

**Southeast Arkansas Education Service Cooperative**

**Regulatory Basis Financial Statements  
and Other Reports**

**June 30, 2004**



SOUTHEAST ARKANSAS EDUCATION SERVICE COOPERATIVE  
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JUNE 30, 2004

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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. Sandra Prater  
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  
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, 2004, 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 the financial statements using accounting practices prescribed or permitted by Arkansas Code, which differ from accounting principles generally accepted in the United States of America. The effects 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 determined, 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 above 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, 2004, or the changes in financial position thereof for the year then ended.

In our opinion, the financial statements referred to above 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, 2004, and the respective changes in financial position and budgetary results for the year then ended, on the basis of accounting described in Note 1.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 17, 2005 on our consideration of the Cooperative's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements. 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 conducted for the purpose of forming opinions on the financial statements that collectively comprise the Cooperative's regulatory basis financial statements. The Schedule of Capital Assets (Schedule 1), 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*, Federal Award Programs – Findings and Questioned Costs (Schedule 3) and Federal Award Programs – Summary 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. The Expenditures of Federal Awards (Schedule 2), Federal Award Programs – Findings and Questioned Costs (Schedule 3) and Federal Award Programs – Summary of Prior Audit Findings (Schedule 4) have been subjected to the auditing procedures applied in the audit of the regulatory basis financial statements and, in our opinion, are fairly stated in all material respects in relation to the regulatory basis financial statements taken as a whole. The Schedule of Capital Assets (Schedule 1) has not been subjected to the auditing procedures applied in the audit of the regulatory basis financial statements and, accordingly, we express no opinion on it.

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  
October 17, 2005  
EDSC01504

Sen. Henry "Hank" Wilkins, IV  
Senate Co-Chair  
Rep. Tommy G. Roebuck  
House Co-Chair  
Sen. Randy Laverly  
Senate Co-Vice Chair  
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# Arkansas



Charles L. Robinson, 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  
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, 2004, which collectively comprise the Cooperative's regulatory basis financial statements, and have issued our report thereon dated October 17, 2005. 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. 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 effects 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 determined, 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, 2004, and the respective changes in financial position and budgetary results 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, we considered the Cooperative's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the regulatory basis financial statements and not to provide an opinion 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 Cooperative's ability to initiate, record, process, and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are disclosed in the accompanying schedule of Federal Award Programs - Findings and Questioned Costs as item 2004-1.

A material weakness is a reportable 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 caused by error or fraud in amounts that would be material in relation to the regulatory basis 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 finding number 2004-1 in the accompanying schedule of Federal Award Programs - Findings and Questioned Costs to be a material weakness.

#### Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Cooperative's regulatory basis financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of the state constitution, state and federal laws and regulations, and 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*.

These reports are intended solely for the information and use of the Legislative Joint Auditing Committee, the local governing 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 are not intended to be and should not be used by anyone other than these specified parties. However, pursuant to Arkansas Code Annotated §10-4-417, all reports presented to the Legislative Joint Auditing Committee are matters of public record and distribution is not limited.

DIVISION OF LEGISLATIVE AUDIT

*William R. Baum*

William R. Baum, CPA, CFE  
Deputy Legislative Auditor

Little Rock, Arkansas  
October 17, 2005

Sen. Henry "Hank" Wilkins, IV  
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Charles L. Robinson, CPA, CFE  
Legislative Auditor

## LEGISLATIVE JOINT AUDITING COMMITTEE DIVISION OF LEGISLATIVE AUDIT

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

Southeast Arkansas Education Service Cooperative  
Legislative Joint Auditing Committee

#### Compliance

We have audited the compliance of the Southeast Arkansas Education Service Cooperative (the "Cooperative") with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2004. The 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 grant agreements 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 on the Cooperative's compliance with those requirements.

In our opinion, the Cooperative complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2004.

#### Internal Control Over Compliance

The management of the Cooperative is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the Cooperative's internal control over compliance with 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 reportable 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 caused by error or fraud 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 solely for the information and use of the Legislative Joint Auditing Committee, the local governing 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 are not intended to be and should not be used by anyone other than these specified parties. However, pursuant to Arkansas Code Annotated §10-4-417, all reports presented to the Legislative Joint Auditing Committee are matters of public record and distribution is not limited.

DIVISION OF LEGISLATIVE AUDIT

*William R. Baum*

William R. Baum, CPA, CFE  
Deputy Legislative Auditor

Little Rock, Arkansas  
October 17, 2005

SOUTHEAST ARKANSAS EDUCATION SERVICE COOPERATIVE  
BALANCE SHEET - REGULATORY BASIS  
JUNE 30, 2004

Exhibit A

	Governmental Funds		
	Major		Fiduciary Fund Types
	General	Special Revenue	
<b>ASSETS</b>			
Cash		\$ 58,229	\$ 1,520
Investments	\$ 1,527,293		
Accounts receivable		215,460	
Deposit with paying agent	1,448		
Prepaid taxes	549	193	
<b>TOTAL ASSETS</b>	<b>\$ 1,529,290</b>	<b>\$ 273,882</b>	<b>\$ 1,520</b>
<b>LIABILITIES AND FUND BALANCES</b>			
Liabilities:			
Overdrafts	\$ 183,591		
Accounts payable		\$ 12,849	
Due to employee groups			\$ 1,520
<b>Total Liabilities</b>	<b>183,591</b>	<b>12,849</b>	<b>1,520</b>
Fund Balances:			
Unreserved:			
Undesignated	1,345,699	261,033	
<b>Total Fund Balances</b>	<b>1,345,699</b>	<b>261,033</b>	
<b>TOTAL LIABILITIES AND FUND BALANCES</b>	<b>\$ 1,529,290</b>	<b>\$ 273,882</b>	<b>\$ 1,520</b>

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



SOUTHEAST ARKANSAS EDUCATION SERVICE COOPERATIVE  
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES -  
GOVERNMENTAL FUNDS - REGULATORY BASIS  
FOR THE YEAR ENDED JUNE 30, 2004

Exhibit B

	Major	
	General	Special Revenue
REVENUES		
State assistance	\$ 3,091,196	
Federal assistance		\$ 4,332,809
Investment income	56,462	
Other revenues	1,901,872	152,543
<b>TOTAL REVENUES</b>	<b>5,049,530</b>	<b>4,485,352</b>
EXPENDITURES		
Regular programs	62,181	32,993
Special education	580,380	484,630
Workforce education	51,701	471,481
Adult education	376,683	
Compensatory education	824,527	555,205
Other instructional programs	418,400	41,941
Student support services	719,970	818,307
Instructional staff support services	1,062,209	214,466
General administration support services	194,640	934,388
Business support services	69,194	
Operation and maintenance of plant services	51,258	38,342
Student transportation services	10,040	
Central support services	97,112	206,782
Other support services		18,621
Community services	42,119	674,043
Non-programmed costs	1,914	
Capital outlay	157,339	51,139
Debt service:		
Principal retirement	233,397	
Interest and fiscal charges	19,603	
<b>TOTAL EXPENDITURES</b>	<b>4,972,667</b>	<b>4,542,338</b>
<b>EXCESS OF REVENUES OVER (UNDER) EXPENDITURES</b>	<b>76,863</b>	<b>(56,986)</b>
FUND BALANCES - JULY 1	1,268,836	318,019
FUND BALANCES - JUNE 30	<u>\$ 1,345,699</u>	<u>\$ 261,033</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 -  
BUDGET AND ACTUAL - GENERAL AND SPECIAL REVENUE FUNDS - REGULATORY BASIS  
FOR THE YEAR ENDED JUNE 30, 2004

Exhibit C

	General			Special Revenue		
	Budget	Actual	Variance Favorable (Unfavorable)	Budget	Actual	Variance Favorable (Unfavorable)
REVENUES						
State assistance	\$ 2,285,075	\$ 3,091,196	\$ 806,121			
Federal assistance				\$ 4,016,798	\$ 4,332,809	\$ 316,011
Investment income	41,588	56,462	14,874			
Other revenues	1,973,536	1,901,872	(71,664)		152,543	152,543
<b>TOTAL REVENUES</b>	<b>4,300,199</b>	<b>5,049,530</b>	<b>749,331</b>	<b>4,016,798</b>	<b>4,485,352</b>	<b>468,554</b>
EXPENDITURES						
Regular programs	64,612	62,181	2,431	30,000	32,993	(2,993)
Special education	516,598	580,380	(63,782)	520,497	484,630	35,867
Workforce education	45,000	51,701	(6,701)	127,300	471,481	(344,181)
Adult education	385,077	376,683	8,394	127,300		127,300
Compensatory education	784,189	824,527	(40,338)	22,102	555,205	(533,103)
Other instructional programs	472,267	418,400	53,867	1,412,875	41,941	1,370,934
Student support services	613,823	719,970	(106,147)	225,675	818,307	(592,632)
Instructional staff support services	923,886	1,062,209	(138,323)	708,616	214,466	494,150
General administration support services	155,218	194,640	(39,422)	238,060	934,388	(696,328)
Business support services	192,557	69,194	123,363			
Operation and maintenance of plant services	89,671	51,258	38,413		38,342	(38,342)
Student transportation services	7,770	10,040	(2,270)			
Central supplies services	121,496	97,112	24,384		206,782	(206,782)
Other support services				23,184	18,621	4,563
Community services	33,125	42,119	(8,994)	717,473	674,043	43,430
Non-programmed costs		1,914	(1,914)			
Capital outlay	68,210	157,339	(89,129)	390,928	51,139	339,789
Debt service:						
Principal retirement	250,102	233,397	16,705			
Interest and fiscal charges	27,029	19,603	7,426			
<b>TOTAL EXPENDITURES</b>	<b>4,750,630</b>	<b>4,972,667</b>	<b>(222,037)</b>	<b>4,544,010</b>	<b>4,542,338</b>	<b>1,672</b>
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	(450,431)	76,863	527,294	(527,212)	(56,986)	470,226
FUND BALANCES - JULY 1	1,213,892	1,268,836	54,944		318,019	318,019
FUND BALANCES - JUNE 30	\$ 763,461	\$ 1,345,699	\$ 582,238	\$ (527,212)	\$ 261,033	\$ 788,245

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

SOUTHEAST ARKANSAS EDUCATION SERVICE COOPERATIVE  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2004

**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. Description of Funds

Major governmental funds (per the regulatory basis of accounting) are defined as General and Special Revenue.

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

Special Revenue Fund - The Special Revenue Fund is used to account for the proceeds of specific revenue sources (other than trusts for individuals, private organizations, or other governments or for major capital projects) that are legally restricted to expenditures for specified purposes.

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), which is an *Other Comprehensive Basis of Accounting* (OCBOA). This basis of accounting is prescribed by the Arkansas Department of Education, a governmental regulatory agency, to whose jurisdiction the Cooperative is subject.

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.

SOUTHEAST ARKANSAS EDUCATION SERVICE COOPERATIVE  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2004

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

E. Capital Assets

Information on capital assets and related depreciation is reported at Schedule 1. Capital assets are capitalized at historical cost or estimated historical cost, if actual data is not available. Capital assets purchased are recorded as expenditures in the applicable fund at the time of purchase. Donated capital assets are reported at fair value when received. The Cooperative maintains a threshold level of \$1,000 for capitalizing equipment. Library holdings are not capitalized.

No salvage value is taken into consideration for depreciation purposes. All capital assets, other than land and construction in progress, are depreciated using the straight-line method over the following useful lives:

Asset Class	Estimated Useful Life in Years
Improvements/infrastructure	20
Buildings	50
Equipment	5-20

F. Fund Balance Designation

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

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.

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.

On-behalf payments as described at Note 8 are nonbudgeted financial data for the year ended June 30, 2004. Such payments are recorded as actual revenues and expenditures in the Statement of Revenues, Expenditures and Changes in Fund Balances – Budget and Actual – General and Special Revenue Funds – Regulatory Basis (Exhibit C).

SOUTHEAST ARKANSAS EDUCATION SERVICE COOPERATIVE  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2004

**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)	\$ (123,942)	\$ 100,000
Uninsured, Collateralized		214,858
Total Deposits	\$ (123,942)	\$ 314,858

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

**3: INVESTMENTS**

Investments consist of certificates of deposit classified as nonparticipating contracts and are reported at cost. The Cooperative's investments are categorized to give an indication of the level of risk assumed 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	\$ 1,527,293	\$ 0	\$ 0	\$ 1,527,293	\$ 1,527,293

**4: RECEIVABLES**

The receivables of \$215,460 at June 30, 2004, are as follows:

Class of Receivable	Special Revenue Fund
Accounts	\$ 215,460

SOUTHEAST ARKANSAS EDUCATION SERVICE COOPERATIVE  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2004

**5: COMMITMENTS**

Long-term Debt Issued and Outstanding

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

<u>Date of Issue</u>	<u>Date of Final Maturity</u>	<u>Rate of Interest</u>	<u>Amount Authorized and Issued</u>	<u>Debt Outstanding June 30, 2004</u>	<u>Maturities To June 30, 2004</u>
5/1/1997	4-1-2007	3.00%	\$ 150,000	\$ 47,214	\$ 102,786
2/20/2001	11-1-2006	5.85%	164,000	82,001	81,999
4/29/2002	4-29-2005	7.25%	525,000	102,976	422,024
Totals			<u>\$ 839,000</u>	<u>\$ 232,191</u>	<u>\$ 606,809</u>

Changes in Long-term Debt

	<u>Balance July 1, 2003</u>	<u>Retired</u>	<u>Balance June 30, 2004</u>
Notes payable	\$ 62,929	\$ 15,715	\$ 47,214
Certificates of indebtedness	109,334	27,333	82,001
Bank loan payable	293,325	190,349	102,976
Totals	<u>\$ 465,588</u>	<u>\$ 233,397</u>	<u>\$ 232,191</u>

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

<u>Year Ended June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2005	\$ 146,490	\$ 10,261	\$ 156,751
2006	44,008	3,111	47,119
2007	41,693	1,007	42,700
Totals	<u>\$ 232,191</u>	<u>\$ 14,379</u>	<u>\$ 246,570</u>

**6: ACCOUNTS PAYABLE**

The payables of \$12,849 at June 30, 2004, are as follows:

	<u>Special Revenue Fund</u>
Accounts	<u>\$ 12,849</u>

SOUTHEAST ARKANSAS EDUCATION SERVICE COOPERATIVE  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2004

**7: RETIREMENT PLANS**

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 prior to July 1, 1989. 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 13%. 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, 2004, 2003 and 2002 were \$315,784, \$277,028 and \$264,224, respectively. The Cooperative's contributions to ATRS for federally funded employees for the years ended June 30, 2004, 2003 and 2002 were \$138,062, \$117,751 and \$78,565, respectively, equal to the required contributions for each year.

**8: 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 \$105,300. 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 \$315,784.

SOUTHEAST ARKANSAS EDUCATION SERVICE COOPERATIVE  
SCHEDULE OF CAPITAL ASSETS  
FOR THE YEAR ENDED JUNE 30, 2004

Schedule 1

	Balance July 1, 2003	Additions	Deletions	Adjustments	Balance June 30, 2004
<i>Nondepreciable capital assets:</i>					
Land	\$ 7,000				\$ 7,000
<i>Depreciable capital assets:</i>					
Buildings	1,750,140				1,750,140
Equipment	1,044,212	\$ 208,478	\$ 89,455		1,163,235
Total depreciable capital assets	<u>2,794,352</u>	<u>208,478</u>	<u>89,455</u>		<u>2,913,375</u>
Less accumulated depreciation for:					
Buildings	200,950	35,523			236,473
Equipment	571,293	243,916	89,455	\$ (34,418)	691,336
Total accumulated depreciation	<u>772,243</u>	<u>279,439</u>	<u>89,455</u>	<u>(34,418)</u>	<u>927,809</u>
Total depreciable capital assets, net	<u>2,022,109</u>	<u>(70,961)</u>	<u>0</u>	<u>34,418</u>	<u>1,985,566</u>
Capital assets, net	<u>\$ 2,029,109</u>	<u>\$ (70,961)</u>	<u>\$ 0</u>	<u>\$ 34,418</u>	<u>\$ 1,992,566</u>



SOUTHEAST ARKANSAS EDUCATION SERVICE COOPERATIVE  
EXPENDITURES OF FEDERAL AWARDS  
FOR THE YEAR ENDED JUNE 30, 2004

Schedule 2

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	\$ 275,015
Special Education - Preschool Grants	84.173	22-20	<u>510,583</u>
TOTAL SPECIAL EDUCATION CLUSTER			<u>785,598</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	27,238
Vocational Education - Basic Grants to States	84.048	22-20	473,819
Migrant Education - Coordination Program	84.144	22-20	62,751
Even Start - Statewide Family Literacy Program	84.314	22-20	19,839
Technology Literacy Challenge Funds Grants	84.318	22-20	227,576
Goals 2000 - State and Local Educational Systemic Improvement Grants	84.276	22-20	5,037
Adult Education-State Grant Program	84.002	22-20	931,433
Bilingual Education Support Services	84.194	22-20	171,950
Twenty-First Century Community Learning Centers	84.287	22-20	17,470
Reading First State Grants	84.357	22-20	168,911
English Language Acquisition Grants	84.365	22-20	9,639
Passed Through State of Washington			
Links Grant	84.XXX	Note 2	<u>177,397</u>
Total U. S. Department of Education			<u>2,293,060</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>50,503</u>
<u>Corporation for National and Community Service</u>			
Foster Grandparent Program	94.011		439,642
Passed Through State Department of Human Services:			
AmeriCorps	94.006	94ASCAR0040301	<u>818,306</u>
Total Corporation for National and Community Service			<u>1,257,948</u>
TOTAL OTHER PROGRAMS			<u>3,601,511</u>
TOTAL EXPENDITURES OF FEDERAL AWARDS			<u>\$ 4,387,109</u>

SOUTHEAST ARKANSAS EDUCATION SERVICE COOPERATIVE  
EXPENDITURES OF FEDERAL AWARDS  
FOR THE YEAR ENDED JUNE 30, 2004

Schedule 2

NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

- Note 1: Basis of Presentation - The accompanying schedule of expenditures of federal awards includes the federal grant activity of Southeast Arkansas Education Service Cooperative and is presented on the regulatory basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *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, 2004

Schedule 3

**SECTION II - FINANCIAL STATEMENT FINDINGS**

REPORTABLE CONDITIONS

2004-1. Segregation of Duties

Criteria: Financial accounting duties should be distributed among appropriate employees to ensure the proper safeguarding of assets.

Condition: The Cooperative does not have adequate staff to segregate financial accounting duties among appropriate employees.

Context: Completion of internal control questionnaire.

Effect: Financial accounting duties are not distributed among the Cooperative's employees to sufficiently reduce the risks of fraud or error and to properly safeguard the Cooperative's assets.

Cause: Limited financial resources hinder the Cooperative's ability to adequately segregate financial accounting duties among employees.

Recommendation: To ensure the proper safeguarding of the Cooperative's assets, financial accounting duties should be distributed among appropriate employees.

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, 2004

Schedule 4

There were no findings in the prior audit.