BENTONVILLE PUBLIC SCHOOLS

June 30, 2012

Financial Statements
And
Supplementary Information

With

Independent Auditor's Report

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FROST, PLLC
Certified Public Accountants

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, 2012, which collectively comprise the Schools' basic financial statements, as listed in the accompanying 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, 2012, 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 November 28, 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.

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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 42 and 43 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 schedules of expenditures of federal and state awards are fairly stated, in all material respects, in relation to the financial statements as a whole.

Frost, PLLC

Certified Public Accountants

Little Rock, Arkansas
November 28, 2012

Management's Discussion and Analysis

June 30, 2012

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, 2012. 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, 2012 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 13,541 in 2011 to 14,102 in 2012 or a 561 student increase. During the past five years, Bentonville's student population has increased by 2,143 students. The yearly local property tax collection is recorded in two different school fiscal years. For the audit period ending June 30, 2012, the local property tax collection revenue is recorded in a portion of 2011 and some of 2012. Property tax collection was good in 2011 and 2012; even with a decline in the property assessment values in 2012. The District anticipates that property assessments will increase 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 2012 are as follows:

- The Schools' total net assets showed a net increase of $12,065,448, which is primarily due to student growth funding and a change in the accounting practice to record property tax revenue in the year that it is received.

- The teacher salary fund expenditures increased due to the number of teachers required to accommodate student growth, as well as 2.25% salary schedule increase.

- The Schools' overall long-term debt is $197,185,000.

- The government-wide assets exceed its liabilities on June 30, 2012 by $59,886,061. Of this amount, $23,483,633 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.

- At June 30, 2012, the Schools had governmental fund balances of $61,997,177. This total is comprised of $26,711,913 fund balance in the General Fund, $33,882,272 fund balance in the Capital Projects Fund and $1,402,992 balance in Other Governmental Funds. This is a $9,164,854 increase in comparison with prior year, which is due to property tax collection and student growth funding.

- The Schools sold $30,610,000 million in school construction bonds that was approved by the public in 2010.

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.

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 adopted GASB Statement No. 54, "Fund Balance Reporting and Governmental Fund Type Definitions," in fiscal year 2011. 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 wi h 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.

Government-wide Financial Analysis

This 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 $59,886,061 at the close of the fiscal year.

The largest portion of Schools' net assets of $28,207,212 or 47% 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 $23,483,633 or 39% may be used by the Schools to meet its ongoing obligations to students and creditors. The remaining portion of Schools' net assets of $8,195,216 or 14% represents resources that are subject to external restrictions on how they be expended.

Property taxes increased by $15,344,449 due to a robust tax collection year and a change in the accounting practice to record property tax revenue in the year that it is received. Operating grants and contributions decreased by $2,746,836 because of the one-time funds from federal government stimulus monies and the Readiness and Emergency Management for Schools ("REMS") grant. Support services decreased by $786,743 and instructional expenditures increased by $3,446,942, due to additional personnel due to student growth and staff salary increases.

Governmental Activities Net Assets

	2012	2011	Change
Assets			
Current and other assets	$ 118,803,662	$ 115,570,670	$ 3,232,992
Capital assets, net	195,652,997	167,974,293	27,678,704
Total assets	$ 314,456,659	$ 283,544,963	$ 30,911,696
Liabilities			
Current liabilities	$ 61,397,058	$ 68,390,484	$ (6,993,426)
Noncurrent (long-term) liabilities	193,173,540	167,333,866	25,839,674
Total liabilities	$ 254,570,598	$ 235,724,350	$ 18,846,248
Net Assets			
Invested in capital assets, net of related debt	$ 28,207,212	$ 30,168,464	$ (1,961,252)
Restricted	8,195,216	2,340,704	5,854,512
Unrestricted	23,483,633	15,311,445	8,172,188
Total net assets	$ 59,886,061	$ 47,820,613	$ 12,065,448

There was an increase in both total assets and total liabilities of approximately $30,911,696 and $18,846,248, respectively. The total net assets increased $12,065,448.

Governmental Fund Changes in Net Assets

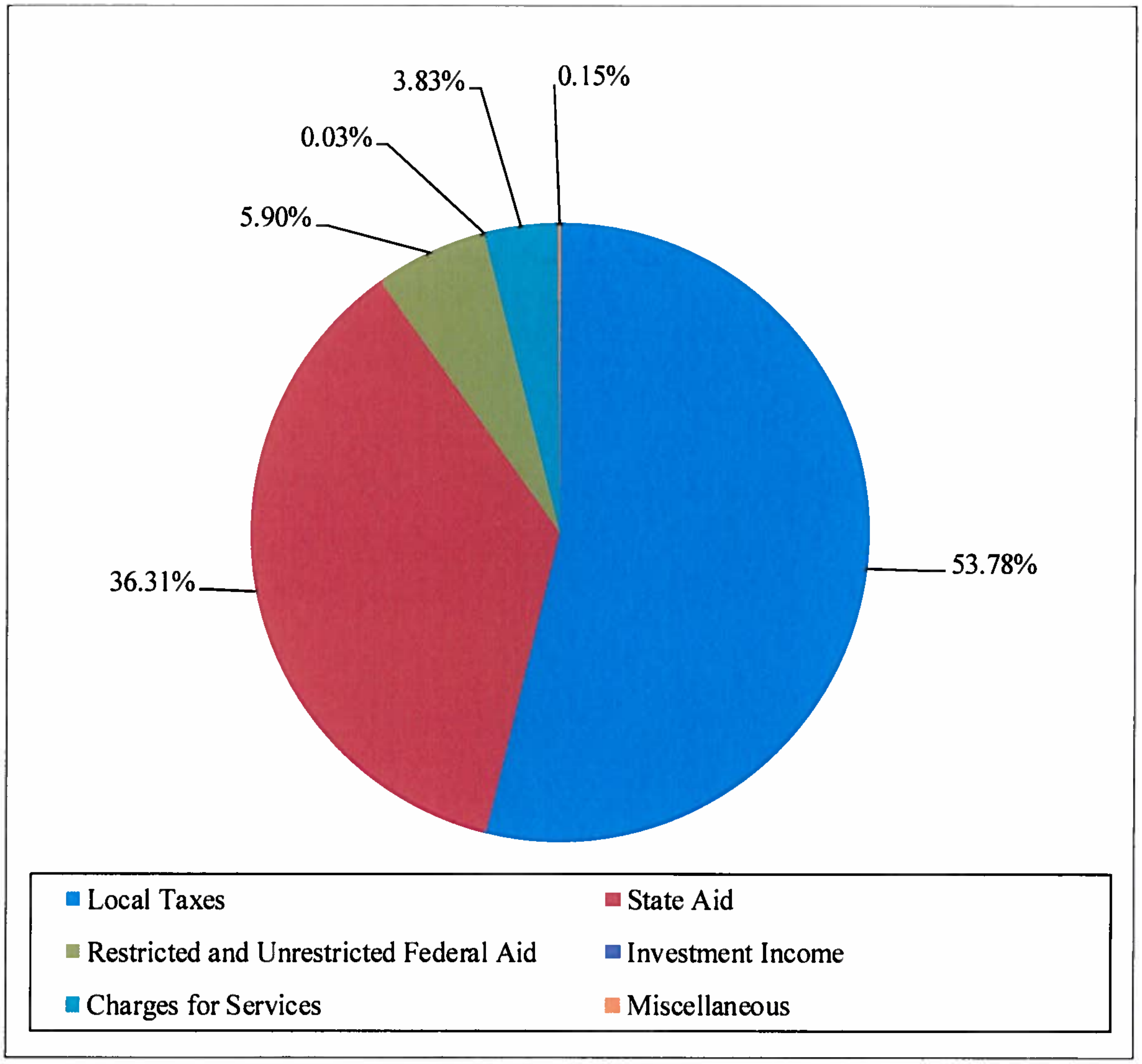
	2012	2011	Change
Revenues			
Program revenues			
Charges for services	$ 5,623,802	$ 5,190,270	$ 433,532
Operating grants and contributions	8,661,953	11,408,789	(2,746,836)
Total program revenues	14,285,755	16,599,059	(2,313,304)
General revenues			
Local property taxes	78,922,884	63,578,435	15,344,449
Investment income	50,506	45,070	5,436
Unrestricted state aid	53,305,404	48,312,765	4,992,639
Miscellaneous	222,993	165,238	57,755
Total general revenues	132,501,787	112,101,508	20,400,279
Total revenues	146,787,542	128,700,567	18,086,975
Expenses			
Instruction	73,190,959	69,744,017	3,446,942
Support services	43,557,505	44,344,248	(786,743)
Operation of noninstructional services	9,195,719	7,403,109	1,792,610
Other	1,045,499	200,235	845,264
Interest on long-term debt	7,726,532	6,548,079	1,178,453
Agent's fees on long-term debt	5,880	28,975	(23,095)
Total expenses	134,722,094	128,268,663	6,453,431
Changes in net assets	12,065,448	431,904	11,633,544
Net assets - beginning of year	47,820,613	47,388,709	431,904
Net assets - end of year	$ 59,886,061	$ 47,820,613	$ 12,065,448

Management's Discussion and Analysis (cont.)

June 30, 2012

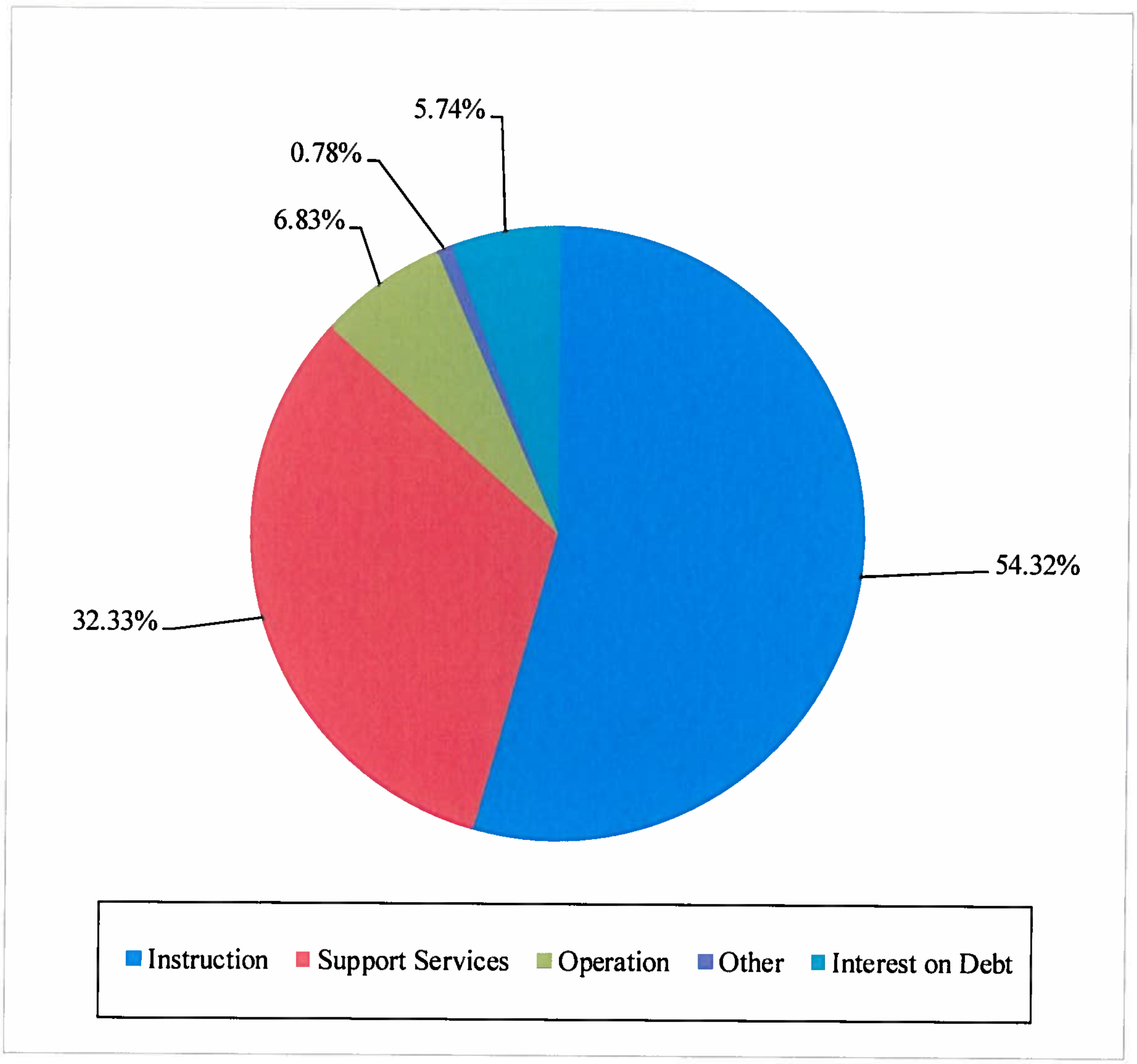
The following pie chart presents a summary of the significant funding sources for the Schools for the period ending June 30, 2012:

2011 – 12 Revenue Sources



The following chart presents a summary of the major expenses for the Schools for the period ending June 30, 2012:

2011 – 12 Major Expenses



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 $26,492,190 and $219,723 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, increased student growth funding and increase in property tax collections.

Capital Assets and Debt Administration

Capital Assets: At June 30, 2012, the Schools' net balance of capital assets was $195,652,997, 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, 2012, the Schools had $197,185,000 in outstanding total debt.

Economic Factors and Current Know Facts

The state foundation funding formula for adequacy per student increased to $6,144, which was a $101 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.

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

BENTONVILLE PUBLIC SCHOOLS

Statement of Net Assets

June 30, 2012

Assets	Governmental Activities
Cash and cash equivalents	$ 20,722,888
Certificates of deposit	15,500,000
Grant receivables	1,663,841
Taxes receivable, net of allowance for uncollectible of $3,434,110	39,492,263
Inventories	83,692
Prepaid expenses	412,202
Restricted assets	
Cash and cash equivalents	36,950,939
Assets held in trust	62,333
Taxes receivable, net of allowance for uncollectible of $164,706	1,894,113
Capital assets, net of accumulated depreciation of $45,419,899	195,652,997
Bond issue costs, net of accumulated amortization of $95,544	2,021,391
Total assets	$ 314,456,659

Liabilities and Net Assets	
Accounts payable	$ 4,665,080
Accrued expenses	9,200,432
Accrued interest payable	907,721
Deferred revenue	41,488,376
Noncurrent liabilities	
Due within one year	5,135,449
Due in more than one year	193,173,540
Total liabilities	254,570,598
Net assets	
Invested in capital assets, net of related debt	28,207,212
Restricted for	
Capital projects	6,796,216
Nonexpendable inventories and prepaid expenses	495,894
Federal grants	903,106
Unrestricted	23,483,633
Total net assets	59,886,061
Total liabilities and net assets	$ 314,456,659

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

BENTONVILLE PUBLIC SCHOOLS

Statement of Activities

For the Year Ended June 30, 2012

	Expenses	Program Revenues: Charges for Services	Program Revenues: Operating Grants and Contributions	Net (Expense) Revenue and Changes in Net Assets
Governmental functions				
Instruction	$ 73,190,959	$ 2,348,028	$ 6,182,003	$ (64,660,928)
Support services	43,557,505	288,894	19,194	(43,249,417)
Operation of noninstructional services	9,195,719	2,986,880	2,460,756	(3,748,083)
Other	1,045,499	-	-	(1,045,499)
Interest on long-term debt	7,726,532	-	-	(7,726,532)
Agent's fees on long-term debt	5,880	-	-	(5,880)
Total	$ 134,722,094	$ 5,623,802	$ 8,661,953	$ (120,436,339)

General revenues	
Local property taxes	$ 78,922,884
Investment income	50,506
Unrestricted state aid	53,305,404
Miscellaneous	222,993
Total general revenues	132,501,787
Changes in net assets	12,065,448
Net assets - beginning of year	47,820,613
Net assets - end of year	$ 59,886,061

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

BENTONVILLE PUBLIC SCHOOLS

Balance Sheet – Governmental Funds

June 30, 2012

	General	Capital Projects	Other Governmental Funds	Total Governmental Funds
Assets				
Cash and cash equivalents	$ 20,722,888	$ -	$ -	$ 20,722,888
Certificates of deposit	15,500,000	-	-	15,500,000
Receivables				
Taxes, net of allowance for uncollectibles of $3,434,110	39,492,263	-	-	39,492,263
Other	423,644	-	-	423,644
Inventories	83,692	-	-	83,692
Prepaid expenses	109,145	-	-	109,145
Restricted assets				
Cash and cash equivalents	-	36,706,958	243,981	36,950,939
Assets held in trust	-	62,333	-	62,333
Taxes, net of allowance for uncollectibles of $164,706	-	-	1,894,113	1,894,113
Other receivables	-	-	1,240,197	1,240,197
Total assets	$ 76,331,632	$ 36,769,291	$ 3,378,291	$ 116,479,214
Liabilities and Fund Balances				
Liabilities				
Accounts payable	$ 166,637	$ 2,887,019	$ 81,186	$ 3,134,842
Other current liabilities	9,200,432	-	-	9,200,432
Postretirement benefit obligation	658,387	-	-	658,387
Deferred revenue	39,594,263	-	1,894,113	41,488,376
Total liabilities	49,619,719	2,887,019	1,975,299	54,482,037
Fund balances				
Nonspendable	192,837	-	-	192,837
Restricted	-	33,413,375	1,402,992	34,816,367
Committed	26,886	-	-	26,886
Assigned	-	468,897	-	468,897
Unassigned	26,492,190	-	-	26,492,190
Total fund balances	26,711,913	33,882,272	1,402,992	61,997,177
Total liabilities and fund balances	$ 76,331,632	$ 36,769,291	$ 3,378,291	$ 116,479,214

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, 2012

Amounts reported for governmental activities in the statement of net assets are different because:		
Total fund balances - governmental funds		$ 61,997,177
Capital assets, net of accumulated depreciation used in governmental activities are not financial resources and, therefore, are not reported as assets in governmental funds.		195,652,997
Certain liabilities for acquisition of capital assets are recognized as liabilities in the governmental fund when the amounts are normally expected to be liquidated with expendable available financial resources.		(1,530,238)
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	$ (607,536)	
Compensated absences	(897,671)	
		(1,505,207)
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	(194,066,639)	
Unamortized bond premiums	(2,078,756)	
Accrued interest on bonds payable	(907,721)	
Bond issue costs, net of accumulated amortization	2,021,391	
		(195,031,725)
Other adjustments - prepaid expenses		303,057
Total net assets - governmental activities		$ 59,886,061

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, 2012

	General Fund	Capital Project Fund	Other Governmental Funds	Total Governmental Funds
Revenues				
Local property taxes	$ 75,472,392	$ -	$ 3,450,492	$ 78,922,884
Meal sales	-	-	2,986,880	2,986,880
Investment income	50,506	-	-	50,506
Other local revenues	3,226,042	-	-	3,226,042
State assistance	53,271,628	-	91,049	53,362,677
Restricted federal aid	322,726	-	7,915,827	8,238,553
Total revenues	132,343,294	-	14,444,248	146,787,542
Expenditures				
Current				
Instruction	67,732,543	233,330	3,035,237	71,001,110
Support services	37,587,062	67,154	5,012,708	42,666,924
Operation on noninstructional services	2,506,273	-	5,673,415	8,179,688
Facilities acquisition and construction services	199,168	29,951,859	617,231	30,768,258
Other	74,033	849,128	64,259	987,420
Debt service				
Principal	-	-	7,085,000	7,085,000
Interest	-	-	7,325,084	7,325,084
Bond issuance costs	-	510,248	-	510,248
Paying agent fees	-	-	5,880	5,880
Total expenditures	108,099,079	31,611,719	28,818,814	168,529,612
Excess of revenues over (under) expenditures	24,244,215	(31,611,719)	(14,374,566)	(21,742,070)
Other financing sources (uses)				
Construction bonds issued	-	30,906,924	-	30,906,924
Operating transfers	(14,612,845)	62,333	14,550,512	-
Total other financing sources (uses)	(14,612,845)	30,969,257	14,550,512	30,906,924
Excess of expenditures and other uses over (under) revenues and other sources	9,631,370	(642,462)	175,946	9,164,854
Fund balances - beginning of year	17,080,543	34,524,734	1,227,046	52,832,323
Fund balances - end of year	$ 26,711,913	$ 33,882,272	$ 1,402,992	$ 61,997,177

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, 2012

Net changes in fund balances - total governmental funds	$ 9,164,854
Amounts reported for governmental activities in the statement of activities are different because:	
Capital outlays, net of depreciation expense of $4,619,363 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.	26,148,466
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	(30,906,924)
Bond issuance costs	510,248
Principal payments on long-term liabilities	7,085,000
Amortization of bond issuance costs	(58,079)
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.	(401,448)
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	678,388
Other adjustments and reclassification differences	(155,057)
Changes in net assets of governmental activities	$ 12,065,448

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

Statement of Net Assets – Fiduciary Funds

June 30, 2012

	Private-Purpose Trust Fund	Agency Fund
Assets		
Cash	$ 215,035	$ 1,230,176
Investments	163,948	-
	378,983	1,230,176
Liabilities		
Due to agencies	-	1,230,176
Net Assets		
Held in trust for private purposes	$ 378,983	$ -

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, 2012

	Private-Purpose Trust Fund
Additions	
Contributions	$ 135,870
Deductions	
Scholarships	126,531
Changes in net assets	9,339
Net assets - beginning of year	369,644
Net assets - end of year	$ 378,983

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

Notes to Financial Statements

June 30, 2012

1. <u>Organization and Summary of Significant Accounting Policies</u>

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.

<u>Government-wide Financial Statements</u> – 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.

<u>Fund Financial Statements</u> – 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.

<u>Governmental Funds</u> – 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.

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.

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, 2012.

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 2011 assessed valuation upon which taxes will be levied in 2012 is $1,560,702,880.

Effective for the 2011-2012 school year, the Schools were given the option to recognize as current revenues 36% of local taxes collected by June 30 in the succeeding calendar year or the entire 40% pullback amount. If the amount collected is less than 36% of the proceeds of local taxes that are not pledged to secure bond indebtedness, the amount necessary to equal 36% may be accrued as an additional receivable in the current year. This percentage will be reduced by 4% for each subsequent school year until it is zero. If the Schools collect more than the 36%, they are no longer allowed to defer this revenue into the following school year, but must recognize the revenue in the current year. The Schools elected to recognize the entire 40% pullback amount, which resulted in approximately $9,500,000 in additional property tax revenue in the current 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.

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

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.

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. Capital assets purchased with federal funds that have an initial individual cost of $1,000 and an estimated useful life in excess of one year are also required to be capitalized on the government-wide statements. 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.

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.

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

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.

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 $8,195,216 of restricted net assets, of which $499,886 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, special revenue, capital projects and capital outlay funds 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 $1,043,918 for the year ended June 30, 2012.

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.

The Schools' cash consists of cash on hand and demand deposits maintained at financial institutions. At June 30, 2012, certificates of deposit held by the Schools generally mature within one year of the date of purchase. 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, 2012, 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	$ 74,681,371

Included in the following fund financial statement captions:

Cash and certificate of deposits	
Unrestricted	$ 36,222,888
Restricted	36,950,939
Assets held in trust	62,333
Statement of fiduciary net assets	
Private-purpose trust funds	215,035
Agency fund	1,230,176
	$ 74,681,371

Investments

Investments are presented at fair market value based on quoted market prices at June 30, 2012 and are comprised of corporate stocks with a fair market value of $163,948.

Notes to Financial Statements

June 30, 2012

3. **Receivables**

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

	General	Nonmajor Governmental Funds	Total
Property taxes	$ 42,926,373	$ 2,058,819	$ 44,985,192
Federal grants			
Food service	-	42,198	42,198
E.S.E.A. Title I, Part A			
Title I Grants to Local Education Agencies	-	151,925	151,925
E.S.E.A. Title VI, Part B			
Education for all Handicapped Children	-	885,308	885,308
Title II, Part A - Improving Teacher Quality	-	30,537	30,537
English Language Acquisition Grants	-	2,978	2,978
ARRA - Education Job Fund	-	95,679	95,679
State grants	51,548	-	51,548
Other	372,096	31,572	403,668
Gross receivables	43,350,017	3,299,016	46,649,033
Less allowance	(3,434,110)	(164,706)	(3,598,816)
Net receivables	$ 39,915,907	$ 3,134,310	$ 43,050,217

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 2012, the various components of deferred revenue reported in the government funds were as follows:

	Unavailable
Property taxes receivable (general fund)	$ 39,492,263
Grant (general fund)	102,000
Property taxes receivable (capital outlay fund)	1,894,113
Gross receivables	$ 41,488,376

4. **Interfund Transfers**

Transfers are use 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:

	Transfers In	Transfers Out
General fund	$ -	$ 14,612,845
Capital projects fund	62,333	-
Debt service fund	14,358,691	-
Food services fund	191,821	-
	$ 14,612,845	$ 14,612,845

5. Capital Assets

Capital asset balances and activity were as follows:

	Balance June 30, 2011	Additions	Deletions	Transfers	Balance June 30, 2012
Capital assets, not depreciated					
Land	$ 16,274,548	$ -	$ -	$ -	$ 16,274,548
Construction in progress	5,375,984	31,463,213	-	-	36,839,197
Total capital assets, not depreciated	21,650,532	31,463,213	-	-	53,113,745
Capital assets, depreciated					
Buildings	168,692,689	-	-	-	168,692,689
Improvements	2,454,088	-	-	-	2,454,088
Machinery and equipment	15,905,520	906,854	-	-	16,812,374
Total capital assets, depreciated	187,052,297	906,854	-	-	187,959,151
Less accumulated depreciation	40,728,536	4,691,363	-	-	45,419,899
Net capital assets, depreciated	146,323,761	(3,784,509)	-	-	142,539,252
Total capital assets, net	$ 167,974,293	$27,678,704	$ -	$ -	$ 195,652,997

Depreciation expense was charged to governmental functions as follows:

Instruction	$ 2,111,172
Support services	1,492,589
Operation of noninstructional services	1,015,602
	$ 4,619,363

Construction Commitments

At June 30, 2012, the Schools had several construction and repair and maintenance projects in various stages of completion. Unfulfilled contract commitments of $15,885,679 remained open on the construction and improvement contracts still in progress as of June 30, 2012.

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, 2012 were $10,532,505, which consisted of $10,207,843 from state funding and $324,662 from federal funding, 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, and 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.

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 $3,189, $3,128 and $5,816, for the years ended June 30, 2012, 2011 and 2010, 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.

7. Long-Term Liabilities

Long-term liability balances and activity were as follows:

	Balance June 30, 2011	Increases	Decreases	Balance June 30, 2012	Amounts Due in One Year
Bonds payable					
General obligation bonds	$ 173,660,000	$ 30,610,000	$ 7,085,000	$ 197,185,000	$ 4,555,000
Less deferred refunding (loss)	(3,310,070)	-	(191,709)	(3,118,361)	(191,709)
Less deferred issuance premiums (discounts)	1,851,308	293,214	65,766	2,078,756	74,196
Bonds payable, net	172,201,238	30,903,214	6,959,057	196,145,395	4,437,487
Postretirement benefit obligations	1,944,311	-	678,388	1,265,923	632,962
Compensated absences	869,073	28,598	-	897,671	65,000
Total long-term liabilities	$ 175,014,622	$ 30,931,812	$ 7,637,445	$ 198,308,989	$ 5,135,449

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.

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'

7. **Long-Term Liabilities (cont.)**

financial statements. The outstanding principal of the refunded bonds was $124,265,637 at June 30, 2012. 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 straight-line method, which is not materially different from the effective interest method. Bond premium amortization was $62,058 for 2012.

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 2012.

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, 2012. 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.

7. **Long-Term Liabilities (cont.)**

   b. The remaining bond funds will be used to continue constructing 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 straight-line method, which is not materially different than the effective interest method. Bond premium amortization was $2,002 for 2012.

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 $25,066 for 2012.

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 in trust for 15 years. On September 27, 2011, the Schools borrowed $185,546 using this method by issuing general obligation bonds. The Schools are required to deposit $10,909 annual into a trust account, beginning in September 2012, which is included in assets held in trust for 17 years.

Series E 2010 Bonds – On May 31, 2012, the Schools issued $30,424,544 in Construction Bonds, Series B, dated May 1, 2012. The interest on the bonds are payable semiannually and maturity dates range from June 2014 to June 2040. The Series E 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 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.

7. **Long-Term Liabilities (cont.)**

The bonds are subject to extraordinary redemption from proceeds of the Series E 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, 2038, June 1, 2039, 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 E 2010 Bonds were issued at a premium of $293,214 This premium is being amortized over the life of the bonds using the straight-line method, which is not materially different than the effective interest method. Bond premium amortization was $1,686 for 2012.

Bond issue costs of $506,539 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 $2,911 for 2012.

A summary of each bond issue is as follows:

Date of Issue	Amount of Original Issue	Balance June 30, 2012	Interest Rate Percent	Payment Dates	Range of Annual Maturities	Matures
05/01/10	$ 131,565,000	$ 122,930,000	3.000/4.250	06-01/12-01	$ 2,235,000 /21,275,004	2040
03/01/11	44,160,000	42,710,000	2.000/4.820	06-01/12-01	785,000 /9,915,000	2040
06/01/11	935,000	935,000	4.900	06-01/12-01	- /935,000	2026
09/27/11	185,456	185,456	5.000	06-01/12-01	- /185,456	2028
05/01/12	30,424,544	30,424,544	3.000/3.625	06-01/12-01	799,544 /4,630,000	2040

7. **Long-Term Liabilities (cont.)**

Debt service requirements are as follows:

Year Ending June 30,	Principal	Interest	Total
2013	$ 4,555,000	$ 8,278,522	$ 12,833,522
2014	4,074,544	8,023,407	12,097,951
2015	4,215,000	7,875,571	12,090,571
2016	4,360,000	7,722,421	12,082,421
2017	4,510,000	7,564,221	12,074,221
2018 - 2022	25,105,000	35,194,953	60,299,953
2023 - 2027	25,055,000	29,513,604	54,568,604
2028 - 2032	36,660,456	22,552,059	59,212,515
2033 - 2037	44,945,000	13,807,060	58,752,060
2038 - 2041	43,705,000	3,021,905	46,726,905
	$ 197,185,000	$ 143,553,723	$ 340,738,723

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 $340,738,723. Principal and interest paid for the current year from pledged revenue was approximately $14,500,000.

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 was 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. The Schools paid a total of $678,388 during the fiscal year and has a remaining liability of $1,265,923 as of June 30, 2012.

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, 2012 are as follows:

2013	$ 186,928
2014	195,371
2015	181,664
2016	90,431
2017	17,055
	$ 671,449

Rental expense associated with these lease commitments was approximately $216,000 for the year ended June 30, 2012.

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. 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.

12. **Life Insurance**

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

13. **Fund Balance Reporting**

GASB Statement No. 54, "Fund Balance Reporting and Governmental Fund Type Definitions," 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.

13. **Fund Balance Reporting (cont.)**

As of June 30, 2012, fund balances are composed of the following:

	General Fund	Capital Projects Fund	Other Governmental Funds	Total
Fund balances				
Nonspendable				
Inventories	$ 83,692	$ -	$ -	$ 83,692
Prepaid expenses	109,145	-	-	109,145
Total nonspendable	192,837	-	-	192,837
Spendable				
Restricted				
Capital outlay and debt service	-	33,413,375	499,886	33,913,261
Federal grants	-	-	903,106	903,106
Total restricted	-	33,413,375	1,402,992	34,816,367
Committed				
Property taxes	26,886	-	-	26,886
Assigned				
Capital outlay	-	468,897	-	468,897
Unassigned				
General fund	26,492,190	-	-	26,492,190
Total spendable	26,519,076	33,882,272	1,402,992	61,804,340
Total fund balance	$ 26,711,913	$ 33,882,272	$ 1,402,992	$ 61,997,177

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.

14. **Significant Accounting Pronouncements**

Other financial and accounting reporting standards which have been issued by GASB, but are not yet required to be implemented by the Schools are as follows:

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. Schools management has not determined the impact this statement will have on its financial statements.

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 unit 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. Schools management has not determined the impact 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 AICPA Pronouncements." This statement issued December 2010 will be effective for the Schools for the year ending June 30, 2013. The objective of this Statement is to incorporate into the GASB's authoritative literature certain accounting and financial reporting guidance that is included in FASB and AICPA pronouncements issued on or before November 30, 1989, which does not conflict with or contradict GASB pronouncements. This statement also supersedes GASB Statement No. 20, "Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting," thereby eliminating the election provided in paragraph 7 of that statement for enterprise funds and business-type activities to apply post-November 30, 1989 FASB Statements and Interpretations that do not conflict with or contradict GASB pronouncements. The Schools has not yet determined the potential impact, if any, this statement could have on its financial statements.

GASB Statement No. 63, "Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position." This statement is effective for periods beginning after December 15, 2011. It provides a new statement of net position format to report all assets, deferred outflows of resources, liabilities, deferred inflows of resources, and net position (which is the net residual amount of the other elements). This statement requires that deferred outflows of resources and deferred inflows of resources be reported separately from assets and liabilities. GASB Statement No. 63 also amends certain provisions of GASB Statement No. 34, "Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments," and related pronouncements to reflect the residual measure in the statement of financial position as net position, rather than net assets. The Schools has not yet determined the potential impact, if any; this statement could have on its financial statements.

14. **Significant Accounting Pronouncements (cont.)**

GASB Statement No. 65, "Items Previously Reported as Assets and Liabilities." This statement clarifies the appropriate reporting of deferred outflows of resources and deferred inflows of resources to ensure consistency in financial reporting. The provisions of GASB Statement No. 65 are effective for periods beginning after December 15, 2012, and would be applied on a prospective basis. The Schools has not yet determined the potential impact, if any, this statement could have on its financial statements.

GASB Statement No. 66, "Technical Corrections – 2012." This statement enhances the usefulness of financial reports by resolving conflicting accounting and financial reporting guidance that could diminish the consistency of financial reporting. GASB Statement No. 66 amends both GASB Statement No. 10, "Accounting and Financial Reporting for Risk Financing and Related Insurance Issues," and GASB Statement No. 62, "Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements." The provisions of GASB Statement No. 66 are effective for periods beginning after December 15, 2012, and would be applied on a prospective basis. The Schools has not yet determined the potential impact, if any, this statement could have on its financial statements.

GASB Statement No. 67, "Financial Reporting for Pension Plans – an amendment of GASB Statement No. 25." This statement improves financial reporting by state and local governmental pension plans. This statement replaces the requirements of GASB Statement No. 25, "Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans," and GASB Statement No. 50, "Pension Disclosures," as they relate to pension plans that are administered through trusts or equivalent arrangements (hereafter jointly referred to as trusts) that meet certain criteria. The requirements of GASB Statements Nos. 25 and 50 remain applicable to pension plans that are not administered through trusts covered by the scope of this statement and to defined contribution plans that provide postemployment benefits other than pensions. The provisions of GASB Statement No. 67 are effective for periods beginning after June 15, 2013. The Schools have not yet determined the potential impact, if any; this statement could have on its financial statements.

GASB Statement No. 68, "Accounting and Financial Reporting for Pension – an amendment of GASB Statement No. 27." This statement improves accounting financial reporting by state and local governments for pensions. It also improves information provided by state and local governmental employers about financial support for pensions that is provided by other entities. This statement replaces the requirements of GASB Statement No. 27, "Accounting for Pensions by State and Local Governmental Employers," and GASB Statement No. 50, "Pension Disclosures," as they relate to pensions that are provided through pension plans administered as trusts or equivalent arrangements (hereafter jointly referred to as trusts) that meet certain criteria. The requirements of GASB Statement Nos. 27 and 50 remain applicable for pensions that are not covered by the scope of this statement. The provisions of GASB Statement No. 68 are effective for periods beginning after June 15, 2014. The Schools' have not yet determined the potential impact, if any; this statement could have on its financial statements.

15. **Subsequent Events**

Effective September 2012, the Schools established a fund balance policy establishing a minimum fund balance that the Schools are required to maintain.

The Schools evaluated the events and transactions subsequent to its June 30, 2012 balance sheet date and determined there were no additional significant events to report through November 28, 2012, which is the date the Schools issued its financial statements.

BENTONVILLE PUBLIC SCHOOLS

Budgetary Comparison Schedule – General Fund

For the Year Ended June 30, 2012

	Budget Amounts	
	Original	Final
Revenues		
Local property taxes	$ 64,795,551	$ 64,795,551
Investment income	40,000	40,000
Other local revenues	3,076,683	3,076,683
Federal and state assistance	49,437,988	49,437,988
Total revenues	117,350,222	117,350,222
Expenditures		
Current		
Instruction	65,964,468	65,964,468
Support services	35,824,277	35,824,277
Other	2,532,530	2,532,530
Total expenditures	104,321,275	104,321,275
Excess of revenues over expenditures	$ 13,028,947	$ 13,028,947

Actual GAAP Basis	Adjustments Budget Basis	Actual Budget Basis	Variances - Actual Over Final Budget Favorable (Unfavorable)
$ 75,472,392	$ -	$ 75,472,392	$ 10,676,841
50,506	-	50,506	10,506
3,226,042	-	3,226,042	149,359
53,594,354	(1,043,918)	52,550,436	3,112,448
132,343,294	(1,043,918)	131,299,376	13,949,154
67,732,543	-	67,732,543	(1,768,075)
37,587,062	(1,043,918)	36,543,144	(718,867)
2,779,474	-	2,779,474	(246,944)
108,099,079	(1,043,918)	107,055,161	(2,733,886)
$ 24,244,215	$ -	$ 24,244,215	$ 11,215,268

See accompanying notes to required supplementary information.

Notes to Required Supplementary Information

For the Year Ended June 30, 2012

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, 2012, 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.

BENTONVILLE PUBLIC SCHOOLS

Schedule of Expenditures of Federal Awards

For the Year Ended June 30, 2012

Cluster/Program	Federal Agency / Pass-Through Entity	CFDA Number	Amount Expended
	U.S. Department of Education		
E.S.E.A. Title I, Part A Title I Grants to Local Education Agencies	AR Department of Education	84.010	$ 1,054,803
E.S.E.A. Title VI, Part B Education for all Handicapped Children	AR Department of Education	84.027	2,320,528
English Language Acquisition Grants	AR Department of Education	84.365	133,334
ARRA - E.S.E.A. Title I, Part D - ARRA	AR Department of Education	84.389R	2,205
ARRA - Education Jobs Fund - ARRA	AR Department of Education	84.410R	95,679
E.S.E.A. Title IV - Safe and Drug Free ARRA - State Fiscal Stabilization Funds	AR Department of Education	84.394	54,434
ARRA - Special Education - Grants to States	AR Department of Education	84.391	818,122
ARRA - Special Education - Preschool Grants - ARRA	AR Department of Education	84.392R	11,593
Special Education - Preschool Grants	AR Department of Education	84.173	56,154
Title II, Part A - Improving Teacher Quality State Grants	AR Department of Education	84.367	239,566
Readiness and Emergency Management for Schools	None	84.184E	28,889
Title IV, Part A, Safe and Drug Free Schools and Communities	AR Department of Education	84.186	598
Carl Perkins Vocational Education Act	AR Department of Workforce	84.048	111,454
	U.S. Department of Agriculture		
Child Nutrition Cluster National School Lunch Program	AR Department of Education	10.555	2,185,050
Commodities	AR Department of Human Services - Division of County Operations	10.555	275,705
Child and Adult Care Food Program	AR Department of Human Services	10.558	194,470
	U.S. Department of Health and Human Services		
Foster Care - Title IV-E	AR Department of Human Services	93.658	4,555
Child Care and Development Block Grant	AR Department of Human Services	93.575	81,109
Child Care Mandatory and Matching Funds of the Child Care and Development Fund	AR Department of Human Services	93.596	24,138
			$ 7,692,386

See accompanying notes to schedule of expenditures of federal awards.

Notes to Schedule of Expenditures of Federal Awards

For the Year Ended June 30, 2012

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:

Program	CFDA Number	Sub-recipient	Amount Provided

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, 2012 was $566,455, of which $206,006 was from the Arkansas Department of Human Services.

Schedule of Expenditures of State Awards

For the Year Ended June 30, 2012

Cluster/Program	Pass-Through Entity	Amount Received
Alternative Learning	AR Department of Education	$ 442,908
Assessment End of Learning	AR Department of Education	62,183
Arkansas Better Chance Program	AR Department of Education	1,159,889
Arkansas Better Chance Program - Parents as Teachers	AR Department of Education	46,550
Board of Teaching Standards	AR Department of Education	3,906
Early Childhood Special Education	AR Department of Education	153,777
Limited English Proficiency	AR Department of Education	294,619
National School Lunch Program	AR Department of Education	2,324,662
Professional Development Funding	AR Department of Education	757,141
Juvenile Detention Center	AR Department of Education	132,091
Health Sciences	AR Department of Education	205,459
Special Education - Catastrophic Occurrences	AR Department of Education	345,210
Special Education Services	AR Department of Education	35,728
State Foundation Funding	AR Department of Education	43,183,135
Student Growth Funding	AR Department of Education	3,476,383
Teacher Licensure	AR Department of Education	66,200
Youth Shelters	AR Department of Education	25,293
School Food Services	AR Department of Education	36,306
Bonded Debt Assistance	AR Department of Education	57,273
Secondary Workforce Centers	AR Department of Education	68,792
Children with Disabilities - Residential	AR Department of Education	15,180
Foster Care - Title IV-E	AR Department of Human Services	1,285
State Funded Childcare	AR Department of Human Services	17,170
Arkansas Game and Fish Commission	AR Department of Finance and Administration	2,707
		$ 52,913,847

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

June 30, 2012

Name and address:	Bentonville Public Schools 500 Tiger Boulevard Bentonville, Arkansas 72712
Employer Identification Number:	71-6020503
Telephone Number:	479-254-5000
Superintendent:	Michael Poore
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, 2012, and have issued our report thereon dated November 28, 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

Management of the Schools' is responsible for establishing and maintaining effective 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 opinions 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, others within the Schools, 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
November 28, 2012

FROST, PLLC
Certified Public Accountants

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

The School Board
Bentonville Public Schools
Bentonville, Arkansas

Compliance

We have audited the Bentonville Public Schools' (the "Schools") compliance 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, 2012. 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, 2012.

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 Schools, 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
November 28, 2012

Schedule of Findings and Questioned Costs

For the Year Ended June 30, 2012

Summary of Auditor's Results

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

☒	☐	☐	☐
Unqualified	Qualified	Adverse	Disclaimed

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

	Yes	No
Significant deficiencies noted considered material weakness(es)?	☐	☒
Significant deficiencies that are not considered to be material weakness(es)?	☐	☒

3. Noncompliance considered material to the financial statements was disclosed by the audit?

Yes	No
☐	☒

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

	Yes	No
Significant deficiencies noted considered material weakness(es)?	☐	☒
Significant deficiencies that are not considered to be material weakness(es)?	☐	☒

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

☒	☐	☐	☐
Unqualified	Qualified	Adverse	Disclaimed

6. The audit disclosed findings required to be reported by OMB Circular A-133?

Yes	No
☐	☒

Schedule of Findings and Questioned Costs (cont.)

For the Year Ended June 30, 2012

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
Special Education – Preschool Grants	
ARRA – Special Education	84.173
Grants to States	84.391
Preschool Grants	84.392

8. The threshold used to distinguish between Type A and Type B programs as those terms are defined in OMB Circular A-133 was $300,000.

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

No matters are reportable

Findings Required to be Reported by OMB Circular A-133

Reference Number	Findings	Questioned Costs

No matters are reportable

BENTONVILLE PUBLIC SCHOOLS

Summary Schedule of Prior Audit Findings

For the Year Ended June 30, 2012

Findings Required to be Reported by *Government Auditing Standards*

Reference Number	Findings	Questioned Costs

No matters are reportable

Findings Required to be Reported by OMB Circular A-133

Reference Number	Findings	Questioned Costs

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, 2012. 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, 2012.

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
November 28, 2012