

Southeast Arkansas Education Service Cooperative

**Regulatory Basis Financial Statements
and Other Reports**

June 30, 2014

LEGISLATIVE JOINT AUDITING COMMITTEE



SOUTHEAST ARKANSAS EDUCATION SERVICE COOPERATIVE
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Arkansas

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Roger A. Norman, JD, CPA, CFE, CFF
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

Report on the Financial Statements

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, 2014, and the related notes to the financial statements, which collectively comprise the Cooperative's regulatory basis financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with the financial reporting provisions of Ark. Code Ann. § 10-4-413(c) as provided in Act 2201 of 2005, as described in Note 1, to meet the requirements of the State of Arkansas. This includes determining that the regulatory basis of accounting is an acceptable basis for the preparation of the financial statements in the circumstances. Management is also responsible for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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 from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosure in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Cooperative's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Cooperative's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Basis for Adverse Opinion on U.S. Generally Accepted Accounting Principles

As described in Note 1 to the financial statements, to meet the financial reporting requirements of the State of Arkansas, the financial statements are prepared by the Cooperative on the basis of the financial reporting provisions of Ark. Code Ann. § 10-4-413(c) as provided in Act 2201 of 2005, which is a basis of accounting other than accounting principles generally accepted in the United States of America.

The effects on the financial statements of the variances between the regulatory basis of accounting described in Note 1 and accounting principles generally accepted in the United States of America, although not reasonably determinable, are presumed to be material.

Adverse Opinion on U.S. Generally Accepted Accounting Principles

In our opinion, because of the significance of the matter discussed in the Basis for Adverse Opinion on U.S. Generally Accepted Accounting Principles paragraphs, the financial statements referred to above do not present fairly, in accordance with accounting principles generally accepted in the United States of America, the financial position of the Cooperative as of June 30, 2014, or the changes in financial position for the year then ended.

Opinion on Regulatory Basis of Accounting

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective regulatory basis financial position of each major governmental fund and the aggregate remaining fund information of the Cooperative as of June 30, 2014, and the respective regulatory basis changes in financial position thereof and the respective regulatory basis budgetary comparison for the general and special revenue funds for the year then ended in accordance with the financial reporting provisions of Ark. Code Ann. § 10-4-413(c) as provided in Act 2201 of 2005 described in Note 1.

Other Matters

Supplementary and Other Information

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, as required by Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, the Schedule of Capital Assets and the Schedule of Selected Information for the Last Five Years - Regulatory Basis are presented for the purposes of additional analysis and are not a required part of the regulatory basis financial statements.

The Schedule of Expenditures of Federal Awards 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. Such 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 is fairly stated, in all material respects, in relation to the regulatory basis financial statements as a whole.

The Schedule of Capital Assets and the Schedule of Selected Information for the Last Five Years - Regulatory Basis have 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.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated February 26, 2015 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 internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Cooperative's internal control over financial reporting and compliance.

DIVISION OF LEGISLATIVE AUDIT



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

Little Rock, Arkansas
February 26, 2015
EDSC01514

Arkansas

Sen. Jimmy Hickey, Jr.
Senate Chair
Sen. Linda Chesterfield
Senate Vice Chair



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Rep. Sue Scott
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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*

INDEPENDENT AUDITOR'S REPORT

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

We have audited, in accordance with the 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, 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, 2014, and the related notes to the financial statements, which collectively comprise the Cooperative's regulatory basis financial statements, and have issued our report thereon dated February 26, 2015. We issued an adverse opinion because the Cooperative prepared the financial statements on the basis of the financial reporting provisions of Arkansas Code, which is a basis of accounting other than accounting principles generally accepted in the United States of America. The effects on the financial statements of the variances between the regulatory basis of accounting 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 regulatory basis financial position of each major governmental fund and the aggregate remaining fund information of the Cooperative as of June 30, 2014, and the respective regulatory basis changes in financial position thereof and the respective regulatory basis budgetary comparison for the general and special revenue funds for the year then ended, on the basis of accounting described in Note 1.

Internal Control Over Financial Reporting

In planning and performing our audit of the regulatory basis financial statements, we considered the Cooperative's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances 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. Accordingly, we do not express an opinion on the effectiveness of the Cooperative's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying Schedule of Findings and Questioned Costs, we identified a certain deficiency in internal control that we consider to be a material weakness.

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 regulatory basis financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiency described in the accompanying Schedule of Findings and Questioned Costs as item 2014-001 to be a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Cooperative's regulatory basis financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of the state constitution, state and federal laws and regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

We noted certain matters that we reported to management of the Cooperative in a separate letter dated February 26, 2015.

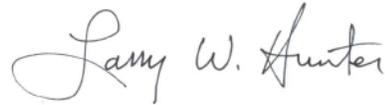
Cooperative's Response to Findings

The Cooperative's response to the findings identified in our audit, excluding the management letter finding, is described in the accompanying Schedule of Findings and Questioned Costs. The Cooperative's response was not subjected to the auditing procedures applied in the audit of the regulatory basis financial statements and, accordingly, we express no opinion on it.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the result of that testing, and not to provide an opinion on the effectiveness of the Cooperative's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Cooperative's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

DIVISION OF LEGISLATIVE AUDIT



Larry W. Hunter, CPA, CFE
Deputy Legislative Auditor

Little Rock, Arkansas
February 26, 2015

Arkansas

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Legislative Auditor

LEGISLATIVE JOINT AUDITING COMMITTEE DIVISION OF LEGISLATIVE AUDIT

REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM AND REPORT ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY OMB CIRCULAR A-133

INDEPENDENT AUDITOR'S REPORT

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

Report on Compliance for Each Major Federal Program

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, 2014. 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.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of the Cooperative's major federal programs based on our audit of the types of compliance requirements referred to above. 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 on compliance for each major federal program. However, our audit does not provide a legal determination of the Cooperative's compliance.

Opinion on Each Major Federal Program

In our opinion, the Cooperative complied, in all material respects, with the types of 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, 2014.

Report on Internal Control Over Compliance

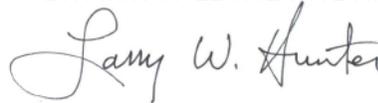
Management of the Cooperative is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the Cooperative's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program 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. A *significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

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 material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

DIVISION OF LEGISLATIVE AUDIT



Larry W. Hunter, CPA, CFE
Deputy Legislative Auditor

Little Rock, Arkansas
February 26, 2015

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LEGISLATIVE JOINT AUDITING COMMITTEE DIVISION OF LEGISLATIVE AUDIT

MANAGEMENT LETTER

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

We would like to communicate the following item that came to our attention during this audit. The purpose of such comment is to provide constructive feedback and guidance, in an effort to assist management to maintain a satisfactory level of compliance with the state constitution, laws, and regulations, and to improve internal control. This matter was discussed previously with Cooperative officials during the course of our audit fieldwork and at the exit conference.

DLA staff noted that the Clerk responsible for leave records did not properly record seven days of leave, resulting in an overpayment of \$839.

This letter is intended solely for the information and use of the Legislative Joint Auditing Committee, the local cooperative board and Cooperative management, state executive and oversight management, federal regulatory and oversight bodies, the federal awarding agencies and pass-through entities, and other parties as required by Arkansas Code, and is not intended to be and should not be used by anyone other than these specified parties. However, pursuant to 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 26, 2015

SOUTHEAST ARKANSAS EDUCATION SERVICE COOPERATIVE
BALANCE SHEET - REGULATORY BASIS
JUNE 30, 2014

Exhibit A

	Governmental Funds			
	Major			Fiduciary Fund Types
	General	Special Revenue	Other Aggregate	
ASSETS				
Cash	\$ 4,482,156	\$ 475,469	\$ 1,028,179	\$ 585
Accounts receivable	304,693	352,947		
TOTAL ASSETS	\$ 4,786,849	\$ 828,416	\$ 1,028,179	\$ 585
LIABILITIES AND FUND BALANCES				
Liabilities:				
Accounts payable	\$ 103,384	\$ 1,027		
Due employee groups				\$ 585
Total Liabilities	103,384	1,027		585
Fund Balances:				
Restricted	3,039,986	827,389		
Assigned	697,805		\$ 1,028,179	
Unassigned	945,674			
Total Fund Balances	4,683,465	827,389	1,028,179	
TOTAL LIABILITIES AND FUND BALANCES	\$ 4,786,849	\$ 828,416	\$ 1,028,179	\$ 585

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, 2014

Exhibit B

	Major		Other Aggregate
	General	Special Revenue	
REVENUES			
State assistance	\$ 7,317,893		
Federal assistance	70,376	\$ 3,024,462	
Investment income	12,950		
Other revenues	3,238,524	120,195	
TOTAL REVENUES	10,639,743	3,144,657	
EXPENDITURES			
Regular programs	504,944		
Special education	844,200	365,849	
Career education programs		239,015	
Adult/continuing education program	746,977	326,317	
Compensatory education programs	944,509		
Student support services	785,928	1,051,794	
Instructional staff support services	2,959,655	874,932	
General administration support services	1,064,275	37,920	
School administration support services	40,804		
Central services support services	587,375	557	
Operation and maintenance of plant services	211,299	62,139	
Community services operations	21,853	462,319	
Facilities acquisition and construction services	23,218	11,405	
Non-programmed costs	355,491	114,544	
TOTAL EXPENDITURES	9,090,528	3,546,791	
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	1,549,215	(402,134)	
OTHER FINANCING SOURCES (USES)			
Transfers in			\$ 700,000
Transfers out	(700,000)		
TOTAL OTHER FINANCING SOURCES (USES)	(700,000)		700,000
EXCESS OF REVENUES AND OTHER SOURCES OVER (UNDER) EXPENDITURES AND OTHER USES	849,215	(402,134)	700,000
FUND BALANCES - JULY 1	3,834,250	1,229,523	328,179
FUND BALANCES - JUNE 30	\$ 4,683,465	\$ 827,389	\$ 1,028,179

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, 2014

Exhibit C

	General			Special Revenue		
	Budget	Actual	Variance Favorable (Unfavorable)	Budget	Actual	Variance Favorable (Unfavorable)
REVENUES						
State assistance	\$ 6,030,752	\$ 7,317,893	\$ 1,287,141			
Federal assistance		70,376	70,376	\$ 4,231,216	\$ 3,024,462	\$ (1,206,754)
Investment income	20,000	12,950	(7,050)			
Other revenues	3,406,297	3,238,524	(167,773)		120,195	120,195
TOTAL REVENUES	9,457,049	10,639,743	1,182,694	4,231,216	3,144,657	(1,086,559)
EXPENDITURES						
Regular programs	626,303	504,944	121,359			
Special education	920,819	844,200	76,619	589,037	365,849	223,188
Career education programs				234,443	239,015	(4,572)
Adult/continuing education program	803,157	746,977	56,180	350,000	326,317	23,683
Compensatory education programs	957,424	944,509	12,915			
Student support services	823,621	785,928	37,693	1,390,446	1,051,794	338,652
Instructional staff support services	3,693,397	2,959,655	733,742	1,831,733	874,932	956,801
General administration support services	1,782,475	1,064,275	718,200	50,453	37,920	12,533
School administration support services	40,308	40,804	(496)			
Central services support services	724,997	587,375	137,622	600	557	43
Operation and maintenance of plant services	274,803	211,299	63,504	2,702	62,139	(59,437)
Community services operations	76,763	21,853	54,910	407,629	462,319	(54,690)
Facilities acquisition and construction services		23,218	(23,218)	35,000	11,405	23,595
Non-programmed costs	402,273	355,491	46,782	156,702	114,544	42,158
TOTAL EXPENDITURES	11,126,340	9,090,528	2,035,812	5,048,745	3,546,791	1,501,954

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, 2014

Exhibit C

	General			Special Revenue		
	Budget	Actual	Variance Favorable (Unfavorable)	Budget	Actual	Variance Favorable (Unfavorable)
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	\$ (1,669,291)	\$ 1,549,215	\$ 3,218,506	\$ (817,529)	\$ (402,134)	\$ 415,395
OTHER FINANCING SOURCES (USES)						
Transfers in	208,974		(208,974)			
Transfers out		(700,000)	(700,000)			
TOTAL OTHER FINANCING SOURCES (USES)	208,974	(700,000)	(908,974)			
EXCESS OF REVENUES AND OTHER SOURCES OVER (UNDER) EXPENDITURES AND OTHER USES	(1,460,317)	849,215	2,309,532	(817,529)	(402,134)	415,395
FUND BALANCES - JULY 1	3,950,243	3,834,250	(115,993)	1,350,120	1,229,523	(120,597)
FUND BALANCES - JUNE 30	\$ 2,489,926	\$ 4,683,465	\$ 2,193,539	\$ 532,591	\$ 827,389	\$ 294,798

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

SOUTHEAST ARKANSAS EDUCATION SERVICE COOPERATIVE
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014

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 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.

SOUTHEAST ARKANSAS EDUCATION SERVICE COOPERATIVE
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014

1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

C. Measurement Focus and Basis of Accounting (Continued)

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.

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 Classifications

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.

SOUTHEAST ARKANSAS EDUCATION SERVICE COOPERATIVE
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014

1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

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.

SOUTHEAST ARKANSAS EDUCATION SERVICE COOPERATIVE
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014

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)	\$ 250,000	\$ 250,000
Collateralized:		
Collateral held by the Cooperative's agent, pledging bank or pledging bank's trust department or agent in the Cooperative's name	5,736,289	6,196,852
Total Deposits	\$ 5,986,289	\$ 6,446,852

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

3: ACCOUNTS RECEIVABLE

Accounts receivable at June 30, 2014 were comprised of the following:

Description	Governmental Funds	
	Major	
	General	Special Revenue
State assistance	\$ 9,432	
Federal assistance		\$ 338,337
Other	295,261	14,610
Totals	\$ 304,693	\$ 352,947

4: ACCOUNTS PAYABLE

Accounts payable at June 30, 2014 were comprised of the following:

Description	Governmental Funds	
	Major	
	General	Special Revenue
Vendor payables	\$ 103,384	\$ 1,027

5: INTERFUND TRANSFERS

The Cooperative transferred \$700,000 from the general fund to the other aggregate funds to be used for future capital projects.

SOUTHEAST ARKANSAS EDUCATION SERVICE COOPERATIVE
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014

6: RETIREMENT PLAN

Arkansas Teacher Retirement System

Plan Description. The Cooperative contributes to the Arkansas Teacher Retirement System (ATRS), a cost-sharing multiple-employer defined benefit pension plan that covers all Arkansas public school employees, except certain non-teaching school employees. 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, 2014, 2013, and 2012 were \$756,058, \$787,693, and \$748,085, respectively. The Cooperative's contributions to ATRS for the years ended June 30, 2014, 2013, and 2012 were \$137,118, \$109,529, and \$113,393, respectively, equal to the required contributions for each year.

7: RISK MANAGEMENT

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

The Cooperative carries commercial insurance for 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, 2014

8: 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 \$185,128 for the year ended June 30, 2014.

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

Description	Governmental Funds		
	Major		
	General	Special Revenue	Other Aggregate
Fund Balances:			
Restricted for:			
Medical services		\$ 452,450	
Special education programs	\$ 261,440	297,300	
English language acquisition		75,000	
Professional development	302,251		
Early childhood programs	157,784		
AmeriCorps programs	487,684		
Office of intensive support	350,090		
Limited English proficiency	350,876		
Early college high school	427,217		
Adult education	434,075		
Smart Start - staff development	138,071		
Other purposes	130,498	2,639	
Total Restricted	3,039,986	827,389	
Assigned to:			
Capital projects			\$1,028,179
Staff development	119,059		
Math consortium	87,013		
Science consortium	91,594		
Medicaid in the schools	236,429		
Unemployment	134,191		
Other purposes	29,519		
Total Assigned	697,805		1,028,179
Unassigned	945,674		
Totals	\$4,683,465	\$ 827,389	\$1,028,179

SOUTHEAST ARKANSAS EDUCATION SERVICE COOPERATIVE
 SCHEDULE OF CAPITAL ASSETS
 FOR THE YEAR ENDED JUNE 30, 2014
 (Unaudited)

Schedule 1

	Balance June 30, 2014
<i>Nondepreciable capital assets:</i>	
Land	\$ 117,980
<i>Depreciable capital assets:</i>	
Buildings	3,224,659
Improvements/infrastructure	190,671
Equipment	1,640,840
Total depreciable capital assets	5,056,170
Less accumulated depreciation for:	
Buildings	726,368
Improvements/infrastructure	61,442
Equipment	999,861
Total accumulated depreciation	1,787,671
Total depreciable capital assets, net	3,268,499
Capital assets, net	\$ 3,386,479

SOUTHEAST ARKANSAS EDUCATION SERVICE COOPERATIVE
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2014

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	\$ 185,399
Special Education - Preschool Grants	84.173	22-20	390,237
			<hr/>
TOTAL SPECIAL EDUCATION CLUSTER (IDEA)			575,636
<hr/>			
OTHER PROGRAMS			
<u>U. S. Department of Labor</u>			
Passed Through State Department of Career Education:			
Incentive Grants - WIA Section 503	17.267	22-20	289,306
			<hr/>
<u>U. S. Department of Education</u>			
Passed Through State Department of Career Education:			
Adult Education - Basic Grants to States	84.002	22-20	630,000
Career and Technical Education - Basic Grants to States	84.048	22-20	290,782
Total State Department of Career Education			<hr/>
			920,782
Passed Through State Department of Education:			
English Language Acquisition State Grants	84.365	22-20	1,294
Total U. S. Department of Education			<hr/>
			922,076
<hr/>			
<u>U. S. Department of Health and Human Services</u>			
Passed Through State Department of Education:			
Temporary Assistance for Needy Families	93.558	0000200758	70,376
			<hr/>
<u>Corporation for National and Community Service</u>			
Direct Program:			
Foster Grandparent Program	94.011		427,052
Passed Through State Department of Human Services:			
AmeriCorps	94.006	09ACHAR0010001	584,317
Total Corporation for National and Community Service			<hr/>
			1,011,369
			<hr/>
TOTAL OTHER PROGRAMS			2,293,127
			<hr/>
TOTAL EXPENDITURES OF FEDERAL AWARDS			\$ 2,868,763
			<hr/>

The accompanying notes are an integral part of this schedule.

NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

- Note 1: Basis of Presentation - The accompanying Schedule of Expenditures of Federal Awards (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, 2014. 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 the 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, 2014, the Cooperative received Medicaid funding of \$74,010 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, 2014

Schedule 3

SECTION II - FINANCIAL STATEMENT FINDINGS

MATERIAL WEAKNESS

2014-001. Misstatements not Detected by Internal Control System

Criteria or specific requirement: 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 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 incorrectly recorded state assistance of \$571,650 as other revenue in the general fund. The financial statements were corrected during audit fieldwork.

Context: Identification of misstatements not initially detected by the Cooperative's internal control.

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

Cause: Financial records were not properly monitored.

Recommendation: In order to achieve reliable financial reporting, the Cooperative should implement procedures to ensure the correct revenue codes are utilized.

Views of responsible officials and planned corrective actions: The Cooperative has implemented procedures to ensure that the correct revenue codes are utilized.

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, 2014

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, 2014
(Unaudited)

Schedule 5

<u>General Fund</u>	Year Ended June 30,				
	2014	2013	2012	2011	2010
Total Assets	\$ 4,786,849	\$ 3,993,195	\$ 3,438,352	\$ 3,187,818	\$ 3,585,285
Total Liabilities	103,384	158,945	178,876	73,277	76,320
Total Fund Balances	4,683,465	3,834,250	3,259,476	3,114,541	3,508,965
Total Revenues	10,639,743	9,848,572	9,916,284	8,876,266	8,936,469
Total Expenditures	9,090,528	9,273,798	9,401,311	8,920,690	8,822,263
Total Other Financing Sources (Uses)	(700,000)		(370,038)	(350,000)	(268,898)
<u>Special Revenue Fund</u>					
Total Assets	828,416	1,375,805	1,718,555	1,719,113	2,226,776
Total Liabilities	1,027	146,282	19,563	82,402	151,100
Total Fund Balances	827,389	1,229,523	1,698,992	1,636,711	2,075,676
Total Revenues	3,144,657	3,445,772	4,422,684	3,933,146	5,492,640
Total Expenditures	3,546,791	3,915,240	4,357,343	4,372,084	4,615,635
Total Other Financing Sources (Uses)		(1)	(3,060)	(27)	(1,491)
<u>Other Aggregate Funds</u>					
Total Assets	1,028,179	328,179	612,089	552,089	300,099
Total Liabilities					
Total Fund Balances	1,028,179	328,179	612,089	552,089	300,099
Total Revenues				238,177	
Total Expenditures		283,910		336,187	
Total Other Financing Sources (Uses)	700,000		60,000	350,000	265,605