

Northcentral Arkansas Education Service Cooperative

**Regulatory Basis Financial Statements
and Other Reports**

June 30, 2016

LEGISLATIVE JOINT AUDITING COMMITTEE



NORTHCENTRAL ARKANSAS EDUCATION SERVICE COOPERATIVE
TABLE OF CONTENTS
JUNE 30, 2016

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*
Report on Compliance for Each Major Federal Program and Report on Internal Control Over Compliance Required by the Uniform Guidance

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 Expenditures of Federal Awards	2
Schedule of Findings and Questioned Costs	3
Summary Schedule of Prior Audit Findings	4
Schedule of Selected Information for the Last Five Years - Regulatory Basis (Unaudited)	5

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

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, 2016, 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, 2016, 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, 2016, 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 Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, the Schedule of Capital Assets, and the Schedule of Selected Information for the Last Five Years - Regulatory Basis are presented for purposes of additional analysis and are not a required part of the regulatory basis financial statements.

The Schedule of Expenditures of Federal Awards 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 February 15, 2017 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
February 15, 2017
EDSC00316

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

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, 2016, and the related notes to financial statements, which collectively comprise the Cooperative's regulatory basis financial statements, and have issued our report thereon dated February 15, 2017. 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, 2016, 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.

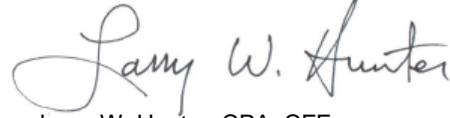
Compliance and Other Matters

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 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*.

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
February 15, 2017

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 COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM AND REPORT ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE

INDEPENDENT AUDITOR'S REPORT

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

Report on Compliance for Each Major Federal Program

We have audited the Northcentral Arkansas Education Service Cooperative (the "Cooperative") compliance with the types of compliance requirements described in the *OMB 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, 2016. 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 federal statutes, regulations, and the terms and conditions of its federal awards 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 the audit requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance 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, 2016.

Report on Internal Control Over Compliance

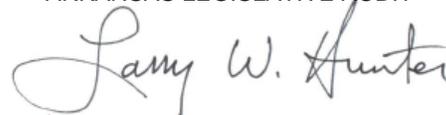
Management of the Cooperative is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the Cooperative's internal control over compliance with 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 the Uniform Guidance, 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 in internal control over compliance, 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. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

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 the Uniform Guidance. Accordingly, this report 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
February 15, 2017

NORTHCENTRAL ARKANSAS EDUCATION SERVICE COOPERATIVE
BALANCE SHEET - REGULATORY BASIS
JUNE 30, 2016

Exhibit A

	Governmental Funds	
	Major	
	General	Special Revenue
ASSETS		
Cash	\$ 692,270	\$ 2,604
Investments	101,144	
Accounts receivable	29,256	71,357
Deposit with paying agent	8,215	
TOTAL ASSETS	\$ 830,885	\$ 73,961
LIABILITIES AND FUND BALANCES		
Liabilities:		
Accounts payable	\$ 11,982	\$ 261
Fund Balances:		
Nonspendable	8,215	
Restricted	297,634	73,700
Unassigned	513,054	
Total Fund Balances	818,903	73,700
TOTAL LIABILITIES AND FUND BALANCES	\$ 830,885	\$ 73,961

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, 2016

Exhibit B

	Major	
	General	Special Revenue
REVENUES		
State assistance	\$ 1,750,403	
Federal assistance		\$ 718,720
Investment income	4,223	
Other revenues	1,174,102	
 TOTAL REVENUES	2,928,728	718,720
 EXPENDITURES		
Regular programs	52,149	
Special education	449,869	178,501
Career education programs	4,838	86,116
Student support services	818,384	256,535
Instructional staff support services	1,166,246	184,155
General administration support services	164,747	
Central services support services	222,423	
Operation and maintenance of plant services	55,026	6,000
Community services operations		189,141
Non-programmed costs		17,118
Debt Service:		
Principal retirement	25,483	
Interest and fiscal charges	3,578	
 TOTAL EXPENDITURES	2,962,743	917,566
 EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	(34,015)	(198,846)
 FUND BALANCES - JULY 1	852,918	272,546
 FUND BALANCES - JUNE 30	\$ 818,903	\$ 73,700

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, 2016

Exhibit C

	General			Special Revenue		
	Budget	Actual	Variance Favorable (Unfavorable)	Budget	Actual	Variance Favorable (Unfavorable)
REVENUES						
State assistance	\$ 1,746,735	\$ 1,750,403	\$ 3,668			
Federal assistance				\$ 736,535	\$ 718,720	\$ (17,815)
Investment income	5,500	4,223	(1,277)			
Other revenues	1,158,532	1,174,102	15,570			
TOTAL REVENUES	2,910,767	2,928,728	17,961	736,535	718,720	(17,815)
EXPENDITURES						
Regular programs	50,284	52,149	(1,865)			
Special education	467,758	449,869	17,889	218,318	178,501	39,817
Career education programs	7,649	4,838	2,811	84,153	86,116	(1,963)
Student support services	820,454	818,384	2,070	278,595	256,535	22,060
Instructional staff support services	1,428,455	1,166,246	262,209	201,431	184,155	17,276
General administration support services	163,543	164,747	(1,204)			
Central services support services	241,415	222,423	18,992			
Operation and maintenance of plant services	58,600	55,026	3,574	6,000	6,000	
Student transportation services				650		650
Community services operations				202,050	189,141	12,909
Non-programmed costs				17,884	17,118	766
Debt Service:						
Principal retirement	26,303	25,483	820			
Interest and fiscal charges	2,758	3,578	(820)			
TOTAL EXPENDITURES	3,267,219	2,962,743	304,476	1,009,081	917,566	91,515
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	(356,452)	(34,015)	322,437	(272,546)	(198,846)	73,700
OTHER FINANCING SOURCES (USES)						
Transfers in	17,884		(17,884)			
EXCESS OF REVENUES AND OTHER SOURCES OVER (UNDER) EXPENDITURES AND OTHER USES	(338,568)	(34,015)	304,553	(272,546)	(198,846)	73,700
FUND BALANCES - JULY 1	850,547	852,918	2,371	272,546	272,546	
FUND BALANCES - JUNE 30	\$ 511,979	\$ 818,903	\$ 306,924	\$ 0	\$ 73,700	\$ 73,700

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

NORTHCENTRAL ARKANSAS EDUCATION SERVICE COOPERATIVE
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016

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, 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.

NORTHCENTRAL ARKANSAS EDUCATION SERVICE COOPERATIVE
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016

1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

E. Capital Assets

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

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

<u>Asset Class</u>	<u>Estimated Useful Life in Years</u>
Buildings	25-50
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. 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.

NORTHCENTRAL ARKANSAS EDUCATION SERVICE COOPERATIVE
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016

1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 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.

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	546,018	546,376
Total Deposits	\$ 796,018	\$ 796,376

The above total deposits include certificates of deposit of \$101,144 reported as investments and classified as nonparticipating contracts.

3: ACCOUNTS RECEIVABLE

Accounts receivable at June 30, 2016 were comprised of the following:

Description	Governmental Funds	
	Major	
	General	Special Revenue
State assistance	\$ 1,406	
Federal assistance		\$ 71,357
Other	27,850	
Totals	\$ 29,256	\$ 71,357

NORTHCENTRAL ARKANSAS EDUCATION SERVICE COOPERATIVE
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016

4: COMMITMENTS

The Cooperative was contractually obligated for the following at June 30, 2016:

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, 2016	Maturities To June 30, 2016
11/17/06	11/1/16	4.95%	\$ 164,309	\$ 16,431	\$ 147,878
7/24/14	5/15/24	2.65%	100,100	81,723	18,377
Totals			<u>\$ 264,409</u>	<u>\$ 98,154</u>	<u>\$ 166,255</u>

Changes in Long-term Debt

	Balance July 1, 2015	Issued	Retired	Balance June 30, 2016
Certificates of indebtedness	\$ 32,862		\$ 16,431	\$ 16,431
Installment contracts	90,775		9,052	81,723
Totals	<u>\$ 123,637</u>	<u>\$ 0</u>	<u>\$ 25,483</u>	<u>\$ 98,154</u>

Future Principal and Interest Payments

Year Ended June 30,	Principal	Interest	Total
2017	\$ 25,731	\$ 2,515	\$ 28,246
2018	9,548	1,857	11,405
2019	9,803	1,602	11,405
2020	10,060	1,344	11,404
2021	10,332	1,073	11,405
2022-2024	<u>32,680</u>	<u>1,534</u>	<u>34,214</u>
Totals	<u>\$ 98,154</u>	<u>\$ 9,925</u>	<u>\$ 108,079</u>

5: ACCOUNTS PAYABLE

Accounts payable at June 30, 2016 were comprised of the following:

Description	Governmental Funds	
	Major	Special Revenue
	General	
Vendor payables	<u>\$ 11,982</u>	<u>\$ 261</u>

NORTHCENTRAL ARKANSAS EDUCATION SERVICE COOPERATIVE
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016

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 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 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, 2016 were \$325,557, equal to the required contributions. The Cooperative's contributions to ATRS for the year ended June 30, 2016 were \$65,615, 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, 2015 (actuarial valuation date and measurement date) was \$3,089,248.

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.

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.

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.

NORTHCENTRAL ARKANSAS EDUCATION SERVICE COOPERATIVE
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016

7: RISK MANAGEMENT (Continued)

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 \$55,133 for the year ended June 30, 2016.

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

Description	Governmental Funds	
	Major	
	General	Special Revenue
Fund Balances:		
Nonspendable:		
Deposit with paying agent	\$ 8,215	
Restricted for:		
Medical services		\$ 39,355
Smart start programs	242,018	
Special education programs	10,498	34,345
Other purposes	45,118	
Total Restricted	<u>297,634</u>	<u>73,700</u>
Unassigned	<u>513,054</u>	
Totals	<u>\$ 818,903</u>	<u>\$ 73,700</u>

NORTHCENTRAL ARKANSAS EDUCATION SERVICE COOPERATIVE
 SCHEDULE OF CAPITAL ASSETS
 FOR THE YEAR ENDED JUNE 30, 2016
 (Unaudited)

Schedule 1

	<u>Balance</u> <u>June 30, 2016</u>
<i>Nondepreciable capital assets:</i>	
Land	\$ 5,000
 <i>Depreciable capital assets:</i>	
Buildings	1,198,066
Equipment	280,951
Total depreciable capital assets	<u>1,479,017</u>
 Less accumulated depreciation for:	
Buildings	308,958
Equipment	194,091
Total accumulated depreciation	<u>503,049</u>
 Total depreciable capital assets, net	<u>975,968</u>
 Capital assets, net	<u>\$ 980,968</u>

NORTHCENTRAL ARKANSAS EDUCATION SERVICE COOPERATIVE
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2016

Schedule 2

Federal Grantor/Pass-Through Grantor/Program or Cluster Title	Federal CFDA Number	Pass-Through Entity Identifying Number	Passed Through to Subrecipients	Total Federal Expenditures
SPECIAL EDUCATION CLUSTER (IDEA)				
<u>U. S. Department of Education</u>				
Passed Through Arkansas Department of Education:				
Special Education - Grants to States	84.027	3320		\$ 185,655
Special Education - Preschool Grants	84.173	3320		<u>314,774</u>
TOTAL SPECIAL EDUCATION CLUSTER (IDEA)				<u>500,429</u>
OTHER PROGRAMS				
<u>U. S. Department of Education</u>				
Passed Through Arkansas Department of Career Education:				
Career and Technical Education - Basic Grants to States	84.048	3320		<u>90,229</u>
<u>U. S. Department of Health and Human Services</u>				
Passed Through Arkansas Children's Hospital:				
Affordable Care Act (ACA) Maternal, Infant, and Early Childhood Home Visiting Program	93.505	018315		<u>189,261</u>
TOTAL OTHER PROGRAMS				<u>279,490</u>
TOTAL EXPENDITURES OF FEDERAL AWARDS			<u>\$ 0</u>	<u>\$ 779,919</u>

The accompanying notes are an integral part of this schedule.

NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

- Note 1: Basis of Presentation - The accompanying Schedule of Expenditures of Federal Awards (the "Schedule") includes the federal grant activity of Northcentral Arkansas Education Service Cooperative (Cooperative) under programs of the federal government for the year ended June 30, 2016. The information in this Schedule is presented in accordance with the requirements of Title 2 U.S. *Code of Federal Regulations* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). 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 the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement.
- Note 3: The Cooperative has elected not to use the 10-percent de minimis indirect cost rate allowed under the Uniform Guidance.
- Note 4: During the year ended June 30, 2016, the Cooperative received Medicaid funding of \$49,644 from the Arkansas Department of Human Services. Such payments are not considered Federal awards expended, and therefore, are not included in the above Schedule.

NORTHCENTRAL ARKANSAS EDUCATION SERVICE COOPERATIVE
 SCHEDULE OF FINDINGS AND QUESTIONED COSTS
 FOR THE YEAR ENDED JUNE 30, 2016

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 2 CFR 200.516(a)? yes no

Identification of major federal programs:

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

Dollar threshold used to distinguish between type A and type B programs: \$ 750,000

Auditee qualified as low-risk auditee? yes no

SECTION II - FINANCIAL STATEMENT FINDINGS

No matters were reported.

SECTION III - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

No matters were reported.

NORTHCENTRAL ARKANSAS EDUCATION SERVICE COOPERATIVE
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE YEAR ENDED JUNE 30, 2016

Schedule 4

FINANCIAL STATEMENT FINDINGS

There were no findings in the prior audit.

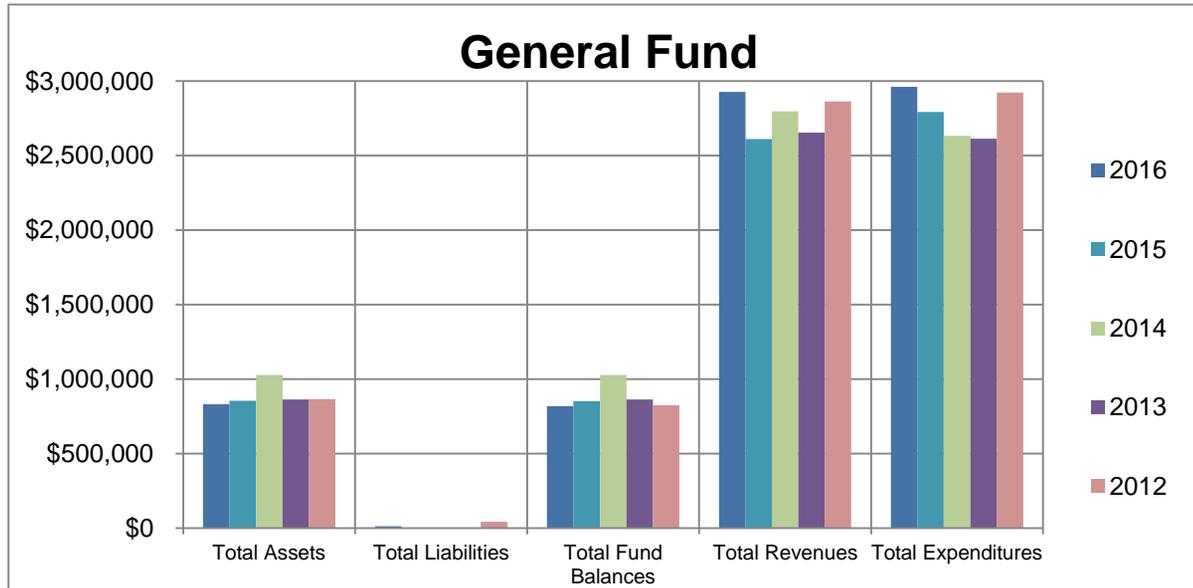
FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

There were no findings in the prior audit.

NORTHCENTRAL ARKANSAS EDUCATION SERVICE COOPERATIVE
 SCHEDULE OF SELECTED INFORMATION FOR THE LAST FIVE YEARS - REGULATORY BASIS
 FOR THE YEAR ENDED JUNE 30, 2016
 (Unaudited)

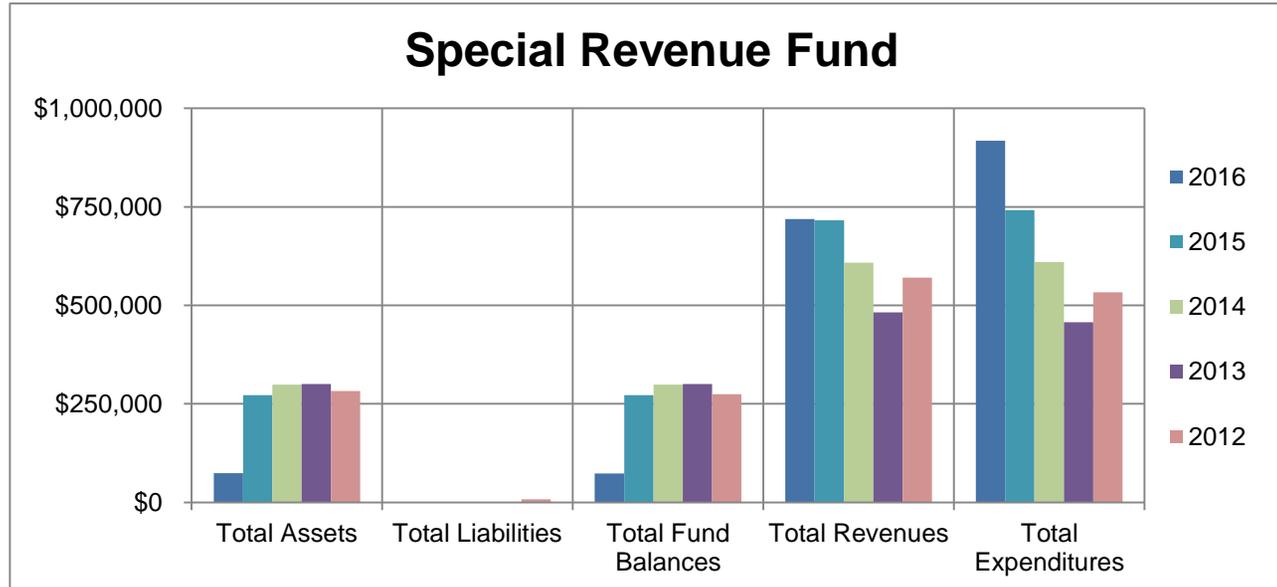
Schedule 5

General Fund	Year Ended June 30,				
	2016	2015	2014	2013	2012
Total Assets	\$ 830,885	\$ 855,030	\$ 1,027,069	\$ 864,106	\$ 865,072
Total Liabilities	11,982	2,112		465	41,144
Total Fund Balances	818,903	852,918	1,027,069	863,641	823,928
Total Revenues	2,928,728	2,611,549	2,797,416	2,654,507	2,862,984
Total Expenditures	2,962,743	2,793,031	2,633,988	2,614,794	2,922,891
Total Other Financing Sources (Uses)		7,331			(13,717)



NORTHCENTRAL ARKANSAS EDUCATION SERVICE COOPERATIVE
 SCHEDULE OF SELECTED INFORMATION FOR THE LAST FIVE YEARS - REGULATORY BASIS
 FOR THE YEAR ENDED JUNE 30, 2016
 (Unaudited)

<u>Special Revenue Fund</u>	Year Ended June 30,				
	2016	2015	2014	2013	2012
Total Assets	\$ 73,961	\$ 272,546	\$ 298,863	\$ 300,317	\$ 282,862
Total Liabilities	261		74	61	7,965
Total Fund Balances	73,700	272,546	298,789	300,256	274,897
Total Revenues	718,720	715,593	608,567	482,191	570,518
Total Expenditures	917,566	741,836	609,949	456,832	533,441
Total Other Financing Sources (Uses)			(85)		



NORTHCENTRAL ARKANSAS EDUCATION SERVICE COOPERATIVE
 SCHEDULE OF SELECTED INFORMATION FOR THE LAST FIVE YEARS - REGULATORY BASIS
 FOR THE YEAR ENDED JUNE 30, 2016
 (Unaudited)

<u>Other Aggregate Funds</u>	Year Ended June 30,				
	2016	2015	2014	2013	2012
Total Assets					
Total Liabilities					
Total Fund Balances					
Total Revenues					
Total Expenditures		\$ 92,769			
Total Other Financing Sources (Uses)		92,769			

