

Ozarks Unlimited Resources Educational Cooperative

Regulatory Basis Financial Statements and Other Reports

June 30, 2006

LEGISLATIVE JOINT AUDITING COMMITTEE



OZARKS UNLIMITED RESOURCES EDUCATIONAL COOPERATIVE
TABLE OF CONTENTS
JUNE 30, 2006

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 <i>Government Auditing Standards</i>	
Report on Compliance With Requirements Applicable to Each Major Program and on Internal Control Over Compliance in Accordance With OMB Circular A-133	
Management Letter	

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	

SUPPLEMENTARY INFORMATION

	<u>Schedule</u>
Schedule of Capital Assets (Unaudited)	1
Expenditures of Federal Awards	2
Federal Award Programs – Findings and Questioned Costs	3
Federal Award Programs – Summary of Prior Audit Findings	4

Sen. Randy Laverty
Senate Co-Chair
Rep. J R Rogers
House Co-Chair
Sen. Bobby L. Glover
Senate Co-Vice Chair
Rep. Johnny Hoyt
House Co-Vice Chair

Arkansas



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

LEGISLATIVE JOINT AUDITING COMMITTEE DIVISION OF LEGISLATIVE AUDIT

INDEPENDENT AUDITOR'S REPORT

Ozarks Unlimited Resources Educational Cooperative
Legislative Joint Auditing Committee

We have audited the accompanying financial statements of each major governmental fund and the aggregate remaining fund information of the Ozarks Unlimited Resources Educational Cooperative (the "Cooperative"), as of and for the year ended June 30, 2006, as listed in the table of contents. These financial statements are the responsibility of Cooperative management. 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 of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

As described more fully in Note 1, the Cooperative has prepared these financial statements using accounting practices prescribed or permitted by Arkansas Code, which practices differ from accounting principles generally accepted in the United States of America. The effect on the financial statements of the variances between these regulatory accounting practices and accounting principles generally accepted in the United States of America, although not reasonably determinable, are presumed to be material.

In our opinion, because of the effects of the matter discussed in the preceding paragraph, the financial statements referred to above do not present fairly, in conformity with accounting principles generally accepted in the United States of America, the financial position of the Cooperative as of June 30, 2006, or the changes in financial position thereof for the year then ended. Further, the Cooperative has not presented a management's discussion and analysis that accounting principles generally accepted in the United States has determined is necessary to supplement, although not required to be part of, the basic financial statements.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of each major governmental fund and the aggregate remaining fund information of the Cooperative as of June 30, 2006, and the respective changes in financial position and budgetary results for the year then ended, on the basis of accounting described in Note 1.

In accordance with *Government Auditing Standards*, we have also issued our report dated July 3, 2007 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 the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Cooperative's regulatory basis financial statements. The Schedule of Capital Assets (Schedule 1), Expenditures of Federal Awards (Schedule 2), as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, Federal Award Programs – Findings and Questioned Costs (Schedule 3) and Federal Award Programs – Summary of Prior Audit Findings (Schedule 4) are presented for purposes of additional analysis and are not a required part of the regulatory basis financial statements. The Expenditures of Federal Awards (Schedule 2), Federal Award Programs – Findings and Questioned Costs (Schedule 3) and Federal Award Programs – Summary of Prior Audit Findings (Schedule 4) have been subjected to the auditing procedures applied in the audit of the regulatory basis financial statements and, in our opinion, are fairly stated in all material respects in relation to the regulatory basis financial statements taken as a whole. The Schedule of Capital Assets (Schedule 1) has not been subjected to the auditing procedures applied in the audit of the regulatory basis financial statements and, accordingly, we express no opinion on it.

DIVISION OF LEGISLATIVE AUDIT



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

Little Rock, Arkansas
July 3, 2007
EDSC00206

Sen. Randy Lavery
Senate Co-Chair
Rep. J R Rogers
House Co-Chair
Sen. Bobby L. Glover
Senate Co-Vice Chair
Rep. Johnny Hoyt
House Co-Vice Chair

Arkansas



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Legislative Auditor

LEGISLATIVE JOINT AUDITING COMMITTEE DIVISION OF LEGISLATIVE AUDIT

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

Ozarks Unlimited Resources Educational Cooperative
Legislative Joint Auditing Committee

We have audited the financial statements of each major governmental fund and the aggregate remaining fund information of the Ozarks Unlimited Resources Educational Cooperative (the "Cooperative"), as of and for the year ended June 30, 2006, which collectively comprise the Cooperative's regulatory basis financial statements, and have issued our report thereon dated July 3, 2007. We issued an adverse opinion because the Cooperative prepared the financial statements using accounting practices prescribed or permitted by the Arkansas Code, which differ from accounting principles generally accepted in the United States of America. We conducted our audit in accordance with generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. The effect on the financial statements of the variances between these regulatory accounting practices 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 financial position of each major governmental fund and the aggregate remaining fund information of the Cooperative as of June 30, 2006, and the respective changes in financial position and budgetary results 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, we considered the Cooperative's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the regulatory basis financial statements and not to provide an opinion on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the Cooperative's ability to initiate, record, process, and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are disclosed in the accompanying schedule of Federal Award Programs - Findings and Questioned Costs as item 2006-1.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the regulatory basis financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, of the reportable conditions described above, we consider item 2006-1 in the accompanying schedule of Federal Award Programs - Findings and Questioned Costs to be a material weakness.

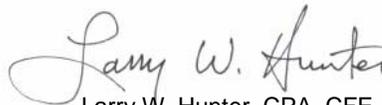
Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Cooperative's regulatory basis financial statements are free of 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*.

We have also noted certain matters that we reported to management of the Cooperative in a separate letter dated July 3, 2007.

These reports are intended solely for the information and use of the Legislative Joint Auditing Committee, the Cooperative board and management, state executive and oversight management, federal regulatory and oversight bodies, the federal awarding agencies and pass-through entities, and other parties as required by Arkansas Code, and are not intended to be and should not be used by anyone other than these specified parties. However, pursuant to Arkansas Code Annotated §10-4-417, all reports presented to the Legislative Joint Auditing Committee are matters of public record and distribution is not limited.

DIVISION OF LEGISLATIVE AUDIT



Larry W. Hunter, CPA, CFE
Deputy Legislative Auditor

Little Rock, Arkansas
July 3, 2007

Sen. Randy Laverty
Senate Co-Chair
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Arkansas



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Legislative Auditor

LEGISLATIVE JOINT AUDITING COMMITTEE DIVISION OF LEGISLATIVE AUDIT

REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

Ozarks Unlimited Resources Educational Cooperative
Legislative Joint Auditing Committee

Compliance

We have audited the compliance of the Ozarks Unlimited Resources Educational Cooperative (the "Cooperative") with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2006. The Cooperative's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of Federal Award Programs - Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts and grant agreements applicable to each of its major federal programs is the responsibility of the Cooperative's management. Our responsibility is to express an opinion on the Cooperative's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Cooperative's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of the Cooperative's compliance with those requirements.

In our opinion, the Cooperative complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2006.

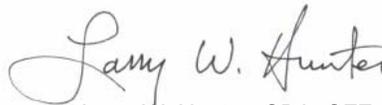
Internal Control Over Compliance

The management of the Cooperative is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the Cooperative's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on the internal control over compliance in accordance with OMB Circular A-133.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts, and grants caused by error or fraud that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

These reports are intended solely for the information and use of the Legislative Joint Auditing Committee, the Cooperative board and management, state executive and oversight management, federal regulatory and oversight bodies, the federal awarding agencies and pass-through entities, and other parties as required by Arkansas Code, and are not intended to be and should not be used by anyone other than these specified parties. However, pursuant to Arkansas Code Annotated §10-4-417, all reports presented to the Legislative Joint Auditing Committee are matters of public record and distribution is not limited.

DIVISION OF LEGISLATIVE AUDIT

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

Larry W. Hunter, CPA, CFE
Deputy Legislative Auditor

Little Rock, Arkansas
July 3, 2007

Sen. Randy Lavery
Senate Co-Chair
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Roger A. Norman, JD, CPA, CFE
Legislative Auditor

LEGISLATIVE JOINT AUDITING COMMITTEE DIVISION OF LEGISLATIVE AUDIT

MANAGEMENT LETTER

Ozarks Unlimited Resources Educational Cooperative
Legislative Joint Auditing Committee

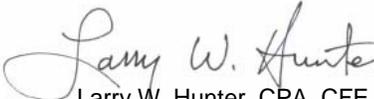
As a management service, we would like to bring to your attention the following other items that came to our attention during this audit. The purpose of such comments is to provide constructive feedback and guidance, in an effort to assist management to maintain a satisfactory level of compliance with the state constitution, laws and regulations and achieve adequate internal controls. These matters were discussed previously with Cooperative officials during the course of our audit fieldwork and at the exit conference.

An overpayment of \$9,533 for a copier lease payoff was discovered during our review of long-term debt. Upon our notification, the Cooperative recovered the overpayment in June 2007. Lack of internal controls over disbursements relating to debt payments contributed to this improper transaction.

We recommend management implement procedures to ensure lease payments adhere to amortization schedules.

These reports are intended for the information and use of the Legislative Joint Auditing Committee, state executive and oversight management, Cooperative management, the federal awarding agencies and pass-through entities and are not intended to be and should not be used by anyone other than these specific parties. However, this report is a matter of public record and its distribution is not limited.

DIVISION OF LEGISLATIVE AUDIT


Larry W. Hunter, CPA, CFE
Deputy Legislative Auditor

Little Rock, Arkansas
July 3, 2007

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OZARKS UNLIMITED RESOURCES EDUCATIONAL COOPERATIVE
BALANCE SHEET - REGULATORY BASIS
JUNE 30, 2006

Exhibit A

	Governmental Funds	
	Major	
	General	Special Revenue
ASSETS		
Cash	\$ 421,278	\$ 168,685
Investments	472,466	
Accounts receivable	47,749	
 TOTAL ASSETS	 \$ 941,493	 \$ 168,685
 LIABILITIES AND FUND BALANCES		
Liabilities:		
Accounts payable	\$ 7,235	\$ 57,937
 Fund Balances:		
Unreserved:		
Undesignated	934,258	110,748
 TOTAL LIABILITIES AND FUND BALANCES	 \$ 941,493	 \$ 168,685

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

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OZARKS UNLIMITED RESOURCES EDUCATIONAL COOPERATIVE
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES -
GOVERNMENTAL FUNDS - REGULATORY BASIS
FOR THE YEAR ENDED JUNE 30, 2006

Exhibit B

	Major	
	General	Special Revenue
REVENUES		
State assistance	\$ 3,273,807	
Federal assistance		\$ 985,435
Investment income	32,106	
Other revenues	1,298,601	58,666
 TOTAL REVENUES	4,604,514	1,044,101
 EXPENDITURES		
Regular programs	1,270,564	
Special education	443,790	317,507
Workforce education		80,790
Compensatory education	406,353	
Other instructional programs	124,420	
Student support services	495,944	532,628
Instructional staff support services	1,908,833	116,693
General administration support services	133,314	
Business support services	42,523	
Operation and maintenance of plant services	91,964	
Central support services	50,522	
Facilities acquisition and construction services	75,169	
Non-programmed costs	70,880	
Debt service:		
Principal retirement	47,671	
Interest and fiscal charges	6,065	
 TOTAL EXPENDITURES	5,168,012	1,047,618
 EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	(563,498)	(3,517)
 OTHER FINANCING SOURCES (USES)		
Early retirement of debt	(25,485)	
 EXCESS OF REVENUES AND OTHER SOURCES OVER (UNDER) EXPENDITURES AND OTHER USES	(588,983)	(3,517)
 FUND BALANCES - JULY 1	1,523,241	114,265
 FUND BALANCES - JUNE 30	\$ 934,258	\$ 110,748

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

OZARKS UNLIMITED RESOURCES EDUCATIONAL COOPERATIVE
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES -
BUDGET AND ACTUAL - GENERAL AND SPECIAL REVENUE FUNDS - REGULATORY BASIS
FOR THE YEAR ENDED JUNE 30, 2006

Exhibit C

	General			Special Revenue		
	Budget	Actual	Variance Favorable (Unfavorable)	Budget	Actual	Variance Favorable (Unfavorable)
REVENUES						
State assistance	\$ 2,943,451	\$ 3,273,807	\$ 330,356			
Federal assistance				\$ 586,887	\$ 985,435	\$ 398,548
Investment income	11,000	32,106	21,106			
Other revenues	1,221,427	1,298,601	77,174	250,000	58,666	(191,334)
TOTAL REVENUES	4,175,878	4,604,514	428,636	836,887	1,044,101	207,214
EXPENDITURES						
Regular programs	1,253,998	1,270,564	(16,566)			
Special education	342,616	443,790	(101,174)	410,217	317,507	92,710
Workforce education				76,657	80,790	(4,133)
Compensatory education	387,772	406,353	(18,581)			
Other instructional programs	143,636	124,420	19,216			
Student support services	389,446	495,944	(106,498)	321,613	532,628	(211,015)
Instructional staff support services	2,050,519	1,908,833	141,686	110,169	116,693	(6,524)
General administration support services	132,829	133,314	(485)			
Business support services	43,610	42,523	1,087			
Operation and maintenance of plant services	165,005	91,964	73,041			
Central support services	59,631	50,522	9,109			
Facilities acquisition and construction services		75,169	(75,169)			
Non-programmed costs		70,880	(70,880)			
Debt service:						
Principal retirement		47,671	(47,671)			
Interest and fiscal charges		6,065	(6,065)			
TOTAL EXPENDITURES	4,969,062	5,168,012	(198,950)	918,656	1,047,618	(128,962)

OZARKS UNLIMITED RESOURCES EDUCATIONAL COOPERATIVE
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES -
BUDGET AND ACTUAL - GENERAL AND SPECIAL REVENUE FUNDS - REGULATORY BASIS
FOR THE YEAR ENDED JUNE 30, 2006

Exhibit C

	General			Special Revenue		
	Budget	Actual	Variance Favorable (Unfavorable)	Budget	Actual	Variance Favorable (Unfavorable)
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	\$ (793,184)	\$ (563,498)	\$ 229,686	\$ (81,769)	\$ (3,517)	\$ 78,252
OTHER FINANCING SOURCES (USES)						
Transfers in	32,496		(32,496)			
Transfers out				(32,496)		32,496
Early retirement of debt		(25,485)	(25,485)			
TOTAL OTHER FINANCING SOURCES (USES)	32,496	(25,485)	(57,981)	(32,496)		32,496
EXCESS OF REVENUES AND OTHER SOURCES OVER (UNDER) EXPENDITURES AND OTHER USES	(760,688)	(588,983)	171,705	(114,265)	(3,517)	110,748
FUND BALANCES - JULY 1	1,513,064	1,523,241	10,177	114,265	114,265	
FUND BALANCES - JUNE 30	\$ 752,376	\$ 934,258	\$ 181,882	\$ 0	\$ 110,748	\$ 110,748

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

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OZARKS UNLIMITED RESOURCES EDUCATIONAL COOPERATIVE
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2006

1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Reporting Entity

The Board of Directors, a 16 member group, is the level of government which has responsibilities over all activities within the jurisdiction of the Ozarks Unlimited Resources Educational Cooperative. The Cooperative serves Baxter, Boone, Carroll, Johnson, Madison, Marion, Newton and Searcy counties. The Cooperative's financial statements reflect all funds and accounts directly under the control of the 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 the general operating fund and is used to account for all financial resources, except those required to be reported in another fund.

Special Revenue Fund - The Special Revenue Fund is used to account for the proceeds of specific revenue sources (other than trusts for individuals, private organizations, or other governments or for major capital projects) that are legally restricted to expenditures for specified purposes.

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

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

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

OZARKS UNLIMITED RESOURCES EDUCATIONAL COOPERATIVE
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2006

1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

D. Revenue Recognition Policies

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

E. Capital Assets

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

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

Asset Class	Estimated Useful Life in Years
Improvements/infrastructure	20
Buildings	50
Equipment	5-20

F. Fund Balance Designations

Undesignated fund balance - indicates that portion of the fund balance not reserved or designated.

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.

On-behalf payments as described at Note 7 are nonbudgeted financial data for the year ended June 30, 2006. Such payments are reported as actual revenues and expenditures in the Statement of Revenues, Expenditures and Changes in Fund Balances – Budget and Actual – General and Special Revenue Funds – Regulatory Basis (Exhibit C).

OZARKS UNLIMITED RESOURCES EDUCATIONAL COOPERATIVE
 NOTES TO FINANCIAL STATEMENTS
 JUNE 30, 2006

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)	\$ 100,000	\$ 100,000
Collateralized:		
Collateral held by the pledging bank or pledging bank's trust department in the Cooperative's name	962,429	1,297,294
Total Deposits	\$ 1,062,429	\$ 1,397,294

The above total deposits include certificates of deposit of \$472,466 reported as investments and classified as nonparticipating contracts.

3: RECEIVABLES

The receivables of \$47,749 at June 30, 2006, are as follows:

Class of Receivable	General Fund
Grants:	
State	\$ 38,216
Other	9,533
Totals	\$ 47,749

4: COMMITMENTS

Changes in Long-term Debt

	Balance July 1, 2005	Issued	Retired	Balance June 30, 2006
Capital leases	\$ 37,516		\$ 37,516	\$ 0
Bank notes	5,657		5,657	0
Notes payable	29,983		29,983	0
Totals	\$ 73,156	\$ 0	\$ 73,156 *	\$ 0

*Includes \$25,485 early retirement of debt - See Note 8.

OZARKS UNLIMITED RESOURCES EDUCATIONAL COOPERATIVE
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2006

5: ACCOUNTS PAYABLE

The payables of \$65,172 at June 30, 2006, are as follows:

	General Fund	Special Revenue Fund	Total
Accounts	\$ 7,235	\$ 27,490	\$ 34,725
Due to grantors		30,447	30,447
Totals	\$ 7,235	\$ 57,937	\$ 65,172

6: RETIREMENT PLAN

Arkansas Teacher Retirement System

Plan Description. The Cooperative contributes to the Arkansas Teacher Retirement System (ATRS), a cost-sharing multiple-employer defined benefit pension plan that covers all Arkansas public school employees, except certain nonteachers hired prior to July 1, 1989. ATRS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Benefit and contribution 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 non-contributory plans. Contributory members are required by law to contribute 6% of their salary. Each participating employer is required by law to contribute at a rate established by the Arkansas General Assembly. The current employer rate is 14%. The employer contribution was paid by the 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 employer contribution for nonfederal funded members was the lesser of the result of multiplying the applicable percent of active member payroll for the fiscal year by the total covered salaries of the previous fiscal year, including any prior year reported salaries, or the amount appropriated by the Arkansas General Assembly. The Department of Education determines the amount funded. The Department of Education's contributions to ATRS for the Cooperative during the years ended June 30, 2006, 2005 and 2004 were \$228,733, \$233,681 and \$162,190, respectively. The Cooperative's contributions to ATRS for federally funded employees for the years ended June 30, 2006, 2005 and 2004 were \$43,358, \$43,114 and \$24,474, respectively, equal to the required contributions for each year.

7: ON-BEHALF PAYMENTS

The accompanying financial statements reflect on-behalf payments for health insurance premiums paid by the Arkansas Department of Education in the amount of \$32,696. Additionally, these financial statements include on-behalf payments for retirement matching paid to the Arkansas Teacher Retirement System by the Arkansas Department of Education totaling \$228,733.

8: EARLY RETIREMENT OF DEBT

The District retired non-bonded debt principal of \$25,485 prior to the maturity date.

OZARKS UNLIMITED RESOURCES EDUCATIONAL COOPERATIVE
 SCHEDULE OF CAPITAL ASSETS
 FOR THE YEAR ENDED JUNE 30, 2006
 (Unaudited)

Schedule 1

	Balance June 30, 2006
<i>Nondepreciable capital assets:</i>	
Land	\$ 103,369
<i>Depreciable capital assets:</i>	
Buildings	97,900
Improvements/infrastructure	1,860
Equipment	850,006
Total depreciable capital assets	949,766
Less accumulated depreciation for:	
Buildings	21,302
Equipment	592,827
Total accumulated depreciation	614,129
Total depreciable capital assets, net	335,637
Capital assets, net	\$ 439,006

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OZARKS UNLIMITED RESOURCES EDUCATIONAL COOPERATIVE
EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2006

Schedule 2

Federal Grantor/Pass-Through Grantor/Program or Cluster Title	Federal CFDA Number	Agency or Pass-Through Number	Federal Expenditures
SPECIAL EDUCATION CLUSTER			
<u>U.S. Department of Education</u>			
Passed Through State Department of Education:			
Special Education - Grants to States	84.027	05-20	\$ 657,049
Special Education - Preschool Grants	84.173	05-20	<u>210,582</u>
TOTAL SPECIAL EDUCATION CLUSTER			<u><u>867,631</u></u>
OTHER PROGRAMS			
<u>U. S. Department of Education</u>			
Passed Through State Department of Education:			
Title I Grants - Local Educational Agencies	84.010	05-20	457
Vocational Education - Basic Grants to States	84.048	05-20	80,791
Reading First State Grants	84.357	05-20	<u>87,462</u>
TOTAL OTHER PROGRAMS			<u>168,710</u>
TOTAL EXPENDITURES OF FEDERAL AWARDS			<u><u>\$ 1,036,341</u></u>

NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Note 1: Basis of Presentation - The accompanying schedule of expenditures of federal awards includes the federal grant activity of Ozarks Unlimited Resources Educational Cooperative and is presented on the regulatory basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the regulatory basis financial statements.

OZARKS UNLIMITED RESOURCES EDUCATIONAL COOPERATIVE
FEDERAL AWARD PROGRAMS -
FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2006

Schedule 3

SECTION I - SUMMARY OF AUDITOR'S RESULTS

FINANCIAL STATEMENTS

Type of auditor's report issued: GAAP basis of reporting - adverse
Regulatory basis opinion units - unqualified

Internal control over financial reporting:

- Material weakness(es) identified? yes no
- Reportable condition(s) identified that are not considered to be material weakness(es)? yes none reported

Noncompliance material to financial statements noted? yes no

FEDERAL AWARDS

Internal control over major programs:

- Material weakness(es) identified? yes no
- Reportable condition(s) identified that are not considered to be material weakness(es)? yes none reported

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

Any audit findings disclosed that are required to be reported in accordance with Section 510(a) of OMB Circular A-133? yes no

Identification of major programs:

<u>CFDA Numbers</u>	<u>Name of Federal Programs or Cluster</u>
84.027 and 84.173	Special Education Cluster

Dollar threshold used to distinguish between Type A and Type B programs \$ 300,000

Auditee qualified as low-risk auditee? yes no

OZARKS UNLIMITED RESOURCES EDUCATIONAL COOPERATIVE
FEDERAL AWARD PROGRAMS -
FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2006

Schedule 3

SECTION II - FINANCIAL STATEMENT FINDINGS

REPORTABLE CONDITION

2006-1. Segregation of Duties

Criteria: Financial accounting duties should be distributed among appropriate employees to ensure the proper safeguarding of assets.

Condition: The Cooperative does not have adequate staff to segregate financial accounting duties among appropriate employees.

Context: Completion of internal control questionnaire.

Effect: Financial accounting duties are not distributed among the Cooperative's employees to sufficiently reduce the risks of fraud or error and to properly safeguard the Cooperative's assets.

Cause: Limited financial resources hinder the Cooperative's ability to adequately segregate financial accounting duties among employees.

Recommendation: To ensure the proper safeguarding of the Cooperative's assets, financial accounting duties should be distributed among appropriate employees.

Views of responsible officials and planned corrective actions: We concur with the recommendation.

SECTION III - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

No findings and questioned costs noted.

OZARKS UNLIMITED RESOURCES EDUCATIONAL COOPERATIVE
FEDERAL AWARD PROGRAMS -
SUMMARY OF PRIOR AUDIT FINDINGS
FOR THE YEAR ENDED JUNE 30, 2006

Schedule 4

There were no findings in the prior audit.