987	852,539	(237,448)
FUND BALANCES - JUNE 30	<u>\$ 1,926,142</u>	<u>\$ 3,663,657</u>	<u>\$ 1,737,515</u>	<u>\$ 1,089,987</u>	<u>\$ 1,200,162</u>	<u>\$ 110,175</u>

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

SOUTHEAST ARKANSAS EDUCATION SERVICE COOPERATIVE  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2009

**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). 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, 2009

**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, 2009

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

H. Budget and Budgetary Accounting (Continued)

Budgetary perspective differences are not considered to be significant, because the structure of the information utilized in preparing the budget and the applicable fund financial statements is essentially the same.

**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)	\$ 4,540,840	\$ 5,099,186

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

**3: ACCOUNTS RECEIVABLE**

The accounts receivable balance of \$649,258 at June 30, 2009 was comprised of the following:

Description	Governmental Funds		Total
	Major		
	General	Special Revenue	
State assistance	\$ 3,181		\$ 3,181
Federal assistance		\$ 227,619	227,619
Other	301,830	116,628	418,458
Totals	\$ 305,011	\$ 344,247	\$ 649,258

**4: COMMITMENTS**

The Cooperative was contractually obligated for the following at June 30, 2009:

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, 2009	Maturities To June 30, 2009
9/15/06	9/15/16	4.85%	\$ 550,000	\$ 436,632	\$ 113,368

SOUTHEAST ARKANSAS EDUCATION SERVICE COOPERATIVE  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2009

**4: COMMITMENTS (Continued)**

Long-term Debt Issued and Outstanding (Continued)

Changes in Long-term Debt

	Balance July 1, 2008	Issued	Retired	Balance June 30, 2009
Capital leases	\$ 487,903	\$ 0	\$ 51,271	\$ 436,632

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

Year Ended June 30,	Principal	Interest	Total
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	60,063	10,357	70,420
2015-2017	163,680	12,370	176,050
Totals	\$ 436,632	\$ 91,518	\$ 528,150

Capital Leases

The Cooperative has executed the following capital leases:

Class of Property	Asset Balance June 30, 2009
Land and building	\$ 550,000
	<u>June 30, 2009</u>
Total Minimum Lease Payments	\$ 528,150
Less: Amount Representing Interest	<u>91,518</u>
Total Present Value of Net Minimum Lease Payments	<u>\$ 436,632</u>

SOUTHEAST ARKANSAS EDUCATION SERVICE COOPERATIVE  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2009

**5: ACCOUNTS PAYABLE**

The accounts payable balance of \$291,549 at June 30, 2009 was comprised of the following:

Description	Governmental Funds		Total
	Major		
	General	Special Revenue	
Vendor payables	\$ 224,737	\$ 66,812	\$ 291,549

**6: RETIREMENT PLAN**

Arkansas Teacher Retirement System

Plan Description. The Cooperative contributes to the Arkansas Teacher Retirement System (ATRS), a cost-sharing multiple-employer defined benefit pension plan that covers all Arkansas public school employees, except certain nonteachers hired 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, 2009, 2008, and 2007 were \$619,051, \$578,990, and \$480,639, respectively. The Cooperative's contributions to ATRS for the years ended June 30, 2009, 2008, and 2007 were \$119,731, \$144,223, and \$149,129, respectively, equal to the required contributions for each year.

**7: 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 volunteer accident and liability and 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, 2009

**7: 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.

SOUTHEAST ARKANSAS EDUCATION SERVICE COOPERATIVE  
 SCHEDULE OF CAPITAL ASSETS  
 FOR THE YEAR ENDED JUNE 30, 2009  
 (Unaudited)

Schedule 1

	Balance June 30, 2009
<i>Nondepreciable capital assets:</i>	
Land	\$ 57,730
<i>Depreciable capital assets:</i>	
Buildings	2,428,583
Improvements/infrastructure	171,332
Equipment	1,481,495
Total depreciable capital assets	4,081,410
Less accumulated depreciation for:	
Buildings	438,963
Improvements/infrastructure	17,999
Equipment	903,428
Total accumulated depreciation	1,360,390
Total depreciable capital assets, net	2,721,020
Capital assets, net	\$ 2,778,750

SOUTHEAST ARKANSAS EDUCATION SERVICE COOPERATIVE  
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
FOR THE YEAR ENDED JUNE 30, 2009

Schedule 2

Federal Grantor/Pass-Through Grantor/Program or Cluster Title	Federal CFDA Number	Pass-Through Entity Identifying Number	Federal Expenditures
<b>SPECIAL EDUCATION CLUSTER (IDEA)</b>			
<u>U. S. Department of Education</u>			
Passed Through State Department of Education:			
Special Education - Grants to States	84.027	22-20	\$ 470,774
Special Education - Preschool Grants	84.173	22-20	<u>314,679</u>
TOTAL SPECIAL EDUCATION CLUSTER (IDEA)			<u>785,453</u>
<b>OTHER PROGRAMS</b>			
<u>U. S. Department of Education</u>			
Passed Through State Department of Workforce Education:			
Adult Education - Basic Grants to States	84.002	22-20	641,321
Career and Technical Education - Basic Grants to States	84.048	22-20	<u>446,471</u>
Total State Department of Workforce Education			<u>1,087,792</u>
Passed Through State Department of Education:			
Title I Grants to Local Educational Agencies	84.010	22-20	3,127
Education Technology State Grants	84.318	22-20	227,537
Reading First State Grants	84.357	22-20	273,432
English Language Acquisition Grants	84.365	22-20	74,352
Mathematics and Science Partnerships	84.366	22-20	<u>105,682</u>
Total State Department of Education			<u>684,130</u>
Total U. S. Department of Education			<u>1,771,922</u>
<u>Corporation for National and Community Service</u>			
Foster Grandparent Program	94.011		<u>439,016</u>
Passed Through State Department of Human Services:			
AmeriCorps	94.006	06ACHAR0010003	527,001
Program Development and Innovation Grants	94.007	07ESHAR0010001	<u>18,986</u>
Total State Department of Human Services			<u>545,987</u>
Total Corporation for National and Community Service			<u>985,003</u>
TOTAL OTHER PROGRAMS			<u>2,756,925</u>
TOTAL EXPENDITURES OF FEDERAL AWARDS			<u>\$ 3,542,378</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, 2009, the Cooperative received Medicaid funding of \$22,692 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, 2009

Schedule 3

**SECTION II - FINANCIAL STATEMENT FINDINGS**

**MATERIAL WEAKNESS**

2009-1. 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, 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, were 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 one hundred percent segregation of duties.

**SECTION III - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS**

No findings and questioned costs noted.

SOUTHEAST ARKANSAS EDUCATION SERVICE COOPERATIVE  
FEDERAL AWARD PROGRAMS -  
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS  
FOR THE YEAR ENDED JUNE 30, 2009

Schedule 4

U. S. DEPARTMENT OF EDUCATION  
PASSED THROUGH STATE DEPARTMENT OF EDUCATION  
SPECIAL EDUCATION CLUSTER (IDEA)

2008 - Finding 2008-2: Special Education Cluster (IDEA) - CFDA Numbers 84.027 and 84.173

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

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

Current Status: Corrective action was taken.

SOUTHEAST ARKANSAS EDUCATION SERVICE COOPERATIVE  
SCHEDULE OF SELECTED INFORMATION FOR THE LAST FIVE YEARS - REGULATORY BASIS  
FOR THE YEAR ENDED JUNE 30, 2009  
(Unaudited)

Schedule 5

	Year Ended June 30,				
	2009	2008	2007	2006	2005
<b><u>General Fund</u></b>					
Total Assets	\$ 3,898,685	\$ 2,849,089	\$ 2,694,187	\$ 2,188,476	\$ 1,938,400
Total Liabilities	235,028	132,585	137,664	156,406	10,469
Total Fund Balances	3,663,657	2,716,504	2,556,523	2,032,070	1,927,931
Total Revenues	8,809,528	8,504,104	7,068,902	6,666,352	6,521,986
Total Expenditures	7,862,375	7,778,983	6,864,791	6,574,273	5,938,781
Total Other Financing Sources (Uses)		(565,140)	319,136	12,060	(973)
<b><u>Special Revenue Fund</u></b>					
Total Assets	1,266,974	1,547,703	720,130	607,652	334,312
Total Liabilities	66,812	695,164	2,894	205,693	14,362
Total Fund Balances	1,200,162	852,539	717,236	401,959	319,950
Total Revenues	4,304,596	4,548,621	4,587,881	4,043,429	4,356,713
Total Expenditures	3,956,973	4,413,318	4,244,703	3,961,420	4,285,113
Total Other Financing Sources (Uses)			(27,901)		(12,683)
<b><u>Other Aggregate Funds</u></b>					
Total Assets	34,494	34,494	2,806		
Total Liabilities			2,806		
Total Fund Balances	34,494	34,494			
Total Revenues					
Total Expenditures		530,646	208,176		
Total Other Financing Sources (Uses)		565,140	208,176		