

# **Arkansas River Education Service Cooperative**

## **Regulatory Basis Financial Statements and Other Reports**

**June 30, 2023**



ARKANSAS RIVER EDUCATION SERVICE COOPERATIVE  
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JUNE 30, 2023

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# Arkansas

**Sen. David Wallace**  
Senate Chair  
**Sen. John Payton**  
Senate Vice Chair



**Rep. Jimmy Gazaway**  
House Chair  
**Rep. Richard Womack**  
House Vice Chair

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

## **LEGISLATIVE JOINT AUDITING COMMITTEE** **ARKANSAS LEGISLATIVE AUDIT**

### **INDEPENDENT AUDITOR'S REPORT**

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

#### **Report on the Audit of the Financial Statements**

##### ***Opinions***

We have audited the financial statements of each major governmental fund of the Arkansas River Education Service Cooperative (the "Cooperative"), as of and for the year ended June 30, 2023, 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.

##### ***Unmodified Opinions on Regulatory Basis of Accounting***

In our opinion, the accompanying 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, 2023, 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.

##### ***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 section of our report, the accompanying 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, 2023, or the changes in financial position for the year then ended.

##### ***Basis for Opinions***

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (GAAS) and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Cooperative, and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. 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 of the financial statements, 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, to meet the requirements of the State of Arkansas. 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 and pervasive.

### ***Responsibilities of Management 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. 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Cooperative's ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

### ***Auditor's Responsibilities for the Audit of the Financial Statements***

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinions. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS and *Government Auditing Standards*, we

- exercise professional judgment and maintain professional skepticism throughout the audit.
- identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- obtain an understanding of internal control relevant to the audit 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, no such opinion is expressed.
- evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Cooperative's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

### ***Supplementary 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*, is presented for purposes of additional analysis and is not a required part of the regulatory basis financial statements. Such information 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. The 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.

### ***Other Information***

Management is responsible for the other information included in the report. The other information comprises the Schedule of Capital Assets and the Schedule of Selected Information for the Last Five Years – Regulatory Basis but does not include the regulatory basis financial statements, supplementary information, and our auditor's report thereon. Our opinions on the regulatory basis financial statements do not cover the other information, and we do not express an opinion or any form of assurance thereon.

In connection with our audit of the regulatory basis financial statements, our responsibility is to read the other information and consider whether a material inconsistency exists between the other information and the regulatory basis financial statements, or the other information otherwise appears to be materially misstated. If, based on the work performed, we conclude that an uncorrected material misstatement of the other information exists, we are required to describe it in our report.

### **Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated March 28, 2024 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 the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the 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  
March 28, 2024  
EDSC01123

# Arkansas

**Sen. David Wallace**  
Senate Chair  
**Sen. John Payton**  
Senate Vice Chair



**Rep. Jimmy Gazaway**  
House Chair  
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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

Arkansas River 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 Arkansas River Education Service Cooperative (the "Cooperative"), as of and for the year ended June 30, 2023, and the related notes to the financial statements, which collectively comprise the Cooperative's regulatory basis financial statements, and have issued our report thereon dated March 28, 2024. 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 and pervasive. 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, 2023, 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.

### **Report on 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) as a basis for designing 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 these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses or significant deficiencies may exist that were not identified.

### **Report on 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 financial statements. 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 results of that testing, and not to provide an opinion on the effectiveness of the entity'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 entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

ARKANSAS LEGISLATIVE AUDIT

A handwritten signature in black ink that reads "Matt Fink". The signature is written in a cursive, slightly slanted style.

Matt Fink, CPA  
Deputy Legislative Auditor

Little Rock, Arkansas  
March 28, 2024

# Arkansas

**Sen. David Wallace**  
Senate Chair  
**Sen. John Payton**  
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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

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

#### **Report on Compliance for Each Major Federal Program**

##### ***Opinion on Each Major Federal Program***

We have audited the Arkansas River Education Service Cooperative's (the "Cooperative") compliance with the types of compliance requirements identified as subject to audit 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, 2023. 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.

In our opinion, the Cooperative complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2023.

##### ***Basis for Opinion on Each Major Federal Program***

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America (GAAS); the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States (*Government Auditing Standards*); 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). Our responsibilities under those standards and the Uniform Guidance are further described in the Auditor's Responsibilities for the Audit of Compliance section of our report.

We are required to be independent of the Cooperative and to meet our other ethical responsibilities, in accordance with relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion on compliance for each major federal program. Our audit does not provide a legal determination of the Cooperative's compliance with the compliance requirements referred to above.

##### ***Responsibilities of Management for Compliance***

Management is responsible for compliance with the requirements referred to above and for the design, implementation, and maintenance of effective internal control over compliance with the requirements of laws, statutes, regulations, rules and provisions of contracts or grant agreements applicable to the Cooperative's federal programs.

##### ***Auditor's Responsibilities for the Audit of Compliance***

Our objectives are to obtain reasonable assurance about whether material noncompliance with the compliance requirements referred to above occurred, whether due to fraud or error, and express an opinion on the Cooperative's compliance based on our audit. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS, *Government Auditing Standards*, and the Uniform Guidance will always detect material noncompliance when it exists. The risk of not detecting material noncompliance resulting from fraud is higher than for that resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Noncompliance with the compliance requirements referred to above is considered material, if there is a substantial likelihood that, individually or in the aggregate, it would influence the judgment made by a reasonable user of the report on compliance about the Cooperative's compliance with the requirements of each major federal program as a whole.



In performing an audit in accordance with GAAS, *Government Auditing Standards*, and the Uniform Guidance, we

- exercise professional judgment and maintain professional skepticism throughout the audit.
- identify and assess the risks of material noncompliance, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the Cooperative's compliance with the compliance requirements referred to above and performing such other procedures as we considered necessary in the circumstances.
- obtain an understanding of the Cooperative's internal control over compliance relevant to the audit in order to design audit procedures that are appropriate in the circumstances 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 the Cooperative's internal control over compliance. Accordingly, no such opinion is expressed.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and any significant deficiencies and material weaknesses in internal control over compliance that we identified during the audit.

### **Report on 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 Auditor's Responsibilities for the Audit of Compliance section above and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies in internal control over compliance. Given these limitations, during our audit we did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above. However, material weaknesses or significant deficiencies in internal control over compliance may exist that were not identified.

Our audit was not designed for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, no such opinion is expressed.

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



Matt Fink, CPA  
Deputy Legislative Auditor

Little Rock, Arkansas  
March 28, 2024

ARKANSAS RIVER EDUCATION SERVICE COOPERATIVE  
BALANCE SHEET - REGULATORY BASIS  
JUNE 30, 2023

Exhibit A

	Governmental Funds	
	Major	
	General	Special Revenue
ASSETS		
Cash	\$ 3,810,860	\$ 296,614
Accounts receivable	728,458	51,974
 TOTAL ASSETS	 \$ 4,539,318	 \$ 348,588
 LIABILITIES AND FUND BALANCES		
Liabilities:		
Accounts payable and accrued liabilities	\$ 147,105	\$ 440
 Fund Balances:		
Restricted	2,222,938	348,148
Assigned	1,497,702	
Unassigned	671,573	
Total Fund Balances	4,392,213	348,148
 TOTAL LIABILITIES AND FUND BALANCES	 \$ 4,539,318	 \$ 348,588

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

ARKANSAS RIVER EDUCATION SERVICE COOPERATIVE  
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES -  
GOVERNMENTAL FUNDS - REGULATORY BASIS  
FOR THE YEAR ENDED JUNE 30, 2023

Exhibit B

	Major	
	General	Special Revenue
REVENUES		
State assistance	\$ 4,588,227	
Federal assistance		\$ 11,746,267
Investment income	887	
Other revenues	6,037,724	
TOTAL REVENUES	10,626,838	11,746,267
EXPENDITURES		
Regular programs	1,146,299	60,628
Special education	524,901	
Career education programs	30,821	364,913
Compensatory education programs		76,352
Other instructional programs	1,439,904	
Student support services	409,851	3,003
Instructional staff support services	1,924,594	9,097,950
General administration support services	766,741	
Central services support services	1,042,436	113,012
Operation and maintenance of plant services	217,098	
Other support services	5,327	
Food services operations		5,740
Community services operations	1,681,078	345,824
Facilities acquisition and construction services	50,221	
Non-programmed costs	374,681	1,611,924
TOTAL EXPENDITURES	9,613,952	11,679,346
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	1,012,886	66,921
OTHER FINANCING SOURCES (USES)		
Refund to grantor	(9,950)	
TOTAL OTHER FINANCING SOURCES (USES)	(9,950)	
EXCESS OF REVENUES AND OTHER SOURCES OVER (UNDER) EXPENDITURES AND OTHER USES	1,002,936	66,921
FUND BALANCES - JULY 1	3,389,277	281,227
FUND BALANCES - JUNE 30	\$ 4,392,213	\$ 348,148

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

ARKANSAS RIVER 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, 2023

Exhibit C

	General			Special Revenue		
	Budget	Actual	Variance Favorable (Unfavorable)	Budget	Actual	Variance Favorable (Unfavorable)
REVENUES						
State assistance	\$ 4,467,298	\$ 4,588,227	\$ 120,929			
Federal assistance				\$ 11,209,398	\$ 11,746,267	\$ 536,869
Investment income	2,500	887	(1,613)			
Other revenues	4,198,752	6,037,724	1,838,972			
TOTAL REVENUES	8,668,550	10,626,838	1,958,288	11,209,398	11,746,267	536,869
EXPENDITURES						
Regular programs	1,117,107	1,146,299	(29,192)		60,628	(60,628)
Special education	577,670	524,901	52,769	2,205		2,205
Career education programs	30,000	30,821	(821)	288,541	364,913	(76,372)
Compensatory education programs				79,225	76,352	2,873
Other instructional programs	1,362,653	1,439,904	(77,251)			
Student support services	362,512	409,851	(47,339)	84,688	3,003	81,685
Instructional staff support services	1,435,962	1,924,594	(488,632)	9,010,000	9,097,950	(87,950)
General administration support services	708,618	766,741	(58,123)			
Central services support services	1,076,248	1,042,436	33,812	3,000	113,012	(110,012)
Operation and maintenance of plant services		217,098	(217,098)			
Other support services	10,000	5,327	4,673			
Food services operations					5,740	(5,740)
Community services operations	1,662,650	1,681,078	(18,428)	357,000	345,824	11,176
Facilities acquisition and construction services		50,221	(50,221)			
Non-programmed costs	273,745	374,681	(100,936)	1,364,427	1,611,924	(247,497)
TOTAL EXPENDITURES	8,617,165	9,613,952	(996,787)	11,189,086	11,679,346	(490,260)
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	51,385	1,012,886	961,501	20,312	66,921	46,609
OTHER FINANCING SOURCES (USES)						
Transfers in	1,810,367		(1,810,367)			
Transfers out	(172,196)		172,196			
Refund to grantor		(9,950)	(9,950)			
TOTAL OTHER FINANCING SOURCES (USES)	1,638,171	(9,950)	(1,648,121)			

ARKANSAS RIVER 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, 2023

Exhibit C

	General			Special Revenue		
	Budget	Actual	Variance Favorable (Unfavorable)	Budget	Actual	Variance Favorable (Unfavorable)
EXCESS OF REVENUES AND OTHER SOURCES OVER (UNDER) EXPENDITURES AND OTHER USES	\$ 1,689,556	\$ 1,002,936	\$ (686,620)	\$ 20,312	\$ 66,921	\$ 46,609
FUND BALANCES - JULY 1	<u>3,419,030</u>	<u>3,389,277</u>	<u>(29,753)</u>	<u>240,120</u>	<u>281,227</u>	<u>41,107</u>
FUND BALANCES - JUNE 30	<u>\$ 5,108,586</u>	<u>\$ 4,392,213</u>	<u>\$ (716,373)</u>	<u>\$ 260,432</u>	<u>\$ 348,148</u>	<u>\$ 87,716</u>

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

ARKANSAS RIVER EDUCATION SERVICE COOPERATIVE  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2023

**1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**A. Reporting Entity**

The Board of Education, a seven member group, is the level of government, which has responsibilities over all activities within the jurisdiction of the Arkansas River 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. 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) 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 and other requirements for fiduciary fund types, separate identification of special and extraordinary items, inclusion of capital assets, leases, 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. Major governmental funds are defined as general and special revenue, and such funds are presented separately in the financial statements. All other governmental funds are presented in the aggregate. Fiduciary fund types are presented in a separate column in the Balance Sheet – Regulatory Basis. 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 financed purchases are reported as other financing sources. Changes in private-purpose 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.

ARKANSAS RIVER EDUCATION SERVICE COOPERATIVE  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2023

**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:

Asset Class	Estimated Useful Life in Years
Buildings	50
Equipment	3-25

**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. 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.
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.

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. Additionally, the Cooperative routinely budgets restricted federal programs as part of the special revenue fund.

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.

ARKANSAS RIVER EDUCATION SERVICE COOPERATIVE  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2023

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

**J. Fund Balance Classification Policies and Procedures**

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

The Cooperative 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)	\$ 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	3,607,274	4,088,634
Total Deposits	<u>\$ 4,107,274</u>	<u>\$ 4,588,634</u>

The above total deposits do not include cash on hand of \$200.



ARKANSAS RIVER EDUCATION SERVICE COOPERATIVE  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2023

**3: ACCOUNTS RECEIVABLE**

Accounts receivable at June 30, 2023, were comprised of the following:

Description	Governmental Funds	
	Major	
	General	Special Revenue
Federal assistance		\$ 51,974
Other	\$ 728,458	
Totals	\$ 728,458	\$ 51,974

**4: ACCOUNTS PAYABLE AND ACCRUED LIABILITIES**

Accounts payable and accrued liabilities at June 30, 2023, were comprised of the following:

Description	Governmental Funds	
	Major	
	General	Special Revenue
Vendor payables	\$ 130,287	\$ 440
Payroll withholdings and matching	16,818	
Totals	\$ 147,105	\$ 440

**5: 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 501-682-1517, or by visiting the ATRS website at [www.artrs.gov](http://www.artrs.gov).

Funding Policy

ATRS has contributory and noncontributory plans. Contributory members are required by State law to contribute 7% 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 15% of covered salaries. The employer contribution was paid by the Division of Elementary and Secondary 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 Division of Elementary and Secondary Education's contributions to ATRS for the Cooperative during the year ended June 30, 2023, were \$829,334, equal to the required contributions. The Cooperative's contributions to ATRS for the year ended June 30, 2023, were \$48,971, equal to the required contributions.

ARKANSAS RIVER EDUCATION SERVICE COOPERATIVE  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2023

**5: RETIREMENT PLAN (Continued)**

Net Pension Liability

The Division of Elementary and Secondary 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, 2022, (actuarial valuation date and measurement date) was \$8,935,444.

**6: CHANGES IN PRIVATE-PURPOSE FUNDS**

DEDUCTIONS

Other	\$ 278
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FUND BALANCE - JULY 1	<u>278</u>
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FUND BALANCE - JUNE 30	<u>\$ 0</u>
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**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 educator's legal liability and business trip accidental death and dismemberment coverage.

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.

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 and 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 buildings and contents.

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.

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 Division of Elementary and Secondary Education to the Employee Benefits Division, on-behalf of the Cooperative's employees, totaled \$200,415 for the year ended June 30, 2023.

ARKANSAS RIVER EDUCATION SERVICE COOPERATIVE  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2023

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

Description	Governmental Funds	
	Major	
	General	Special Revenue
Fund Balances:		
Restricted for:		
Alternative learning environment	\$ 166,675	
Child nutrition programs		\$ 4,914
Medical services		219,665
Special education programs	1,088	
Education stabilization fund (COVID-19)		2,287
Digital projects	94,087	
Arkansas better chance	1,048,758	
Arkansas leadership academy team leadership	92,833	
Distance learning	108,742	
Executive administrative services	289,489	
K-6 virtual consortium	333,468	
ARPA stabilization grants (COVID-19)		73,849
Civics exam grant	57,749	
Other purposes	30,049	47,433
Total Restricted	<u>2,222,938</u>	<u>348,148</u>
Assigned to:		
Professional development	99,929	
Building projects	1,129,038	
Preschool programs	261,311	
Other purposes	7,424	
Total Assigned	<u>1,497,702</u>	
Unassigned	<u>671,573</u>	
Totals	<u>\$ 4,392,213</u>	<u>\$ 348,148</u>

**10: SUBSEQUENT EVENT**

On October 20, 2023, the Cooperative signed a \$593,299 contract for the exterior renovation of the Cooperative.

ARKANSAS RIVER EDUCATION SERVICE COOPERATIVE  
SCHEDULE OF CAPITAL ASSETS  
FOR THE YEAR ENDED JUNE 30, 2023  
(Unaudited)

Schedule 1

	Balance June 30, 2023
Nondepreciable capital assets:	
Land	\$ 297,888
Depreciable capital assets:	
Buildings	1,372,526
Equipment	802,805
Total depreciable capital assets	2,175,331
Less accumulated depreciation for:	
Buildings	733,621
Equipment	521,639
Total accumulated depreciation	1,255,260
Total depreciable capital assets, net	920,071
Capital assets, net	\$ 1,217,959

ARKANSAS RIVER EDUCATION SERVICE COOPERATIVE  
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
FOR THE YEAR ENDED JUNE 30, 2023

Schedule 2

Federal Grantor/Pass-Through Grantor/Program or Cluster Title	Federal Assistance Listing Number	Pass-Through Entity Identifying Number	Provided to Subrecipients	Total Federal Expenditures
<b>SPECIAL EDUCATION CLUSTER (IDEA)</b>				
<u>U. S. Department of Education</u>				
Arkansas Department of Education - Special Education - Grants to States	84.027A	3520		\$ 20,000
TOTAL SPECIAL EDUCATION CLUSTER (IDEA)				<u>20,000</u>
<b>OTHER PROGRAMS</b>				
<u>U. S. Department of Education</u>				
Arkansas Department of Education - COVID-19 - Governor's Emergency Education Relief Fund	84.425C	3520		135,615
Arkansas Department of Education - COVID-19 - American Rescue Plan - Elementary and Secondary School Emergency Relief Fund	84.425U	3520		51,570
Arkansas State University - COVID-19 - American Rescue Plan - Elementary and Secondary School Emergency Relief Fund	84.425U	3520		70,452
Total Education Stabilization Fund				<u>257,637</u>
Arkansas Department of Career Education - Career and Technical Education - Basic Grants to States	84.048A	3520		388,846
Total U. S. Department of Education				<u>646,483</u>
<u>U. S. Department of Health and Human Services</u>				
Arkansas Department of Education - Temporary Assistance for Needy Families	93.558	3520		17,194
Arkansas Division of Workforce Services - Temporary Assistance for Needy Families	93.558	3520		10,575,000
Total for Temporary Assistance for Needy Families				<u>10,592,194</u>
Arkansas Children's Hospital - Maternal, Infant, and Early Childhood Home Visiting Grant Program	93.870	GR018311		250,751
Arkansas Children's Hospital - Maternal, Infant, and Early Childhood Home Visiting Grant Program	93.870	GR018294		95,073
Total Maternal, Infant, and Early Childhood Home Visiting Grant Program				<u>345,824</u>
Total U. S. Department of Health and Human Services				<u>10,938,018</u>
TOTAL OTHER PROGRAMS				<u>11,584,501</u>
TOTAL EXPENDITURES OF FEDERAL AWARDS			<u>\$ 0</u>	<u>\$ 11,604,501</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 award activity of Arkansas River Education Service Cooperative (Cooperative) under programs of the federal government for the year ended June 30, 2023. 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% de minimis indirect cost rate allowed under the Uniform Guidance.
- Note 4: During the year ended June 30, 2023, the Cooperative received Medicaid funding of \$21,216 from the Arkansas Department of Human Services. Such payments are not considered Federal awards expended, and therefore, are not included in the above Schedule.

ARKANSAS RIVER EDUCATION SERVICE COOPERATIVE  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
FOR THE YEAR ENDED JUNE 30, 2023

Schedule 3

**SECTION I - SUMMARY OF AUDITOR'S RESULTS**

**FINANCIAL STATEMENTS**

Types of auditor's reports issued on whether the financial statements audited were prepared in accordance with:

Generally accepted accounting principles (GAAP) - adverse  
Regulatory basis - unmodified

Internal control over financial reporting:

<input checked="" type="radio"/> Material weakness(es) identified?	<input type="text"/>	yes	<input checked="" type="text"/>	no
<input checked="" type="radio"/> Significant deficiency(ies) identified?	<input type="text"/>	yes	<input checked="" type="text"/>	none reported
Noncompliance material to financial statements noted?	<input type="text"/>	yes	<input checked="" type="text"/>	no

**FEDERAL AWARDS**

Internal control over major federal programs:

<input checked="" type="radio"/> Material weakness(es) identified?	<input type="text"/>	yes	<input checked="" type="text"/>	no
<input checked="" type="radio"/> Significant deficiency(ies) identified?	<input type="text"/>	yes	<input checked="" type="text"/>	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)?	<input type="text"/>	yes	<input checked="" type="text"/>	no
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Identification of major federal programs:

AL Number(s)	Name of Federal Program or Cluster
84.425C and 84.425U	COVID-19 - Education Stabilization Fund
93.558	Temporary Assistance for Needy Families

Dollar threshold used to distinguish between type A and type B programs:

\$ 750,000

Auditee qualified as low-risk auditee?	<input checked="" type="text"/>	yes	<input type="text"/>	no
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**SECTION II - FINANCIAL STATEMENT FINDINGS**

No matters were reported.

**SECTION III - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS**

No matters were reported.

## **FINANCIAL STATEMENT FINDINGS**

There were no findings in the prior audit.

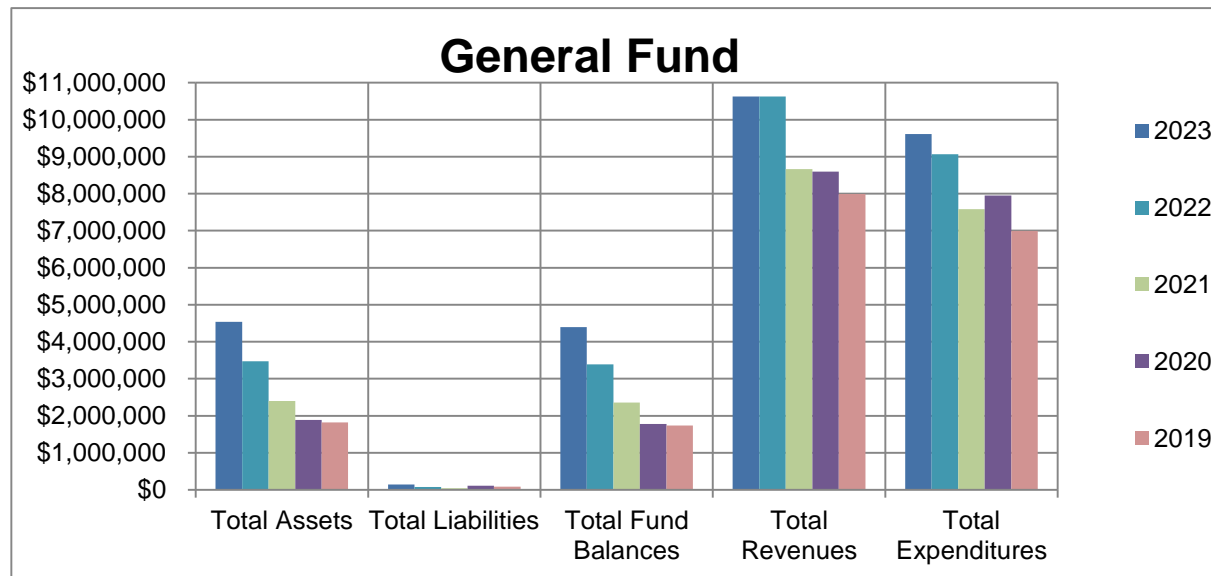
## **FEDERAL AWARD FINDINGS AND QUESTIONED COSTS**

There were no findings in the prior audit.

ARKANSAS RIVER EDUCATION SERVICE COOPERATIVE  
SCHEDULE OF SELECTED INFORMATION FOR THE LAST FIVE YEARS - REGULATORY BASIS  
FOR THE YEAR ENDED JUNE 30, 2023  
(Unaudited)

Schedule 5

<b>General Fund</b>	Year Ended June 30,				
	2023	2022	2021	2020	2019
Total Assets	\$ 4,539,318	\$ 3,469,343	\$ 2,400,151	\$ 1,886,797	\$ 1,820,475
Total Liabilities	147,105	80,066	45,646	109,755	83,477
Total Fund Balances	4,392,213	3,389,277	2,354,505	1,777,042	1,736,998
Total Revenues	10,626,838	10,628,360	8,661,983	8,596,650	7,996,490
Total Expenditures	9,613,952	9,067,240	7,581,168	7,946,917	6,996,638
Total Other Financing Sources (Uses)	(9,950)	(526,348)	(503,615)	(609,689)	(850,178)





ARKANSAS RIVER EDUCATION SERVICE COOPERATIVE  
SCHEDULE OF SELECTED INFORMATION FOR THE LAST FIVE YEARS - REGULATORY BASIS  
FOR THE YEAR ENDED JUNE 30, 2023  
(Unaudited)

Schedule 5

<b><u>Special Revenue Fund</u></b>	Year Ended June 30,				
	2023	2022	2021	2020	2019
Total Assets	\$ 348,588	\$ 307,057	\$ 452,919	\$ 104,047	\$ 181,194
Total Liabilities	440	25,830	345,894	70,527	42,142
Total Fund Balances	348,148	281,227	107,025	33,520	139,052
Total Revenues	11,746,267	2,175,963	1,807,310	1,100,293	1,001,965
Total Expenditures	11,679,346	1,496,065	1,724,973	1,205,825	965,123
Total Other Financing Sources (Uses)		(505,696)	(8,832)		(4,224)

