

Southwest Arkansas Educational Cooperative

Regulatory Basis Financial Statements and Other Reports

June 30, 2014

LEGISLATIVE JOINT AUDITING COMMITTEE



SOUTHWEST ARKANSAS EDUCATIONAL COOPERATIVE
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Arkansas

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Sen. Linda Chesterfield
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Rep. Sue Scott
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Roger A. Norman, JD, CPA, CFE, CFF
Legislative Auditor

LEGISLATIVE JOINT AUDITING COMMITTEE DIVISION OF LEGISLATIVE AUDIT

INDEPENDENT AUDITOR'S REPORT

Southwest Arkansas Educational Cooperative and Cooperative Board Members
Legislative Joint Auditing Committee

Report on the Financial Statements

We have audited the accompanying financial statements of each major governmental fund of the Southwest Arkansas Educational Cooperative (the "Cooperative"), as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the Cooperative's regulatory basis financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

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

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

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

Adverse Opinion on U.S. Generally Accepted Accounting Principles

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

Opinion on Regulatory Basis of Accounting

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

Other Matters

Supplementary and Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Cooperative's regulatory basis financial statements. The Schedule of Expenditures of Federal Awards, as required by Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, the Schedule of Capital Assets and the Schedule of Selected Information for the Last Five Years - Regulatory Basis are presented for the purposes of additional analysis and are not a required part of the regulatory basis financial statements.

The Schedule of Expenditures of Federal Awards is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the regulatory basis financial statements. Such information has been subjected to the auditing procedures applied in the audit of the regulatory basis financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the regulatory basis financial statements or to the regulatory basis financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the Schedule of Expenditures of Federal Awards is fairly stated, in all material respects, in relation to the regulatory basis financial statements as a whole.

The Schedule of Capital Assets and the Schedule of Selected Information for the Last Five Years - Regulatory Basis have not been subjected to the auditing procedures applied in the audit of the regulatory basis financial statements, and accordingly, we do not express an opinion or provide any assurance on them.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated March 2, 2015 on our consideration of the Cooperative's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Cooperative's internal control over financial reporting and compliance.

DIVISION OF LEGISLATIVE AUDIT



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

Little Rock, Arkansas
March 2, 2015
EDSC01314

Arkansas

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



Rep. Mary Broadaway
House Chair
Rep. Sue Scott
House Vice Chair

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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*

INDEPENDENT AUDITOR'S REPORT

Southwest Arkansas Educational Cooperative and Cooperative Board Members
Legislative Joint Auditing Committee

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of each major governmental fund of the Southwest Arkansas Educational Cooperative (the "Cooperative"), as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the Cooperative's regulatory basis financial statements, and have issued our report thereon dated March 2, 2015. We issued an adverse opinion because the Cooperative prepared the financial statements on the basis of the financial reporting provisions of Arkansas Code, which is a basis of accounting other than accounting principles generally accepted in the United States of America. The effects on the financial statements of the variances between the regulatory basis of accounting and accounting principles generally accepted in the United States of America, although not reasonably determinable, are presumed to be material. However, the financial statements present fairly, in all material respects, the respective regulatory basis financial position of each major governmental fund of the Cooperative as of June 30, 2014, and the respective regulatory basis changes in financial position thereof and the respective regulatory basis budgetary comparison for the general and special revenue funds for the year then ended, on the basis of accounting described in Note 1.

Internal Control Over Financial Reporting

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

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

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the Cooperative's regulatory basis financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiency described in the accompanying Schedule of Findings and Questioned Costs as item 2014-001 to be a material weakness.

Compliance and Other Matters

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

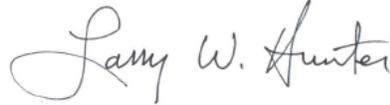
Cooperative's Response to Findings

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

Purpose of this Report

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

DIVISION OF LEGISLATIVE AUDIT

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

Larry W. Hunter, CPA, CFE
Deputy Legislative Auditor

Little Rock, Arkansas
March 2, 2015

Arkansas

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

LEGISLATIVE JOINT AUDITING COMMITTEE DIVISION OF LEGISLATIVE AUDIT

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

INDEPENDENT AUDITOR'S REPORT

Southwest Arkansas Educational Cooperative and Cooperative Board Members
Legislative Joint Auditing Committee

Report on Compliance for Each Major Federal Program

We have audited the Southwest Arkansas Educational Cooperative (the "Cooperative") compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of the Cooperative's major federal programs for the year ended June 30, 2014. The Cooperative's major federal programs are identified in the summary of auditor's results section of the accompanying Schedule of Findings and Questioned Costs.

Management's Responsibility

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

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of the Cooperative's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Cooperative's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of the Cooperative's compliance.

Opinion on Each Major Federal Program

In our opinion, the Cooperative complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2014.

Other Matters

The results of our auditing procedures disclosed instances of noncompliance, 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 items 2014-002 and 2014-003. Our opinion on each major federal program is not modified with respect to these matters.

The Cooperative's response to the noncompliance findings identified in our audit is described in the accompanying Schedule of Findings and Questioned Costs. The Cooperative's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

Report on Internal Control Over Compliance

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

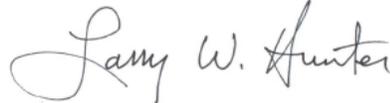
A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement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

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, we identified certain deficiencies in internal control over compliance, as described in the accompanying Schedule of Findings and Questioned Costs as items 2014-002 and 2014-003, that we consider to be significant deficiencies.

The Cooperative's response to the internal control over compliance findings identified in our audit is described in the accompanying Schedule of Findings and Questioned Costs. The Cooperative's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

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

DIVISION OF LEGISLATIVE AUDIT



Larry W. Hunter, CPA, CFE
Deputy Legislative Auditor

Little Rock, Arkansas
March 2, 2015

SOUTHWEST ARKANSAS EDUCATIONAL COOPERATIVE
BALANCE SHEET - REGULATORY BASIS
JUNE 30, 2014

Exhibit A

	Governmental Funds	
	Major	
	General	Special Revenue
ASSETS		
Cash	\$ 2,329,059	\$ 53,341
Investments	406,943	
Accounts receivable	124,858	
Prepaid expenses	112,296	
	\$ 2,973,156	\$ 53,341
TOTAL ASSETS	\$ 2,973,156	\$ 53,341
LIABILITIES AND FUND BALANCES		
Liabilities:		
Accounts payable	\$ 147,079	\$ 59
Fund Balances:		
Nonspendable	112,296	
Restricted	1,658,939	53,282
Assigned	306,259	
Unassigned	748,583	
Total Fund Balances	2,826,077	53,282
	\$ 2,973,156	\$ 53,341
TOTAL LIABILITIES AND FUND BALANCES	\$ 2,973,156	\$ 53,341

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

SOUTHWEST ARKANSAS EDUCATIONAL COOPERATIVE
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES -
GOVERNMENTAL FUNDS - REGULATORY BASIS
FOR THE YEAR ENDED JUNE 30, 2014

Exhibit B

	Major	
	General	Special Revenue
REVENUES		
State assistance	\$ 3,468,032	
Federal assistance	17,469	\$ 577,160
Investment income	10,003	
Other revenues	2,032,241	
 TOTAL REVENUES	5,527,745	577,160
EXPENDITURES		
Special education	521,968	219,238
Student support services	197,525	132,616
Instructional staff support services	2,769,479	223,126
General administration support services	117,021	
Central services support services	728,743	
Operation and maintenance of plant services	142,635	6,000
Other support services	10,880	
Non-programmed costs	42,643	25,807
 TOTAL EXPENDITURES	4,530,894	606,787
 EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	996,851	(29,627)
 FUND BALANCES - JULY 1	1,829,226	82,909
 FUND BALANCES - JUNE 30	\$ 2,826,077	\$ 53,282

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

SOUTHWEST ARKANSAS EDUCATIONAL COOPERATIVE
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES -
BUDGET AND ACTUAL - GENERAL AND SPECIAL REVENUE FUNDS - REGULATORY BASIS
FOR THE YEAR ENDED JUNE 30, 2014

Exhibit C

	General			Special Revenue		
	Budget	Actual	Variance Favorable (Unfavorable)	Budget	Actual	Variance Favorable (Unfavorable)
REVENUES						
State assistance	\$ 2,143,797	\$ 3,468,032	\$ 1,324,235			
Federal assistance		17,469	17,469	\$ 521,654	\$ 577,160	\$ 55,506
Investment income	10,000	10,003	3			
Other revenues	1,915,987	2,032,241	116,254			
TOTAL REVENUES	4,069,784	5,527,745	1,457,961	521,654	577,160	55,506
EXPENDITURES						
Special education	614,979	521,968	93,011	243,262	219,238	24,024
Student support services	247,002	197,525	49,477	144,756	132,616	12,140
Instructional staff support services	2,658,336	2,769,479	(111,143)	187,048	223,126	(36,078)
General administration support services	116,067	117,021	(954)			
Central services support services	724,563	728,743	(4,180)			
Operation and maintenance of plant services	134,244	142,635	(8,391)	6,000	6,000	
Student transportation services	500	500	500			
Other support services	10,966	10,880	86			
Non-programmed costs	52,211	42,643	9,568	27,743	25,807	1,936
TOTAL EXPENDITURES	4,558,868	4,530,894	27,974	608,809	606,787	2,022
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	(489,084)	996,851	1,485,935	(87,155)	(29,627)	57,528
OTHER FINANCING SOURCES (USES)						
Transfers in	79,954		(79,954)			
EXCESS OF REVENUES AND OTHER SOURCES OVER (UNDER) EXPENDITURES AND OTHER USES	(409,130)	996,851	1,405,981	(87,155)	(29,627)	57,528
FUND BALANCES - JULY 1	1,759,393	1,829,226	69,833	87,155	82,909	(4,246)
FUND BALANCES - JUNE 30	<u>\$ 1,350,263</u>	<u>\$ 2,826,077</u>	<u>\$ 1,475,814</u>	<u>\$ 0</u>	<u>\$ 53,282</u>	<u>\$ 53,282</u>

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

SOUTHWEST ARKANSAS EDUCATIONAL COOPERATIVE
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014

1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Reporting Entity

The Board of Education, a nine member group, is the level of government, which has responsibilities over all activities within the jurisdiction of the Southwest Arkansas Educational 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.

D. Revenue Recognition Policies

Revenues are recognized when they become susceptible to accrual in accordance with the RBA.

SOUTHWEST ARKANSAS EDUCATIONAL COOPERATIVE
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014

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 \$2,500 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
Equipment	5-20

F. Fund Balance Classifications

1. Nonspendable fund balance – represents amounts that cannot be spent because they are either (a) not in spendable form or (b) legally or contractually required to be maintained intact.
2. 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.
3. Assigned fund balance – represents amounts that are constrained by the Cooperative's *intent* to be used for specific purposes, but are neither restricted nor committed.
4. Unassigned fund balance – represents amounts that have not been assigned to other funds and that has not been restricted, committed, or assigned to specific purposes within the general fund. This classification can also include negative amounts in other governmental funds, if expenditures incurred for specific purposes exceeded the amounts restricted, committed, or assigned to those purposes.

G. Budget and Budgetary Accounting

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

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

H. Stabilization Arrangements

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

I. Minimum Fund Balance Policies

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

SOUTHWEST ARKANSAS EDUCATIONAL COOPERATIVE
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014

1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

J. Fund Balance Classification Policies and Procedures

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

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

K. Encumbrances

The Cooperative does not utilize encumbrance accounting.

2: CASH DEPOSITS WITH FINANCIAL INSTITUTIONS

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

	Carrying Amount	Bank Balance
Insured (FDIC)	\$ 500,000	\$ 500,000
Collateralized:		
Collateral held by the Cooperative's agent, pledging bank or pledging bank's trust department or agent in the Cooperative's name	2,289,343	2,488,389
Total Deposits	\$ 2,789,343	\$ 2,988,389

The above total deposits include certificates of deposit of \$406,943 reported as investments and classified as nonparticipating contracts.

3: ACCOUNTS RECEIVABLE

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

	Governmental Fund
Description	Major
	General
State assistance	\$ 124,858

SOUTHWEST ARKANSAS EDUCATIONAL COOPERATIVE
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014

4: COMMITMENTS

The Cooperative was contractually obligated for the following at June 30, 2014:

Operating Lease (noncapital lease with initial noncancellable lease terms in excess of one year)

General description of lease and leasing arrangements:

The Cooperative executed an intergovernmental agreement with the City of Hope, Arkansas (the "City") on August 25, 2009 for the lease of a Cooperative building on the campus of the University of Arkansas Community College at Hope. The Cooperative is obligated to pay all costs to amortize the 40 year United States Department of Agriculture Bonds of \$2,098,000 dated August 18, 2009 issued by the City for the building. The Cooperative will remit to the City base monthly payments of \$9,358 for the entire term of the bonds.

1. Future minimum rental payments (aggregate) at June 30, 2014: \$4,061,372
2. Future minimum rental payments for the succeeding years:

Year Ended June 30,	Amount
2015	\$ 112,296
2016	112,296
2017	112,296
2018	112,296
2019	112,296
2020-2024	561,480
2025-2029	561,480
2030-2034	561,480
2035-2039	561,480
2040-2044	561,480
2045-2049	561,480
2050-2051	131,012
Total	\$ 4,061,372

Rental payments for the operating lease described above were approximately \$112,296 for the year ended June 30, 2014. Additionally, in the prior year audit, the Cooperative paid \$112,296 during the year for future rental payments which is reported as a prepaid expense asset and nonspendable fund balance on the Cooperative's balance sheet.

5: ACCOUNTS PAYABLE

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

Description	Governmental Funds	
	Major	
	General	Special Revenue
Vendor payables	\$ 147,079	\$ 59

SOUTHWEST ARKANSAS EDUCATIONAL COOPERATIVE
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014

6: RETIREMENT PLAN

Arkansas Teacher Retirement System

Plan Description. The Cooperative contributes to the Arkansas Teacher Retirement System (ATRS), a cost-sharing multiple-employer defined benefit pension plan that covers all Arkansas public school employees, except certain non-teaching school employees. ATRS, administered by a Board of Trustees, provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Benefit provisions are established by State law and can be amended only by the Arkansas General Assembly. The Arkansas Teacher Retirement System issues a publicly available financial report that includes financial statements and required supplementary information for ATRS. That report may be obtained by writing to Arkansas Teacher Retirement System, 1400 West Third Street, Little Rock, Arkansas 72201 or by calling 1-800-666-2877.

Funding Policy. ATRS has contributory and noncontributory plans. Contributory members are required by State law to contribute 6% of their salaries. Each participating employer is required by State law to contribute at a rate determined by the Board of Trustees, based on the annual actuarial valuation. The current employer rate is 14% of covered salaries, the maximum allowed by State law. The employer contribution was paid by the Arkansas Department of Education from the Public School Fund, except for those employees paid from federal funding. Employer contributions for those employees were paid by the Cooperative. The Arkansas Department of Education's contributions to ATRS for the Cooperative during the years ended June 30, 2014, 2013, and 2012 were \$229,791, \$224,398, and \$215,147, respectively. The Cooperative's contributions to ATRS for the years ended June 30, 2014, 2013, and 2012 were \$39,702, \$27,255, and \$27,047, 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 trips and educators legal liability. Settled claims have not exceeded this commercial coverage in any of the past three fiscal years. There were no significant reductions in insurance coverage from the prior year in the major categories of risk.

The Cooperative participates in the Arkansas School Boards Association - Workers' Compensation Trust (the Trust), a self-insurance trust voluntarily established on July 1, 1994 pursuant to state law. The Trust is responsible for obtaining and administering workers' compensation insurance coverage for its members, as well as obtaining reinsurance coverage for those claims that exceed the standard policy limits. In its administrative capacity, the Trust is responsible for monitoring, negotiating, and settling claims that have been filed on behalf of and against member entities. The Cooperative contributes annually to this program.

The Cooperative participates in the Arkansas Fidelity Bond Trust Fund administered by the Governmental Bonding Board. This program provides coverage for actual losses sustained by its members through fraudulent or dishonest acts committed by officials or employees. Each loss is limited to \$250,000 with a \$2,500 deductible. Premiums for coverage are paid by the Chief Fiscal Officer of the State of Arkansas from funds withheld from the Public School Fund.

The Cooperative participates in the Arkansas Public School Insurance Trust Fund Program administered by the Risk Management Division of the Arkansas Insurance Department. The program's general objectives are to formulate, develop, and administer, on behalf of member entities, a program of insurance to obtain lower costs for property and vehicles coverage, and to develop a comprehensive loss control program. The fund uses a reinsurance policy to reduce exposure to large losses on insured events. The Cooperative pays an annual premium for its coverage of contents and vehicles.

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 \$52,384 for the year ended June 30, 2014.

SOUTHWEST ARKANSAS EDUCATIONAL COOPERATIVE
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014

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

Description	Governmental Funds	
	Major	
	General	Special Revenue
Fund Balances:		
Nonspendable:		
Prepaid expenses	\$ 112,296	
Restricted for:		
Technology improvement	300,064	
Distance learning	78,886	
English-language learners	188,000	
Professional development	550,000	
Common Core State Standards improvement	133,539	
Early childhood programs	137,469	
Medical services		\$ 18,673
Special education programs	110,946	33,859
Conference consortium	107,762	
Other purposes	52,273	750
Total Restricted	1,658,939	53,282
Assigned to:		
Staff development	102,159	
Special education programs	120,138	
Other purposes	83,962	
Total Assigned	306,259	
Unassigned	748,583	
Totals	\$2,826,077	\$ 53,282

SOUTHWEST ARKANSAS EDUCATIONAL COOPERATIVE
SCHEDULE OF CAPITAL ASSETS
FOR THE YEAR ENDED JUNE 30, 2014
(Unaudited)

Schedule 1

	<u>Balance</u> <u>June 30, 2014</u>
<i>Depreciable capital assets:</i>	
Equipment	\$ 291,597
Less accumulated depreciation for:	
Equipment	<u>162,448</u>
Total depreciable capital assets, net	<u>129,149</u>
Capital assets, net	<u><u>\$ 129,149</u></u>

SOUTHWEST ARKANSAS EDUCATIONAL COOPERATIVE
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2014

Schedule 2

Federal Grantor/Pass-Through Grantor/Program or Cluster Title	Federal CFDA Number	Pass-Through Entity Identifying Number	Federal Expenditures
SPECIAL EDUCATION CLUSTER (IDEA)			
<u>U. S. Department of Education</u>			
Passed Through State Department of Education:			
Special Education - Grants to States	84.027	29-20	\$ 178,830
Special Education - Preschool Grants	84.173	29-20	207,406
TOTAL SPECIAL EDUCATION CLUSTER (IDEA)			386,236
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	29-20	81,666
Passed Through State Department of Education:			
Improving Teacher Quality State Grants	84.367	29-20	64,692
Total U. S. Department of Education			146,358
<u>U. S. Department of Health and Human Services</u>			
Passed Through State Department of Education:			
Temporary Assistance for Needy Families	93.558	0000200759	17,469
TOTAL OTHER PROGRAMS			163,827
TOTAL EXPENDITURES OF FEDERAL AWARDS			\$ 550,063

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 Southwest Arkansas Educational Cooperative (Cooperative) under programs of the federal government for the year ended June 30, 2014. The information in this Schedule is presented in accordance with the requirements of the Office of Management and Budget (OMB) Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Because the Schedule presents only a selected portion of the operations of the Cooperative, it is not intended to and does not present the financial position or changes in financial position of the Cooperative.
- Note 2: Summary of Significant Accounting Policies - Expenditures reported on the Schedule are reported on the regulatory basis of accounting. Such expenditures are recognized following the cost principles contained in OMB Circular A-87, *Cost Principles for State, Local, and Indian Tribal Governments*, wherein certain types of expenditures are not allowable or are limited as to reimbursement. Pass-through entity identifying numbers are presented where available.
- Note 3: During the year ended June 30, 2014, the Cooperative received Medicaid funding of \$19,367 from the State Department of Human Services. Such payments are not considered Federal awards expended, and therefore, are not included in the above Schedule.

SOUTHWEST ARKANSAS EDUCATIONAL COOPERATIVE
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2014

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 - unmodified

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 federal programs:

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

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

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 federal programs:

<u>CFDA Number(s)</u>	<u>Name of Federal Program or Cluster</u>
84.027 and 84.173	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

SECTION II - FINANCIAL STATEMENT FINDINGS

MATERIAL WEAKNESS

2014-001. Internal Control

Criteria or specific requirement: Internal control is a process consisting of five interrelated components - *control environment, risk assessment, information and communication, control activities, and monitoring*. Management is responsible for adopting sound accounting policies and for establishing and maintaining internal control that will, among other things, initiate, authorize, record, process, and report transactions (as well as events and conditions) consistent with management's assertions embodied in the financial statements.

Condition: Deficiencies in the internal control component of control activities adversely affected the Cooperative's ability to initiate, authorize, record, process, and report financial data in accordance with the regulatory basis of accounting such that there was a reasonable possibility that a material misstatement of the Cooperative's financial statements would not be prevented, or detected and corrected on a timely basis. Financial accounting duties were not adequately segregated among employees. Specifically, the same employee was responsible for receiving and depositing monies collected, maintenance of accounting records, and preparation of bank reconciliations, without compensating controls. Also, the employee mentioned above was responsible for adding new employees, preparing contracts, processing and preparing payroll checks, and had access to the Cooperative's signature stamp.

Context: An understanding of the five components of internal control sufficient to assess the risk of material misstatement of the financial statements whether due to fraud, and to design the nature, timing, and extent of further audit procedures was obtained.

Effect: The Cooperative's ability to initiate, authorize, record, process, and report transactions consistent with management's assertions embodied in the financial statements, as well as the ability to safeguard Cooperative assets, was adversely affected by the identified weaknesses in the above internal control component.

Cause: Cooperative management, due to cost/benefit implications, which hindered the Cooperative's ability to adequately segregate financial accounting duties among employees, did not effectively address the deficiencies in internal control.

Recommendation: Cooperative management should adopt sound accounting policies and establish and maintain internal control that will initiate, authorize, record, process, and report transactions consistent with management's assertions embodied in the financial statements and that will safeguard Cooperative assets.

Views of responsible officials and planned corrective actions: Due to the limited number of office employees, the Cooperative will distribute financial accounting duties to the fullest extent possible to ensure the proper safeguarding of assets. Specifically, the Assistant Bookkeeper will receive monies and the Office Manager will deposit monies collected. The Director will monitor the bank account online as well as sign off on all bank reconciliations. The Assistant Bookkeeper will prepare contracts and the Office Manager will enter the new employees into APSCN. The Bookkeeper will print the "Edit Check" report in APSCN and let the Assistant Bookkeeper review it. The Director will sign off when adding new employees into the system.

SOUTHWEST ARKANSAS EDUCATIONAL COOPERATIVE
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2014

Schedule 3

SECTION III - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

SIGNIFICANT DEFICIENCIES

U. S. DEPARTMENT OF EDUCATION
PASSED THROUGH STATE DEPARTMENT OF EDUCATION
SPECIAL EDUCATION - GRANTS TO STATES - CFDA NUMBER 84.027
PASS-THROUGH NUMBER 29-20
AUDIT PERIOD - YEAR ENDED JUNE 30, 2014

2014-002. Allowable Costs/Cost Principles

Criteria or specific requirement: Office of Management and Budget (OMB) Circular A-87 requires the preparation of periodic time certifications for employees working solely on a single federal program.

Condition: Although standard payroll documentation supporting the employee's work in the special education program was available for audit inspection, periodic time certifications were not prepared for one employee who worked solely with the special education program.

Context: Examination of documentation substantiating time worked by employees.

Effect: The Cooperative was unable to provide required documentation substantiating the time charged to the special education program.

Cause: Lack of internal controls and management oversight resulted in the lack of required supporting documentation pertaining to time charged to federal programs.

Recommendation: The Cooperative should prepare periodic time certifications for all applicable employees.

Views of responsible officials and planned corrective actions: The Cooperative will monitor time certification for federal employees by ensuring that Time and Effort Certification Reports will be completed by the employee, twice yearly (by December 31 and June 30). Forms will be submitted to the Director for review with the employees paid with sponsored program funds verifying the reported information for accuracy. A Google calendar event will be created and shared with the employees as a reminder of the due date of the report.

SOUTHWEST ARKANSAS EDUCATIONAL COOPERATIVE
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2014

Schedule 3

SECTION III - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS (Continued)

SIGNIFICANT DEFICIENCIES (Continued)

U. S. DEPARTMENT OF EDUCATION
PASSED THROUGH STATE DEPARTMENT OF EDUCATION
SPECIAL EDUCATION - PRESCHOOL GRANTS - CFDA NUMBER 84.173
PASS-THROUGH NUMBER 29-20
AUDIT PERIOD - YEAR ENDED JUNE 30, 2014

2014-003. Equipment and Real Property Management

Criteria or specific requirement: In accordance with 34 CFR § 80.32 of the Uniform Administrative Requirements for Grants and Cooperative Agreements to State and Local Governments, when equipment is no longer needed for the original project or program certain disposition instructions must be followed. Items of equipment with a current per-unit market value in excess of \$5,000 may be retained or sold and the awarding agency shall have a right to an amount calculated by multiplying the current market value or proceeds from sale by the awarding agency's share of the equipment.

Condition: The Cooperative disposed of playground equipment, which was originally purchased in fiscal year 2011, by selling it for \$9,990 without following appropriate federal disposition instructions. The Cooperative submitted a request to the Arkansas Department of Education for approval to remove the item from the special education inventory due to the sale of the item to a local school district; however, no evidence of approval was obtained.

Context: Examination of two equipment deletions made during the fiscal year.

Effect: Cooperative did not follow the appropriate federal disposition instructions related to equipment.

Cause: Cooperative personnel were unaware of federal disposition instructions related to equipment.

Recommendation: The Cooperative should implement procedures to ensure applicable federal disposition instructions are followed and to contact the Arkansas Department of Education for further guidance in this matter.

Views of responsible officials and planned corrective actions: The Cooperative will email the Arkansas Department of Education (ADE) and ask for guidance on what to do with the funds in question. Options to be included are sending the funds back to the ADE, sending funds back to the federal government, or keeping the funds. If the ADE advises in writing, to keep the funds, the Cooperative will then email APSCN to see what code should be assigned to the funds. The Director, Early Childhood Coordinator, Special Education Supervisor, and bookkeeping staff will also review the document provided by Legislative Audit covering special education federal rules and regulations for additional guidance on this situation and any similar situations in the future.

SOUTHWEST ARKANSAS EDUCATIONAL COOPERATIVE
FEDERAL AWARD PROGRAMS -
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE YEAR ENDED JUNE 30, 2014

Schedule 4

There were no findings in the prior audit.

SOUTHWEST ARKANSAS EDUCATIONAL COOPERATIVE
SCHEDULE OF SELECTED INFORMATION FOR THE LAST FIVE YEARS - REGULATORY BASIS
FOR THE YEAR ENDED JUNE 30, 2014
(Unaudited)

Schedule 5

General Fund	Year Ended June 30,				
	2014	2013	2012	2011	2010
Total Assets	\$ 2,973,156	\$ 1,871,689	\$ 1,915,141	\$ 1,649,267	\$ 1,778,933
Total Liabilities	147,079	42,463	123,558	85,776	35,142
Total Fund Balances	2,826,077	1,829,226	1,791,583	1,563,491	1,743,791
Total Revenues	5,527,745	3,245,054	3,137,156	2,981,234	2,967,202
Total Expenditures	4,530,894	3,207,411	2,907,994	3,161,534	2,641,772
Total Other Financing Sources (Uses)			(1,070)		(671,678)
Special Revenue Fund					
Total Assets	53,341	87,155	90,891	173,874	205,882
Total Liabilities	59	4,246		11,101	4,675
Total Fund Balances	53,282	82,909	90,891	162,773	201,207
Total Revenues	577,160	436,811	454,432	497,897	742,818
Total Expenditures	606,787	444,793	526,314	536,331	856,760