

BENTONVILLE PUBLIC SCHOOLS

June 30, 2011

**Financial Statements
And
Supplementary Information**

With

Independent Auditor's Report

Table of Contents

	<u>Page</u>
Financial Statements	
Independent Auditor’s Report.....	1 – 2
Management’s Discussion and Analysis.....	3 – 12
Government-wide Financial Statements	
Statement of Net Assets.....	13
Statement of Activities	14
Fund Financial Statements	
Balance Sheet – Governmental Funds.....	15
Reconciliation of the Balance Sheet – Governmental Funds With the Statement of Net Assets.....	16
Statement of Revenues, Expenditures and Changes in Fund Balances – Governmental Funds	17
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances – Governmental Funds to the Statement of Activities	18
Statement of Net Assets – Fiduciary Funds.....	19
Statement of Changes in Net Assets – Fiduciary Funds.....	20
Notes to Financial Statements	21 – 39
Required Supplementary Information	
Budgetary Comparison Schedule – General Fund.....	40
Notes to Required Supplementary Information	41

Table of Contents (cont.)

	<u>Page</u>
Other Supplementary Information	
Schedule of Expenditures of Federal Awards.....	42 – 43
Notes to Schedule of Expenditures of Federal Awards	44
Schedule of Expenditures of State Awards.....	45 – 46
Supplemental Data Sheet as Required by Arkansas Department of Human Services Audit Guidelines, Section 1x.c – Special Requirements	47
Compliance and Internal Control Section	
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>	48 – 49
Independent Auditor’s Report on Compliance With Requirements That Could Have a Direct and Material Effect on Each Major Program and on Internal Control Over Compliance in Accordance With OMB Circular A-133.....	50 – 51
Schedule of Findings and Questioned Costs.....	52 – 53
Summary Schedule of Prior Audit Findings	54
Independent Auditor’s Report on Compliance With Arkansas State Requirements.....	55



Independent Auditor's Report

The School Board
Bentonville Public Schools
Bentonville, Arkansas

We have audited the accompanying financial statements of the governmental activities, each major fund and the aggregate remaining fund information of the Bentonville Public Schools as of and for the year ended June 30, 2011, which collectively comprise the Schools' basic financial statements, as listed in the table of contents. These financial statements are the responsibility of the Schools' 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 our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund and the aggregate remaining fund information of the Bentonville Public Schools as of June 30, 2011, and the respective changes in financial position, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated January 4, 2012, on our consideration of the Schools' internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, 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 important for assessing the results of our audit.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information on pages 3 through 12 and 40 and 41 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Schools' financial statements as a whole. The accompanying schedules of expenditures of federal and state awards are presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, "Audits of States, Local Governments and Non-Profit Organizations," and is also not a required part of the financial statements. The schedules of expenditures of federal and state awards are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

Frost, PLLC

Certified Public Accountants

Little Rock, Arkansas
January 4, 2012

Management's Discussion and Analysis**June 30, 2011****Introduction**

This discussion and analysis of the financial performance of the Bentonville Public Schools (the "Schools") provides an overview of financial activities for the period ending June 30, 2011. Readers of these statements are encouraged to review the financial statements and notes to the financial statements to enhance their understanding of the Schools' financial performance.

Overall Analysis

This audit for the period ending June 30, 2011, reports and presents financial information using the model approved by the Governmental Accounting Standards Board ("GASB") and known as Accounting Standards Codification Section 2200, "Comprehensive Annual Financial Report," or GASB Statement No. 34, "Basic Financial Statements--and Management's Discussion and Analysis--for State and Local Governments." The traditional financial reporting model--regulatory basis, has a strong emphasis on legal compliance as a means to promote fiscal accountability with minor attention to operational accountability. GASB Statement No. 34 improves operational accountability by highlighting the Schools-wide perspective to promote fiscal accountability. As part of the model, comparisons with financial statements from previous years allow the reader broader understanding and better perspective of the Schools' financial trends.

Financial Highlights

Northwest Arkansas is one of the fastest growing Metropolitan Statistical Area in the nation which has a direct impact on the Schools' student growth and finances. The Schools' average daily membership grew from 13,054 in 2010 to 13,486 in 2011 or a 432 student increase. During the past five years, Bentonville's student population has increased by 2,335 students. The yearly local property tax collection is recorded in two different school fiscal years. For the audit period ending June 30, 2011, the local property tax collection revenue is recorded in a portion of 2010 and some of 2011. Property tax collection was good in 2010; however, there was a decline in 2011 tax collection. This trend will continue in the next school fiscal year. During the past few years, local property tax collection provided for inflationary increases in the operating budget. The Schools' overall financial position is strong, stable and consistent. Key financial highlights for 2011 are as follows:

- The Schools' total net assets showed a net increase of \$431,904, which is primarily due to student growth funding and restructuring bond debt payment.
- The teacher salary fund expenditures increased due to the number of teachers required to accommodate student growth, as well as experience increments on the certified salary schedule.
- The Schools' overall long-term debt is \$172,201,238.
- The government-wide assets exceed its liabilities on June 30, 2011 by \$47,820,613. Of this amount, \$15,311,445 in unrestricted funds may be used to meet the Schools' ongoing obligations. This balance is important to continue a healthy cash flow and to cover expenses from July 1 through September when the Schools starts receiving revenue for the next year.

Management's Discussion and Analysis (cont.)**June 30, 2011**

- At June 30, 2011, the Schools had governmental fund balances of \$52,832,323. This total is comprised of \$17,080,543 fund balance in the General Fund, \$34,524,734 fund balance in the Capital Projects Fund and \$1,227,046 balance in Other Governmental Funds. This is a \$29,733,516 increase in comparison with prior years, which is due to restructuring bond debt payment and student growth funding.
- The patrons of the Schools approved a \$132 million bond issue to restructure outstanding debt, build three new schools and renovate and repair existing schools.

Overview of the Financial Statements

This annual report consists of three parts: (1) government-wide financial statements, (2) fund financial statements and (3) notes to the financial statements. Additionally, this report contains other supplementary information in addition to the basic financial statements.

Overview of Government-wide Financial Statements

The government-wide financial statements are designed to provide readers with a broad overview of the Schools' finances in a manner similar to private sector business.

The Statement of Net Assets and the Statement of Activities provide information about the activities of the Schools as a whole, presenting both an aggregate and long-term view of the finances. These statements included all assets and liabilities using the accrual basis of accounting. This basis of accounting includes all of the current year's revenues and expenditures regardless of when cash is received or paid.

The Statement of Net Assets presents information on all assets and liabilities with the difference between the two reported as net assets. Increase or decreases in net assets may serve as a useful indicator of whether the financial position is improving or deteriorating.

The Statement of Activities presents information showing how net assets changed during the fiscal year. All changes in the net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of the related cash flows. Thus, revenues and expenses are reported in the statement for some items that will result in cash flows in future fiscal periods (e.g. uncollected taxes, earned but unused sick leave, and unpaid Arkansas Teacher Retirement System payments).

All services are reported in the government-wide financial services, including functions of instruction, pupil services, instructional support services, administrative support services, facility support services and food services. Most of these activities are financed through property taxes, state aid, and other federal and state restricted sources. Additionally, all capital and debt financing activities are reported.

Management's Discussion and Analysis (cont.)**June 30, 2011****Overview of Fund Financial Statements**

A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The Schools use fund accounting to ensure and demonstrate compliance and finance-related legal requirements. All funds are reported in the governmental funds.

The Schools has adopted GASB Statement No. 54, "Fund Balance Reporting and Governmental Fund Type Definitions," as part of its fiscal year 2011 reporting. The reporting standard establishes a hierarchy for fund balance classifications and the constraints imposed on the uses of those resources.

Governmental Funds: Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, government funds financial statements focus on near-term inflows and outflows of expendable resources, as well as on balances of expendable resources available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirement.

Because the focus of government funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental funds balance sheet and the governmental funds statement of revenues, expenditures and changes in the fund balance provided a reconciliation to facilitate this comparison between governmental funds and governmental activities.

Fund Financial Statements: The governmental funds financial statements provided detailed information about its two most significant funds: General and Capital Projects Funds. All other funds are combined into the title Other Governmental Funds. Total Governmental Funds is a combination of all of these funds and is located on the Balance Sheet and the Statement of Revenues, Expenditures and Changes in Fund Balances for the Governmental Funds.

The Schools adopts an annual budget for its general fund. A budgetary comparison statement has been provided for the general fund to demonstrate conformity with this budget. The budget is considered a working document and is subject to change as enrollment increases or other needs emerge.

Fiduciary Funds: Fiduciary funds are used to account for resources held for the benefit of parties outside the government. Fiduciary funds are not reflected in the government-wide financial statements because the resources of those funds are not available to support the Schools' programs.

Overview of the Notes to the Financial Statements: The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements.

Management's Discussion and Analysis (cont.)**June 30, 2011****Government-wide Financial Analysis**

The section contains the analysis of the Schools' financial operations using the government-wide perspective. Net assets may serve over time as a useful indicator of a government's financial position. The Schools' net assets exceeded liabilities by \$47,820,613 at the close of the fiscal year.

The largest portion of Schools' net assets of \$30,168,464 or 63% reflects an investment in capital assets, e.g. land, buildings, furniture and equipment, less any related debt used to acquire those assets that is still outstanding. The Schools used these capital assets to provide education to students; consequently these assets are not available for future spending. Although the Schools' investment in capital assets is reported net of related debt, it should be noted that the resources themselves cannot be used to liquidate these liabilities. Unrestricted net assets of \$15,311,445 or 32% may be used by the Schools to meet its ongoing obligations to students and creditors. The remaining portion of Schools' net assets of \$2,340,704 or 5% represents resources that are subject to external restrictions on how they be expended.

Property taxes decreased by \$1,324,377 due to a decrease in assessed values and new developments. Also, there was a lower than normal collection rate during the year. Operating grants and contributions increased by \$1,464,662 because of the increase in activity fund operations, the number of identified special needs students and the additional grants received from stimulus funds. Support services and instructional expenditures increased by \$3,835,085 and \$4,738,217, respectively, from increased operational expenses and additional personnel due to student growth.

Management's Discussion and Analysis (cont.)

June 30, 2011

Governmental Activities Net Assets

	<u>2011</u>	<u>2010</u>	<u>Change</u>
<u>Assets</u>			
Current and other assets	\$ 115,570,670	\$ 66,999,954	\$ 48,570,716
Capital assets, net	<u>167,974,293</u>	<u>165,518,564</u>	<u>2,455,729</u>
Total assets	<u>\$ 283,544,963</u>	<u>\$ 232,518,518</u>	<u>\$ 51,026,445</u>
<u>Liabilities</u>			
Current liabilities	\$ 68,390,484	\$ 46,435,423	\$ 21,955,061
Noncurrent (long-term) liabilities	<u>167,333,866</u>	<u>138,694,386</u>	<u>28,639,480</u>
Total liabilities	<u>\$ 235,724,350</u>	<u>\$ 185,129,809</u>	<u>\$ 50,594,541</u>
<u>Net Assets</u>			
Invested in capital assets, net of related debt	\$ 30,168,464	\$ 32,000,208	\$ (1,831,744)
Restricted for other	2,340,704	3,336,560	(995,856)
Unrestricted	<u>15,311,445</u>	<u>12,051,941</u>	<u>3,259,504</u>
Total net assets	<u>\$ 47,820,613</u>	<u>\$ 47,388,709</u>	<u>\$ 431,904</u>

There was an increase in both total assets and total liabilities of approximately \$51,026,400 and \$50,594,500, respectively. The total net assets increased \$431,904.

Management's Discussion and Analysis (cont.)

June 30, 2011

Governmental Fund Changes in Net Assets

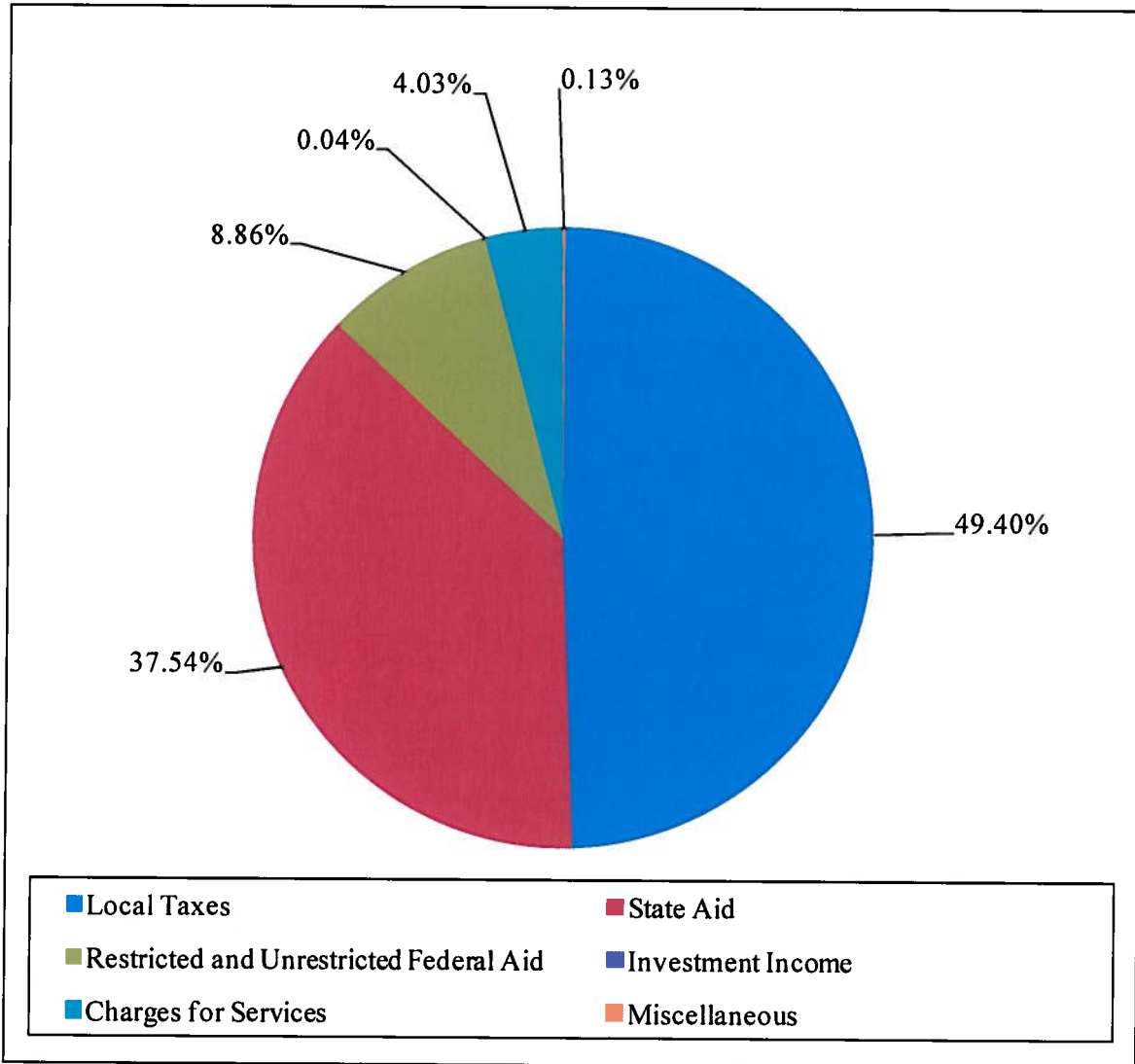
	<u>2011</u>	<u>2010</u>	<u>Change</u>
Revenues			
Program revenues			
Charges for services	\$ 5,190,270	\$ 4,737,122	\$ 453,148
Operating grants and contributions	<u>11,408,789</u>	<u>9,944,127</u>	<u>1,464,662</u>
Total program revenues	<u>16,599,059</u>	<u>14,681,249</u>	<u>1,917,810</u>
General revenues			
Property taxes - local	63,578,435	64,902,812	(1,324,377)
Investments	45,070	19,078	25,992
Unrestricted state aid	48,312,765	42,565,152	5,747,613
Miscellaneous	165,238	147,900	17,338
Transfers	<u>-</u>	<u>130,777</u>	<u>(130,777)</u>
Total general revenues	<u>112,101,508</u>	<u>107,765,719</u>	<u>4,335,789</u>
Total revenues and transfers	<u>128,700,567</u>	<u>122,446,968</u>	<u>6,253,599</u>
Expenses			
Instruction	69,744,017	65,908,932	3,835,085
Support services	44,344,248	39,606,031	4,738,217
Operation of noninstructional services	7,403,109	7,006,776	396,333
Other	200,235	1,241,518	(1,041,283)
Interest on long-term debt	6,548,079	4,198,954	2,349,125
Agent's fees on long-term debt	<u>28,975</u>	<u>5,708</u>	<u>23,267</u>
Total expenses	<u>128,268,663</u>	<u>117,967,919</u>	<u>10,300,744</u>
Changes in net assets	431,904	4,479,049	(4,047,145)
Net assets - beginning of year, as restated	<u>47,388,709</u>	<u>42,909,660</u>	<u>4,479,049</u>
Net assets - end of year	<u>\$ 47,820,613</u>	<u>\$ 47,388,709</u>	<u>\$ 431,904</u>

Management's Discussion and Analysis (cont.)

June 30, 2011

The following pie chart presents a summary of the significant funding sources for the Schools for the period ending June 30, 2011:

2010 – 11 Revenue Sources

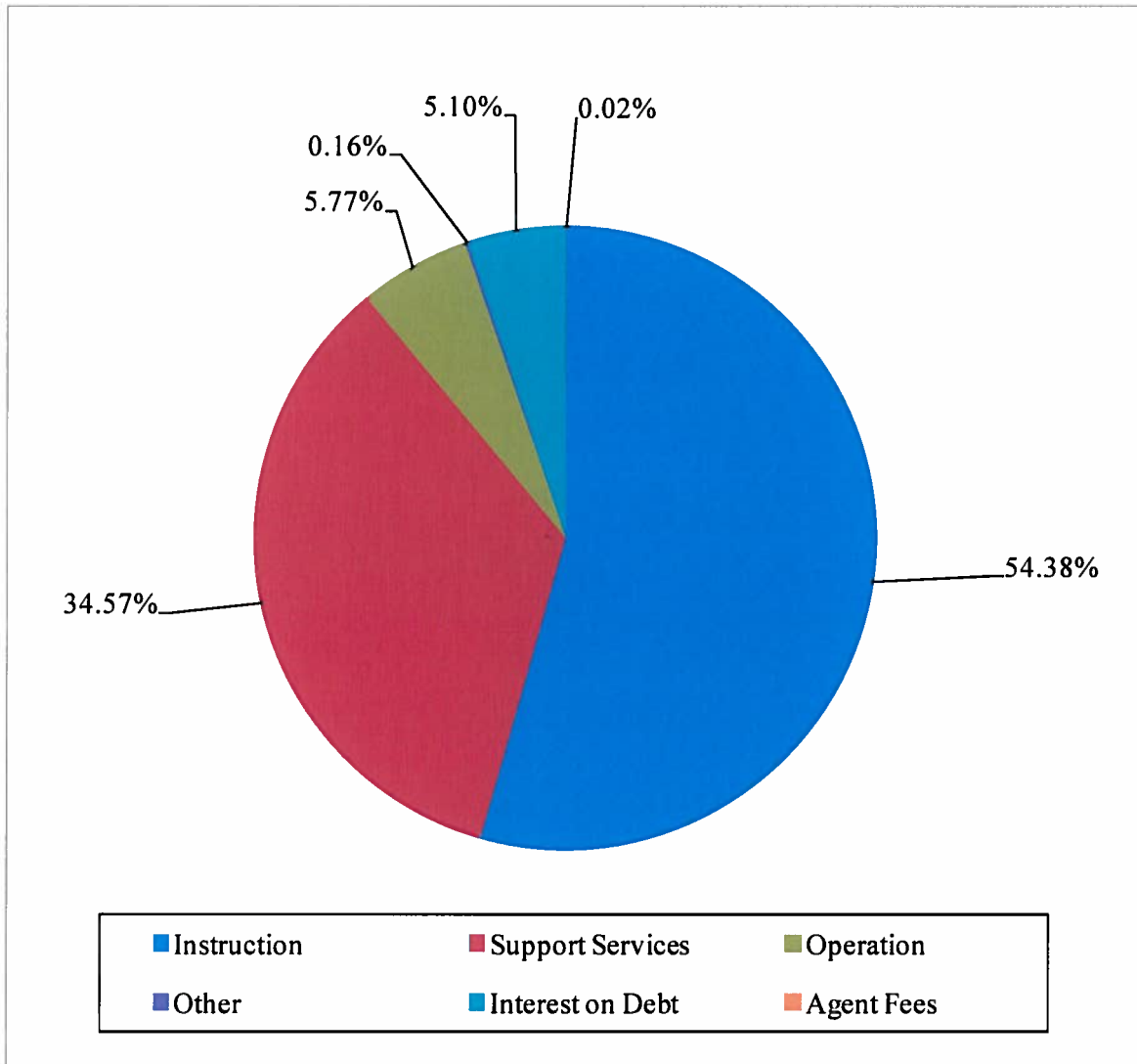


Management's Discussion and Analysis (cont.)

June 30, 2011

The following chart presents a summary of the major expenses for the Schools for the period ending June 30, 2011:

2010 – 11 Major Expenses



Management's Discussion and Analysis (cont.)**June 30, 2011****Financial Analysis of the Governmental Funds**

The Schools use fund accounting to ensure and demonstrate compliance with finance-related legal requirements. The focus of governmental funds is to provide information on near-term inflows, outflows and balances of expendable resources. Such information is useful in assessing the Schools' financing requirements. In particular, unreserved fund balances may serve as a useful measure of a government's net resources available at the end of the fiscal year.

The General Fund is the chief operating fund of the Schools. At the end of the current fiscal year, unassigned fund balance of the General Fund was \$7,887,241 and \$9,203,302 restricted/committed for other purposes.

General Fund Budgetary Highlights

Annual budgets are prepared on a basis consistent with accounting principles generally accepted in the United States for general fund. While the official budget is adopted in September, it is considered a working budget and changes as the needs of the Schools change. The budget is revised at mid-year to adjust for factors and occurrences that are unknown during the initial budgeting process. Since the Schools are growing in the number of students, which results in increased expenses and state funding revenue, coupled with increasing local tax revenue, some revenue is budgeted for a conservative increase in the number of students; however, the related expenditures are not approved or budgeted until the actual student growth occurs.

The reason for any variance in revenues was due to higher state categorical funding due to growth and increased growth funding.

Capital Assets and Debt Administration

Capital Assets: At June 30, 2011, the Schools' net balance of capital assets was \$167,974,293, including land, buildings, improvements, machinery, equipment and vehicles. The Schools are in the process of constructing two new schools.

Long Term Debt: At June 30, 2011, the Schools had \$173,660,000 in outstanding total debt.

Economic Factors and Current Know Facts

The state foundation funding formula for adequacy per student increased to \$6,043, which was a \$138 increase. Even with this increased funding, the State Legislature enacted many unfunded or under-funded mandates without passing necessary money resulting in a very restrictive budget.

Management's Discussion and Analysis (cont.)

June 30, 2011

Requests for Information

This financial report is designed to provide citizens, taxpayers, parents, students, investors and creditors with a general overview of the Schools' finances and to show the Schools' accountability for the monies received. Additional information is available at the Schools' website at www.bentonvillek12.org. Questions concerning any of the information provided in this report or requests for additional information should be addressed to:

Bentonville Public Schools
Attn: Finance Office
500 Tiger Boulevard
Bentonville, Arkansas 72712

Statement of Net Assets

June 30, 2011

<u>Assets</u>	<u>Governmental Activities</u>
Cash and cash equivalents	\$ 32,567,984
Grant receivables	999,775
Taxes receivable, net of allowance for uncollectable of \$3,601,524	41,417,524
Inventories	43,617
Prepaid expenses	429,516
Restricted assets	
Cash and cash equivalents	36,556,580
Taxes receivable, net of allowance for uncollectable of \$172,735	1,986,452
Capital assets, net of accumulated depreciation of \$40,728,536	167,974,293
Bond issue costs, net of accumulated amortization of \$37,464	<u>1,569,222</u>
 Total assets	 <u>\$ 283,544,963</u>

Liabilities and Net Assets

Accounts payable	\$ 1,188,004
Accrued expenses	5,855,243
Accrued interest payable	628,506
Deferred revenue	53,037,975
Noncurrent liabilities	
Due within one year	7,680,756
Due in more than one year	<u>167,333,866</u>
 Total liabilities	 <u>235,724,350</u>
 Net assets	
Invested in capital assets, net of related debt	30,168,464
Restricted for	
Capital projects	1,923,021
Nonexpendable inventories	43,617
Federal grants	374,066
Unrestricted	<u>15,311,445</u>
Total net assets	<u>47,820,613</u>
 Total liabilities and net assets	 <u>\$ 283,544,963</u>

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

Statement of Activities

For the Year Ended June 30, 2011

	<u>Expenses</u>	<u>Program Revenues</u>		<u>Net (Expense)</u>
		<u>Charges for</u>	<u>Operating</u>	<u>Revenue and</u>
		<u>Services</u>	<u>Grants and</u>	<u>Changes in</u>
			<u>Contributions</u>	<u>Net Assets</u>
Governmental functions				
Instruction	\$ 69,744,017	\$ 2,188,162	\$ 9,016,810	\$ (58,539,045)
Support services	44,344,248	331,229	114,784	(43,898,235)
Operation of noninstructional services	7,403,109	2,670,879	2,277,195	(2,455,035)
Other	200,235	-	-	(200,235)
Interest on long-term debt	6,548,079	-	-	(6,548,079)
Agent's fees on long-term debt	<u>28,975</u>	<u>-</u>	<u>-</u>	<u>(28,975)</u>
Total	<u>\$ 128,268,663</u>	<u>\$ 5,190,270</u>	<u>\$ 11,408,789</u>	<u>\$ (111,669,604)</u>
General revenues				
Local property taxes				\$ 63,578,435
Investment income				45,070
Unrestricted state aid				48,312,765
Miscellaneous				<u>165,238</u>
Total general revenues				<u>112,101,508</u>
Changes in net assets				431,904
Net assets - beginning of year, as restated				<u>47,388,709</u>
Net assets - end of year				<u>\$ 47,820,613</u>

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

Balance Sheet – Governmental Funds

June 30, 2011

<u>Assets</u>	<u>General</u>	<u>Capital Projects</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Cash and cash equivalents	\$ 32,567,984	\$ -	\$ -	\$ 32,567,984
Receivables				
Taxes, net of allowance for uncollectibles of \$3,601,524	41,417,524	-	-	41,417,524
Other	206,782	-	-	206,782
Inventories	43,617	-	-	43,617
Restricted assets				
Cash and cash equivalents	-	35,614,731	941,849	36,556,580
Taxes, net of allowance for uncollectibles of \$172,735	-	-	1,986,452	1,986,452
Other	-	-	792,993	792,993
Total assets	<u>\$ 74,235,907</u>	<u>\$ 35,614,731</u>	<u>\$ 3,721,294</u>	<u>\$ 113,571,932</u>
 <u>Liabilities and Fund Balances</u> 				
Liabilities				
Accounts payable	\$ 64,525	\$ 1,089,997	\$ 33,482	\$ 1,188,004
Other current liabilities	5,855,243	-	-	5,855,243
Postretirement benefit obligation	658,387	-	-	658,387
Deferred revenue	50,577,209	-	2,460,766	53,037,975
Total liabilities	<u>57,155,364</u>	<u>1,089,997</u>	<u>2,494,248</u>	<u>60,739,609</u>
Fund balances				
Nonspendable	43,617	-	-	43,617
Restricted	-	33,757,189	1,227,046	34,984,235
Committed	9,159,685	-	-	9,159,685
Assigned	-	767,545	-	767,545
Unassigned	7,877,241	-	-	7,877,241
Total fund balances	<u>17,080,543</u>	<u>34,524,734</u>	<u>1,227,046</u>	<u>52,832,323</u>
Total liabilities and fund balances	<u>\$ 74,235,907</u>	<u>\$ 35,614,731</u>	<u>\$ 3,721,294</u>	<u>\$ 113,571,932</u>

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

**Reconciliation of the Balance Sheet – Governmental Funds
With the Statement of Net Assets**

June 30, 2011

Amounts reported for governmental activities in the statement of net assets are different because:

Total fund balances - governmental funds		\$ 52,832,323
Capital assets, net of accumulated depreciation used in governmental activities are not financial resources and, therefore, are not reported as assets in governmental funds.		167,974,293
Certain liabilities for teachers' retirement and compensated absences are recognized as liabilities in the governmental funds when the amounts are normally expected to be liquidated with expendable available financial resources.		
Early retirement buyout accrual	\$ (1,285,924)	
Compensated absences	<u>(869,073)</u>	
		(2,154,997)
Bonds payable are not due and payable in the current period and, therefore, are not reported as liabilities in the governmental funds.		
Bonds payable, net of unamortized deferred refunding	(170,349,930)	
Unamortized bond premiums	(1,851,308)	
Accrued interest on bonds payable	(628,506)	
Bond issue costs, net of accumulated amortization	<u>1,569,222</u>	
		(171,260,522)
Other adjustments - prepaid expenses		<u>429,516</u>
Total net assets - governmental activities		<u>\$ 47,820,613</u>

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

**Statement of Revenues, Expenditures and Changes in
Fund Balances – Governmental Funds**

For the Year Ended June 30, 2011

	General Fund	Capital Project Fund	Other Governmental Funds	Total Governmental Funds
Revenues				
Local property taxes	\$ 60,898,704	\$ -	\$ 2,679,731	\$ 63,578,435
Meal sales	-	-	2,670,879	2,670,879
Investment income	42,886	2,184	-	45,070
Other local revenues	3,071,227	-	-	3,071,227
State assistance	48,278,912	-	33,853	48,312,765
Restricted federal aid	287,654	-	10,734,537	11,022,191
Total revenues	<u>112,579,383</u>	<u>2,184</u>	<u>16,119,000</u>	<u>128,700,567</u>
Expenditures				
Current				
Instruction	62,235,313	227,643	4,489,631	66,952,587
Support services	35,925,177	106,872	5,604,553	41,636,602
Operation on noninstructional services	2,287,454	-	5,016,998	7,304,452
Facilities acquisition and construction services	284,995	5,770,255	1,063,217	7,118,467
Other	37,769	-	-	37,769
Debt service				
Principal	-	-	3,000,000	3,000,000
Interest	-	-	6,645,388	6,645,388
Bond issuance costs	-	745,624	-	745,624
Paying agent fees	-	-	28,975	28,975
Total expenditures	<u>100,770,708</u>	<u>6,850,394</u>	<u>25,848,762</u>	<u>133,469,864</u>
Excess of revenues over (under) expenditures	<u>11,808,675</u>	<u>(6,848,210)</u>	<u>(9,729,762)</u>	<u>(4,769,297)</u>
Other financing sources (uses)				
Construction bonds issued	-	935,000	-	935,000
Advance refunding construction bonds issued	-	44,218,608	-	44,218,608
Payment to refunded bond escrow agent	-	(10,650,795)	-	(10,650,795)
Operating transfers	(9,674,363)	-	9,674,363	-
Total other financing sources (uses)	<u>(9,674,363)</u>	<u>34,502,813</u>	<u>9,674,363</u>	<u>34,502,813</u>
Excess of expenditures and other uses over (under) revenues and other sources	2,134,312	27,654,603	(55,399)	29,733,516
Fund balances - beginning of year	<u>14,946,231</u>	<u>6,870,131</u>	<u>1,282,445</u>	<u>23,098,807</u>
Fund balances - end of year	<u>\$ 17,080,543</u>	<u>\$ 34,524,734</u>	<u>\$ 1,227,046</u>	<u>\$ 52,832,323</u>

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

**Reconciliation of the Statement of Revenues, Expenditures and Changes in
Fund Balances – Governmental Funds to the Statement of Activities**

For the Year Ended June 30, 2011

Net changes in fund balances - total governmental funds	\$ 29,733,516
Amounts reported for governmental activities in the statement of activities are different because:	
Capital outlays, net of depreciation expense of \$4,540,180 to purchase or build capital assets are reported in governmental funds as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense.	2,461,647
The issuance of long-term debt provides current financial resources to governmental funds, but issuing debt increases long-term liabilities in the statement of net assets. The repayment of principal on long-term debt is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets. Also, governmental funds report the effect of issuance costs and other similar items when debt is issued, whereas these amounts are deferred and amortized in the statement of activities.	
Proceeds from bond issuance, including premiums	(45,153,608)
Bond issuance costs	745,624
Principal payments on long-term liabilities	3,000,000
Refunding to escrow agent	10,650,795
Amortization of bond issuance costs	(39,908)
Interest on long-term debt in the statement of activities differs from the amount reported in the governmental funds because interest is recorded as an expenditure in the funds, when it is due, and thus requires the use of current financial resources. In the statement of activities; however, interest expense is recognized as the interest accrues, regardless of when it is due.	97,309
Certain liabilities for teachers' retirement and compensated absences are recognized as expenditures in the governmental funds when the amounts are liquidated with expendable available financial resources. However, they are reported as expenses in the statement of activities when the liability is incurred.	
Early retirement buyout and compensated absences	(1,185,670)
Other adjustments and reclassification differences	<u>122,199</u>
Changes in net assets of governmental activities	<u>\$ 431,904</u>

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

Statement of Net Assets – Fiduciary Funds

June 30, 2011

	<u>Private- Purpose Trust Fund</u>	<u>Agency Fund</u>
<u>Assets</u>		
Cash	\$ 215,378	\$ 1,048,799
Investments	<u>154,266</u>	<u>-</u>
	<u>369,644</u>	<u>1,048,799</u>
<u>Liabilities</u>		
Due to agencies	<u>-</u>	<u>1,048,799</u>
<u>Net Assets</u>		
Held in trust for private purposes	<u>\$ 369,644</u>	<u>\$ -</u>

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

Statement of Changes in Net Assets – Fiduciary Funds

For the Year Ended June 30, 2011

	<u>Private- Purpose Trust Fund</u>
Additions	
Contributions	\$ 184,849
Deductions	
Scholarships	<u>123,915</u>
Changes in net assets	60,934
Net assets - beginning of year	<u>308,710</u>
Net assets - end of year	<u>\$ 369,644</u>

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

Notes to Financial Statements

June 30, 2011

1. Organization and Summary of Significant Accounting Policies

- a. **Reporting entity** – Bentonville Public Schools (the “Schools”) is a political subdivision of the Arkansas Department of Education, governed by an elected seven-member school board. The statements reflect all funds and accounts directly under the control of the Schools.
- b. **Basis of presentation** – The Schools’ basic financial statements consist of government-wide statements, including a statement of net assets, a statement of activities and fund financial statements, which provide a more detailed level of financial information.

Government-wide Financial Statements – The statement of net assets and the statement of activities report information on all of the nonfiduciary activities. These statements include the nonfiduciary financial activities of the Schools. These statements report those activities of the Schools that are governmental (i.e. generally supported by taxes and intergovernmental revenues). Fiduciary funds are not included in the government-wide financial statements.

The statement of net assets presents the financial position of the Schools’ governmental activities at year end. The statement of activities demonstrates the degree to which the direct expenses of a given function or activity is offset by a given function or program revenues. Direct expenses are those that are clearly identifiable within a specific function or activity. Program revenues include charges to customers who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or activity. In addition, program revenues include grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or activity. Taxes and other items not properly included among program revenues are reported instead as general revenues.

Fund Financial Statements – The Schools maintain fund accounting in order to aid financial management and to demonstrate legal compliance. Fund financial statements are designed to present financial information of the Schools at a more detailed level. The Schools’ major individual governmental funds are reported as separate columns in the fund financial statements. Nonmajor funds are aggregated and presented in a single column. Fiduciary funds are reported by fund type.

Governmental Funds – Governmental fund reporting focuses on the sources, uses and balances of current financial resources. Expendable assets are assigned to the various governmental funds according to the purposes for which they are to be used. Current liabilities are assigned to the fund from which they will be paid. The difference between governmental fund assets and liabilities is reported as fund balance. The following are the Schools’ major governmental funds:

The *general fund* is the Schools’ primary operating fund. It accounts for all financial resources of the Schools, except those required to be accounted for in another fund.

The *capital projects fund* accounts for the acquisition of fixed assets or construction of major capital projects not being financed by nonexpendable trust funds.

Notes to Financial Statements

June 30, 2011

1. **Organization and Summary of Significant Accounting Policies (cont.)**

Fiduciary Funds – Account for assets held by the Schools in a trustee capacity or as an agent on behalf of others. Trust funds account for assets held by the Schools under the terms of a formal trust agreement.

The *private purpose trust fund* accounts for activities that are not the Schools programs, but are programs sponsored by private organizations or other governments. Although the Schools serve as fiscal agent, the funds received and held under these programs are not available to support the Schools' activities and programs, but are received and held for the benefit of individuals, private organizations or other governments participating in the sponsored programs. The programs accounted for within this are expendable trust funds.

The *agency fund* is custodial in nature and does not present results of operations or have a measurement focus. Agency funds are accounted for using the modified accrual basis of accounting. This fund is used to account for assets that the Schools hold for others in an agency capacity.

- c. **Measurement focus and basis of accounting** – The measurement focus establishes the basis of accounting. The basis of accounting determines when transactions are recorded in the financial records and reported in the financial statements. Differences in the accrual and the modified accrual basis of accounting arise in the recognition of revenue, the recording of deferred revenue, the presentation of expenses versus expenditures, the recording of capital assets, the recognition of depreciation and the recording of long-term liabilities. Governmental fund financial statements, therefore, include reconciliations with brief explanations to better identify the relationship between the government-wide financial statements and the governmental fund financial statements.

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the fiduciary fund financial statements. Revenues are recognized when earned and expenses are recognized when the related liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met. Net assets are used as a practical measure of economic resources and the operating statement includes all transactions and events that increased or decreased net assets. Depreciation is charged as an expense against current operations and accumulated depreciation is reported on the statement of net assets.

The governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized when they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay current liabilities. The Schools consider tax revenue to be available if collected within 60 days of the end of the fiscal period. Revenue from federal, state and other grants designated for payment of specific school expenditures is recognized when the related expenditures are incurred; accordingly, when such funds are received, they are reported as deferred revenues until earned.

Notes to Financial Statements

June 30, 2011

1. Organization and Summary of Significant Accounting Policies (cont.)

Expenditures are recognized when the liability is incurred, except for claims, compensated absences and interest on long-term debt which are recorded when normally expected to be liquidated with expendable available financial resources. Proceeds from issuance of long-term debt are recognized when received and payment of long-term debt principal is reported as an expenditure when paid. Capital asset purchases are recorded as expenditures and depreciation is not recognized.

Nonexchange transactions, in which the Schools receive value without directly giving equal value in return, include property taxes, grants, entitlements and donations. Revenues from property taxes are recognized in the period for which the taxes are levied. Revenues from grants, entitlements and donations are recognized when all eligibility requirements imposed by the provider have been satisfied. Eligibility requirements include timing requirements, which specify the year resources are required to be used or the year when use is first permitted, matching requirements and expenditure requirements, in which the resources are provided to the Schools on a reimbursement basis. On the modified accrual basis, revenues from nonexchange transactions must also be available before they can be recognized.

When both restricted and unrestricted resources are available for use, it is the Schools' policy to use restricted resources first, then unrestricted as they are needed.

- d. **Receivables** – All property tax and other receivables are shown net of an allowance for uncollectibles based upon the Schools' historical experience. The property tax receivable allowance is equal to 8% of outstanding property taxes at June 30, 2011.

Property taxes attach as an enforceable lien on property as of January 1. Taxes are levied on the third Monday of February in the following year and are considered delinquent after October 10 of that year. The county is the collecting agent for the levy and remits the collections to the Schools, net of a collection fee. The 2010 assessed valuation upon which taxes will be levied in 2011 is \$1,612,132,510.

The Schools recognize as current revenues for forty percent (40%) of the operations and maintenance tax levy which occurs during the Schools' fiscal year. The remaining sixty percent (60%) of the levy for operations and maintenance may not be recognized as revenue until the following fiscal year. The debt service tax levied during any given fiscal year is intended to finance the Schools' debt service requirements for the fiscal year beginning on July 1 of the year following the levy.

- e. **Inventories** – The inventories are equally offset by a nonspendable fund balance which indicates they do not constitute "available spendable resources" even though they are a component of net current assets. Inventories consist of government donated commodities which were valued at estimated fair market value, and purchased commodities and supplies, both valued at cost using the first-in, first-out method.

Notes to Financial Statements

June 30, 2011

1. **Organization and Summary of Significant Accounting Policies (cont.)**

- f. **Capital assets** – Capital assets generally result from expenditures in the governmental funds which have an initial, individual cost of more than \$2,500 and an estimated useful life in excess of one year. These assets are reported in the governmental activities column of the government-wide statement of net assets, but are not reported in the fund financial statement balance sheet - governmental funds.

Capital assets are recorded at cost (or estimated historical cost) and updated for additions and retirements during the year. Donated capital assets are recorded at their estimated fair value as of the date received. Improvements are capitalized and the cost of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not capitalized. Interest incurred during construction is not capitalized.

All reported capital assets, except for land and construction in progress, are depreciated using the straight-line method over estimated useful lives of the assets, which range from five to fifty years.

- g. **Bond issue costs** – Costs associated with the issuance of bonds are capitalized and amortized over the term of the related bonds on the straight-line basis, which is not materially different from the effective interest method.
- h. **Compensated absences** – The Schools provide substantially all teachers and other employees one day of paid sick leave for each month contracted or employed. The Schools' professional staff's unused leave is carried over to the next school year and is cumulative. The Schools' classified staff can accumulate up to 90 days after which unused sick leave shall accrue at three days per year to an unlimited number of days. Employees who resign and are later re-employed by the Schools may regain all accumulated and unused sick leave benefits. Sick leave is accrued in the government-wide financial statements based on the vesting method. A liability for the sick leave benefits is not reported in the governmental funds as the fund liability is not incurred, under the modified accrual basis of accounting, until the period in which the amounts are normally expected to be liquidated.
- i. **Accrued liabilities and long-term obligations** – All payables, accrued liabilities and long-term obligations are reported in the government-wide financial statements. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds. Bonds payable are reported net of the applicable bond premium or discount.

In fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued and bond premiums are reported as other financing sources, while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

Notes to Financial Statements

June 30, 2011

1. **Organization and Summary of Significant Accounting Policies (cont.)**

- j. **Equity classifications** – Equity is classified as net assets and displayed in three components:

Invested in capital assets, net of related debt – Consists of capital assets including capital assets net of accumulated depreciation and reduced by the outstanding balances of any bonds, mortgages, notes or other borrowings that are attributable to the acquisition, construction or improvement of these assets.

Restricted net assets – Consists of net assets with constraints placed on their use either by (a) external groups such as creditors, grantors, contributors, or laws or regulations of other governments or (b) imposed by law through constitutional provisions or enabling legislation. The government-wide statement of net assets reports \$2,340,704 of restricted net assets, of which \$852,980 is restricted by enabling legislation.

Unrestricted net assets – All other net assets that do not meet the definition of “invested in capital assets, net of related debt” or “restricted.”

- k. **Use of estimates** – The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amount of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates. The financial statements include some amounts that are based on management’s best estimates and judgments. The most significant estimates include allowance for uncollectible taxes, depreciation and compensated absences. These estimates may be adjusted as more current information becomes available, and any adjustment could be significant.
- l. **Long-lived assets** – The Schools evaluate events or changes in circumstances affecting long-lived assets to determine whether an impairment of its assets has occurred. If the Schools determine that a capital asset is impaired, and that impairment is significant and other-than-temporary, then an impairment loss will be recorded in the Schools’ financial statements.
- m. **Restricted assets** – The Schools’ restricted assets include funds allocated to comply with certain requirements of its debt instruments for payments of principal and interest and special revenue funds, which represent grants and contributions that are restricted to meet the requirements of a particular function or activity.
- n. **On-behalf payments** – The Arkansas Department of Education pays a portion of the health insurance premiums to the Employee Benefit Division on-behalf of the Schools’ employees. Total on-behalf payments recognized as revenues and expenses was \$1,265,583 for the year ended June 30, 2011.

Notes to Financial Statements

June 30, 2011

2. Deposits and Investments*Deposits*

Custodial credit risk is the risk that in the event of a bank failure, a government's deposits may not be returned to it. The Schools' deposit policy for custodial credit risk requires compliance with the provisions of state law.

State law requires collateralization of all deposits with federal depository insurance; a surety bond; U.S. Treasury and U.S. agencies and instrumentalities bonds or other obligations; bonds of the State of Arkansas or by bonds of a political subdivision thereof which has never defaulted on any of its obligations, in an amount at least equal to the amount of such deposit or by a bond executed by a surety company authorized to do business in the State of Arkansas. The Director of Education must approve the surety company.

The Schools have established a policy which deposits and restricted assets are to be secured by collateral, reduced by the amount of insurance provided by the Federal Deposit Insurance Corporation.

At June 30, 2011, all deposits were insured or collateralized by securities held by the Schools' agent in the Schools' name.

Summary of Carrying Values

The carrying values of deposits included in the fund financial statements are as follows:

Carrying value	
Deposits	<u>\$ 70,388,741</u>

Included in the following fund financial statement captions:

Cash and certificate of deposits	
Unrestricted	\$ 32,567,984
Restricted	36,556,580
Statement of fiduciary net assets	
Private-purpose trust funds	215,378
Agency fund	<u>1,048,799</u>
	<u>\$ 70,388,741</u>

Investments

Investments are presented at fair market value based on quoted market prices at June 30, 2011 and are comprised of corporate stocks with a fair market value of \$154,266.

Notes to Financial Statements

June 30, 2011

3. Receivables

Receivables as of year end for the government's individual major funds and nonmajor funds, including the applicable allowances for uncollectible accounts are as follows:

	<u>General</u>	Nonmajor Governmental <u>Funds</u>	<u>Total</u>
Property taxes	\$ 45,019,048	\$ 2,159,187	\$ 47,178,235
Federal grants			
Food service	-	91,772	91,772
E.S.E.A. Title I, Part A			
Title I Grants to Local Education Agencies	-	126,160	126,160
E.S.E.A. Title VI, Part B			
Education for all Handicapped Children	-	346,875	346,875
Title II, Part A - Improving Teacher Quality			
State Grants	-	39,478	39,478
E.S.E.A. Title IV - Safe and Drug Free			
Schools and Communities	-	28,419	28,419
English Language Acquisition Grants	-	5,283	5,283
ARRA - State Fiscal Stabilization Funds	-	8,387	8,387
Readiness and Emergency Management			
for Schools	-	31,424	31,424
ARRA - Education Job Fund	-	115,195	115,195
Other	<u>206,782</u>	<u>-</u>	<u>206,782</u>
Gross receivables	45,225,830	2,952,180	48,178,010
Less allowance	<u>(3,601,524)</u>	<u>(172,735)</u>	<u>(3,774,259)</u>
Net receivables	<u>\$ 41,624,306</u>	<u>\$ 2,779,445</u>	<u>\$ 44,403,751</u>

Notes to Financial Statements

June 30, 2011

3. Receivables (cont.)

Government funds report deferred revenue in connection with receivables for revenues that are not considered to be available to liquidate liabilities of the current period. At the end of fiscal 2011, the various components of deferred revenue reported in the government funds were as follows:

	<u>Unavailable</u>
Property taxes receivable (general fund)	\$ 41,417,524
Deferred property tax pullback (general fund)	9,035,685
Grant (general fund)	124,000
Property taxes receivable (capital projects fund)	1,986,452
Deferred property tax pullback (capital projects fund)	<u>474,314</u>
Gross receivables	<u>\$ 53,037,975</u>

4. Interfund Transfers

Transfers are used to (1) move revenues from the fund that is required to collect them to the fund that is required or allowed to expend them; (2) move receipts restricted to or allowed for debt service from the funds collecting receipts to the debt service fund as debt service payments become due; and (3) use unrestricted revenues collected in the general fund to finance various programs accounted for in other funds in accordance with budgetary authorizations.

Amount of interfund transfers between funds are summarized as follows:

	<u>Transfers In</u>	<u>Transfers Out</u>
General fund	\$ -	\$ 9,674,363
Debt service fund	<u>9,674,363</u>	<u>-</u>
	<u>\$ 9,674,363</u>	<u>\$ 9,674,363</u>

Notes to Financial Statements

June 30, 2011

5. Capital Assets

Capital asset balances and activity were as follows:

	Balance <u>June 30, 2010</u>	<u>Additions</u>	<u>Deletions</u>	<u>Transfers</u>	Balance <u>June 30, 2011</u>
Capital assets, not depreciated					
Land	\$ 16,274,548	\$ -	\$ -	\$ -	\$ 16,274,548
Construction in progress	<u>172,241</u>	<u>5,203,743</u>	<u>(89,958)</u>	<u>-</u>	<u>5,286,026</u>
Total capital assets, not depreciated	<u>16,446,789</u>	<u>5,203,743</u>	<u>(89,958)</u>	<u>-</u>	<u>21,560,574</u>
Capital assets, depreciated					
Buildings	168,782,647	-	-	-	168,782,647
Improvements	2,454,088	-	-	-	2,454,088
Machinery and equipment	<u>14,107,436</u>	<u>1,798,084</u>	<u>-</u>	<u>-</u>	<u>15,905,520</u>
Total capital assets, depreciated	185,344,171	1,798,084	-	-	187,142,255
Less accumulated depreciation	<u>36,272,396</u>	<u>4,540,180</u>	<u>(84,040)</u>	<u>-</u>	<u>40,728,536</u>
Net capital assets, depreciated	<u>149,071,775</u>	<u>(2,742,096)</u>	<u>84,040</u>	<u>-</u>	<u>146,413,719</u>
Total capital assets, net	<u>\$ 165,518,564</u>	<u>\$ 2,461,647</u>	<u>\$ (5,918)</u>	<u>\$ -</u>	<u>\$ 167,974,293</u>

Depreciation expense was charged to governmental functions as follows:

Instruction	\$ 2,943,421
Support services	1,498,102
Operation of noninstructional services	<u>98,657</u>
	<u>\$ 4,540,180</u>

Construction Commitments

At June 30, 2011, the Schools had several construction and repair and maintenance projects in various stages of completion. Unfulfilled contract commitments of \$27,016,950 remained on the construction and improvement contracts still in progress as of June 30, 2011.

Notes to Financial Statements

June 30, 2011

6. Employee Retirement Systems and Plans**Arkansas Teacher Retirement System**

Plan Description – The Schools contribute to the Arkansas Teacher Retirement System (“ATRS”), a cost-sharing multiple-employer defined benefit plan administered by the ATRS. Section 24-7-301 of the Arkansas Code of 1987 Annotated assigns the authority to establish and amend benefit provisions to the ATRS’ Board of Trustees. The ATRS provides retirement, death and disability benefits and annual cost-of-living adjustments to plan members. The ATRS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to ATRS, Three Capitol Mall, Little Rock, Arkansas 72201 or by calling (501) 682-1517.

Funding Policy – The Schools contribute from state funding 14% of all covered employees’ prior year salaries except employees whose salaries are funded by the federal programs administered by the Schools. The Schools contribute from federal funding 14% of all covered employees’ current year salaries for those employees. Under certain conditions, covered employees may contribute 6% of their salary to the plan. The authority to establish and amend contribution requirements of plan members and the Schools is set forth in state law and is vested in the ATRS’s Board of Trustees. The contributions from the Schools for the year ended June 30, 2011 were \$10,109,283, which consisted of \$9,562,506 from state funding and \$546,777 from federal funding, the contributions from the Schools for the year ended June 30, 2010 were \$11,933,626, which consisted of \$11,503,033 from state funding and \$430,593 from federal funding, and the contributions from the Schools for the year ended June 30, 2009 were \$11,624,551, which consisted of \$11,254,608 from state funding and \$369,943 from federal funding.

Arkansas Public Employees Retirement System

Plan Description – For certain other employees, the Schools contribute to the Arkansas Public Employees Retirement System (“APERS”), a cost-sharing multiple-employer defined benefit plan administered by APERS. APERS provides retirement, death, and disability benefits and annual cost-of-living adjustments to plan members. APERS issues a publicly available financial report that includes financial statements and required supplementary information. That report may be obtained by writing to APERS, One Capitol Mall, Little Rock, Arkansas 72201 or by calling (501) 682-7800.

Funding Policy – The Schools contribute 4% of covered employees’ salaries to the plan. The Schools’ contributions were \$3,128, \$5,816 and \$6,318, for the years ended June 30, 2011, 2010 and 2009, respectively.

Defined Contribution Plan – 403(b)

The Schools have a 403(b) plan covering all employees of the Schools. The plan is funded solely by employee contributions to the plan, pursuant to a salary reduction agreement. Annual contributions may not exceed the amount permitted under section 415 of the Internal Revenue Code. Employees vest immediately in their contributions.

Notes to Financial Statements

June 30, 2011

7. Long-Term Liabilities

Long-term liability balances and activity were as follows:

	Balance <u>June 30, 2010</u>	<u>Increases</u>	<u>Decreases</u>	Balance <u>June 30, 2011</u>	Amounts Due <u>in One Year</u>
Bonds payable					
General obligation bonds	\$ 142,000,000	\$ 45,095,000	\$ 13,435,000	\$ 173,660,000	\$ 7,085,000
Less deferred refunding (loss)	(3,365,543)	(146,273)	(201,746)	(3,310,070)	(191,709)
Less deferred issuance premiums (discounts)	<u>1,945,602</u>	<u>58,608</u>	<u>152,902</u>	<u>1,851,308</u>	<u>64,078</u>
Bonds payable, net	140,580,059	45,007,335	13,386,156	172,201,238	6,957,369
Postretirement benefit obligations	-	1,944,311	-	1,944,311	658,387
Compensated absences	<u>969,327</u>	<u>-</u>	<u>100,254</u>	<u>869,073</u>	<u>65,000</u>
Total long-term liabilities	<u>\$ 141,549,386</u>	<u>\$ 46,951,646</u>	<u>\$ 13,486,410</u>	<u>\$ 175,014,622</u>	<u>\$ 7,680,756</u>

Payments on bonds payable are made by the Debt Service Fund. The compensated absences and postretirement benefit obligation liabilities will be liquidated by the governmental funds from which the related salaries are paid.

General Obligation Bonds – The Schools issue general obligation bonds to provide funds for the acquisition, construction and operation of major capital facilities. General obligation bonds have been issued for the general government and to refund general obligation bonds.

General obligation bonds are direct obligations and are secured by the full faith credit and resources of the Schools and all its revenues from whatever source derived (which are legally pledgeable). Each issue contains an option allowing bonds to be called in inverse numerical order for redemption prior to maturity.

Advance Refunding

The Schools issued \$11,480,000 of refunding bonds in March 2011. The proceeds of this issue provided resources to purchase U.S. Government, State and Local Series securities that were placed in an irrevocable trust for the purpose of generating resources for all future debt service payments of approximately \$14,600,000. As a result, the refunded bonds are considered defeased and the liabilities have been removed from the Schools' statement of net assets.

The refunding was undertaken to reduce future debt service payments. The reacquisition price exceeds the net carrying amount of the old debt by \$146,273, resulting in a loss. This amount is being netted against the new debt and amortized over the refunded debt's life. The transaction also resulted in a cash flow and economic impact gain of approximately \$495,000 and a reduction of approximately \$500,000 in future debt service payments.

Notes to Financial Statements

June 30, 2011

7. Long-Term Liabilities (cont.)

Series A 2010 Bonds – On May 26, 2010, the Schools issued \$131,565,000 in Refunding and Construction Bonds, Series A, dated May 1, 2010. The interest rates on the bonds are 4.75%, payable semiannually and maturity dates range from June 2010 to June 2040. The Series A 2010 Bonds are general obligations of the Schools' city, but are special obligations, secured by a pledge of the proceeds of a continuing debt service tax voted at the 2010 school election.

The bonds' principal amount was allocated as follows:

- a. Bonds in the amount of \$126,940,375 were used to refund the Schools' Construction Bonds, Series A, dated April 1, 2003; its Refunding and Construction Bonds, Series A, dated November 1, 2003; its Construction Bonds, Series B, dated March 1, 2004, its Construction Bonds, Series C, dated July 1, 2004; its Construction Bonds, Series B, dated January 1, 2005, its Construction Bonds, dated June 1, 2005, its Construction Bonds, Series E, dated December 1, 2006, its Construction Bonds, Series F, dated February 1, 2007 and its Lease Agreement, dated April 30, 2008. Accordingly, the trust account assets and the liability for the refunded bonds are not included the Schools' financial statements. The outstanding principal of the refunded bonds was \$124,265,637 at June 30, 2011. The reacquisition price exceeded the carrying amount of the old debt by \$4,247,402, resulting in a loss on the bond refunding, which was deferred, and is being amortized over the life of the new debt using the straight line method beginning on July 1, 2010.
- b. The remaining bond funds will be used to construct a new K-6 elementary school, a new 7-8 grade junior high school and for constructing, refurbishing, remodeling and equipping school facilities.

The bonds are subject to extraordinary redemption from proceeds of the Series A 2010 Bonds not needed for the purposes intended, on any interest payment date, in whole or in part, at a redemption price equal to the principal amount being redeemed plus accrued interest to the redemption date, in inverse order of maturity. The bonds may be redeemed at the option of the Schools, from funds from any source, on and after July 1, 2017, at a redemption price equal 100% of the principal amount being redeemed plus accrued interest to the redemption date. To the extent not previously redeemed, the bonds maturing in June 1, 2031, June 1, 2034, June 1, 2037 and June 1, 2040 are subject to mandatory sinking fund redemption at a redemption price equal to the principal amount plus accrued interest to the date of redemption.

The Series A 2010 Bonds were issued at a premium of \$1,861,726. This premium is being amortized over the life of the bonds using the effective interest method. Bond premium amortization was \$62,058 for 2011.

Bond issue costs of \$861,062 were incurred in the issuance of the Series A 2010 Bonds. These costs are being amortized over the life of the bonds using the straight-line method. Bond issue cost amortization was \$28,702 for 2011.

Notes to Financial Statements

June 30, 2011

7. Long-Term Liabilities (cont.)

Series B 2010 Bonds – On March 1, 2011, the Schools issued \$44,160,000 in Refunding and Construction Bonds, Series B, dated March 1, 2011. The interest on the bonds are payable semiannually and maturity dates range from June 2011 to June 2040. The Series B 2010 Bonds are general obligations of the Schools' city, but are special obligations, secured by a pledge of the proceeds of a continuing debt service tax voted at the 2010 school election.

The bonds' principal amount was allocated as follows:

- a. Bonds in the amount of \$10,650,795 were used to refund the Schools' Construction Bonds, Series D, dated March 1, 2006. Accordingly, the trust account assets and the liability for the refunded bonds are not included the Schools' financial statements. The outstanding principal of the refunded bonds was \$10,435,000 at June 30, 2011. The reacquisition price exceeded the carrying amount of the old debt by \$146,273, resulting in a loss on the bond refunding, which was deferred, and is being amortized over the life of the new debt using the straight line method beginning on July 1, 2011.
- b. The remaining bond funds will be used to construct a new K-6 elementary school, a new 7-8 grade junior high school and for constructing, refurbishing, remodeling and equipping school facilities.

The bonds are subject to extraordinary redemption from proceeds of the Series B 2010 Bonds not needed for the purposes intended, on any interest payment date, in whole or in part, at a redemption price equal to the principal amount being redeemed plus accrued interest to the redemption date, in inverse order of maturity. The bonds may be redeemed at the option of the Schools, from funds from any source, on and after June 1, 2017, at a redemption price equal 100% of the principal amount being redeemed plus accrued interest to the redemption date. To the extent not previously redeemed, the bonds maturing in June 1, 2025, June 1, 2034, June 1, 2036 and June 1, 2040 are subject to mandatory sinking fund redemption at a redemption price equal to the principal amount plus accrued interest to the date of redemption.

The Series B 2010 Bonds were issued at a premium of \$58,608. This premium is being amortized over the life of the bonds using the effective interest method. Bond premium amortization was \$505 for 2011.

Bond issue costs of \$726,924 were incurred in the issuance of the Series B 2010 Bonds. These costs are being amortized over the life of the bonds using the straight-line method. Bond issue cost amortization was \$6,267 for 2011.

Qualified School Construction Bonds – The Schools have obtained funding through the Qualified School Construction Bond ("QSCB") program, a financial arrangement created by Section 1521 of the American Recovery and Reinvestment Act of 2009. QSCBs allow schools to borrow at nominal or zero percent for the rehabilitation, repair and equipping of schools. In addition, QSCB funds can be used to purchase land on which a public school will be built. The QSCB lender receives a federal tax credit in lieu of receiving an interest payment. On June 1, 2011, the Schools borrowed \$935,000 using this method by issuing general obligation bonds. The Schools are required to deposit \$62,333 annually into a trust account, which is included in assets held for trust for 15 years.

Notes to Financial Statements

June 30, 2011

7. Long-Term Liabilities (cont.)

A summary of each bond issue is as follows:

<u>Date of Issue</u>	<u>Amount of Original Issue</u>	<u>Balance June 30, 2011</u>	<u>Interest Rate Percent</u>	<u>Payment Dates</u>	<u>Range of Annual Maturities</u>	<u>Matures</u>
05/01/10	\$ 131,565,000	\$ 129,230,000	3.000/4.250	06-01/12-01	\$ 2,235,000 /7,430,000	2040
03/01/11	44,160,000	43,495,000	2.000/4.820	06-01/12-01	785,000 /2,630,000	2040
06/01/11	935,000	935,000	4.900	06-01/12-01	- /935,000	2026

Debt service requirements are as follows:

<u>Year Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2012	\$ 7,085,000	\$ 7,453,862	\$ 14,538,862
2013	4,555,000	7,186,162	11,741,162
2014	3,275,000	7,014,362	10,289,362
2015	3,385,000	6,890,512	10,275,512
2016	3,510,000	6,762,262	10,272,262
2017 - 2021	19,640,000	31,707,683	51,347,683
2022 - 2026	25,235,000	27,101,736	52,336,736
2027 - 2031	30,925,000	21,198,690	52,123,690
2032 - 2036	38,415,000	13,914,026	52,329,026
2037 - 2041	<u>37,635,000</u>	<u>4,393,577</u>	<u>42,028,577</u>
	<u>\$ 173,660,000</u>	<u>\$ 133,622,872</u>	<u>\$ 307,282,872</u>

The Schools have pledged future revenues to pay the debt of the general obligation bonds. Proceeds from the bonds provided financing for the construction and expansion of the Schools. The bonds are payable from the pledged revenue and are payable through 2040. Annual principal and interest payments on the bonds are expected to be paid fully from the revenue. The total principal and interest remaining to be paid on the bonds is \$307,282,872. Principal and interest paid for the current year from pledged revenue was approximately \$9,645,000.

Notes to Financial Statements

June 30, 2011

8. Postretirement Benefit Obligation

During the year ended June 30, 2011, the Schools established a one-time offer to teachers who have a minimum of 10 years of service credit with the ATRS, a minimum of five years of actual active service with the Schools and will be on Step 25 as of June 30, 2011. The plan is also available to administrators and classified staff who have a minimum of 10 years of service credit with the ATRS and a minimum of five years of actual active service with the Schools as of June 30, 2011. Teachers and administrators who elect the early severance plan will receive \$40,000 plus applicable sick leave, the total of which is divided into equal monthly payments. Classified employees will receive 100% of their 2010-2011 base salary not to exceed \$20,000. There were 44 employees that accepted the early severance plan for a total payout, paid to a third party administrator over a three-year period of approximately \$1,944,000. Participants will receive their benefits over a period of five to eight years depending on their retirement eligibility.

9. Commitments and Contingencies

The Schools have entered into agreements to lease various office equipment. Future minimum payments under these noncancelable leases in effect as of June 30, 2011 are as follows:

2012	\$	156,032
2013		113,703
2014		<u>66,447</u>
	\$	<u>336,182</u>

Rental expense associated with these lease commitments was approximately \$189,000 for the year ended June 30, 2011.

10. Contingent Liabilities

The Schools participate in federally assisted grant programs. These programs are subject to program compliance audits by the grantors or their representatives. The Schools are potentially liable for any expenditures, which may be disallowed pursuant to the terms of these grant programs. Management is not aware of any material items of noncompliance which would result in the disallowance of program expenditures.

11. Life Insurance

The Schools executed a term life insurance policy on the former superintendent. The Schools are the beneficiary and the face value of the policy is \$400,000.

Notes to Financial Statements

June 30, 2011

12. **Risk Management**

The Schools are exposed to various risks of loss from tort, theft of, damage to and destruction of assets, business interruption, errors and omissions, natural disasters, employee injuries and illnesses, and employee health, dental and accident benefits. Commercial insurance coverage is purchased for claims arising from such matters other than employee health and dental benefits and worker's compensation claims. Settled claims have not exceeded this commercial coverage in any of the three preceding years.

The Schools have joined with other schools to form the Arkansas School Board Association Self-Insurance Program (the "Pool"), a public entity risk pool currently operating as a common risk management and insurance program for its members. The Schools pay an annual premium to the Pool for its vehicle insurance coverage. The Pool's governing agreement specifies that the Pool will be self-sustaining through member premiums and will reinsure through commercial carriers for claims in excess of specified stop loss amounts.

13. **Fund Balance Reporting**

The Schools has adopted GASB Statement No. 54, "Fund Balance Reporting and Governmental Fund Type Definitions," as part of its 2010-2011 fiscal year reporting. The intention of GASB Statement No. 54 is to provide a more structured classification of fund balance and to improve usefulness of fund balance reporting to the users of the Schools' financial statements. The reporting standard establishes a hierarchy for fund balance classifications and the constraints imposed on the uses of those recourses.

GASB Statement No. 54 provides for two major types of fund balances, which are nonspendable and spendable. Nonspendable fund balances are balances that cannot be spent because they are not expected to be converted to cash or they are legally or contractually required to remain intact. Examples of this classification are prepaid items, inventories, and principal (corpus) of an endowment fund. The Schools have inventories that are considered nonspendable. The Schools do not have any prepaid items or nonspendable funds related to endowments.

In addition to the nonspendable fund balance, GASB Statement No. 54 has provided a hierarchy of spendable fund balances, based on a hierarchy of spending constraints.

Restricted – Fund balances that are constrained by external parties, constitutional provisions, or enabling legislation.

Committed – Fund balances that contain self-imposed constraints of the government from its highest level of decision making authority.

Assigned – Fund balances that contain self-imposed constraints of the government to be used for a particular purpose.

Unassigned – Fund balance of the general fund that is not constrained for any particular purpose.

Notes to Financial Statements

June 30, 2011

13. Fund Balance Reporting (cont.)

As of June 30, 2011, fund balances are composed of the following:

	<u>General Fund</u>	<u>Capital Projects Fund</u>	<u>Other Governmental Funds</u>	<u>Total</u>
Fund balances				
Nonspendable				
Inventories	\$ 43,617	\$ -	\$ -	\$ 43,617
Spendable				
Restricted				
Capital outlay and debt service	-	33,757,189	852,980	34,610,169
Federal grants	-	-	374,066	374,066
Total restricted	-	33,757,189	1,227,046	34,984,235
Committed				
Property taxes	9,159,685	-	-	9,159,685
Assigned				
Capital outlay	-	767,545	-	767,545
Unassigned				
General fund	7,877,241	-	-	7,877,241
Total spendable	17,036,926	34,524,734	1,227,046	52,788,706
Total fund balance	<u>\$ 17,080,543</u>	<u>\$ 34,524,734</u>	<u>\$ 1,227,046</u>	<u>\$ 52,832,323</u>

When an expenditure is incurred for purposes for which both restricted and unrestricted fund balance is available, the Schools consider restricted funds to have been spent first. When an expenditure is incurred for which committed, assigned or unassigned fund balances are available, the Schools consider amounts to have been spent first out of committed, then assigned funds, and finally unassigned funds, as needed, unless the Schools have provided otherwise in its commitment or assignment actions.

Notes to Financial Statements

June 30, 2011

14. Correction of Error

The net assets on the government-wide statement of activities as of July 1, 2010 have been restated to correct the reporting of the deferred refunding from the 2010 bond issue that had an error in the calculation.

The government-wide financial statements were restated as follows:

Net assets as of June 30, 2010, as previously reported	\$ 48,270,568
Correct deferred refunding	<u>(881,859)</u>
Net assets as of July 1, 2010, as restated	<u>\$ 47,388,709</u>

The restatement did not affect the fund financial statements as of July 1, 2010.

15. Subsequent Event

The Schools anticipate issuing Series C Bonds of approximately \$25,520,000 in April 2012 for use in the completion of the construction of the two new schools.

16. Significant Accounting Pronouncements

GASB issued Statement No. 57, "OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans." This statement amends GASB Statement No. 45 to permit an agent employer that has an individual-employer OPEB plan with fewer than 100 plan members to use the alternative measurement method, regardless of the number of total plan members in the agent multiple-employer OPEB plan in which it participates. This statement also amends GASB Statement No. 43, "Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans," regarding the requirement of obtaining an actuarial valuation to allow the use of the alternative measurement method for eligible plans. This statement becomes effective for financial statements for periods beginning after June 15, 2011. The Schools' management has not determined the impact, if any, this statement will have on its financial statements.

GASB Statement No. 60, "Accounting and Financial Reporting for Service Concession Arrangements." This statement establishes accounting and financial reporting standards for service concession arrangements, which are a type of public-private or public-public partnership. This statement becomes effective for financial statements for periods beginning after December 15, 2011. The Schools' management has not determined the impact, if any, this statement will have on its financial statements.

Notes to Financial Statements**June 30, 2011****16. Significant Accounting Pronouncements (cont.)**

GASB Statement No. 61, "The Financial Reporting Entity: Omnibus." This statement modifies existing requirements under GASB Statement No. 14, "The Financial Reporting Entity," and the related financial reporting requirements of GASB Statement No. 34, "Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments," for the assessment of potential component units in determining what should be included in the financial reporting entity, and financial reporting entity display and disclosures. This statement becomes effective for financial statements for periods beginning after June 15, 2012. The Schools' management has not determined the impact, if any, this statement will have on its financial statements.

GASB Statement No. 62, "Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and American Institute of Certified Public Accountants Pronouncements." This statement establishes accounting and financial reporting standards for the financial statements of state and local governments. This statement becomes effective for financial statements for periods beginning after December 15, 2011. The Schools' management has not determined the impact, if any, this statement will have on its financial statements.

BENTONVILLE PUBLIC SCHOOLS

Budgetary Comparison Schedule – General Fund

For the Year Ended June 30, 2011

	<u>Budget Amounts</u>	
	<u>Original</u>	<u>Final</u>
Revenues		
Local property taxes	\$ 61,114,506	\$ 61,114,506
Investment income	20,000	20,000
Other local revenues	2,846,608	2,846,608
Federal and state assistance	<u>43,710,379</u>	<u>43,710,379</u>
Total revenues	<u>107,691,493</u>	<u>107,691,493</u>
Expenditures		
Current		
Instruction	62,346,144	62,346,144
Support services	32,434,491	32,434,491
Other	<u>2,248,750</u>	<u>2,248,750</u>
Total expenditures	<u>97,029,385</u>	<u>97,029,385</u>
Excess of revenues over expenditures	<u>\$ 10,662,108</u>	<u>\$ 10,662,108</u>

Actual GAAP Basis	Adjustments Budget Basis	Actual Budget Basis	Variances - Actual Over Final Budget Favorable (Unfavorable)
\$ 60,898,704	\$ -	\$ 60,898,704	\$ (215,802)
42,886	-	42,886	22,886
3,071,227	-	3,071,227	224,619
<u>48,566,566</u>	<u>(1,265,583)</u>	<u>47,300,983</u>	<u>4,856,187</u>
<u>112,579,383</u>	<u>(1,265,583)</u>	<u>111,313,800</u>	<u>4,887,890</u>
62,235,313	-	62,235,313	110,831
35,925,177	(1,265,583)	34,659,594	(3,490,686)
<u>2,610,218</u>	<u>-</u>	<u>2,610,218</u>	<u>(361,468)</u>
<u>100,770,708</u>	<u>(1,265,583)</u>	<u>99,505,125</u>	<u>(3,741,323)</u>
<u>\$ 11,808,675</u>	<u>\$ -</u>	<u>\$ 11,808,675</u>	<u>\$ 1,146,567</u>

See accompanying notes to required supplementary information.

Notes to Required Supplementary Information

For the Year Ended June 30, 2011

Note A – Budgets

The Schools adopt an annual budget, which covers the general fund and the teachers' salary fund (the "Funds"). The budgets for the Funds are prepared on the modified accrual basis of accounting. During the year ended June 30, 2011, the Schools approved changes to budgetary expenditures for the Funds and are reflected in the budgetary comparison schedule (the "Schedule").

The Schedule, included in the required supplementary information, presents a comparison of budgetary data to actual results for which an annual operating budget is legally adopted. The Schedule utilizes the same basis of accounting for both budgetary and actual results.

The original budget is approved by the School Board and filed with the Arkansas Department of Education by September 15.

Note B – Excess of Expenditures over Appropriations

The expenditures over appropriations were funded by the available fund balance.

Schedule of Expenditures of Federal Awards

For the Year Ended June 30, 2011

<u>Cluster/Program</u>	<u>Federal Agency / Pass-Through Entity</u>	<u>CFDA Number</u>	<u>Amount Expended</u>
U.S. Department of Education			
Readiness and Emergency Management for Schools	None	84.184E	\$ 461,709
E.S.E.A. Title I, Part A Title I Grants to Local Education Agencies	AR Department of Education	84.010	1,026,946
E.S.E.A. Title VI, Part B Education for all Handicapped Children	AR Department of Education	84.027	2,596,754
English Language Acquisition Grants	AR Department of Education	84.365	122,889
Vocational Education - Basic Grants to States	AR Department of Workforce Education	84.048	104,395
ARRA - E.S.E.A. Title I, Part D	AR Department of Education	84.389	3,488
ARRA - Education Jobs Fund	AR Department of Education	84.410	2,508,244
E.S.E.A. Title IV - Safe and Drug Free Schools and Communities	AR Department of Education	84.186	780
ARRA - State Fiscal Stabilization Funds	AR Department of Education	84.394	489,753
ARRA - E.S.E.A. Title I, Part A Title I Grants to Local Education Agencies	AR Department of Education	84.389	91,384
ARRA - Special Education - Grants to States	AR Department of Education	84.391	402,779
ARRA - Special Education - Preschool Grants	AR Department of Education	84.392	6,535
Special Education - Preschool Grants	AR Department of Education	84.173	36,779
Title II, Part A - Improving Teacher Quality State Grants	AR Department of Education	84.367	250,579

Schedule of Expenditures of Federal Awards (cont.)

For the Year Ended June 30, 2011

<u>Cluster/Program</u>	<u>Federal Agency / Pass-Through Entity</u>	<u>CFDA Number</u>	<u>Amount Expended</u>
	U.S. Department of Agriculture		
Child Nutrition Cluster			
National School Lunch Program	AR Department of Education	10.555	\$ 2,046,001
Commodities	AR Department of Education	10.555	231,194
Child and Adult Care Food Program	AR Department of Health and Human Services	10.558	196,191
	U.S. Department of Health and Human Services		
Foster Care - Title IV-E - ARRA	AR Department of Health and Human Services	93.658R	204
Foster Care - Title IV-E	AR Department of Health and Human Services	93.658	3,480
Child Care and Development Block Grant	AR Department of Health and Human Services	93.575	70,202
Child Care Mandatory and Matching Funds of the Child Care And Development Fund	AR Department of Health and Human Services	93.596	7,187
Child Care and Development Block Grant - ARRA	AR Department of Health and Human Services	93.713R	<u>1,957</u>
			<u>\$ 10,659,430</u>

Notes to Schedule of Expenditures of Federal Awards

For the Year Ended June 30, 2011

Notes to Schedule:

1. This schedule includes the federal awards activity of Bentonville Public Schools and is presented on the modified accrual 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 basic financial statements.
2. Of the federal expenditures presented in this schedule, Bentonville Public Schools provided federal awards to sub-recipients as follows:

<u>Program</u>	<u>CFDA Number</u>	<u>Sub-recipient</u>	<u>Amount Provided</u>
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No awards were provided to sub-recipients.

3. Medicaid reimbursements are defined as contracts for services and not federal awards; therefore, they are not covered by the reporting requirements of OMB Circular A-133. Total Medicaid funding for the year ended June 30, 2011 was \$489,090, of which \$169,975 was from the Arkansas Department of Human Services.

Schedule of Expenditures of State Awards

For the Year Ended June 30, 2011

<u>Cluster/Program</u>	<u>Pass-Through Entity</u>	<u>Amount Received</u>
98% URT Act Collection Adjustment	AR Department of Education	\$ 355,772
Alternative Learning	AR Department of Education	301,475
Assessment End of Learning	AR Department of Education	40,050
Better Chance Program	AR Department of Education	1,208,987
Board of Teaching Standards	AR Department of Education	5,174
Early Childhood Special Education	AR Department of Education	155,393
General Facilities Funding	AR Department of Education	31,979
Limited English Proficiency	AR Department of Education	202,756
National School Lunch Program	AR Department of Education	1,871,534
Professional Development Funding	AR Department of Education	539,188
Juvenile Detention Center	AR Department of Education	106,532
Health Sciences	AR Department of Education	62,457
Special Education - Catastrophic Occurrences	AR Department of Education	254,837
Special Education Services	AR Department of Education	88,778
State Foundation Funding	AR Department of Education	38,640,267
Student Growth Funding	AR Department of Education	3,008,398
Teacher Licensure	AR Department of Education	40,393
Youth Shelters	AR Department of Education	12,453

Schedule of Expenditures of State Awards (cont.)

For the Year Ended June 30, 2011

<u>Cluster/Program</u>	<u>Pass-Through Entity</u>	<u>Amount Received</u>
Foster Care - Title IV-E	AR Department of Health and Human Services	\$ 982
State Funded Childcare	AR Department of Health and Human Services	7,452
Secondary Workforce	AR Department of Health and Human Services	83,146
Arkansas Game and Fish Commission	AR Department of Health and Human Services	<u>4,300</u>
		<u>\$ 47,022,303</u>

**Supplemental Data Sheet as Required by Arkansas Department of
Human Services Audit Guidelines, Section 1x.c – Special Requirements**

June 30, 2011

Name and address:	Bentonville Public Schools 500 Tiger Boulevard Bentonville, Arkansas 72712
Employer Identification Number:	71-6020503
Telephone Number:	479-254-5000
Superintendent:	Dr. Gary Compton
Contact Person:	Dr. Sterling Ming

**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***

The School Board
Bentonville Public Schools
Bentonville, Arkansas

We have audited the financial statements, governmental activities, each major fund and the aggregate remaining fund information of the Bentonville Public Schools (the "Schools") as of and for the year ended June 30, 2011, and have issued our report thereon dated January 4, 2012. 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

In planning and performing our audit, we considered the Schools' internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Schools' internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Schools' internal control over financial reporting.

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 Schools' financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Schools' financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, 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*.

This report is intended solely for the information and use of the School Board, management, federal awarding agencies and pass-through entities, and is not intended to be and should not be used by anyone other than these specified parties.

Frost, PLLC

Certified Public Accountants

Little Rock, Arkansas
January 4, 2012

**Independent Auditor's Report on Compliance With Requirements That Could
Have a Direct and Material Effect on Each Major Program and on
Internal Control Control Over Compliance in Accordance With OMB Circular A-133**

The School Board
Bentonville Public Schools
Bentonville, Arkansas

Compliance

We have audited the compliance of the Bentonville Public Schools (the "Schools") with the types of compliance requirements described in the *U.S. Office of Management and Budget ("OMB") Circular A-133 Compliance Supplement* that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2011. The Schools' major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the Schools' management. Our responsibility is to express an opinion on the Schools' 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 Schools' compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of the Schools' compliance with those requirements.

In our opinion, Bentonville Public Schools 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, 2011.

Internal Control Over Compliance

Management of the Schools 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 Schools' internal control over compliance with the requirements that could have a direct and material effect on a major federal program to determine the auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Schools' 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 a material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

This report is intended solely for the information and use of the School Board, management, others within the entity, federal awarding agencies and pass-through entities, and is not intended to be and should not be used by anyone other than these specified parties.

Frost, PLLC

Certified Public Accountants

Little Rock, Arkansas
January 4, 2012

Schedule of Findings and Questioned Costs

For the Year Ended June 30, 2011

Summary of Auditor's Results

1. The opinions expressed in the independent auditor's report were:

- | | | | |
|-------------------------------------|--------------------------|--------------------------|--------------------------|
| <input checked="" type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |
| Unqualified | Qualified | Adverse | Disclaimed |

2. The independent auditor's report on internal control over financial reporting described:

Significant deficiencies noted considered material weakness(es)	<input type="checkbox"/>	<input checked="" type="checkbox"/>
	Yes	No

Significant deficiencies that are not considered to be material weakness(es)?	<input type="checkbox"/>	<input checked="" type="checkbox"/>
	Yes	No

3. Noncompliance considered material to the financial statements was disclosed by the audit?	<input type="checkbox"/>	<input checked="" type="checkbox"/>
	Yes	No

4. The independent auditor's report on internal control over compliance with requirements applicable to major federal awards programs described:

Significant deficiencies noted considered material weakness(es)	<input type="checkbox"/>	<input checked="" type="checkbox"/>
	Yes	No

Significant deficiencies that are not considered to be material weakness(es)?	<input type="checkbox"/>	<input checked="" type="checkbox"/>
	Yes	No

5. The opinion expressed in the independent auditor's report on compliance with requirements applicable to major federal awards was:

- | | | | |
|-------------------------------------|--------------------------|--------------------------|--------------------------|
| <input checked="" type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |
| Unqualified | Qualified | Adverse | Disclaimed |

6. The audit disclosed findings required to be reported by OMB Circular A-133?	<input type="checkbox"/>	<input checked="" type="checkbox"/>
	Yes	No

Schedule of Findings and Questioned Costs (cont.)

For the Year Ended June 30, 2011

Summary of Auditor's Results (cont.)

7. The Schools' major programs were:

Cluster/Program	CFDA Number
E.S.E.A. Title VI, Part B	
Education for all Handicapped Children	84.027
ARRA – State Fiscal Stabilization Funds	84.394
ARRA – Special Education	
Grants to States	84.391
Preschool Grants	84.392
Special Education – Preschool Grants	84.173
ARRA – Education Jobs Fund	84.410
Readiness and Emergency Management for Schools	84.184

8. The threshold used to distinguish between Type A and Type B programs as those terms are defined in OMB Circular A-133 was \$319,783.

9. The Schools qualified as a low-risk auditee as that term is defined in OMB Circular A-133?

Yes

No

Findings Required to be Reported by Government Auditing Standards

Reference Number	Findings	Questioned Costs
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No matters are reportable

Findings Required to be Reported by OMB Circular A-133

Reference Number	Findings	Questioned Costs
------------------	----------	------------------

No matters are reportable

Summary of Schedule of Prior Audit Findings

For the Year Ended June 30, 2011

Findings Required to be Reported by Government Auditing Standards

<u>Reference Number</u>	<u>Findings</u>	<u>Questioned Costs</u>
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No matters are reportable

Findings Required to be Reported by OMB Circular A-133

<u>Reference Number</u>	<u>Findings</u>	<u>Questioned Costs</u>
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No matters are reportable

**Independent Auditor's Report on
Compliance With Arkansas State Requirements**

The School Board
Bentonville Public Schools
Bentonville, Arkansas

We have examined management's assertions that Bentonville Public Schools (the "Schools") substantially complied with the requirements of Arkansas Code Annotated 6-1-101, and applicable laws and regulations listed on Arkansas Department of Education form OCI 95-96 during the year ended June 30, 2011. Management is responsible for the Schools' compliance with those requirements. Our responsibility is to express an opinion on the Schools' compliance based on our examination.

Our examination was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants and, accordingly, included examining, on a test basis, evidence about the Schools' compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe our examination provides a reasonable basis for our opinion. Our examination does not provide a legal determination on the Schools' compliance with specified requirements.

In our opinion, Bentonville Public Schools complied, in all material respects, with the aforementioned requirements for the year ended June 30, 2011.

This report is intended solely for the information and use of the School Board, management and the Arkansas Department of Education, and is not intended to be and should not be used by anyone other than these specified parties.

Frost, PLLC

Certified Public Accountants

Little Rock, Arkansas
January 4, 2012