

Southeast Arkansas Education Service Cooperative

Regulatory Basis Financial Statements and Other Reports

June 30, 2010

LEGISLATIVE JOINT AUDITING COMMITTEE



SOUTHEAST ARKANSAS EDUCATION SERVICE COOPERATIVE
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Sen. Bill Pritchard
Senate Chair
Rep. Tim Summers
House Chair
Sen. David Wyatt
Senate Vice Chair
Rep. Toni Bradford
House 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, 2010, 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.

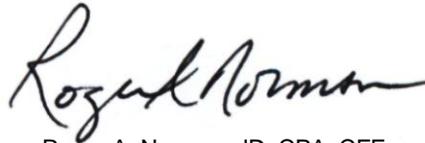
In our opinion, because of the effects of the matter discussed in the preceding paragraph, the financial statements referred to previously do not present fairly, in conformity with accounting principles generally accepted in the United States of America, the financial position of the Cooperative as of June 30, 2010, 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, 2010, and the respective changes in financial position thereof and the respective budgetary comparison for the general and special revenue funds 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 14, 2011 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".

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

Little Rock, Arkansas
February 14, 2011
EDSC01510

Sen. Bill Pritchard
Senate Chair
Rep. Tim Summers
House Chair
Sen. David Wyatt
Senate Vice Chair
Rep. Toni Bradford
House 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, 2010, which collectively comprise the Cooperative's regulatory basis financial statements, and have issued our report thereon dated February 14, 2011. 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, 2010, and the respective changes in financial position thereof and the respective budgetary comparison for the general and special revenue funds 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 was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses, and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as described in the accompanying Schedule of Findings and Questioned Costs, we identified certain deficiencies in internal control over financial reporting that we consider to be material weaknesses.

A *deficiency in internal control* 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 and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the Cooperative's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies described in the accompanying Schedule of Findings and Questioned Costs as items 2010-1 and 2010-2 to be material weaknesses.

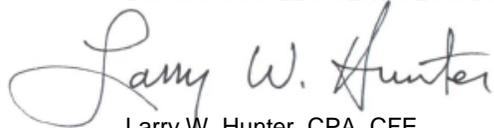
Compliance and Other Matters

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 responses to the findings identified in our audit are described in the accompanying Schedule of Findings and Questioned Costs. We did not audit the Cooperative's responses and, accordingly, we express no opinion on the responses.

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 Ark. Code Ann. § 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 14, 2011

Sen. Bill Pritchard
Senate 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 THAT COULD HAVE A DIRECT AND MATERIAL EFFECT ON 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 Southeast Arkansas Education Service Cooperative's (the "Cooperative") compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2010. 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 compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2010.

Internal Control Over Compliance

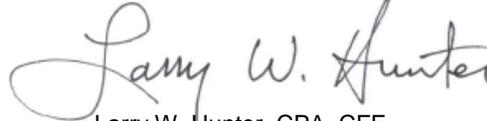
The management of the Cooperative is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the Cooperative's internal control over compliance with the requirements that could have a direct and material effect on a major federal program to determine the auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, 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 *deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be deficiencies, 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 Ark. Code Ann. § 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". The signature is written in dark ink and is positioned above the printed name and title.

Larry W. Hunter, CPA, CFE
Deputy Legislative Auditor

Little Rock, Arkansas
February 14, 2011

SOUTHEAST ARKANSAS EDUCATION SERVICE COOPERATIVE
BALANCE SHEET - REGULATORY BASIS
JUNE 30, 2010

Exhibit A

	Governmental Funds			
	Major			Fiduciary Fund Types
	General	Special Revenue	Other Aggregate	
ASSETS				
Cash	\$ 3,181,166	\$ 1,680,096	\$ 300,099	\$ 1,070
Accounts receivable	404,119	542,514		
Due from other funds		4,166		
TOTAL ASSETS	\$ 3,585,285	\$ 2,226,776	\$ 300,099	\$ 1,070
LIABILITIES AND FUND BALANCES				
Liabilities:				
Accounts payable	\$ 72,154	\$ 151,100		
Due employee groups				\$ 1,070
Due to other funds	4,166			
Total Liabilities	76,320	151,100		1,070
Fund Balances:				
Reserved:				
Capital projects			\$ 34,494	
Unreserved:				
Designated:				
Capital projects			265,605	
Undesignated	3,508,965	2,075,676		
Total Fund Balances	3,508,965	2,075,676	300,099	
TOTAL LIABILITIES AND FUND BALANCES	\$ 3,585,285	\$ 2,226,776	\$ 300,099	\$ 1,070

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, 2010

Exhibit B

	Major		Other Aggregate
	General	Special Revenue	
REVENUES			
State assistance	\$ 5,489,517		
Federal assistance		\$ 4,814,518	
Investment income	38,329		
Other revenues	3,408,623	678,122	
TOTAL REVENUES	8,936,469	5,492,640	
EXPENDITURES			
Regular programs	426,431		
Special education	1,131,428	419,930	
Workforce education		361,989	
Adult/continuing education	491,499	353,369	
Compensatory education	902,028		
Student support services	608,716	833,819	
Instructional staff support services	2,919,330	1,311,460	
General administration support services	1,045,348	51,690	
School administration support services	41,908		
Central services support services	992,198	571,156	
Operation and maintenance of plant services	163,415	48,845	
Student transportation services	7,536		
Community services operations	22,006	485,406	
Facilities acquisition and construction services		177,971	
Debt Service:			
Principal retirement	49,379		
Interest and fiscal charges	21,041		
TOTAL EXPENDITURES	8,822,263	4,615,635	
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	114,206	877,005	
OTHER FINANCING SOURCES (USES)			
Refund to grantor	(3,293)	(1,491)	
Transfers in			\$ 265,605
Transfers out	(265,605)		
TOTAL OTHER FINANCING SOURCES (USES)	(268,898)	(1,491)	265,605
EXCESS OF REVENUES AND OTHER SOURCES OVER (UNDER) EXPENDITURES AND OTHER USES	(154,692)	875,514	265,605
FUND BALANCES - JULY 1	3,663,657	1,200,162	34,494
FUND BALANCES - JUNE 30	\$ 3,508,965	\$ 2,075,676	\$ 300,099

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, 2010

Exhibit C

	General			Special Revenue		
	Budget	Actual	Variance Favorable (Unfavorable)	Budget	Actual	Variance Favorable (Unfavorable)
REVENUES						
State assistance	\$ 5,314,832	\$ 5,489,517	\$ 174,685			
Federal assistance				\$ 4,060,119	\$ 4,814,518	\$ 754,399
Activity revenues	4,000		(4,000)			
Investment income	60,000	38,329	(21,671)			
Other revenues	3,327,369	3,408,623	81,254		678,122	678,122
TOTAL REVENUES	8,706,201	8,936,469	230,268	4,060,119	5,492,640	1,432,521
EXPENDITURES						
Regular programs	441,131	426,431	14,700			
Special education	1,161,560	1,131,428	30,132	463,450	419,930	43,520
Workforce education				346,850	361,989	(15,139)
Adult/continuing education	300,279	491,499	(191,220)	300,436	353,369	(52,933)
Compensatory education	912,973	902,028	10,945			
Student support services	593,580	608,716	(15,136)	942,692	833,819	108,873
Instructional staff support services	5,784,454	2,919,330	2,865,124	2,146,818	1,311,460	835,358
General administration support services	465,927	1,045,348	(579,421)	46,730	51,690	(4,960)
School administration support services	83,979	41,908	42,071			
Central services support services	410,690	992,198	(581,508)	165	571,156	(570,991)
Operation and maintenance of plant services	212,157	163,415	48,742	7,400	48,845	(41,445)
Student transportation services	12,545	7,536	5,009			
Community services operations	73,252	22,006	51,246	438,851	485,406	(46,555)
Facilities acquisition and construction services				416,148	177,971	238,177
Activity expenditures	4,000		4,000			
Debt Service:						
Principal retirement	49,379	49,379				
Interest and fiscal charges	21,041	21,041				
TOTAL EXPENDITURES	10,526,947	8,822,263	1,704,684	5,109,540	4,615,635	493,905

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, 2010

Exhibit C

	General			Special Revenue		
	Budget	Actual	Variance Favorable (Unfavorable)	Budget	Actual	Variance Favorable (Unfavorable)
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	\$ (1,820,746)	\$ 114,206	\$ 1,934,952	\$ (1,049,421)	\$ 877,005	\$ 1,926,426
OTHER FINANCING SOURCES (USES)						
Refund to grantor		(3,293)			(1,491)	
Transfers out		(265,605)	(265,605)			
TOTAL OTHER FINANCING SOURCES (USES)		(268,898)	(265,605)		(1,491)	
EXCESS OF REVENUES AND OTHER SOURCES OVER (UNDER) EXPENDITURES AND OTHER USES	(1,820,746)	(154,692)	1,669,347	(1,049,421)	875,514	1,926,426
FUND BALANCES - JULY 1	3,777,280	3,663,657	(113,623)	1,158,571	1,200,162	41,591
FUND BALANCES - JUNE 30	\$ 1,956,534	\$ 3,508,965	\$ 1,552,431	\$ 109,150	\$ 2,075,676	\$ 1,968,017

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

SOUTHEAST ARKANSAS EDUCATION SERVICE COOPERATIVE
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2010

1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Reporting Entity

The Board of Education, a 14 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 Ark. Code Ann. § 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, 2010

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. Designated fund balance - represents that portion of the fund balance which indicates tentative plans for financial resource utilization in a future period.
3. 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, 2010

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)	\$ 254,943	\$ 254,943
Collateralized:		
Collateral held by the pledging bank or pledging bank's trust department in the Cooperative's name	4,903,988	4,903,988
Uninsured, Uncollateralized	3,400	598,926
Total Deposits	\$ 5,162,331	\$ 5,757,858

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. At June 30, 2010, \$598,926 of the Cooperative's bank balance of \$5,757,858 was exposed to custodial credit risk as follows:

Uninsured and uncollateralized	<u>\$598,926</u>
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SOUTHEAST ARKANSAS EDUCATION SERVICE COOPERATIVE
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2010

3: ACCOUNTS RECEIVABLE

The accounts receivable balance of \$946,633 at June 30, 2010 was comprised of the following:

Description	Governmental Funds		Total
	General	Special Revenue	
State assistance	\$ 7,200		\$ 7,200
Federal assistance		\$ 366,555	366,555
Other	396,919	175,959	572,878
Totals	\$ 404,119	\$ 542,514	\$ 946,633

4: COMMITMENTS

The Cooperative was contractually obligated for the following at June 30, 2010:

A. Construction Contract

Project Name	Estimated Completion Date	Contract Balance
Second floor finish-out and elevator addition	February 15, 2011	\$ 280,630

B. Long-term Debt Issued and Outstanding

The Cooperative is presently paying on the following long-term debt:

Date of Issue	Date of Final Maturity	Rate of Interest	Amount Authorized and Issued	Debt Outstanding June 30, 2010	Maturities To June 30, 2010
9/15/06	9/15/16	4.85%	\$ 550,000	\$ 387,253	\$ 162,747

Changes in Long-term Debt

	Balance July 1, 2009	Issued	Retired	Balance June 30, 2010
Capital leases	\$ 436,632	\$ 0	\$ 49,379	\$ 387,253

SOUTHEAST ARKANSAS EDUCATION SERVICE COOPERATIVE
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2010

4: COMMITMENTS (Continued)

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

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

Year Ended June 30,	Principal	Interest	Total
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	63,078	7,342	70,420
2016-2017	100,602	5,028	105,630
Totals	<u>\$ 387,253</u>	<u>\$ 70,477</u>	<u>\$ 457,730</u>

Capital Leases

The Cooperative has executed the following capital leases:

Class of Property	Asset Balance June 30, 2010
Land and building	<u>\$ 550,000</u>
	<u>June 30, 2010</u>
Total Minimum Lease Payments	\$ 457,730
Less: Amount Representing Interest	<u>70,477</u>
Total Present Value of Net Minimum Lease Payments	<u>\$ 387,253</u>

5: ACCOUNTS PAYABLE

The accounts payable balance of \$223,254 at June 30, 2010 was comprised of the following:

Description	Governmental Funds		Total
	Major		
	General	Special Revenue	
Vendor payables	\$ 72,154	\$ 151,100	\$ 223,254

SOUTHEAST ARKANSAS EDUCATION SERVICE COOPERATIVE
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2010

6: INTERFUND TRANSFERS

The Cooperative transferred \$265,605 from the general fund to the other aggregate fund for future capital expenditures.

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, 2010, 2009, and 2008 were \$696,768, \$619,051, and \$578,990, respectively. The Cooperative's contributions to ATRS for the years ended June 30, 2010, 2009, and 2008 were \$110,901, \$119,731, and \$144,223, 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 and volunteer accident and liability. Settled claims have not exceeded this commercial coverage in any of the past three fiscal years. There were no significant reductions in insurance coverage from the prior year in the major categories of risk.

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

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

SOUTHEAST ARKANSAS EDUCATION SERVICE COOPERATIVE
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2010

8: RISK MANAGEMENT (Continued)

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.

9: ON-BEHALF PAYMENTS

The allocation of the health insurance premiums paid by the Arkansas Department of Education to the Employee Benefits Division, on-behalf of the Cooperative's employees, totaled \$109,259 for the year ended June 30, 2010.

SOUTHEAST ARKANSAS EDUCATION SERVICE COOPERATIVE
 SCHEDULE OF CAPITAL ASSETS
 FOR THE YEAR ENDED JUNE 30, 2010
 (Unaudited)

Schedule 1

	Balance June 30, 2010
<i>Nondepreciable capital assets:</i>	
Land	\$ 57,730
Construction in progress	177,971
Total nondepreciable capital assets	235,701
 <i>Depreciable capital assets:</i>	
Buildings	2,428,583
Improvements/infrastructure	171,332
Equipment	1,715,396
Total depreciable capital assets	4,315,311
 Less accumulated depreciation for:	
Buildings	488,055
Improvements/infrastructure	26,566
Equipment	989,625
Total accumulated depreciation	1,504,246
Total depreciable capital assets, net	2,811,065
Capital assets, net	\$ 3,046,766

SOUTHEAST ARKANSAS EDUCATION SERVICE COOPERATIVE
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2010

Schedule 2

Federal Grantor/Pass-Through Grantor/Program or Cluster Title	Federal CFDA Number	Pass-Through Entity Identifying Number	Federal Expenditures
SPECIAL EDUCATION CLUSTER (IDEA)			
<u>U. S. Department of Education</u>			
Passed Through State Department of Education:			
Special Education - Grants to States	84.027	22-20	\$ 290,110
Special Education - Preschool Grants	84.173	22-20	525,606
ARRA - Special Education - Preschool Grants, Recovery Act	84.392	22-20	<u>177,972</u>
TOTAL SPECIAL EDUCATION CLUSTER (IDEA)			<u>993,688</u>
EDUCATION TECHNOLOGY STATE GRANTS CLUSTER			
<u>U. S. Department of Education</u>			
Passed Through State Department of Education:			
Education Technology State Grants	84.318	22-20	241,030
ARRA - Education Technology State Grants, Recovery Act	84.386	22-20	<u>547,094</u>
TOTAL EDUCATION TECHNOLOGY STATE GRANTS CLUSTER			<u>788,124</u>
OTHER PROGRAMS			
<u>U. S. Department of Education</u>			
Passed Through State Department of Career Education:			
Adult Education - Basic Grants to States	84.002	22-20	642,836
Career and Technical Education - Basic Grants to States	84.048	22-20	187,844
Tech-Prep Education	84.243	22-20	<u>225,834</u>
Total State Department of Career Education			<u>1,056,514</u>
Passed Through State Department of Education:			
Title I Grants to Local Educational Agencies	84.010	22-20	1,525
Charter Schools	84.282	22-20	453
Twenty-First Century Community Learning Centers	84.287	22-20	644
Reading First State Grants	84.357	22-20	230,476
English Language Acquisition Grants	84.365	22-20	<u>79,824</u>
Total State Department of Education			<u>312,922</u>
Total U. S. Department of Education			<u>1,369,436</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	09ACHAR0010001	486,149
Program Development and Innovation Grants	94.007	07ESHAR0010001	<u>23,526</u>
Total State Department of Human Services			<u>509,675</u>
Total Corporation for National and Community Service			<u>948,691</u>
TOTAL OTHER PROGRAMS			<u>2,318,127</u>
TOTAL EXPENDITURES OF FEDERAL AWARDS			<u>\$ 4,099,939</u>

The accompanying notes are an integral part of this schedule.

SOUTHEAST ARKANSAS EDUCATION SERVICE COOPERATIVE
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2010

Schedule 2

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, 2010, the Cooperative received Medicaid funding of \$19,962 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, 2010

Schedule 3

SECTION II - FINANCIAL STATEMENT FINDINGS

MATERIAL WEAKNESSES

2010-1. 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 a reasonable possibility that a material misstatement of the Cooperative's financial statements would not be prevented, or detected and corrected on a timely basis. The Cooperative has not adequately segregated financial accounting duties related to cash, accounts receivable, revenues, payroll and non-payroll expenses 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 inattention, lack of understanding of management responsibilities, and cost/benefit implications, which hindered the Cooperative's ability to hire sufficient appropriate personnel, 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.

SOUTHEAST ARKANSAS EDUCATION SERVICE COOPERATIVE
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2010

Schedule 3

SECTION II - FINANCIAL STATEMENT FINDINGS (Continued)

MATERIAL WEAKNESSES (Continued)

2010-2. Misstatements not Detected by Internal Control System

Criteria: Financial accounting records should be accurate to ensure the preparation of reliable financial statements that are fairly presented in conformity with the regulatory basis of accounting.

Condition: The Cooperative's internal control system did not prevent or detect material errors in the financial accounting records. Such records are utilized in the preparation of the Cooperative's financial statements. The Cooperative improperly recorded revenues of \$570,000 in the special revenue fund instead of the general fund. Additionally, the special revenue fund accounts receivable was overstated by \$356,940. The financial statements were subsequently corrected by adjusting entries during audit fieldwork.

Context: Identification of misstatements not initially detected by the Cooperative's internal control and necessary adjustments to the accounting records.

Effect: Misstatements were not detected by the Cooperative's internal control system.

Cause: Financial accounting records had not been properly monitored.

Recommendation: To achieve reliable and accurate financial accounting records, the Cooperative should exercise due care to ensure all transactions are properly recorded in the general ledger.

Views of responsible officials and planned corrective actions: The \$570,000 revenue that was incorrectly coded to the special revenue fund has been corrected and coded to the correct general fund. The incorrect coding of accounts receivable of \$356,940 has been corrected. Of this amount, \$352,774 was coded to the wrong Americorp fund and has been corrected. The remaining \$4,166 was coded to base and should have been coded to Senior Citizens. This has been corrected and coded to the correct fund.

SECTION III - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

No matters were reported.

SOUTHEAST ARKANSAS EDUCATION SERVICE COOPERATIVE
FEDERAL AWARD PROGRAMS -
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE YEAR ENDED JUNE 30, 2010

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, 2010
(Unaudited)

Schedule 5

General Fund	Year Ended June 30,				
	2010	2009	2008	2007	2006
Total Assets	\$ 3,585,285	\$ 3,898,685	\$ 2,849,089	\$ 2,694,187	\$ 2,188,476
Total Liabilities	76,320	235,028	132,585	137,664	156,406
Total Fund Balances	3,508,965	3,663,657	2,716,504	2,556,523	2,032,070
Total Revenues	8,936,469	8,809,528	8,504,104	7,068,902	6,666,352
Total Expenditures	8,822,263	7,862,375	7,778,983	6,864,791	6,574,273
Total Other Financing Sources (Uses)	(268,898)		(565,140)	319,136	12,060
 Special Revenue Fund					
Total Assets	2,226,776	1,266,974	1,547,703	720,130	607,652
Total Liabilities	151,100	66,812	695,164	2,894	205,693
Total Fund Balances	2,075,676	1,200,162	852,539	717,236	401,959
Total Revenues	5,492,640	4,304,596	4,548,621	4,587,881	4,043,429
Total Expenditures	4,615,635	3,956,973	4,413,318	4,244,703	3,961,420
Total Other Financing Sources (Uses)	(1,491)			(27,901)	
 Other Aggregate Funds					
Total Assets	300,099	34,494	34,494	2,806	
Total Liabilities				2,806	
Total Fund Balances	300,099	34,494	34,494		
Total Revenues					
Total Expenditures			530,646	208,176	
Total Other Financing Sources (Uses)	265,605		565,140	208,176	