

**Northcentral Arkansas Education Service Cooperative**

**Regulatory Basis Financial Statements  
And Other Reports**

**June 30, 2014**

LEGISLATIVE JOINT AUDITING COMMITTEE

---



NORTHCENTRAL ARKANSAS EDUCATION SERVICE COOPERATIVE  
TABLE OF CONTENTS  
JUNE 30, 2014

Independent Auditor's Report

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*

REGULATORY BASIS FINANCIAL STATEMENTS

	<u>Exhibit</u>
Balance Sheet - Regulatory Basis	A
Statement of Revenues, Expenditures, and Changes in Fund Balances - Governmental Funds - Regulatory Basis	B
Statement of Revenues, Expenditures, and Changes in Fund Balances - Budget and Actual - General and Special Revenue Funds - Regulatory Basis	C
Notes to Financial Statements	

SCHEDULES

	<u>Schedule</u>
Schedule of Capital Assets (Unaudited)	1
Schedule of Selected Information for the Last Five Years - Regulatory Basis (Unaudited)	2

# Arkansas

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



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

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

## LEGISLATIVE JOINT AUDITING COMMITTEE ARKANSAS LEGISLATIVE AUDIT

### INDEPENDENT AUDITOR'S REPORT

Northcentral Arkansas Education Service 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 Northcentral Arkansas Education Service 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**

*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 purposes 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 June 1, 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.

ARKANSAS LEGISLATIVE AUDIT



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

Little Rock, Arkansas  
June 1, 2015  
EDSC00314

# Arkansas

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



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

Northcentral Arkansas Education Service 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 Northcentral Arkansas Education Service Cooperative (the "Cooperative"), as of and for the year ended June 30, 2014, and the related notes to financial statements, which collectively comprise the Cooperative's regulatory basis financial statements, and have issued our report thereon dated June 1, 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.

*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. 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. Given those limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

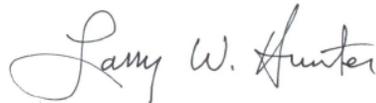
#### Compliance and Other Matters

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*.

**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.

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  
June 1, 2015

NORTHCENTRAL ARKANSAS EDUCATION SERVICE COOPERATIVE  
BALANCE SHEET - REGULATORY BASIS  
JUNE 30, 2014

Exhibit A

	Governmental Funds	
	Major	
	General	Special Revenue
ASSETS		
Cash	\$ 1,025,498	\$ 249,666
Accounts receivable	1,571	49,197
 TOTAL ASSETS	 \$ 1,027,069	 \$ 298,863
 LIABILITIES AND FUND BALANCES		
Liabilities:		
Accounts payable		\$ 74
 Fund Balances:		
Restricted	\$ 489,963	298,789
Unassigned	537,106	
Total Fund Balances	1,027,069	298,789
 TOTAL LIABILITIES AND FUND BALANCES	 \$ 1,027,069	 \$ 298,863

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

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

Exhibit B

	Major	
	General	Special Revenue
REVENUES		
State assistance	\$ 2,080,629	
Federal assistance		\$ 608,567
Investment income	4,842	
Other revenues	711,945	
	2,797,416	608,567
<b>TOTAL REVENUES</b>	<b>2,797,416</b>	<b>608,567</b>
EXPENDITURES		
Regular programs	39	
Special education	475,728	136,156
Career education programs	2,731	84,254
Student support services	503,903	137,777
Instructional staff support services	1,222,420	97,848
General administration support services	162,959	
Central services support services	216,168	
Operation and maintenance of plant services	30,284	3,000
Other support services	475	
Community services operations		131,408
Non-programmed costs		19,506
Debt Service:		
Principal retirement	16,431	
Interest and fiscal charges	2,850	
	2,633,988	609,949
<b>TOTAL EXPENDITURES</b>	<b>2,633,988</b>	<b>609,949</b>
<b>EXCESS OF REVENUES OVER (UNDER) EXPENDITURES</b>	<b>163,428</b>	<b>(1,382)</b>
OTHER FINANCING SOURCES (USES)		
Refund to grantor		(85)
<b>EXCESS OF REVENUES AND OTHER SOURCES OVER (UNDER) EXPENDITURES AND OTHER USES</b>	<b>163,428</b>	<b>(1,467)</b>
FUND BALANCES - JULY 1	863,641	300,256
FUND BALANCES - JUNE 30	\$ 1,027,069	\$ 298,789

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

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

Exhibit C

	General			Special Revenue		
	Budget	Actual	Variance Favorable (Unfavorable)	Budget	Actual	Variance Favorable (Unfavorable)
<b>REVENUES</b>						
State assistance	\$ 1,982,788	\$ 2,080,629	\$ 97,841			
Federal assistance				\$ 564,133	\$ 608,567	\$ 44,434
Investment income	5,000	4,842	(158)			
Other revenues	1,125,708	711,945	(413,763)			
<b>TOTAL REVENUES</b>	<b>3,113,496</b>	<b>2,797,416</b>	<b>(316,080)</b>	<b>564,133</b>	<b>608,567</b>	<b>44,434</b>
<b>EXPENDITURES</b>						
Regular programs	49,179	39	49,140			
Special education	578,934	475,728	103,206	306,050	136,156	169,894
Career education programs	4,228	2,731	1,497	83,957	84,254	(297)
Student support services	873,982	503,903	370,079	189,320	137,777	51,543
Instructional staff support services	1,306,835	1,222,420	84,415	103,721	97,848	5,873
General administration support services	164,068	162,959	1,109			
Central services support services	247,554	216,168	31,386			
Operation and maintenance of plant services	49,350	30,284	19,066	3,000	3,000	
Student transportation services				2,000		2,000
Other support services		475	(475)			
Community services operations				135,881	131,408	4,473
Non-programmed costs				25,265	19,506	5,759
Debt Service:						
Principal retirement	16,431	16,431				
Interest and fiscal charges	2,850	2,850				
<b>TOTAL EXPENDITURES</b>	<b>3,293,411</b>	<b>2,633,988</b>	<b>659,423</b>	<b>849,194</b>	<b>609,949</b>	<b>239,245</b>
<b>EXCESS OF REVENUES OVER (UNDER) EXPENDITURES</b>	<b>(179,915)</b>	<b>163,428</b>	<b>343,343</b>	<b>(285,061)</b>	<b>(1,382)</b>	<b>283,679</b>
<b>OTHER FINANCING SOURCES (USES)</b>						
Transfers in	25,420		(25,420)			
Transfers out	(156)		156			
Refund to grantor					(85)	(85)
<b>TOTAL OTHER FINANCING SOURCES (USES)</b>	<b>25,264</b>		<b>(25,264)</b>		<b>(85)</b>	<b>(85)</b>
<b>EXCESS OF REVENUES AND OTHER SOURCES OVER (UNDER) EXPENDITURES AND OTHER USES</b>	<b>(154,651)</b>	<b>163,428</b>	<b>318,079</b>	<b>(285,061)</b>	<b>(1,467)</b>	<b>283,594</b>
<b>FUND BALANCES - JULY 1</b>	<b>858,023</b>	<b>863,641</b>	<b>5,618</b>	<b>285,062</b>	<b>300,256</b>	<b>15,194</b>
<b>FUND BALANCES - JUNE 30</b>	<b>\$ 703,372</b>	<b>\$ 1,027,069</b>	<b>\$ 323,697</b>	<b>\$ 1</b>	<b>\$ 298,789</b>	<b>\$ 298,788</b>

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

NORTHCENTRAL ARKANSAS EDUCATION SERVICE COOPERATIVE  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2014

**1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

A. Reporting Entity

The Board of Education, a 16 member group, is the level of government, which has responsibilities over all activities within the jurisdiction of the Northcentral Arkansas Education Service Cooperative (Cooperative). There are no component units.

B. Description of Funds

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

General Fund - The General Fund is used to account for and report all financial resources not accounted for and reported in another fund.

Special Revenue Fund - The Special Revenue Fund is used to account for and report the proceeds of specific revenue sources that are restricted or committed to expenditure for specified purposes other than debt service or capital projects. The Special Revenue Fund includes federal revenues and related expenditures, restricted for specific educational programs or projects. If applicable, the Special Revenue Fund also includes required matching for those federal programs, program income required to be used to further the objectives of those programs, and transfers from the general fund to supplement such programs.

C. Measurement Focus and Basis of Accounting

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

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

The accompanying financial statements are presented on a fund basis. A fund is defined as a fiscal and accounting entity with a self-balancing set of accounts, which are segregated for purposes of recording specific activities or attaining certain objectives. Revenues are reported by major sources and expenditures are reported by major function. Other transactions, which are not reported as revenues or expenditures, are reported as other financing sources and uses. Transactions related to the recording of installment contracts and capital leases are reported as other financing sources. Changes in private-purpose trust funds will be reflected in the notes to the financial statements.

NORTHCENTRAL ARKANSAS EDUCATION SERVICE COOPERATIVE  
 NOTES TO FINANCIAL STATEMENTS  
 JUNE 30, 2014

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

D. Revenue Recognition Policies

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

E. Capital Assets

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

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

Asset Class	Estimated Useful Life in Years
Buildings	25-50
Equipment	5-20

F. Fund Balance Classifications

1. Restricted fund balance – represents amounts that are restricted to specific purposes when constraints placed on the use of resources are either (a) externally imposed by creditors (such as through bond covenants), grantors, contributors, or laws or regulations of other governments; or (b) imposed by law through constitutional provisions or enabling legislation.
2. Unassigned fund balance – represents amounts that have not been assigned to other funds and that has not been restricted, committed, or assigned to specific purposes within the general fund. This classification can also include negative amounts in other governmental funds, if expenditures incurred for specific purposes exceeded the amounts restricted, committed, or assigned to those purposes.

G. Budget and Budgetary Accounting

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

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

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

NORTHCENTRAL ARKANSAS EDUCATION SERVICE COOPERATIVE  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2014

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

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.

J. Fund Balance Classification Policies and Procedures

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

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)	\$ 250,000	\$ 250,000
Collateralized:		
Collateral held by the Cooperative's agent, pledging bank or pledging bank's trust department or agent in the Cooperative's name	1,025,164	1,076,748
Total Deposits	\$ 1,275,164	\$ 1,326,748

NORTHCENTRAL ARKANSAS EDUCATION SERVICE COOPERATIVE  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2014

**3: ACCOUNTS RECEIVABLE**

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

Description	Governmental Funds	
	Major	
	General	Special Revenue
State assistance	\$ 810	
Federal assistance		\$ 49,197
Other	761	
Totals	<u>\$ 1,571</u>	<u>\$ 49,197</u>

**4: COMMITMENTS**

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

Long-term Debt Issued and Outstanding

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

Date of Issue	Date of Final Maturity	Rate of Interest	Amount Authorized and Issued	Debt Outstanding June 30, 2014	Maturities To June 30, 2014
11/17/06	11/1/16	4.95%	<u>\$ 164,309</u>	<u>\$ 49,292</u>	<u>\$ 115,017</u>

Changes in Long-term Debt

	July 1, 2013	Issued	Retired	June 30, 2014
Certificates of indebtedness	<u>\$ 65,723</u>	<u>\$ 0</u>	<u>\$ 16,431</u>	<u>\$ 49,292</u>

Future Principal and Interest Payments

Year Ended June 30,	Principal	Interest	Total
2015	\$ 16,431	\$ 2,037	\$ 18,468
2016	16,431	1,226	
2017	16,430	410	16,840
Totals	<u>\$ 49,292</u>	<u>\$ 3,673</u>	<u>\$ 52,965</u>

NORTHCENTRAL ARKANSAS EDUCATION SERVICE COOPERATIVE  
 NOTES TO FINANCIAL STATEMENTS  
 JUNE 30, 2014

**5: ACCOUNTS PAYABLE**

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

	Governmental Fund
Description	Major Special Revenue
Vendor payables	\$ 74

**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 \$335,611, \$323,479, and \$333,286, respectively. The Cooperative's contributions to ATRS for the years ended June 30, 2014, 2013, and 2012 were \$30,481, \$15,367, and \$7,997, respectively, equal to the required contributions for each year.

**7: RISK MANAGEMENT**

The Cooperative is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters.

The Cooperative carries commercial insurance for business trip accidental death and dismemberment coverage. Settled claims have not exceeded this commercial coverage in any of the past three fiscal years. There were no significant reductions in insurance coverage from the prior year in the major categories of risk.

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

Additionally, the Cooperative participates in the Arkansas School Boards Association - Risk Management Program (the Association), a self-insurance program voluntarily established on February 1, 1984 pursuant to state law. The Association is responsible for obtaining and administering insurance coverage for property and vehicles for its members, as well as obtaining reinsurance coverage for those claims that exceed the standard policy limits. In its administrative capacity, the Association is responsible for monitoring, negotiating, and settling claims that have been filed against member entities. The Cooperative pays an annual premium for its coverage of buildings, contents, and vehicles.

NORTHCENTRAL ARKANSAS EDUCATION SERVICE COOPERATIVE  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2014

**7: RISK MANAGEMENT (Continued)**

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.

**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 \$53,394 for the year ended June 30, 2014.

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

Description	Governmental Funds	
	Major	
	General	Special Revenue
Fund Balances:		
Restricted for:		
Medical services		\$ 109,094
Special education programs	\$ 105,954	189,695
Smart start programs	250,000	
Other purposes	134,009	
Total Restricted	489,963	298,789
Unassigned	537,106	
Totals	\$1,027,069	\$ 298,789

**10: CONSTRUCTION IN PROGRESS**

The balance of the construction in progress account at June 30, 2014, at Schedule 1, represents preliminary costs associated with the construction of an addition to the Cooperative building. There were no construction commitments at June 30, 2014.

**11: SUBSEQUENT EVENTS**

On July 24, 2014, the Cooperative executed a promissory note of \$100,100 to fund an addition to the Cooperative building.

NORTHCENTRAL ARKANSAS EDUCATION SERVICE COOPERATIVE  
SCHEDULE OF CAPITAL ASSETS  
FOR THE YEAR ENDED JUNE 30, 2014  
(Unaudited)

Schedule 1

	Balance June 30, 2014
<i>Nondepreciable capital assets:</i>	
Land	\$ 5,000
Construction in progress	4,918
Total nondepreciable capital assets	9,918
 <i>Depreciable capital assets:</i>	
Buildings	1,100,380
Equipment	376,062
Total depreciable capital assets	1,476,442
 Less accumulated depreciation for:	
Buildings	262,079
Equipment	286,610
Total accumulated depreciation	548,689
Total depreciable capital assets, net	927,753
Capital assets, net	\$ 937,671

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

Schedule 2

<u>General Fund</u>	Year Ended June 30,				
	2014	2013	2012	2011	2010
Total Assets	\$ 1,027,069	\$ 864,106	\$ 865,072	\$ 979,772	\$ 980,175
Total Liabilities		465	41,144	82,220	91,316
Total Fund Balances	1,027,069	863,641	823,928	897,552	888,859
Total Revenues	2,797,416	2,654,507	2,862,984	2,936,929	2,933,568
Total Expenditures	2,633,988	2,614,794	2,922,891	2,915,099	2,976,639
Total Other Financing Sources (Uses)			(13,717)	(13,137)	(36,100)
<u>Special Revenue Fund</u>					
Total Assets	298,863	300,317	282,862	295,153	343,164
Total Liabilities	74	61	7,965	57,333	25,793
Total Fund Balances	298,789	300,256	274,897	237,820	317,371
Total Revenues	608,567	482,191	570,518	573,795	496,764
Total Expenditures	609,949	456,832	533,441	653,346	482,807
Total Other Financing Sources (Uses)	(85)				