

Ozarks Unlimited Resources Educational Cooperative

**Regulatory Basis Financial Statements
And Other Reports**

June 30, 2011

LEGISLATIVE JOINT AUDITING COMMITTEE



OZARKS UNLIMITED RESOURCES EDUCATIONAL COOPERATIVE
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Sen. Bill Pritchard
Senate Chair
Rep. Tim Summers
House Chair
Sen. David Wyatt
Senate Vice Chair
Rep. Toni Bradford
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 and Cooperative Board Members
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, 2011, which collectively comprise the Cooperative's regulatory basis financial statements 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 previously 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, 2011, or the changes in financial position 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 previously 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, 2011, and the respective changes in financial position thereof and the respective budgetary comparison for the general and special revenue funds for the year then ended, on the basis of accounting described in Note 1.

As discussed in Note 1 to the financial statements, the Cooperative changed the classification of its governmental fund balances on July 1, 2010.

In accordance with *Government Auditing Standards*, we have also issued our report dated March 28, 2012 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.

Sen. Bill Pritchard
Senate Chair
Rep. Tim Summers
House Chair
Sen. David Wyatt
Senate Vice Chair
Rep. Toni Bradford
House Vice Chair

Arkansas



Roger A. Norman, JD, CPA, CFE
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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 and Cooperative Board Members
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, 2011, which collectively comprise the Cooperative's regulatory basis financial statements, and have issued our report thereon dated March 28, 2012. 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. 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, 2011, and the respective changes in financial position thereof and the respective budgetary comparison for the general and special revenue funds for the year then ended, on the basis of accounting described in Note 1. 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.

Internal Control Over Financial Reporting

Management of the Cooperative is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the Cooperative's internal control over financial reporting as a basis for designing our auditing procedures 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 over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Cooperative's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as described below in the Audit Findings section of this report, we identified a certain deficiency in internal control over financial reporting that we consider to be a material weakness.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the Cooperative's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiency described below in the Audit Findings section of this report 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 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*.

OZARKS UNLIMITED RESOURCES EDUCATIONAL COOPERATIVE
 BALANCE SHEET - REGULATORY BASIS
 JUNE 30, 2011

Exhibit A

	Governmental Funds		
	Major		
	General	Special Revenue	Other Aggregate
ASSETS			
Cash	\$ 691,905	\$ 185,529	\$ 314,935
Investments	554,875		
Accounts receivable	80,115	14,542	
TOTAL ASSETS	<u>\$ 1,326,895</u>	<u>\$ 200,071</u>	<u>\$ 314,935</u>
LIABILITIES AND FUND BALANCES			
Liabilities:			
Accounts payable	<u>\$ 23,523</u>	<u>\$ 3,628</u>	
Fund Balances:			
Restricted	526,695	196,443	
Assigned	158,939		\$ 314,935
Unassigned	617,738		
Total Fund Balances	<u>1,303,372</u>	<u>196,443</u>	<u>314,935</u>
TOTAL LIABILITIES AND FUND BALANCES	<u>\$ 1,326,895</u>	<u>\$ 200,071</u>	<u>\$ 314,935</u>

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 -
GOVERNMENTAL FUNDS - REGULATORY BASIS
FOR THE YEAR ENDED JUNE 30, 2011

Exhibit B

	Major		Other Aggregate
	General	Special Revenue	
REVENUES			
State assistance	\$ 3,593,741		
Federal assistance		\$ 314,549	\$ 180,980
Investment income	33,535		
Other revenues	1,985,365	9,524	
TOTAL REVENUES	5,612,641	324,073	180,980
EXPENDITURES			
Regular programs	1,588,059		18,021
Special education	639,088	222,890	
Workforce education programs	1,634	105,675	
Compensatory education programs	399,983		
Other instructional programs	71,859		
Student support services	451,911		
Instructional staff support services	1,660,788	12,344	
General administration support services	164,150		
Central services support services	165,228		
Operation and maintenance of plant services	270,120		
Facilities acquisition and construction services	202,338		167,778
Debt Service:			
Principal retirement	22,701		
Interest and fiscal charges	8,432		
TOTAL EXPENDITURES	5,646,291	340,909	185,799
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	(33,650)	(16,836)	(4,819)
OTHER FINANCING SOURCES (USES)			
Transfers in			300,000
Transfers out	(300,000)		
Refund to grantor	(65,319)		
TOTAL OTHER FINANCING SOURCES (USES)	(365,319)		300,000
EXCESS OF REVENUES AND OTHER SOURCES OVER (UNDER) EXPENDITURES AND OTHER USES	(398,969)	(16,836)	295,181
FUND BALANCES - JULY 1 (RESTATED)	1,702,341	213,279	19,754
FUND BALANCES - JUNE 30	\$ 1,303,372	\$ 196,443	\$ 314,935

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, 2011

	General		Variance Favorable (Unfavorable)	Special Revenue		Variance Favorable (Unfavorable)
	Budget	Actual		Budget	Actual	
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	\$ (320,745)	\$ (33,650)	\$ 287,095	\$ (183,230)	\$ (16,836)	\$ 166,394
OTHER FINANCING SOURCES (USES)						
Transfers out	(300,000)	(300,000)				
Refund to grantor		(65,319)	(65,319)			
TOTAL OTHER FINANCING SOURCES (USES)	(300,000)	(365,319)	(65,319)			
EXCESS OF REVENUES AND OTHER SOURCES OVER (UNDER) EXPENDITURES AND OTHER USES	(620,745)	(398,969)	221,776	(183,230)	(16,836)	166,394
FUND BALANCES - JULY 1, AS RESTATED	1,737,939	1,702,341	(35,598)	221,296	213,279	(8,017)
FUND BALANCES - JUNE 30	\$ 1,117,194	\$ 1,303,372	\$ 186,178	\$ 38,066	\$ 196,443	\$ 158,377

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

OZARKS UNLIMITED RESOURCES EDUCATIONAL COOPERATIVE
 NOTES TO FINANCIAL STATEMENTS
 JUNE 30, 2011

1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

C. Measurement Focus and Basis of Accounting (Continued)

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

D. Revenue Recognition Policies

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

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

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 balance – 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.

OZARKS UNLIMITED RESOURCES EDUCATIONAL COOPERATIVE
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011

1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

G. Budget and Budgetary Accounting (Continued)

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.

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

K. Encumbrances

The Cooperative does not utilize encumbrance accounting.

L. Change in Accounting Principle

The Cooperative adopted Governmental Accounting Standards Board (GASB) Statement no. 54, *Fund Balance Reporting and Governmental Fund Type Definitions* on July 1, 2010. GASB Statement no. 54 changed the classifications of governmental fund balances from reserved and unreserved to nonspendable, restricted, committed, assigned, and unassigned.

OZARKS UNLIMITED RESOURCES EDUCATIONAL COOPERATIVE
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011

4: COMMITMENTS (Continued)

Long-term Debt Issued and Outstanding (Continued)

Total long-term debt principal and interest payments are as follows:

Year Ended June 30,	Principal	Interest	Total
2012	\$ 22,701	\$ 7,327	\$ 30,028
2013	22,701	6,185	28,886
2014	22,701	5,061	27,762
2015	22,701	3,938	26,639
2016	22,701	2,820	25,521
2017-2018	45,402	2,257	47,659
Totals	<u>\$ 158,907</u>	<u>\$ 27,588</u>	<u>\$ 186,495</u>

5: ACCOUNTS PAYABLE

The accounts payable balance of \$27,151 at June 30, 2011 was comprised of the following:

Description	Governmental Funds		Total
	Major		
	General	Special Revenue	
Vendor payables	\$ 23,523	\$ 3,628	\$ 27,151

6: INTERFUND TRANSFERS

The Cooperative transferred \$300,000 from the general fund to the other aggregate funds to supplement capital projects.

7: 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 before July 1, 1989. ATRS, administered by a Board of Trustees, provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Benefit provisions are established by State law and can be amended only by the Arkansas General Assembly. The Arkansas Teacher Retirement System issues a publicly available financial report that includes financial statements and required supplementary information for ATRS. That report may be obtained by writing to Arkansas Teacher Retirement System, 1400 West Third Street, Little Rock, Arkansas 72201 or by calling 1-800-666-2877.

Funding Policy. ATRS has contributory and noncontributory plans. Contributory members are required by State law to contribute 6% of their salaries. Each participating employer is required by State law to contribute at a rate determined by the Board of Trustees, based on the annual actuarial valuation. The current employer rate is 14% of covered salaries, the maximum allowed by State law. The employer contribution was paid by the Arkansas Department of Education from the Public School Fund. The Arkansas Department of Education's contributions to ATRS for the Cooperative during the years ended June 30, 2011, 2010, and 2009 were \$496,899, \$463,370, and \$435,554, respectively.

OZARKS UNLIMITED RESOURCES EDUCATIONAL COOPERATIVE
 NOTES TO FINANCIAL STATEMENTS
 JUNE 30, 2011

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

Description	Governmental Funds			Total
	Major			
	General	Special Revenue	Other Aggregate	
Fund Balances:				
Restricted for:				
Child nutrition programs		\$ 10,036		\$ 10,036
Medical services		82,880		82,880
Special education programs	\$ 252,889	82,597		335,486
Educational media-Itunes U program	203,014			203,014
Other purposes	70,792	20,930		91,722
Total Restricted	<u>526,695</u>	<u>196,443</u>		<u>723,138</u>
Assigned to:				
Capital projects			\$ 314,935	314,935
Other purposes	158,939			158,939
Total Assigned	<u>158,939</u>		<u>314,935</u>	<u>473,874</u>
Unassigned	<u>617,738</u>			<u>617,738</u>
Totals	<u>\$ 1,303,372</u>	<u>\$ 196,443</u>	<u>\$ 314,935</u>	<u>\$ 1,814,750</u>

12: SUBSEQUENT EVENTS

The Cooperative entered into a construction contract on September 13, 2011 for the Cooperative Building Project - Phase III with a guaranteed maximum amount of \$583,098 and an estimated completion date of April 2012.

OZARKS UNLIMITED RESOURCES EDUCATIONAL COOPERATIVE
 SCHEDULE OF SELECTED INFORMATION FOR THE LAST FIVE YEARS - REGULATORY BASIS
 FOR THE YEAR ENDED JUNE 30, 2011
 (Unaudited)

	Year Ended June 30,				
	2011	2010	2009	2008	2007
General Fund					
Total Assets	\$ 1,326,895	\$ 1,777,028	\$ 1,058,462	\$ 1,069,948	\$ 943,717
Total Liabilities	23,523	74,687	33,204	43,631	12,337
Total Fund Balances	1,303,372	1,702,341	1,025,258	1,026,317	931,380
Total Revenues	5,612,641	6,472,504	5,906,435	5,747,397	4,680,439
Total Expenditures	5,646,291	5,673,362	5,432,376	5,308,388	4,527,389
Total Other Financing Sources (Uses)	(365,319)	(122,059)	(475,118)	(344,072)	(155,928)
Special Revenue Fund					
Total Assets	200,071	224,415	338,216	348,399	277,140
Total Liabilities	3,628	6,317	7,162	1,187	83
Total Fund Balances	196,443	218,098	331,054	347,212	277,057
Total Revenues	324,073	371,378	508,536	440,673	746,814
Total Expenditures	340,909	481,438	516,562	370,518	580,505
Total Other Financing Sources (Uses)	(2,896)	(2,896)	(8,132)		
Other Aggregate Funds					
Total Assets	314,935	14,935	205,980	500,000	155,928
Total Liabilities			8,560		
Total Fund Balances	314,935	14,935	197,400	500,000	155,928
Total Revenues	180,980	855			
Total Expenditures	185,799	183,320	990,159		
Total Other Financing Sources (Uses)	300,000		667,559	344,072	155,928

