

Southeast Arkansas Education Service Cooperative

**Regulatory Basis Financial Statements
and Other Reports**

June 30, 2012

LEGISLATIVE JOINT AUDITING COMMITTEE



SOUTHEAST ARKANSAS EDUCATION SERVICE COOPERATIVE
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Sen. Bryan B. King
Senate Chair
Rep. Kim Hammer
House Chair
Sen. Linda Chesterfield
Senate Vice Chair
Rep. John W. Walker
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, 2012, 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, 2012, 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, 2012, 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 March 12, 2013 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 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), and Federal Award Programs - Summary Schedule of Prior Audit Findings (Schedule 4) are presented for purposes of additional analysis and are not a required part of the regulatory basis financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the regulatory basis financial statements. The information has been subjected to the auditing procedures applied in the audit of the regulatory basis financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the regulatory basis financial statements or to the regulatory basis financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, 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) are fairly stated in all material respects in relation to the regulatory basis financial statements taken as a whole.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's regulatory basis financial statements. The Schedule of Capital Assets (Schedule 1) and the Schedule of Selected Information for the Last Five Years - Regulatory Basis (Schedule 5) are presented for the purposes of additional analysis and are not a required part of the regulatory basis financial statements. Such information has not been subjected to the auditing procedures applied in the audit of the regulatory basis financial statements, and accordingly, we do not express an opinion or provide any assurance on them.

DIVISION OF LEGISLATIVE AUDIT



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

Little Rock, Arkansas
March 12, 2013
EDSC01512

Sen. Bryan B. King
Senate Chair
Rep. Kim Hammer
House Chair
Sen. Linda Chesterfield
Senate Vice Chair
Rep. John W. Walker
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, 2012, which collectively comprise the Cooperative's regulatory basis financial statements, and have issued our report thereon dated March 12, 2013. 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, 2012, 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

Management of the Cooperative is responsible for establishing and maintaining effective 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.

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 or corrected on a timely basis.

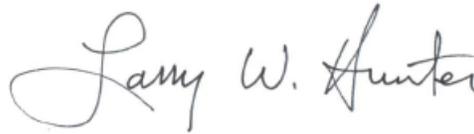
Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material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

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*.

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
March 12, 2013

Sen. Bryan B. King
Senate Chair
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House 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

INDEPENDENT AUDITOR'S REPORT

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

Compliance

We have audited the Southeast Arkansas Education Service Cooperative (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 the Cooperative's major federal programs for the year ended June 30, 2012. 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, 2012.

Internal Control Over Compliance

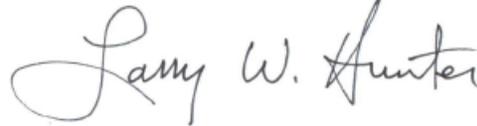
Management of the Cooperative is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the Cooperative's internal control 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 black ink and is centered below the title "DIVISION OF LEGISLATIVE AUDIT".

Larry W. Hunter, CPA, CFE
Deputy Legislative Auditor

Little Rock, Arkansas
March 12, 2013

SOUTHEAST ARKANSAS EDUCATION SERVICE COOPERATIVE
BALANCE SHEET - REGULATORY BASIS
JUNE 30, 2012

Exhibit A

	Governmental Funds			
	Major			Fiduciary Fund Types
	General	Special Revenue	Other Aggregate	
ASSETS				
Cash	\$ 3,121,365	\$ 1,164,312	\$ 612,089	\$ 1,392
Accounts receivable	316,987	554,243		
TOTAL ASSETS	<u>\$ 3,438,352</u>	<u>\$ 1,718,555</u>	<u>\$ 612,089</u>	<u>\$ 1,392</u>
LIABILITIES AND FUND BALANCES				
Liabilities:				
Accounts payable and accrued liabilities	\$ 178,876	\$ 19,563		
Due employee groups				\$ 1,392
Total Liabilities	<u>178,876</u>	<u>19,563</u>		<u>1,392</u>
Fund Balances:				
Restricted	1,904,175	1,698,992		
Assigned	436,287		\$ 612,089	
Unassigned	919,014			
Total Fund Balances	<u>3,259,476</u>	<u>1,698,992</u>	<u>612,089</u>	
TOTAL LIABILITIES AND FUND BALANCES	<u>\$ 3,438,352</u>	<u>\$ 1,718,555</u>	<u>\$ 612,089</u>	<u>\$ 1,392</u>

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

SOUTHEAST ARKANSAS EDUCATION SERVICE COOPERATIVE
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES -
GOVERNMENTAL FUNDS - REGULATORY BASIS
FOR THE YEAR ENDED JUNE 30, 2012

Exhibit B

	Major		Other Aggregate
	General	Special Revenue	
REVENUES			
State assistance	\$ 6,042,885		
Federal assistance		\$ 3,332,022	
Investment income	28,609		
Other revenues	3,844,790	1,090,662	
TOTAL REVENUES	9,916,284	4,422,684	
EXPENDITURES			
Regular programs	602,503		
Special education	929,454	413,824	
Workforce education programs		306,180	
Adult/continuing education program	122,193	511,750	
Compensatory education programs	1,003,633	9,947	
Student support services	779,971	1,019,077	
Instructional staff support services	2,936,442	997,188	
General administration support services	856,798	40,585	
School administration support services	40,308		
Central services support services	1,531,123	382,759	
Operation and maintenance of plant services	175,683	48,659	
Community services operations	21,917	476,987	
Non-programmed costs	329,486	150,387	
Debt Service:			
Principal retirement	54,460		
Interest and fiscal charges	17,340		
TOTAL EXPENDITURES	9,401,311	4,357,343	
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	514,973	65,341	
OTHER FINANCING SOURCES (USES)			
Transfers in			\$ 60,000
Transfers out	(60,000)		
Early retirement of debt	(280,936)		
Refund to grantor	(29,102)	(3,060)	
TOTAL OTHER FINANCING SOURCES (USES)	(370,038)	(3,060)	60,000
EXCESS OF REVENUES AND OTHER SOURCES OVER (UNDER) EXPENDITURES AND OTHER USES	144,935	62,281	60,000
FUND BALANCES - JULY 1	3,114,541	1,636,711	552,089
FUND BALANCES - JUNE 30	\$ 3,259,476	\$ 1,698,992	\$ 612,089

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, 2012

Exhibit C

	General			Special Revenue		
	Budget	Actual	Variance Favorable (Unfavorable)	Budget	Actual	Variance Favorable (Unfavorable)
REVENUES						
State assistance	\$ 5,543,760	\$ 6,042,885	\$ 499,125			
Federal assistance				\$ 4,703,978	\$ 3,332,022	\$ (1,371,956)
Investment income	35,000	28,609	(6,391)			
Other revenues	5,099,477	3,844,790	(1,254,687)		1,090,662	1,090,662
TOTAL REVENUES	10,678,237	9,916,284	(761,953)	4,703,978	4,422,684	(281,294)
EXPENDITURES						
Regular programs	661,573	602,503	59,070			
Special education	1,144,734	929,454	215,280	521,315	413,824	107,491
Workforce education programs				305,266	306,180	(914)
Adult/continuing education program	142,552	122,193	20,359	546,494	511,750	34,744
Compensatory education programs	1,008,837	1,003,633	5,204	33,759	9,947	23,812
Student support services	791,128	779,971	11,157	1,561,760	1,019,077	542,683
Instructional staff support services	3,939,185	2,936,442	1,002,743	1,850,578	997,188	853,390
General administration support services	985,666	856,798	128,868	42,177	40,585	1,592
School administration support services	39,562	40,308	(746)			
Central services support services	1,369,034	1,531,123	(162,089)	382,759	382,759	
Operation and maintenance of plant services	260,675	175,683	84,992		48,659	(48,659)
Community services operations	87,542	21,917	65,625	427,334	476,987	(49,653)
Non-programmed costs	366,252	329,486	36,766	178,230	150,387	27,843
Debt Service:						
Principal retirement	51,857	54,460	(2,603)			
Interest and fiscal charges	18,563	17,340	1,223			
TOTAL EXPENDITURES	10,867,160	9,401,311	1,465,849	5,849,672	4,357,343	1,492,329

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, 2012

Exhibit C

	General			Special Revenue		
	Budget	Actual	Variance Favorable (Unfavorable)	Budget	Actual	Variance Favorable (Unfavorable)
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	\$ (188,923)	\$ 514,973	\$ 703,896	\$ (1,145,694)	\$ 65,341	\$ 1,211,035
OTHER FINANCING SOURCES (USES)						
Transfers in	143,879		(143,879)			
Transfers out		(60,000)	(60,000)			
Early retirement of debt		(280,936)	(280,936)			
Refund to grantor		(29,102)	(29,102)		(3,060)	(3,060)
TOTAL OTHER FINANCING SOURCES (USES)	143,879	(370,038)	(513,917)		(3,060)	(3,060)
EXCESS OF REVENUES AND OTHER SOURCES OVER (UNDER) EXPENDITURES AND OTHER USES	(45,044)	144,935	189,979	(1,145,694)	62,281	1,207,975
FUND BALANCES - JULY 1	3,079,013	3,114,541	35,528	1,688,384	1,636,711	(51,673)
FUND BALANCES - JUNE 30	\$ 3,033,969	\$ 3,259,476	\$ 225,507	\$ 542,690	\$ 1,698,992	\$ 1,156,302

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

SOUTHEAST ARKANSAS EDUCATION SERVICE COOPERATIVE
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012

1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Reporting Entity

The Board of Education, a fourteen 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 used to account for and report all financial resources not accounted for and reported in another fund.

Special Revenue Fund - The Special Revenue Fund is used to account for and report the proceeds of specific revenue sources that are restricted or committed to expenditure for specified purposes other than debt service or capital projects. The Special Revenue Fund includes federal revenues and related expenditures, restricted for specific educational programs or projects. If applicable, the Special Revenue Fund also includes required matching for those federal programs, program income required to be used to further the objectives of those programs, and transfers from the general fund to supplement such programs.

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

Capital Projects Fund – The Capital Projects Fund is used to account for and report financial resources that are restricted, committed, or assigned to expenditure for capital outlays including the acquisition or construction of capital facilities and other capital assets. The Capital Projects Fund excludes those types of capital-related outflows financed by proprietary funds or for assets that will be held in trust 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, 2012

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	25-50
Equipment	5-20

F. Fund Balance Designations

1. Restricted fund balance – represents amounts that are restricted to specific purposes when constraints placed on the use of resources are either (a) externally imposed by creditors (such as through bond covenants), grantors, contributors, or laws or regulations of other governments; or (b) imposed by law through constitutional provisions or enabling legislation.
2. Assigned fund balance – represents amounts that are constrained by the Cooperative’s *intent* to be used for specific purposes, but are neither restricted nor committed.
3. Unassigned fund balance – represents amounts that have not been assigned to other funds and that has not been restricted, committed, or assigned to specific purposes within the general fund. This classification can also include negative amounts in other governmental funds, if expenditures incurred for specific purposes exceeded the amounts restricted, committed, or assigned to those purposes.

G. 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, 2012

1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

G. Budget and Budgetary Accounting (Continued)

The Cooperative budgets intra-fund transfers. Significant variances may result in the comparison of transfers at the Statement of Revenues, Expenditures and Changes in Fund Balances - Budget and Actual - General and Special Revenue Funds - Regulatory Basis because only interfund transfers are reported at the Statement of Revenues, Expenditures, and Changes in Fund Balances - Governmental Funds - Regulatory Basis.

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

H. Stabilization Arrangements

The Cooperative's Board of Education has not formally set aside amounts for use in emergency situations or when revenue shortages or budgetary imbalances arise.

I. Minimum Fund Balance Policies

The Cooperative's Board of Education has not formally adopted a minimum fund balance policy.

J. Fund Balance Classification Policies and Procedures

The Director, in conjunction with other management and accounting personnel, is authorized to assign amounts to a specific purpose. The Cooperative's Board of Education has not adopted a formal policy addressing this authorization.

The Cooperative's revenues, expenditures, and fund balances are tracked in the accounting system by numerous sources of funds. The fund balances of these sources of funds are combined to derive the Cooperative's total fund balances by fund. It is uncommon for an individual source of funds to contain restricted and unrestricted (committed, assigned, or unassigned) funds. The Cooperative does not have a policy addressing whether it considers restricted or unrestricted amounts to have been spent when an expenditure is incurred for purposes for which both restricted and unrestricted amounts are available. Cooperative personnel decide which resources (source of funds) to use at the time expenditures are incurred. For classification of fund balance amounts, restricted resources are considered spent before unrestricted. The Cooperative does not have a policy addressing which resources to use within the unrestricted fund balance when committed, assigned, or unassigned fund balances are available. When expenditures are incurred for purposes for which amounts in any of the unrestricted fund balance classifications could be used, committed amounts are reduced first, followed by assigned amounts, and then unassigned amounts.

K. Encumbrances

The Cooperative does not utilize encumbrance accounting.

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)	\$ 250,839	\$ 250,903
Collateralized:		
Collateral held by the Cooperative's agent, pledging bank or pledging bank's trust department or agent in the Cooperative's name	4,648,219	5,160,703
Total Deposits	\$ 4,899,058	\$ 5,411,606

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

SOUTHEAST ARKANSAS EDUCATION SERVICE COOPERATIVE
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012

3: ACCOUNTS RECEIVABLE

The accounts receivable balance of \$871,230 at June 30, 2012 was comprised of the following:

Description	Governmental Funds		Total
	Major		
	General	Special Revenue	
Federal assistance		\$ 335,832	\$ 335,832
Other	\$ 316,987	218,411	535,398
Totals	\$ 316,987	\$ 554,243	\$ 871,230

4: COMMITMENTS

Changes in Long-term Debt

	Balance July 1, 2011	Issued	Retired	Balance June 30, 2012
Capital leases	\$ 335,396	\$ 0	\$ 335,396 *	\$ 0

*Includes \$280,936 early retirement of debt - See Note 6.

5: ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

The accounts payable and accrued liabilities balance of \$198,439 at June 30, 2012 was comprised of the following:

Description	Governmental Funds		Total
	Major		
	General	Special Revenue	
Vendor payables	\$ 149,774	\$ 16,503	\$ 166,277
Due to grantors	29,102	3,060	32,162
Totals	\$ 178,876	\$ 19,563	\$ 198,439

6: EARLY RETIREMENT OF DEBT

The Cooperative paid \$280,936 to retire the principal balance of the capital lease prior to the scheduled maturity date.

7: INTERFUND TRANSFERS

The Cooperative transferred \$60,000 from the general fund to the other aggregate funds for future capital projects.

SOUTHEAST ARKANSAS EDUCATION SERVICE COOPERATIVE
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012

8: 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, 2012, 2011, and 2010 were \$748,085, \$738,945, and \$696,768, respectively. The Cooperative's contributions to ATRS for the years ended June 30, 2012, 2011, and 2010 were \$113,393, \$112,047, and \$110,901, respectively, equal to the required contributions for each year.

9: 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.

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 \$2,500 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
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012

10: 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 \$121,330 for the year ended June 30, 2012.

11: DETAILS OF GOVERNMENTAL FUND BALANCE CLASSIFICATIONS DISPLAYED IN THE AGGREGATE

Description	Governmental Funds			Total
	Major			
	General	Special Revenue	Other Aggregate	
Fund Balances:				
Restricted for:				
Medical services		\$1,516,053		\$1,516,053
Special education programs	\$ 234,567	107,909		342,476
Early childhood programs	199,686			199,686
Target testing	67,442			67,442
AmeriCorps program	545,676			545,676
Limited English proficiency	276,980			276,980
Early college high school	244,248			244,248
Adult education	53,573			53,573
Pathwise mentor training	54,590			54,590
Smart Start - staff development	170,943			170,943
English language acquisition grant		75,000		75,000
Other purposes	56,470	30		56,500
Total Restricted	<u>1,904,175</u>	<u>1,698,992</u>		<u>3,603,167</u>
Assigned to:				
Capital projects			\$ 612,089	612,089
Staff development	63,871			63,871
Summer workshops	136,834			136,834
Math consortium	55,394			55,394
Medicaid in the schools	68,767			68,767
Other purposes	111,421			111,421
Total Assigned	<u>436,287</u>		<u>612,089</u>	<u>1,048,376</u>
Unassigned	<u>919,014</u>			<u>919,014</u>
Totals	<u>\$3,259,476</u>	<u>\$1,698,992</u>	<u>\$ 612,089</u>	<u>\$5,570,557</u>

SOUTHEAST ARKANSAS EDUCATION SERVICE COOPERATIVE
 SCHEDULE OF CAPITAL ASSETS
 FOR THE YEAR ENDED JUNE 30, 2012
 (Unaudited)

Schedule 1

	Balance June 30, 2012
<i>Nondepreciable capital assets:</i>	
Land	\$ 57,730
<i>Depreciable capital assets:</i>	
Buildings	2,942,742
Improvements/infrastructure	173,683
Equipment	1,985,129
Total depreciable capital assets	5,101,554
Less accumulated depreciation for:	
Buildings	598,221
Improvements/infrastructure	43,816
Equipment	1,176,441
Total accumulated depreciation	1,818,478
Total depreciable capital assets, net	3,283,076
Capital assets, net	\$ 3,340,806

SOUTHEAST ARKANSAS EDUCATION SERVICE COOPERATIVE
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2012

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	\$ 292,332
Special Education - Preschool Grants	84.173	22-20	445,180
			<u>737,512</u>
TOTAL SPECIAL EDUCATION CLUSTER (IDEA)			
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	371,326
ARRA - Education Technology State Grants, Recovery Act	84.386	22-20	67,046
			<u>438,372</u>
TOTAL EDUCATION TECHNOLOGY STATE GRANTS CLUSTER			
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	833,433
Career and Technical Education - Basic Grants to States	84.048	22-20	362,418
Total State Department of Career Education			<u>1,195,851</u>
Passed Through State Department of Education:			
English Language Acquisition Grants	84.365	22-20	3,720
Total U. S. Department of Education			<u>1,199,571</u>
<u>U. S. Department of Health and Human Services</u>			
Passed Through Arkansas Children's Hospital:			
Affordable Care Act (ACA) Tribal Maternal, Infant, and Early Childhood Home Visiting Program	93.508	22-20	9,947
Passed Through State Department of Career Education:			
Temporary Assistance for Needy Families	93.558	22-20	229,995
Total U. S. Department of Health and Human Services			<u>239,942</u>
<u>Corporation for National and Community Service</u>			
Direct Program:			
Foster Grandparent Program	94.011		447,112
Passed Through State Department of Human Services:			
AmeriCorps	94.006	09ACHAR0010001	598,520
Total Corporation for National and Community Service			<u>1,045,632</u>
			<u>2,485,145</u>
TOTAL OTHER PROGRAMS			
TOTAL EXPENDITURES OF FEDERAL AWARDS			<u><u>\$ 3,661,029</u></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, 2012

Schedule 2

NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

- Note 1: Basis of Presentation - The accompanying Schedule of Expenditures of Federal Awards (the "Schedule") includes the federal grant activity of Southeast Arkansas Education Service Cooperative (Cooperative) under programs of the federal government for the year ended June 30, 2012. The information in this schedule is presented in accordance with the requirements of the Office of Management and Budget (OMB) Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Because this schedule presents only a selected portion of the operations of the Cooperative, it is not intended to and does not present the financial position or changes in financial position of the Cooperative.
- Note 2: Summary of Significant Accounting Policies - Expenditures reported on the Schedule are reported on the regulatory basis of accounting. Such expenditures are recognized following the cost principles contained in OMB Circular A-87, *Cost Principles for State, Local, and Indian Tribal Governments*, wherein certain types of expenditures are not allowable or are limited as to reimbursement. Pass-through entity identifying numbers are presented where available.
- Note 3: During the year ended June 30, 2012, the Cooperative received Medicaid funding of \$91,128 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, 2012

Schedule 3

SECTION I - SUMMARY OF AUDITOR'S RESULTS

FINANCIAL STATEMENTS

Types of auditor's reports issued: GAAP basis of reporting - adverse
 Regulatory basis opinion units - unqualified

Internal control over financial reporting:

- Material weakness(es) identified? yes no
- Significant deficiency(ies) identified? yes none reported

Noncompliance material to financial statements noted? yes no

FEDERAL AWARDS

Internal control over major programs:

- Material weakness(es) identified? yes no
- Significant deficiency(ies) identified? yes none reported

Type of auditor's report issued on compliance for major programs: unqualified

Any audit findings disclosed that are required to be reported in accordance with Section 510(a) of OMB Circular A-133? yes no

Identification of major programs:

CFDA Number(s)	Name of Federal Program or Cluster
84.027 and 84.173	Special Education Cluster (IDEA)
84.002	Adult Education - Basic Grants to States
94.011	Foster Grandparent Program

Dollar threshold used to distinguish between type A and type B programs: \$ 300,000

Auditee qualified as low-risk auditee? yes no

SECTION II - FINANCIAL STATEMENT FINDINGS

No matters were reported.

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, 2012

Schedule 4

U. S. DEPARTMENT OF EDUCATION
PASSED THROUGH STATE DEPARTMENT OF EDUCATION
SPECIAL EDUCATION - GRANTS TO STATES

2011 - Finding 2011-2: Special Education - Grants to States - CFDA Number 84.027

Condition: The Cooperative failed to establish internal controls to ensure vendors were not suspended or debarred, thus increasing the risk of the Cooperative doing business with prohibited parties. Although goods and services had been properly received or rendered, the Cooperative did not verify that one applicable vendor had not been suspended or debarred. However, no vendors with which the Cooperative conducted business were identified during the audit period as suspended or debarred parties.

Recommendation: Establish an internal control system to ensure applicable transactions are not conducted with suspended or debarred parties.

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, 2012
(Unaudited)

Schedule 5

<u>General Fund</u>	Year Ended June 30,				
	2012	2011	2010	2009	2008
Total Assets	\$ 3,438,352	\$ 3,187,818	\$ 3,585,285	\$ 3,898,685	\$ 2,849,089
Total Liabilities	178,876	73,277	76,320	235,028	132,585
Total Fund Balances	3,259,476	3,114,541	3,508,965	3,663,657	2,716,504
Total Revenues	9,916,284	8,876,266	8,936,469	8,809,528	8,504,104
Total Expenditures	9,401,311	8,920,690	8,822,263	7,862,375	7,778,983
Total Other Financing Sources (Uses)	(370,038)	(350,000)	(268,898)		(565,140)
 <u>Special Revenue Fund</u>					
Total Assets	1,718,555	1,719,113	2,226,776	1,266,974	1,547,703
Total Liabilities	19,563	82,402	151,100	66,812	695,164
Total Fund Balances	1,698,992	1,636,711	2,075,676	1,200,162	852,539
Total Revenues	4,422,684	3,933,146	5,492,640	4,304,596	4,548,621
Total Expenditures	4,357,343	4,372,084	4,615,635	3,956,973	4,413,318
Total Other Financing Sources (Uses)	(3,060)	(27)	(1,491)		
 <u>Other Aggregate Funds</u>					
Total Assets	612,089	552,089	300,099	34,494	34,494
Total Liabilities					
Total Fund Balances	612,089	552,089	300,099	34,494	34,494
Total Revenues		238,177			
Total Expenditures		336,187			530,646
Total Other Financing Sources (Uses)	60,000	350,000	265,605		565,140