

Northcentral Arkansas Education Service Cooperative

Regulatory Basis Financial Statements and Other Reports

June 30, 2011

LEGISLATIVE JOINT AUDITING COMMITTEE



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

Arkansas



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

LEGISLATIVE JOINT AUDITING COMMITTEE DIVISION OF LEGISLATIVE AUDIT

INDEPENDENT AUDITOR'S REPORT

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

We have audited the accompanying financial statements of each major governmental fund of the Northcentral Arkansas Education Service Cooperative (the "Cooperative"), as of and for the year ended June 30, 2011, which collectively comprise the Cooperative's regulatory basis financial statements as listed in the table of contents. These financial statements are the responsibility of Cooperative management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

As described more fully in Note 1, the Cooperative has prepared these financial statements using accounting practices prescribed or permitted by Arkansas Code, which practices differ from accounting principles generally accepted in the United States of America. The effect on the financial statements of the variances between these regulatory accounting practices and accounting principles generally accepted in the United States of America, although not reasonably determinable, are presumed to be material.

In our opinion, because of the effects of the matter discussed in the preceding paragraph, the financial statements referred to previously do not present fairly, in conformity with accounting principles generally accepted in the United States of America, the financial position of the Cooperative as of June 30, 2011, or the changes in financial position for the year then ended. Further, the Cooperative has not presented a management's discussion and analysis that accounting principles generally accepted in the United States has determined is necessary to supplement, although not required to be part of, the basic financial statements.

In our opinion, the financial statements referred to previously present fairly, in all material respects, the respective financial position of each major governmental fund of the Cooperative as of June 30, 2011, and the respective changes in financial position thereof and the respective budgetary comparison for the general and special revenue funds for the year then ended, on the basis of accounting described in Note 1.

As discussed in Note 1 to the financial statements, the Cooperative changed the classifications of its governmental fund balances on July 1, 2010.

In accordance with *Government Auditing Standards*, we have also issued our report dated March 1, 2012 on our consideration of the Cooperative's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Cooperative's regulatory basis financial statements. The Schedule of Capital Assets (Schedule 1), Schedule of Expenditures of Federal Awards (Schedule 2), as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, Schedule of Findings and Questioned Costs (Schedule 3), Federal Award Programs - Summary Schedule of Prior Audit Findings (Schedule 4), and Schedule of Selected Information for the Last Five Years - Regulatory Basis (Schedule 5) are presented for purposes of additional analysis and are not a required part of the regulatory basis financial statements. The Schedule of Expenditures of Federal Awards (Schedule 2), Schedule of Findings and Questioned Costs (Schedule 3), and Federal Award Programs - Summary Schedule of Prior Audit Findings (Schedule 4) have been subjected to the auditing procedures applied in the audit of the regulatory basis financial statements and, in our opinion, are fairly stated in all material respects in relation to the regulatory basis financial statements taken as a whole. The Schedule of Capital Assets (Schedule 1) and the Schedule of Selected Information for the Last Five Years - Regulatory Basis (Schedule 5) have not been subjected to the auditing procedures applied in the audit of the regulatory basis financial statements and, accordingly, we express no opinion on them.

DIVISION OF LEGISLATIVE AUDIT

A handwritten signature in black ink, appearing to read "Roger A. Norman". The signature is fluid and cursive, with the first name "Roger" being more prominent.

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

Little Rock, Arkansas
March 1, 2012
EDSC00311

Sen. Bill Pritchard
Senate Chair
Rep. Tim Summers
House Chair
Sen. David Wyatt
Senate Vice Chair
Rep. Toni Bradford
House Vice Chair

Arkansas



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

LEGISLATIVE JOINT AUDITING COMMITTEE DIVISION OF LEGISLATIVE AUDIT

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

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

We have audited the financial statements of each major governmental fund of the Northcentral Arkansas Education Service Cooperative (the "Cooperative"), as of and for the year ended June 30, 2011, which collectively comprise the Cooperative's regulatory basis financial statements, and have issued our report thereon dated March 1, 2012. We issued an adverse opinion because the Cooperative prepared the financial statements using accounting practices prescribed or permitted by the Arkansas Code, which differ from accounting principles generally accepted in the United States of America. The effect on the financial statements of the variances between these regulatory accounting practices and accounting principles generally accepted in the United States of America, although not reasonably determinable, are presumed to be material. However, the financial statements present fairly, in all material respects, the respective financial position of each major governmental fund of the Cooperative as of June 30, 2011, and the respective changes in financial position thereof and the respective budgetary comparison for the general and special revenue funds for the year then ended, on the basis of accounting described in Note 1. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

Management of the Cooperative is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the Cooperative's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the regulatory basis financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Cooperative's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Cooperative's internal control over financial reporting.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the Cooperative's financial statements will not be prevented, or detected or corrected on a timely basis.

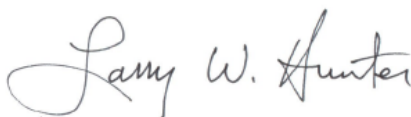
Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material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

Compliance and Other Matters

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

This report is intended solely for the information and use of the Legislative Joint Auditing Committee, the local cooperative board and Cooperative management, state executive and oversight management, federal regulatory and oversight bodies, the federal awarding agencies and pass-through entities, and other parties as required by Arkansas Code, and is not intended to be and should not be used by anyone other than these specified parties. However, pursuant to Ark. Code Ann. § 10-4-417, all reports presented to the Legislative Joint Auditing Committee are matters of public record and distribution is not limited.

DIVISION OF LEGISLATIVE AUDIT

A handwritten signature in cursive script that reads "Larry W. Hunter".

Larry W. Hunter, CPA, CFE
Deputy Legislative Auditor

Little Rock, Arkansas
March 1, 2012

Sen. Bill Pritchard
Senate Chair
Rep. Tim Summers
House Chair
Sen. David Wyatt
Senate Vice Chair
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Arkansas



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

LEGISLATIVE JOINT AUDITING COMMITTEE DIVISION OF LEGISLATIVE AUDIT

REPORT ON COMPLIANCE WITH REQUIREMENTS THAT COULD HAVE A DIRECT AND MATERIAL EFFECT ON EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

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

Compliance

We have audited the Northcentral 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, 2011. The Cooperative's major federal programs are identified in the summary of auditor's results section of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the Cooperative's management. Our responsibility is to express an opinion on the Cooperative's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Cooperative's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of the Cooperative's compliance with those requirements.

In our opinion, the Cooperative complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2011. However, the results of our auditing procedures disclosed instances of noncompliance with those requirements, which are required to be reported in accordance with OMB Circular A-133 and which are described in the accompanying Schedule of Findings and Questioned Costs as item 2011-1.

Internal Control Over Compliance

Management of the Cooperative is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the Cooperative's internal control over compliance with the requirements that could have a direct and material effect on a major federal program to determine the auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Cooperative's internal control over compliance.

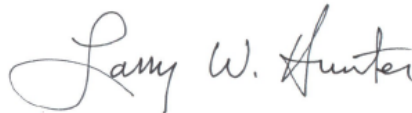
A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above. However, we identified a certain deficiency in internal control over compliance that we consider to be a significant deficiency as described in the accompanying Schedule of Findings and Questioned Costs as item 2011-1. 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.

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

This report is intended solely for the information and use of the Legislative Joint Auditing Committee, the local cooperative board and Cooperative management, state executive and oversight management, federal regulatory and oversight bodies, the federal awarding agencies and pass-through entities, and other parties as required by Arkansas Code, and is not intended to be and should not be used by anyone other than these specified parties. However, pursuant to Ark. Code Ann. § 10-4-417, all reports presented to the Legislative Joint Auditing Committee are matters of public record and distribution is not limited.

DIVISION OF LEGISLATIVE AUDIT

A handwritten signature in dark ink, reading "Larry W. Hunter". The signature is fluid and cursive, with the first letters of the first and last names being capitalized and prominent.

Larry W. Hunter, CPA, CFE
Deputy Legislative Auditor

Little Rock, Arkansas
March 1, 2012

NORTHCENTRAL ARKANSAS EDUCATION SERVICE COOPERATIVE
BALANCE SHEET - REGULATORY BASIS
JUNE 30, 2011

Exhibit A

	Governmental Funds	
	Major	
	General	Special Revenue
ASSETS		
Cash	\$ 945,147	\$ 193,416
Accounts receivable	33,964	101,737
Due from other funds	661	
TOTAL ASSETS	<u>\$ 979,772</u>	<u>\$ 295,153</u>
LIABILITIES AND FUND BALANCES		
Liabilities:		
Accounts payable	\$ 82,220	\$ 56,672
Due to other funds		661
Total Liabilities	<u>82,220</u>	<u>57,333</u>
Fund Balances:		
Restricted	432,483	237,820
Unassigned	<u>465,069</u>	
Total Fund Balances	<u>897,552</u>	<u>237,820</u>
TOTAL LIABILITIES AND FUND BALANCES	<u>\$ 979,772</u>	<u>\$ 295,153</u>

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

NORTHCENTRAL ARKANSAS EDUCATION SERVICE COOPERATIVE
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES -
GOVERNMENTAL FUNDS - REGULATORY BASIS
FOR THE YEAR ENDED JUNE 30, 2011

Exhibit B

	Major	
	General	Special Revenue
REVENUES		
State assistance	\$ 1,777,361	
Federal assistance		\$ 520,061
Investment income	14,587	
Other revenues	1,144,981	53,734
TOTAL REVENUES	2,936,929	573,795
EXPENDITURES		
Regular programs		
Special education	410,548	331,230
Workforce education programs	2,222	108,668
Compensatory education programs	46,750	
Student support services	352,114	51,784
Instructional staff support services	1,472,924	132,440
General administration support services	173,825	
Central services support services	306,467	
Operation and maintenance of plant services	128,528	
Student transportation services		670
Non-programmed costs		28,554
Debt Service:		
Principal retirement	16,431	
Interest and fiscal charges	5,290	
TOTAL EXPENDITURES	2,915,099	653,346
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	21,830	(79,551)
OTHER FINANCING SOURCES (USES)		
Refund to grantor	(13,137)	
EXCESS OF REVENUES AND OTHER SOURCES OVER (UNDER) EXPENDITURES AND OTHER USES	8,693	(79,551)
FUND BALANCES - JULY 1	888,859	317,371
FUND BALANCES - JUNE 30	\$ 897,552	\$ 237,820

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

NORTHCENTRAL 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, 2011

Exhibit C

	General			Special Revenue		
	Budget	Actual	Variance Favorable (Unfavorable)	Budget	Actual	Variance Favorable (Unfavorable)
REVENUES						
State assistance	\$ 1,654,154	\$ 1,777,361	\$ 123,207			
Federal assistance				\$ 609,892	\$ 520,061	\$ (89,831)
Investment income	17,000	14,587	(2,413)			
Other revenues	1,439,767	1,144,981	(294,786)		53,734	53,734
TOTAL REVENUES	3,110,921	2,936,929	(173,992)	609,892	573,795	(36,097)
EXPENDITURES						
Regular programs	42,468		42,468			
Special education	605,768	410,548	195,220	493,325	331,230	162,095
Workforce education programs	2,603	2,222	381	109,718	108,668	1,050
Compensatory education programs	146,355	46,750	99,605			
Student support services	719,317	352,114	367,203	98,218	51,784	46,434
Instructional staff support services	1,650,587	1,472,924	177,663	135,217	132,440	2,777
General administration support services	172,045	173,825	(1,780)			
Central services support services	404,429	306,467	97,962			
Operation and maintenance of plant services	173,012	128,528	44,484			
Student transportation services				5,000	670	4,330
Non-programmed costs	26,527		26,527	38,608	28,554	10,054
Debt Service:						
Principal retirement	16,431	16,431				
Interest and fiscal charges	5,290	5,290				
TOTAL EXPENDITURES	3,964,832	2,915,099	1,049,733	880,086	653,346	226,740

NORTHCENTRAL 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, 2011

Exhibit C

	General			Special Revenue		
	Budget	Actual	Variance Favorable (Unfavorable)	Budget	Actual	Variance Favorable (Unfavorable)
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	<u>\$ (853,911)</u>	<u>\$ 21,830</u>	<u>\$ 875,741</u>	<u>\$ (270,194)</u>	<u>\$ (79,551)</u>	<u>\$ 190,643</u>
OTHER FINANCING SOURCES (USES)						
Transfers in	65,135		(65,135)			
Refund to grantor	<u>(13,137)</u>	<u>(13,137)</u>				
TOTAL OTHER FINANCING SOURCES (USES)	<u>51,998</u>	<u>(13,137)</u>	<u>(65,135)</u>			
EXCESS OF REVENUES AND OTHER SOURCES OVER (UNDER) EXPENDITURES AND OTHER USES	(801,913)	8,693	810,606	(270,194)	(79,551)	190,643
FUND BALANCES - JULY 1	<u>979,576</u>	<u>888,859</u>	<u>(90,717)</u>	<u>289,580</u>	<u>317,371</u>	<u>27,791</u>
FUND BALANCES - JUNE 30	<u><u>\$ 177,663</u></u>	<u><u>\$ 897,552</u></u>	<u><u>\$ 719,889</u></u>	<u><u>\$ 19,386</u></u>	<u><u>\$ 237,820</u></u>	<u><u>\$ 218,434</u></u>

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

NORTHCENTRAL ARKANSAS EDUCATION SERVICE COOPERATIVE
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011

1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Reporting Entity

The Board of Education, a 16 member group, is the level of government, which has responsibilities over all activities within the jurisdiction of the Northcentral 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.

C. Measurement Focus and Basis of Accounting

The financial statements are prepared in accordance with a regulatory basis of accounting (RBA). This basis of accounting is prescribed by Ark. Code Ann. § 10-4-413(c), as provided in Act 2201 of 2005, and requires that financial statements be presented on a fund basis with, as a minimum, the general fund and special revenue fund presented separately and all other funds included in the audit presented in the aggregate. The law also stipulates that the financial statements consist of a balance sheet; a statement of revenues, expenditures, and changes in fund balances; a comparison of the final adopted budget to the actual expenditures for the general fund and special revenue funds of the entity; notes to financial statements; and a supplemental schedule of capital assets, including land, buildings, and equipment. The law further stipulates that the State Board of Education shall promulgate the rules necessary to administer the regulatory basis of presentation.

The RBA is not in accordance with generally accepted accounting principles (GAAP). GAAP require that basic financial statements present government-wide financial statements. Additionally, GAAP require the following major concepts: Management's Discussion and Analysis, accrual basis of accounting for government-wide financial statements, including depreciation expense, modified accrual basis of accounting for fund financial statements, separate financial statements for fiduciary fund types, separate identification of special and extraordinary items, inclusion of capital assets and debt in the financial statements, specific procedures for the identification of major governmental funds, and applicable note disclosures. The RBA does not require government-wide financial statements or the previously identified concepts.

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.

NORTHCENTRAL ARKANSAS EDUCATION SERVICE COOPERATIVE
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011

1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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:

<u>Asset Class</u>	<u>Estimated Useful Life in Years</u>
Buildings	25-50
Equipment	5-20

F. Interfund Receivables and Payables

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

G. Fund Balance Designations

1. 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. 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.

H. Budget and Budgetary Accounting

The Cooperative is required by state law to prepare an annual budget. The annual budget is prepared on a fiscal year basis. The Cooperative does not prepare and submit amended budgets during the fiscal year. The State Department of Education's regulations allow for the cash basis or the modified accrual basis. However, the majority of the cooperatives employ the cash basis method.

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

NORTHCENTRAL ARKANSAS EDUCATION SERVICE COOPERATIVE
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011

1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

I. 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.

J. Minimum Fund Balance Policies

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

K. Fund Balance Classification Policies and Procedures

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.

L. Encumbrances

The Cooperative does not utilize encumbrance accounting.

M. Change in Accounting Principle

The Cooperative adopted Governmental Accounting Standards Board (GASB) Statement no. 54, *Fund Balance Reporting and Governmental Fund Type Definitions* on July 1, 2010. GASB Statement no. 54 changed the classifications of governmental fund balances from reserved and unreserved to nonspendable, restricted, committed, assigned, and unassigned.

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 pledging bank or pledging bank's trust department in the Cooperative's name	888,563	828,128
Total Deposits	<u>\$ 1,138,563</u>	<u>\$ 1,078,128</u>

NORTHCENTRAL ARKANSAS EDUCATION SERVICE COOPERATIVE
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011

3: ACCOUNTS RECEIVABLE

The accounts receivable balance of \$135,701 at June 30, 2011 was comprised of the following:

Description	Governmental Funds		Total
	Major		
	General	Special Revenue	
State assistance	\$ 3,800		\$ 3,800
Federal assistance		\$ 80,019	80,019
Other	30,164	21,718	51,882
Totals	\$ 33,964	\$ 101,737	\$ 135,701

4: COMMITMENTS

The Cooperative was contractually obligated for the following at June 30, 2011:

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, 2011	Maturities To June 30, 2011
11/17/06	11/1/16	4.95%	<u>\$ 164,309</u>	<u>\$ 98,585</u>	<u>\$ 65,724</u>

Changes in Long-term Debt

	Balance July 1, 2010	Issued	Retired	Balance June 30, 2011
Certificates of indebtedness	<u>\$ 115,016</u>	<u>\$ 0</u>	<u>\$ 16,431</u>	<u>\$ 98,585</u>

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

Year Ended June 30,	Principal	Interest	Total
2012	\$ 16,431	\$ 4,488	\$ 20,919
2013	16,431	3,663	20,094
2014	16,431	2,850	19,281
2015	16,431	2,037	18,468
2016	16,431	1,225	17,656
2017	16,430	410	16,840
Totals	<u>\$ 98,585</u>	<u>\$ 14,673</u>	<u>\$ 113,258</u>

NORTHCENTRAL ARKANSAS EDUCATION SERVICE COOPERATIVE
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011

5: ACCOUNTS PAYABLE

The accounts payable balance of \$138,892 at June 30, 2011 was comprised of the following:

Description	Governmental Funds		Total
	Major		
	General	Special Revenue	
Vendor payables	\$ 82,220	\$ 56,672	\$ 138,892

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 nonteachers hired before July 1, 1989. ATRS, administered by a Board of Trustees, provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Benefit provisions are established by State law and can be amended only by the Arkansas General Assembly. The Arkansas Teacher Retirement System issues a publicly available financial report that includes financial statements and required supplementary information for ATRS. That report may be obtained by writing to Arkansas Teacher Retirement System, 1400 West Third Street, Little Rock, Arkansas 72201 or by calling 1-800-666-2877.

Funding Policy. ATRS has contributory and noncontributory plans. Contributory members are required by State law to contribute 6% of their salaries. Each participating employer is required by State law to contribute at a rate determined by the Board of Trustees, based on the annual actuarial valuation. The current employer rate is 14% of covered salaries, the maximum allowed by State law. The employer contribution was paid by the Arkansas Department of Education from the Public School Fund, except for those employees paid from federal funding. Employer contributions for those employees were paid by the Cooperative. The Arkansas Department of Education's contributions to ATRS for the Cooperative during the years ended June 30, 2011, 2010, and 2009 were \$331,906, \$334,082, and \$319,730, respectively. The Cooperative's contributions to ATRS for the years ended June 30, 2011, 2010, and 2009 were \$6,135, \$5,170, and \$3,425, 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 business trip accidental death and dismemberment coverage. 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.

NORTHCENTRAL ARKANSAS EDUCATION SERVICE COOPERATIVE
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011

7: RISK MANAGEMENT (Continued)

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 \$1,000 deductible. Premiums for coverage are paid by the Chief Fiscal Officer of the State of Arkansas from funds withheld from the Public School Fund.

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 \$48,030 for the year ended June 30, 2011.

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

Description	Governmental Funds		Total
	Major		
	General	Special Revenue	
Fund Balances:			
Restricted for:			
Early childhood programs	\$ 220,953		\$ 220,953
Medical services		\$ 113,646	113,646
Special education programs	73,246	124,164	197,410
Other purposes	138,284	10	138,294
Total Restricted	<u>432,483</u>	<u>237,820</u>	<u>670,303</u>
Unassigned	<u>465,069</u>		<u>465,069</u>
Totals	<u>\$ 897,552</u>	<u>\$ 237,820</u>	<u>\$ 1,135,372</u>

NORTHCENTRAL ARKANSAS EDUCATION SERVICE COOPERATIVE
SCHEDULE OF CAPITAL ASSETS
FOR THE YEAR ENDED JUNE 30, 2011
(Unaudited)

Schedule 1

	Balance June 30, 2011
<i>Nondepreciable capital assets:</i>	
Land	\$ 5,000
<i>Depreciable capital assets:</i>	
Buildings	1,100,380
Equipment	368,557
Total depreciable capital assets	1,468,937
Less accumulated depreciation for:	
Buildings	194,112
Equipment	242,193
Total accumulated depreciation	436,305
Total depreciable capital assets, net	1,032,632
Capital assets, net	\$ 1,037,632

NORTHCENTRAL ARKANSAS EDUCATION SERVICE COOPERATIVE
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2011

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 - Preschool Grants	84.173	33-20	\$ 241,368
ARRA - Special Education - Preschool Grants, Recovery Act	84.392	3320000	<u>113,711</u>
TOTAL SPECIAL EDUCATION CLUSTER (IDEA)			<u>355,079</u>
OTHER PROGRAMS			
<u>U. S. Department of Education</u>			
Passed Through State Department of Career Education:			
Career and Technical Education - Basic Grants to States	84.048	33-20	95,619
Tech-Prep Education	84.243	33-20	<u>18,048</u>
Total State Department of Career Education			<u>113,667</u>
Passed Through State Department of Education:			
Mathematics and Science Partnerships	84.366	33-20	<u>132,866</u>
Total U. S. Department of Education			<u>246,533</u>
TOTAL OTHER PROGRAMS			<u>246,533</u>
TOTAL EXPENDITURES OF FEDERAL AWARDS			<u><u>\$ 601,612</u></u>

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 Northcentral Arkansas Education Service Cooperative (Cooperative) under programs of the federal government for the year ended June 30, 2011. The information in this schedule is presented in accordance with the requirements of the Office of Management and Budget (OMB) Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Because this schedule presents only a selected portion of the operations of the Cooperative, it is not intended to and does not present the financial position or changes in financial position of the Cooperative.
- Note 2: Summary of Significant Accounting Policies - Expenditures reported on the Schedule are reported on the regulatory basis of accounting. Such expenditures are recognized following the cost principles contained in OMB Circular A-87, *Cost Principles for State, Local, and Indian Tribal Governments*, wherein certain types of expenditures are not allowable or are limited as to reimbursement. Pass-through entity identifying numbers are presented where available.
- Note 3: During the year ended June 30, 2011, the Cooperative received Medicaid funding of \$41,385 from the State Department of Human Services. Such payments are not considered Federal awards expended, and therefore, are not included in the above schedule.

NORTHCENTRAL ARKANSAS EDUCATION SERVICE COOPERATIVE
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2011

Schedule 3

SECTION I - SUMMARY OF AUDITOR'S RESULTS

FINANCIAL STATEMENTS

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

Internal control over financial reporting:

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

Noncompliance material to financial statements noted? ☐ yes ☒ no

FEDERAL AWARDS

Internal control over major programs:

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

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

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

Identification of major programs:

CFDA Number(s)	Name of Federal Program or Cluster
84.173 and 84.392	Special Education Cluster (IDEA)

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

Auditee qualified as low-risk auditee? ☐ yes ☒ no

NORTHCENTRAL ARKANSAS EDUCATION SERVICE COOPERATIVE
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2011

Schedule 3

SECTION II - FINANCIAL STATEMENT FINDINGS

No matters were reported.

SECTION III - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

SIGNIFICANT DEFICIENCY

U. S. DEPARTMENT OF EDUCATION
PASSED THROUGH STATE DEPARTMENT OF EDUCATION
SPECIAL EDUCATION CLUSTER (IDEA) - CFDA NUMBERS 84.173 AND 84.392
PASS-THROUGH NUMBERS 33-20 and 3320000
AUDIT PERIOD - YEAR ENDED JUNE 30, 2011

2011-1. Reporting

Criteria or specific requirement: The Cooperative is required to budget all special education program expenditures, which includes ARRA and non-ARRA funds. Expenditures may not exceed the budgeted amounts for specific categories by more than 10 percent without prior approval from the Arkansas Department of Education (ADE) and the submission of budget amendments or adjustments. Annual financial reports are compiled at the end of the fiscal year.

Condition: Non-ARRA preschool special education expenditures of \$2,081 were incurred in four budget categories (function/object) that were not budgeted. Additionally, the Cooperative expended ARRA preschool special education funds that exceeded the amount budgeted in one budget cell (function/object) by \$9,883 more than the 10 percent allowed. Total expenditures did not exceed the total overall budgets.

Context: Comparison of budgeted expenditures to actual expenditures as reported on the annual financial reports.

Effect: The Cooperative did not request ADE approval or submit budget amendments or adjustments for non-ARRA and ARRA special education funds.

Cause: The Cooperative failed to properly monitor expenditures against the approved budgets.

Recommendation: The Cooperative should implement procedures to ensure expenditures are properly monitored and budgets are amended as necessary and consult with the ADE for further guidance regarding this matter.

Views of responsible officials and planned corrective actions: The Cooperative has implemented additional procedures which require approved documentation for budget revisions and adjusting journal entries. In addition, expenditure reports are reviewed periodically by a third party for any budget deficit by line item.

NORTHCENTRAL ARKANSAS EDUCATION SERVICE COOPERATIVE
FEDERAL AWARD PROGRAMS -
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE YEAR ENDED JUNE 30, 2011

Schedule 4

There were no findings in the prior audit.

NORTHCENTRAL ARKANSAS EDUCATION SERVICE COOPERATIVE
SCHEDULE OF SELECTED INFORMATION FOR THE LAST FIVE YEARS - REGULATORY BASIS
FOR THE YEAR ENDED JUNE 30, 2011
(Unaudited)

Schedule 5

	Year Ended June 30,				
<u>General Fund</u>	2011	2010	2009	2008	2007
Total Assets	\$ 979,772	\$ 980,175	\$ 1,021,056	\$ 713,336	\$ 1,063,926
Total Liabilities	82,220	91,316	53,026	29,846	27,482
Total Fund Balances	897,552	888,859	968,030	683,490	1,036,444
Total Revenues	2,936,929	2,933,568	3,156,824	2,686,853	2,655,912
Total Expenditures	2,915,099	2,976,639	2,872,284	2,773,966	2,805,507
Total Other Financing Sources (Uses)	(13,137)	(36,100)		(265,841)	(92,721)
<u>Special Revenue Fund</u>					
Total Assets	295,153	343,164	303,978	292,009	210,779
Total Liabilities	57,333	25,793	564		
Total Fund Balances	237,820	317,371	303,414	292,009	210,779
Total Revenues	573,795	496,764	442,862	487,558	608,638
Total Expenditures	653,346	482,807	431,457	406,328	691,452
Total Other Financing Sources (Uses)					16,607
<u>Other Aggregate Funds</u>					
Total Assets					
Total Liabilities					
Total Fund Balances					
Total Revenues					
Total Expenditures				265,841	240,423
Total Other Financing Sources (Uses)				265,841	240,423