

Southwest Arkansas Educational Cooperative

Regulatory Basis Financial Statements And Other Reports

June 30, 2017

LEGISLATIVE JOINT AUDITING COMMITTEE



SOUTHWEST ARKANSAS EDUCATIONAL COOPERATIVE
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Arkansas

Sen. Jimmy Hickey, Jr.
Senate Chair
Sen. Lance Eads
Senate Vice Chair



Rep. Richard Womack
House Chair
Rep. Mary Bentley
House Vice Chair

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

LEGISLATIVE JOINT AUDITING COMMITTEE ARKANSAS 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, 2017, 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 disclosures 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, 2017, 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, 2017, 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

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 Capital Assets and the Schedule of Selected Information for the Last Five Years – Regulatory Basis are presented for the purpose of additional analysis and are not a required part of the regulatory basis financial statements.

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 April 13, 2018 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 solely to describe that scope or our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Cooperative’s 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.

ARKANSAS LEGISLATIVE AUDIT



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

Little Rock, Arkansas
April 13, 2018
EDSC01317

Arkansas

Sen. Jimmy Hickey, Jr.
Senate Chair
Sen. Lance Eads
Senate Vice Chair



Rep. Richard Womack
House Chair
Rep. Mary Bentley
House Vice Chair

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

LEGISLATIVE JOINT AUDITING COMMITTEE ARKANSAS 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, 2017, and the related notes to financial statements, which collectively comprise the Cooperative's regulatory basis financial statements, and have issued our report thereon dated April 13, 2018. We have issued an adverse opinion because the Cooperative prepared the financial statements on the basis of the financial reporting provisions of Arkansas Code, which is a basis of accounting other than accounting principles generally accepted in the United States of America. The effects on the financial statements of the variances between the regulatory basis of accounting and accounting principles generally accepted in the United States of America, although not reasonably determinable, are presumed to be material. However, the financial statements present fairly, in all material respects, the respective regulatory basis financial position of each major governmental fund and the aggregate remaining fund information of the Cooperative as of June 30, 2017, 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.

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 and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section 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 have not been identified. We did identify certain deficiencies in internal control, described below in the Audit Findings section of this report as items 1 and 2, that we consider to be material weaknesses.

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 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*.

AUDIT FINDINGS

Material Weaknesses

1. 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.

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 receipting and depositing monies collected and maintenance of accounting records without compensating controls. Also, the employee mentioned above was responsible for adding new employees, processing and preparing payroll checks, and had unrestricted access to the signature facsimile.

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. 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. 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.

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.

Management Response: Due to the limited number of office employees, the Southwest Arkansas Education 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 on line, 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 Office Manager 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.

2. Financial accounting records should be accurate to ensure the preparation of reliable financial statements that are presented in conformity with the regulatory basis of accounting. The Cooperative's internal control system did not prevent or detect material errors in the financial accounting records. Such records are utilized in the preparation of the Cooperative's financial statements. The Cooperative misclassified an accounts receivable of \$63,761 as cash in the special revenue fund. The financial statements were subsequently corrected by an adjusting entry during audit fieldwork.

All direct deposited revenues should be verified as received by the bank before they are recorded as cash. Revenues that are due at year-end, but have not been received, should be recorded as accounts receivable until collection.

Management Response: The Southwest Arkansas Education Cooperative will ensure all revenues are verified as received by the bank before they are recorded as cash. SWAEC will also follow the practice that revenues due at year-end, but not received, will be recorded as accrued until funds are deposited.

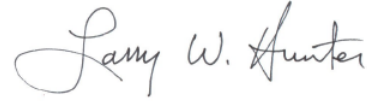
Cooperative's Response to Findings

The Cooperative's response to the findings identified in our audit is described previously. 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 results 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 *Governmental Auditing Standards* in considering the Cooperative's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

ARKANSAS LEGISLATIVE AUDIT

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

Larry W. Hunter, CPA, CFE
Deputy Legislative Auditor

Little Rock, Arkansas
April 13, 2018

SOUTHWEST ARKANSAS EDUCATIONAL COOPERATIVE
BALANCE SHEET - REGULATORY BASIS
JUNE 30, 2017

Exhibit A

	Governmental Funds	
	Major	
	General	Special Revenue
ASSETS		
Cash	\$ 2,835,740	
Investments	412,162	
Accounts receivable	13,852	\$ 132,354
Due from other funds	72,546	
Prepaid expenses	112,296	
 TOTAL ASSETS	 \$ 3,446,596	 \$ 132,354
LIABILITIES AND FUND BALANCES		
Liabilities:		
Accounts payable	\$ 134,713	\$ 691
Due to other funds		72,546
Total Liabilities	134,713	73,237
Fund Balances:		
Nonspendable	112,296	
Restricted	2,028,232	59,117
Assigned	387,196	
Unassigned	784,159	
Total Fund Balances	3,311,883	59,117
 TOTAL LIABILITIES AND FUND BALANCES	 \$ 3,446,596	 \$ 132,354

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, 2017

Exhibit B

	Major	
	General	Special Revenue
REVENUES		
State assistance	\$ 2,306,795	
Federal assistance	210	\$ 576,537
Investment income	8,610	
Other revenues	900,451	
 TOTAL REVENUES	3,216,066	576,537
 EXPENDITURES		
Special education	601,706	170,665
Student support services	164,145	164,554
Instructional staff support services	2,088,516	204,480
General administration support services	124,865	
Central services support services	317,889	
Operation and maintenance of plant services	132,654	6,000
Other support services	11,480	
Non-programmed costs	125,591	24,586
 TOTAL EXPENDITURES	3,566,846	570,285
 EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	(350,780)	6,252
 OTHER FINANCING SOURCES (USES)		
Refund to grantor	(7,335)	
 TOTAL OTHER FINANCING SOURCES (USES)	(7,335)	
 EXCESS OF REVENUES AND OTHER SOURCES OVER (UNDER) EXPENDITURES AND OTHER USES	(358,115)	6,252
 FUND BALANCES - JULY 1	3,669,998	52,865
 FUND BALANCES - JUNE 30	\$ 3,311,883	\$ 59,117

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, 2017

Exhibit C

	General			Special Revenue		
	Budget	Actual	Variance Favorable (Unfavorable)	Budget	Actual	Variance Favorable (Unfavorable)
REVENUES						
State assistance	\$ 2,004,329	\$ 2,306,795	\$ 302,466			
Federal assistance		210	210	\$ 604,589	\$ 576,537	\$ (28,052)
Investment income	10,000	8,610	(1,390)			
Other revenues	766,878	900,451	133,573			
TOTAL REVENUES	2,781,207	3,216,066	434,859	604,589	576,537	(28,052)
EXPENDITURES						
Special education	682,719	601,706	81,013	206,392	170,665	35,727
Student support services	273,185	164,145	109,040	184,850	164,554	20,296
Instructional staff support services	2,501,441	2,088,516	412,925	229,586	204,480	25,106
General administration support services	124,582	124,865	(283)			
Central services support services	289,893	317,889	(27,996)			
Operation and maintenance of plant services	141,228	132,654	8,574	6,000	6,000	
Other support services	11,555	11,480	75			
Non-programmed costs	131,274	125,591	5,683	22,661	24,586	(1,925)
TOTAL EXPENDITURES	4,155,877	3,566,846	589,031	649,489	570,285	79,204
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	(1,374,670)	(350,780)	1,023,890	(44,900)	6,252	51,152
OTHER FINANCING SOURCES (USES)						
Transfers in	153,936		(153,936)			
Refund to grantor		(7,335)	(7,335)			
TOTAL OTHER FINANCING SOURCES (USES)	153,936	(7,335)	(161,271)			
EXCESS OF REVENUES AND OTHER SOURCES OVER (UNDER) EXPENDITURES AND OTHER USES	(1,220,734)	(358,115)	862,619	(44,900)	6,252	51,152
FUND BALANCES - JULY 1	3,639,183	3,669,998	30,815	44,900	52,865	7,965
FUND BALANCES - JUNE 30	<u>\$ 2,418,449</u>	<u>\$ 3,311,883</u>	<u>\$ 893,434</u>	<u>\$ 0</u>	<u>\$ 59,117</u>	<u>\$ 59,117</u>

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

SOUTHWEST ARKANSAS EDUCATIONAL COOPERATIVE
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017

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, inclusion of the net pension liability 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, 2017

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. Interfund Receivables and Payables

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

G. 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 balances – 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.

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.

The Cooperative budgets intra-fund transfers. Significant variances may result in the comparison of transfers at the Statement of Revenues, Expenditures, and Changes in Fund Balances – Budget and Actual – General and Special Revenue Funds – Regulatory Basis because only interfund transfers are reported at the Statement of Revenues, Expenditures, and Changes in Fund Balances – Governmental Funds – Regulatory Basis.

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

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.

SOUTHWEST ARKANSAS EDUCATIONAL COOPERATIVE
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017

1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 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 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 expenditures are 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.

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	2,747,902	2,704,160
Total Deposits	\$ 3,247,902	\$ 3,204,160

The above total deposits include certificates of deposit of \$412,162 reported as investments and classified as nonparticipating contracts.

SOUTHWEST ARKANSAS EDUCATIONAL COOPERATIVE
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017

3: ACCOUNTS RECEIVABLE

Accounts receivable at June 30, 2017 were comprised of the following:

Description	Governmental Funds	
	Major	
	General	Special Revenue
Federal assistance		\$ 132,354
Other	\$ 13,852	
Totals	\$ 13,852	\$ 132,354

4: COMMITMENTS

The Cooperative was contractually obligated for the following at June 30, 2017:

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, 2017: \$3,724,484
2. Future minimum rental payments for the succeeding years:

Year Ended June 30,	Amount
2018	\$ 112,296
2019	112,296
2020	112,296
2021	112,296
2022	112,296
2023-2027	561,480
2028-2032	561,480
2033-2037	561,480
2038-2042	561,480
2043-2047	561,480
2048-2051	355,604
Total	\$ 3,724,484

Rental payments for the operating lease described above were approximately \$112,296 for the year ended June 30, 2017. Additionally, in fiscal year 2013, the Cooperative paid \$112,296 for future rental payments which are reported as a prepaid expense asset and nonspendable fund balance on the Cooperative's balance sheet.

SOUTHWEST ARKANSAS EDUCATIONAL COOPERATIVE
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017

5: ACCOUNTS PAYABLE

Accounts payable at June 30, 2017 were comprised of the following:

Description	Governmental Funds	
	Major	
	General	Special Revenue
Vendor payables	\$ 134,713	\$ 691

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 and education-related agencies, 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, by calling 1-800-666-2877, or by visiting the ATRS website at www.artrs.gov.

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 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 year ended June 30, 2017 were \$274,100, equal to the required contributions. The Cooperative's contributions to ATRS for the year ended June 30, 2017 were \$35,464, equal to the required contributions.

Net Pension Liability

The Arkansas Department of Education has stipulated that, under the regulatory basis of accounting, the requirements of Governmental Accounting Standards Board Statement no. 68 would be limited to disclosure of the Cooperative's proportionate share of the collective net pension liability. The Cooperative's proportionate share of the collective net pension liability at June 30, 2016 (actuarial valuation date and measurement date) was \$3,163,265.

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.

SOUTHWEST ARKANSAS EDUCATIONAL COOPERATIVE
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017

7: RISK MANAGEMENT (Continued)

The Cooperative participates in the Arkansas School Boards Association – Worker’s 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 \$300,000 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 contents and vehicles.

Settled claims have not exceeded 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.

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 \$71,707 for the year ended June 30, 2017.

SOUTHWEST ARKANSAS EDUCATIONAL COOPERATIVE
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017

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	50,159	
Distance learning	416,555	
English-language learners	185,989	
Professional development	438,123	
Common Core State Standards improvement	124,046	
Early childhood programs	511,485	
Medical services		\$ 59,117
Special education programs	122,508	
Conference consortium	66,400	
Computer science grant	74,259	
Other purposes	38,708	
Total Restricted	<u>2,028,232</u>	<u>59,117</u>
Assigned to:		
Staff development	168,431	
Special education programs	79,873	
Teacher center	65,027	
Other purposes	73,865	
Total Assigned	<u>387,196</u>	
Unassigned	<u>784,159</u>	
Totals	<u>\$3,311,883</u>	<u>\$ 59,117</u>

SOUTHWEST ARKANSAS EDUCATIONAL COOPERATIVE
SCHEDULE OF CAPITAL ASSETS
FOR THE YEAR ENDED JUNE 30, 2017
(Unaudited)

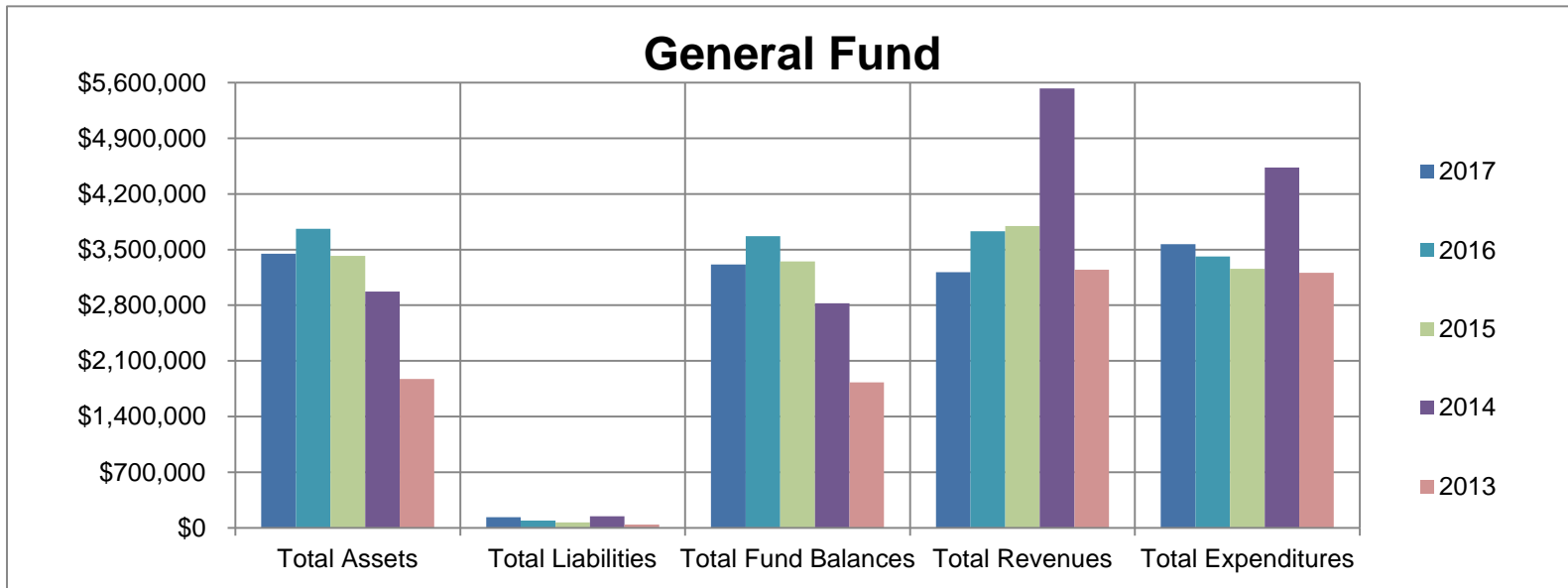
Schedule 1

	Balance June 30, 2017
<i>Depreciable capital assets:</i>	
Equipment	\$ 318,924
Less accumulated depreciation for:	
Equipment	202,525
Total depreciable capital assets, net	116,399
Capital assets, net	\$ 116,399

SOUTHWEST ARKANSAS EDUCATIONAL COOPERATIVE
 SCHEDULE OF SELECTED INFORMATION FOR THE LAST FIVE YEARS - REGULATORY BASIS
 FOR THE YEAR ENDED JUNE 30, 2017
 (Unaudited)

Schedule 2

<u>General Fund</u>	Year Ended June 30,				
	2017	2016	2015	2014	2013
Total Assets	\$ 3,446,596	\$ 3,762,637	\$ 3,421,757	\$ 2,973,156	\$ 1,871,689
Total Liabilities	134,713	92,639	68,593	147,079	42,463
Total Fund Balances	3,311,883	3,669,998	3,353,164	2,826,077	1,829,226
Total Revenues	3,216,066	3,729,009	3,795,439	5,527,745	3,245,054
Total Expenditures	3,566,846	3,412,175	3,258,362	4,530,894	3,207,411
Total Other Financing Sources (Uses)	(7,335)		(9,990)		



SOUTHWEST ARKANSAS EDUCATIONAL COOPERATIVE
 SCHEDULE OF SELECTED INFORMATION FOR THE LAST FIVE YEARS - REGULATORY BASIS
 FOR THE YEAR ENDED JUNE 30, 2017
 (Unaudited)

<u>Special Revenue Fund</u>	Year Ended June 30,				
	2017	2016	2015	2014	2013
Total Assets	\$ 132,354	\$ 101,466	\$ 79,571	\$ 53,341	\$ 87,155
Total Liabilities	73,237	48,601	104	59	4,246
Total Fund Balances	59,117	52,865	79,467	53,282	82,909
Total Revenues	576,537	525,999	521,082	577,160	436,811
Total Expenditures	570,285	552,601	494,897	606,787	
Total Other Financing Sources (Uses)					

