

**SOUTHEAST ARKANSAS EDUCATION SERVICE  
COOPERATIVE**

**General Purpose Financial Statements  
and Other Reports**

**June 30, 2003**

LEGISLATIVE JOINT AUDITING COMMITTEE

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SOUTHEAST ARKANSAS EDUCATION SERVICE COOPERATIVE  
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JUNE 30, 2003

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Sen. Henry "Hank" Wilkins, IV  
Senate Co-Chair  
Rep. Tommy G. Roebuck  
House Co-Chair  
Sen. Randy Laverty  
Senate Co-Vice Chair  
Rep. David Evans  
House Co-Vice Chair

# Arkansas



Charles L. Robinson, CPA, CFE  
Legislative Auditor

## LEGISLATIVE JOINT AUDITING COMMITTEE DIVISION OF LEGISLATIVE AUDIT

### INDEPENDENT AUDITOR'S REPORT

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

We have audited the accompanying general purpose financial statements of the Southeast Arkansas Education Service Cooperative as of and for the year ended June 30, 2003, as listed in the table of contents. These financial statements are the responsibility of Southeast Arkansas Education Service Cooperative's management. Our responsibility is to express an opinion 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 opinion.

In our opinion, the general purpose financial statements referred to above present fairly, in all material respects, the financial position of the Southeast Arkansas Education Service Cooperative as of June 30, 2003, and the results of its operations for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated July 21, 2004 on our consideration of the Southeast Arkansas Education Service Cooperative's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Our audit was performed for the purpose of forming an opinion on the general purpose financial statements taken as a whole. The accompanying financial information listed as supporting schedules in the table of contents, including the schedule of Expenditures of Federal Awards as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, is presented for purposes of additional analysis and is not a required part of the general purpose financial statements of the Southeast Arkansas Education Service Cooperative. Such information has been subjected to the auditing procedures applied in the audit of the general purpose financial statements and in our opinion, is fairly stated, in all material respects, in relation to the general purpose financial statements taken as a whole.

DIVISION OF LEGISLATIVE AUDIT

A handwritten signature in blue ink, appearing to read "Charles L. Robinson".

Charles L. Robinson, CPA, CFE  
Legislative Auditor

Little Rock, Arkansas  
July 21, 2004  
EDSC01503

Sen. Henry "Hank" Wilkins, IV  
Senate Co-Chair  
Rep. Tommy G. Roebuck  
House Co-Chair  
Sen. Randy Laverty  
Senate Co-Vice Chair  
Rep. David Evans  
House Co-Vice Chair

# Arkansas



Charles L. Robinson, CPA, CFE  
Legislative Auditor

## LEGISLATIVE JOINT AUDITING COMMITTEE DIVISION OF LEGISLATIVE AUDIT

### COMBINED REPORT(S) ON COMPLIANCE, INTERNAL CONTROLS AND OTHER MATTERS

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

The underlying purpose of this letter is to convey certain observations and recommendations regarding state and federal compliance and internal control in conjunction with our audit of the Southeast Arkansas Education Service Cooperative. This letter reflects various requirements and pronouncements of the American Institute of Certified Public Accountants (AICPA), the United States General Accounting Office (GAO), the United States Office of Management and Budget (OMB), the Single Audit Act of 1984 and the Single Audit Act Amendments of 1996. Section I of this letter is designed to satisfy certain requirements for compliance and internal control over financial reporting, whereas, Section II is designed to satisfy certain requirements for compliance requirements applicable to each major federal award program and internal control over compliance in accordance with OMB Circular A-133.

#### SECTION I: REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER FINANCIAL REPORTING BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

We have audited the general purpose financial statements of the Southeast Arkansas Education Service Cooperative, as of and for the year ended June 30, 2003, and have issued our report thereon dated July 21, 2004. We conducted our audit in accordance with generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

#### Compliance

As part of obtaining reasonable assurance about whether the Southeast Arkansas Education Service Cooperative's general purpose 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, and federal contracts and grants, 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 that are required to be reported under *Government Auditing Standards*.

#### Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Southeast Arkansas Education Service Cooperative internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the general purpose financial statements and not to provide assurance on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the Southeast Arkansas Education Service Cooperative's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are disclosed below in the Audit Findings section of this letter.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the general purpose financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, of the reportable conditions described above, we consider the finding below to be a material weakness. Other matters involving compliance and/or internal control were reported to Southeast Arkansas Education Service Cooperative's management in a separate letter.

#### AUDIT FINDING

##### Reportable Condition(s)

The Southeast Arkansas Education Service Cooperative had inadequate control over cash transactions because of insufficient segregation of duties due to a limited number of personnel.

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

##### Compliance

We have audited the compliance of the Southeast Arkansas Education Service Cooperative with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2003. The Southeast Arkansas Education Service Cooperative's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of Federal Award Programs - 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 Southeast Arkansas Education Service Cooperative's management. Our responsibility is to express an opinion on the Southeast Arkansas Education Service Cooperative's compliance based on our audit.

We conducted our audit of compliance in accordance with generally accepted auditing standards; 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 Southeast Arkansas Education Service 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 on the Southeast Arkansas Education Service Cooperative's compliance with those requirements.

In our opinion, the Southeast Arkansas Education Service Cooperative complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2003.

##### Internal Control Over Compliance

The management of the Southeast Arkansas Education Service Cooperative is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the Southeast Arkansas Education Service Cooperative's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts and grants that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

These reports are intended for the information and use of the Legislative Joint Auditing Committee, state executive and oversight management, Southeast Arkansas Education Service Cooperative management, the federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specific parties. However, this report is a matter of public record and its distribution is not limited.

DIVISION OF LEGISLATIVE AUDIT

*William R. Baum*

William R. Baum, CPA, CFE  
Deputy Legislative Auditor

Little Rock, Arkansas  
July 21, 2004

SOUTHEAST ARKANSAS EDUCATION SERVICE COOPERATIVE  
 COMBINED BALANCE SHEET - GOVERNMENTAL AND FIDUCIARY FUND TYPES AND ACCOUNT GROUPS  
 JUNE 30, 2003

Exhibit A

	Governmental Fund Types		Fiduciary Fund Types	Account Groups		Totals (Memorandum Only)
	General	Special Revenue	Trust and Agency	General Fixed Assets	General Long- Term Debt	
<b>ASSETS</b>						
Cash			\$ 964			\$ 964
Investments	\$ 1,541,416					1,541,416
Deposit with paying agent	1,449					1,449
Accounts receivable		\$ 388,614				388,614
Due from other funds		4,825				4,825
Land				\$ 7,000		7,000
Buildings				1,750,140		1,750,140
Equipment				1,044,212		1,044,212
Amount to be provided for retirement of general long-term debt					\$ 465,588	465,588
<b>TOTAL ASSETS</b>	<b>\$ 1,542,865</b>	<b>\$ 393,439</b>	<b>\$ 964</b>	<b>\$ 2,801,352</b>	<b>\$ 465,588</b>	<b>\$ 5,204,208</b>
<b>LIABILITIES AND FUND EQUITY</b>						
<b>Liabilities:</b>						
Overdrafts	\$ 250,846	\$ 69,507				\$ 320,353
Accounts payable	18,358	4,282				22,640
Due employee groups			\$ 964			964
Due to other funds	4,825					4,825
Due to funding agency		1,631				1,631
Notes payable					\$ 62,929	62,929
Certificate of indebtedness					109,334	109,334
Bank loans payable					293,325	293,325
<b>Total Liabilities</b>	<b>274,029</b>	<b>75,420</b>	<b>964</b>		<b>465,588</b>	<b>816,001</b>

SOUTHEAST ARKANSAS EDUCATION SERVICE COOPERATIVE  
 COMBINED BALANCE SHEET - GOVERNMENTAL AND FIDUCIARY FUND TYPES AND ACCOUNT GROUPS  
 JUNE 30, 2003

Exhibit A

	Governmental Fund Types		Fiduciary Fund Types	Account Groups		Totals (Memorandum Only)
	General	Special Revenue	Trust and Agency	General Fixed Assets	General Long- Term Debt	
	<u>General</u>	<u>Special Revenue</u>	<u>Trust and Agency</u>	<u>General Fixed Assets</u>	<u>General Long- Term Debt</u>	
LIABILITIES AND FUND EQUITY (CONTINUED)						
Fund Equity:						
Investment in general fixed assets				\$ 2,801,352		\$ 2,801,352
Fund balances:						
Unreserved:						
Undesignated	\$ 1,268,836	\$ 318,019				1,586,855
Total Fund Equity	<u>1,268,836</u>	<u>318,019</u>		<u>2,801,352</u>		<u>4,388,207</u>
 TOTAL LIABILITIES AND FUND EQUITY	 <u>\$ 1,542,865</u>	 <u>\$ 393,439</u>	 <u>\$ 964</u>	 <u>\$ 2,801,352</u>	 <u>\$ 465,588</u>	 <u>\$ 5,204,208</u>

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



SOUTHEAST ARKANSAS EDUCATION SERVICE COOPERATIVE  
 COMBINED STATEMENT OF REVENUES, EXPENDITURES AND  
 CHANGES IN FUND BALANCES - GOVERNMENTAL FUND TYPES  
 FOR THE YEAR ENDED JUNE 30, 2003

Exhibit B

	General	Special Revenue	Totals (Memorandum Only)
<b>REVENUES</b>			
State assistance	\$ 2,975,159		\$ 2,975,159
Federal assistance		\$ 4,489,899	4,489,899
Interest on investments	75,274		75,274
Other revenues	1,877,080	152,000	2,029,080
<b>TOTAL REVENUES</b>	<b>4,927,513</b>	<b>4,641,899</b>	<b>9,569,412</b>
<b>EXPENDITURES</b>			
Regular programs	68,877		68,877
Special education	564,916	475,623	1,040,539
Workforce education	47,921	510,107	558,028
Adult education	397,885	795,052	1,192,937
Compensatory education	798,316	964,791	1,763,107
Other instructional programs	442,389		442,389
Support services	2,189,480	1,350,219	3,539,699
Community services	53,184	697,912	751,096
Non-programmed costs		72,139	72,139
Debt service:			
Principal retirement	271,020		271,020
Interest and fiscal charges	38,418		38,418
<b>TOTAL EXPENDITURES</b>	<b>4,872,406</b>	<b>4,865,843</b>	<b>9,738,249</b>
<b>EXCESS OF REVENUES OVER (UNDER) EXPENDITURES</b>	<b>55,107</b>	<b>(223,944)</b>	<b>(168,837)</b>
<b>FUND BALANCES - JULY 1</b>	<b>1,213,729</b>	<b>541,963</b>	<b>1,755,692</b>
<b>FUND BALANCES - JUNE 30</b>	<b>\$ 1,268,836</b>	<b>\$ 318,019</b>	<b>\$ 1,586,855</b>

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

SOUTHEAST ARKANSAS EDUCATION SERVICE COOPERATIVE  
 COMBINED STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES -  
 BUDGET AND ACTUAL - GENERAL AND SPECIAL REVENUE FUND TYPES  
 FOR THE YEAR ENDED JUNE 30, 2003

Exhibit C

	General Fund			Special Revenue Fund			Totals (Memorandum Only)		
	Budget	Actual	Variance Favorable (Unfavorable)	Budget	Actual	Variance Favorable (Unfavorable)	Budget	Actual	Variance Favorable (Unfavorable)
REVENUES									
State assistance	\$ 2,725,000	\$ 2,975,159	\$ 250,159				\$ 2,725,000	\$ 2,975,159	\$ 250,159
Federal assistance				\$ 5,000,500	\$ 4,489,899	\$ (510,601)	5,000,500	4,489,899	(510,601)
Interest on investments	20,000	75,274	55,274				20,000	75,274	55,274
Other revenues	900,000	1,877,080	977,080	75,000	152,000	77,000	975,000	2,029,080	1,054,080
<b>TOTAL REVENUES</b>	<b>3,645,000</b>	<b>4,927,513</b>	<b>1,282,513</b>	<b>5,075,500</b>	<b>4,641,899</b>	<b>(433,601)</b>	<b>8,720,500</b>	<b>9,569,412</b>	<b>848,912</b>
EXPENDITURES									
Regular programs	850,500	68,877	781,623	165,000		165,000	1,015,500	68,877	946,623
Special education	120,000	564,916	(444,916)	800,000	475,623	324,377	920,000	1,040,539	(120,539)
Workforce education	535,000	47,921	487,079	120,000	510,107	(390,107)	655,000	558,028	96,972
Adult education	900,000	397,885	502,115	180,000	795,052	(615,052)	1,080,000	1,192,937	(112,937)
Compensatory education	345,000	798,316	(453,316)	1,440,000	964,791	475,209	1,785,000	1,763,107	21,893
Other instructional programs	150,000	442,389	(292,389)				150,000	442,389	(292,389)
Support services	3,600,000	2,189,480	1,410,520	350,000	1,350,219	(1,000,219)	3,950,000	3,539,699	410,301
Community services	170,000	53,184	116,816		697,912	(697,912)	170,000	751,096	(581,096)
Non-programmed costs					72,139	(72,139)		72,139	(72,139)
Debt service:									
Principal retirement	125,000	271,020	(146,020)				125,000	271,020	(146,020)
Interest and fiscal charges	45,000	38,418	6,582				45,000	38,418	6,582
<b>TOTAL EXPENDITURES</b>	<b>6,840,500</b>	<b>4,872,406</b>	<b>1,968,094</b>	<b>3,055,000</b>	<b>4,865,843</b>	<b>(1,810,843)</b>	<b>9,895,500</b>	<b>9,738,249</b>	<b>157,251</b>
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	(3,195,500)	55,107	3,250,607	2,020,500	(223,944)	(2,244,444)	(1,175,000)	(168,837)	1,006,163
FUND BALANCES - JULY 1	(925,500)	1,213,729	2,139,229	2,565,500	541,963	(2,023,537)	1,640,000	1,755,692	115,692
FUND BALANCES - JUNE 30	\$ (4,121,000)	\$ 1,268,836	\$ 5,389,836	\$ 4,586,000	\$ 318,019	\$ (4,267,981)	\$ 465,000	\$ 1,586,855	\$ 1,121,855

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

SOUTHEAST ARKANSAS EDUCATION SERVICE COOPERATIVE  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2003

NOTE 1: Summary of Significant Accounting Policies

A. Reporting Entity

The Board of Directors, a twenty-one (21) member group, is the level of government which has responsibilities over all activities within the jurisdiction of the Southeast Arkansas Education Service Cooperative. The Cooperative serves Arkansas, Ashley, Bradley, Chicot, Cleveland, Desha, Drew and Lincoln Counties. The Cooperative's financial statements reflect all funds and accounts directly under the control of the Cooperative. There are no component units.

B. Basis of Presentation - Fund Accounting

The accounts are maintained in accordance with the principles of fund accounting. 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. Account groups are used to establish accounting control and accountability for general fixed assets and general long-term debt. The following types of funds and account groups are recognized in the accompanying financial statements, if applicable:

Governmental Funds

General Fund - The General Fund is the general operating fund and is used to account for all financial resources, except those required to be accounted for in another fund.

Special Revenue Funds - Special Revenue Funds are used to account for the proceeds of specific revenue sources (other than major capital projects) that are legally restricted to expenditures for specific purposes.

Fiduciary Funds

Trust and Agency Funds - Trust and Agency Funds are used to account for assets held by the entity in a trustee capacity or as an agent for individuals, other governmental units, and other funds.

Account Groups

General Fixed Assets - to account for all fixed assets of the entity.

General Long-term Debt - to account for all long-term debt of the entity.

C. Basis of Accounting

All governmental funds are accounted for using the modified accrual basis of accounting. Revenues are recognized when measurable and available. Available means collectible within the current period or soon enough thereafter to pay current liabilities. Expenditures are generally recognized when the related fund liability is incurred. Exceptions include: (1) unmatured principal and interest on general long-term debt which are recognized when due; and (2) prepaid expenses, which are not recorded.

D. General Fixed Assets

General fixed assets purchased are recorded as expenditures in the applicable fund at the time of purchase. Such assets are reported at cost or estimated historical cost, if actual data is not available, in the general fixed assets account group. Donated fixed assets are reported at fair market value when received in the general fixed assets account group. Library holdings and textbooks are not capitalized. In accordance with generally accepted accounting principles applicable to governmental entities, no provision for depreciation is reported.

E. Investments

Investments consist of certificates of deposit classified as nonparticipating contracts and are reported at cost.

SOUTHEAST ARKANSAS EDUCATION SERVICE COOPERATIVE  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2003

NOTE 1: Summary of Significant Accounting Policies (Continued)

F. Inventories

Inventories are considered expenditures when purchased.

G. Interfund Receivables and Payables

Interfund receivables and payables result from services rendered from one fund to another or from interfund loans.

H. Liability for Compensated Absences

The accompanying financial statements do not include a liability for compensated absences as the amount is not material.

I. Fund Equity

Undesignated fund balance indicates that portion of fund equity not reserved or designated.

J. 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 State Department of Education's regulations allow for the cash basis or the modified accrual basis. However, the majority of cooperatives employ the cash basis method.

K. Encumbrances

Encumbrances are defined as commitments related to unperformed contracts for goods or services. The Cooperative does not record encumbrances in its accounting system and none are reported in the accompanying financial statements.

NOTE 2: Budget Versus Actual

On-behalf payments as described at Note 9 are nonbudgeted financial data for the year ended June 30, 2003. Such payments are recorded as actual revenues and expenditures in the Combined Statement of Revenues, Expenditures and Changes in Fund Balances – Budget and Actual – Governmental Fund Types (Exhibit C).

NOTE 3: Public Fund Deposits

Cash deposits are carried at cost (carrying value). A comparison of the bank balance and carrying value is as follows:

	Carrying Amount	Bank Balance
Insured (FDIC)		\$ 104,554
Uninsured, Collateralized		146,792
Total Deposits	\$ 0	\$ 251,346

The above total deposits do not include cash on hand in the amount of \$100. The carrying amount had a deficit balance of \$319,489.

SOUTHEAST ARKANSAS EDUCATION SERVICE COOPERATIVE  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2003

NOTE 4: Public Fund Investments

The Cooperative's investments are categorized to give an indication of the level of risk assured by the Cooperative at year-end. Category 1 includes investments that are insured or registered or for which the securities are held by the Cooperative or its agent in the Cooperative's name. Category 2 includes uninsured and unregistered investments for which the securities are held by the broker's or dealer's trust department or agent in the Cooperative's name. Category 3 includes uninsured and unregistered investments for which the securities are held by the broker or dealer, or by its trust department or agent but not in the Cooperative's name.

Type of Investment	Category			Carrying Amount	Market Value
	1	2	3		
Certificate of deposit	\$ 1,541,416	\$ 0	\$ 0	\$ 1,541,416	\$ 1,541,416

NOTE 5: Changes in General Fixed Assets

	Balance July 1, 2002	Additions	Deletions	Balance June 30, 2003
Land	\$ 7,000			\$ 7,000
Buildings	1,750,140			1,750,140
Equipment	966,695	\$ 93,991	\$ 16,474	1,044,212
Totals	\$ 2,723,835	\$ 93,991	\$ 16,474	\$ 2,801,352

NOTE 6: Long-term Debt Issued and Outstanding

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

Date of Issue	Date of Final Maturity	Rate of Interest	Amount Authorized and Issued	Debt Outstanding June 30, 2003	Maturities To June 30, 2003
5/1/1997	4/1/2007	3%	\$ 150,000	\$ 62,929	\$ 87,071
2/20/2001	11/1/2006	5.85%	164,000	109,334	54,666
4/29/2002	4/29/2005	7.25%	525,000	293,325	231,675
Totals			\$ 839,000	\$ 465,588	\$ 373,412

NOTE 7: Changes in Long-term Debt

	Balance July 1, 2002	Retired	Balance June 30, 2003
Notes payable	\$ 78,175	\$ 15,246	\$ 62,929
Certificate of indebtedness	136,667	27,333	109,334
Bank loan payable	521,766	228,441	293,325
Totals	\$ 736,608	\$ 271,020	\$ 465,588

SOUTHEAST ARKANSAS EDUCATION SERVICE COOPERATIVE  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2003

NOTE 7: Changes in Long-term Debt (Continued)

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

Year Ended June 30,	Principal	Interest	Total
2004	\$ 80,486	\$ 27,367	\$ 107,853
2005	299,385	19,735	319,120
2006	44,008	3,111	47,119
2007	41,709	1,007	42,716
Totals	<u>\$ 465,588</u>	<u>\$ 51,220</u>	<u>\$ 516,808</u>

NOTE 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. ATRS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Benefit and contribution 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 non-contributory plans. Contributory members are required by law to contribute 6% of their salary. Each participating employer is required by law to contribute at a rate established by the Arkansas General Assembly. The current employer rate is 12%. The employer contribution was paid by the 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 employer contribution for nonfederal funded members was the lesser of the result of multiplying the applicable percent of active member payroll for the fiscal year by the total covered salaries of the previous fiscal year, including any prior year reported salaries, or the amount appropriated by the Arkansas General Assembly. The Department of Education determines the amount funded. The Department of Education's contributions to ATRS for the Cooperative during the years ended June 30, 2003, 2002 and 2001 were \$277,028, \$264,224 and \$264,732, respectively. The Cooperative's contributions to ATRS for federally funded employees for the years ended June 30, 2003, 2002 and 2001 were \$117,751, \$78,565 and \$75,088, respectively, equal to the required contributions for each year.

NOTE 9: On-Behalf Payments

The accompanying financial statements reflect on-behalf payments for health insurance premiums paid by the Arkansas Department of Education in the amount of \$82,212. Additionally, these financial statements include on-behalf payments for retirement matching paid to the Arkansas Teacher Retirement System by the Arkansas Department of Education totaling \$277,028.

SOUTHEAST ARKANSAS EDUCATION SERVICE COOPERATIVE  
EXPENDITURES OF FEDERAL AWARDS  
FOR THE YEAR ENDED JUNE 30, 2003

Schedule 1

Federal Grantor/Pass Through Grantor/Program or Cluster Title	Federal CFDA Number	Agency or Pass-Through Number	Federal Expenditures
<b>SPECIAL EDUCATION CLUSTER</b>			
<u>U. S. Department of Education</u>			
Passed Through State Department of Education:			
Special Education - Grants to States	84.027	22-20	\$ 252,047
Special Education - Preschool Grants	84.173	22-20	<u>515,354</u>
TOTAL SPECIAL EDUCATION CLUSTER			<u>767,401</u>
<b>OTHER PROGRAMS</b>			
<u>U. S. Department of Education</u>			
Passed Through State Department of Education:			
Title I Grants - Local Educational Agencies	84.010	22-20	216,466
Vocational Education - Basic Grants to States	84.048	22-20	510,107
Even Start - Statewide Family Literacy Program	84.314	22-20	62,931
Eisenhower Professional Development - Federal Activities	84.168	22-20	79,792
Technology Literacy Challenge Funds Grants	84.318	22-20	86,644
Goals 2000 - State and Local Educational Systemic Improvement Grants	84.276	22-20	1,875
Adult Education State Grant Program	84.002	22-20	999,619
Bilingual Education Support Services	84.194	22-20	64,057
National Institute for Literacy	84.257	22-20	115,489
Twenty-first Century Community Learning Centers	84.287	22-20	9,100
Special Education State Program Improvement Grants for Children with Disabilities	84.323	22-20	65,825
Reading First State Grants	84.357	22-20	13,930
Passed Through State of Washington			
Links Grant	Note 2	Note 2	191,904
Total U. S. Department of Education			<u>2,417,739</u>
<u>U. S. Department of Health and Human Services</u>			
Passed Through State Department of Human Services:			
Child Care Mandatory and Matching Funds of the Child Care and Development Fund	93.596	22-20	<u>77,706</u>
<u>Corporation for National and Community Service</u>			
Foster Grandparent Program	94.011	Note 2	434,444
Passed Through State Department of Human Services:			
Americorps	94.006	94ASCAR0040301	964,153
Total Corporation for National and Community Service			<u>1,398,597</u>
<u>U.S. Department of Agriculture</u>			
Distance Learning and Telemedicine Loans and Grants	10.855		<u>20,457</u>
TOTAL OTHER PROGRAMS			<u>3,914,499</u>
TOTAL EXPENDITURES OF FEDERAL AWARDS			<u>\$ 4,681,900</u>

SOUTHEAST ARKANSAS EDUCATION SERVICE COOPERATIVE  
EXPENDITURES OF FEDERAL AWARDS  
FOR THE YEAR ENDED JUNE 30, 2003

Schedule 1

NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Note 1: Basis of Presentation - The accompanying schedule of expenditures of federal awards includes the federal grant activity of the Southeast Arkansas Education Service Cooperative and is presented on the modified accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the presentation of, the basic financial statements.

Note 2: The Federal CFDA Number or other identifying number was not available.



SOUTHEAST ARKANSAS EDUCATION SERVICE COOPERATIVE  
 FEDERAL AWARD PROGRAMS -  
 FINDINGS AND QUESTIONED COSTS  
 FOR THE YEAR ENDED JUNE 30, 2003

Schedule 2

**SECTION I - SUMMARY OF AUDITOR'S RESULTS**

FINANCIAL STATEMENTS

Type of auditor's report issued: Unqualified

Internal control over financial reporting:

- Material weakness(es) identified?  Yes  No
- Reportable condition(s) identified that are not considered to be material weakness(es)?  Yes  None noted

Noncompliance material to financial statements noted?  Yes  No

FEDERAL AWARDS

Internal control over major programs:

- Material weakness(es) identified?  Yes  No
- Reportable condition(s) identified that are not considered to be material weakness(es)?  Yes  None noted

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 Circular A-133?  Yes  No

Identification of major programs:

CFDA Numbers	Name of Federal Program or Cluster
84.027/84.173	Special Education Cluster
84.048	Vocational Education - Basic Grants to States
94.006	Americorps
94.011	Foster Grandparents Program
84.002	Adult Education - State Grant Program

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

Auditee qualified as low-risk auditee?  Yes  No

SOUTHEAST ARKANSAS EDUCATION SERVICE COOPERATIVE  
FEDERAL AWARD PROGRAMS -  
FINDINGS AND QUESTIONED COSTS  
FOR THE YEAR ENDED JUNE 30, 2003

Schedule 2

**SECTION II - FINANCIAL STATEMENT FINDINGS**

REPORTABLE CONDITIONS

2003-1. Segregation of Duties

Specific Requirement - Duties pertaining to cash transactions should be adequately segregated to reduce the opportunities for any individual in the normal course of his/her duties to both perpetuate and conceal errors or irregularities.

Condition - Duties pertaining to cash transactions were not adequately segregated. This condition could be applicable to the Cooperative's federal programs.

Effect - The Cooperative had inadequate control over cash transactions.

Cause - Duties pertaining to cash transactions were not adequately segregated due to a limited number of personnel.

Recommendation - Segregation of duties relating to cash transactions should be established to the extent possible.

Response - We concur with the recommendation.

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

No findings and questioned costs noted.

SOUTHEAST ARKANSAS EDUCATION SERVICE COOPERATIVE  
FEDERAL AWARD PROGRAMS -  
SUMMARY OF PRIOR AUDIT FINDINGS  
FOR THE YEAR ENDED JUNE 30, 2003

Schedule 3

There were no findings in the prior audit.